HOW AND WHY YOU PAY FOR

The European Community budget

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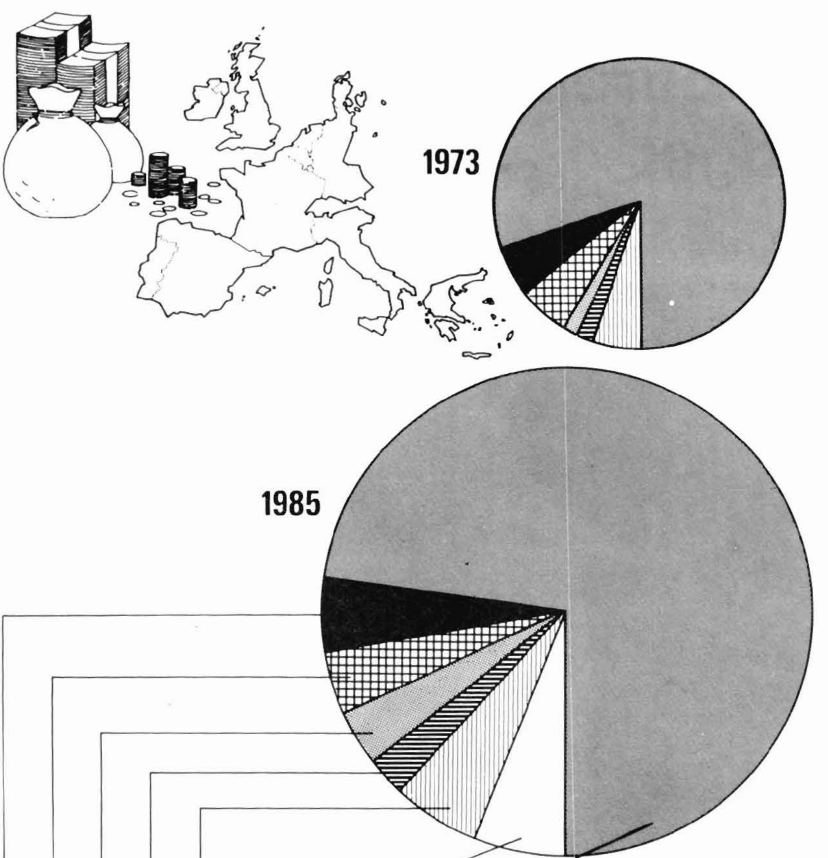
Development of the general Community budget (actual expenditure)



	million ECU 1973	million ECU 1985	% 1973	% 1985
Agriculture and fisheries	3 627	20 570	80.6	72.9
Regional policy	–	1 662	–	5.9
Social policy	249	1 620	5.5	5.7
Research, energy, industry and transport	70	721	1.6	2.6
Development cooperation	61	1 092	1.4	3.9
Miscellaneous	250	1 244	5.5	4.4
Administration	248	1 314	5.5	4.7
Total	4 505	28 223		

In 1985 the Community budget totalled 28 200 million ECU.[1] This represented 0.9% of the gross domestic product of the Member States, compared with 0.5% in 1973; it was 2.8% of the sum of national budgets, compared with 2.0% in 1973. In other words, each Community citizen paid an average of 105 ECU to the Community and 36 times that amount to his country. The Community's finances are, therefore, still relatively modest. They are, quite rightly, subject to democratic control, by both the European Parliament and public opinion. Each Community citizen has the right to know how this money is collected, how it is spent and what procedures are involved. Some brief answers to these questions are given in this file.[2]

Revenue

The Community is almost entirely financed by its own resources but it remains up to Member States to increase this revenue once a certain ceiling is reached. It is worth recalling that the German Federal State, both in 1867 from the 'Zollverein' or customs union of 1834, remained financially dependent on the federated States until 1913 and, in certain respects, until 1920. The United States Federal Government was 80 years old before it was given resources of its own other than customs duties.

The European Coal and Steel Community (ECSC), founded in 1951 by the Treaty of Paris, has always had its own operational budget (341 million ECU in 1985). From the beginning it was financed by a form of European tax, a levy (0.31% in 1985) on the production of coal and steel firms. On the other hand, the financing of the European Economic Community (EEC) and the European Atomic Energy Community (Euratom), founded by the Treaty of Rome in 1957, was covered initially by the traditional system of national contributions, based mainly on the gross domestic product of Member States. The Treaties did, however, provide for these contributions to be replaced by the Community's own resources. A decision to that effect was taken in 1970, making over resources which, though collected in the main by Member States, belong to the Community as a right. Essentially they consist of:

- ☐ Customs duties on products imported from outside the Community. This follows logically from the creation of a customs union among Member States, the abolition of internal customs duties and the adoption of a common customs tariff: merchandise is imported through the best-situated ports, railway depots, etc., even if it is destined for another Member State, whether after processing or in its original condition. To whom does the customs revenue from these imports belong? As the question could not be answered, it made sense to declare them common property. This was done, in stages, by the six founding members of the Community between 1971 and 1975.

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[1] 1 ECU (European currency unit) = about £0.73, Ir. £0.76 or US $1.05 (at exchange rates current on 6 October 1986).
[2] This *European file* replaces our No 18/84.

- ☐ Agricultural levies, charged at the external frontiers of the Community in order to bring the price of various imported foodstuffs up to the Community level. These levies do not bar products from Community markets. They simply safeguard the future of Community farming by preventing distortions of competition due to cheap imports.

- ☐ Levies on sugar and isoglucose, created to limit surplus production by involving producers in the costs it entails.

- ☐ A proportion of value-added tax. The Community decided that this form of tax should replace others which were less suited to economic needs and to the common market. Systems and rates of VAT nevertheless differ sharply from one Member State to another. To allow the replacement of national contributions by VAT payments (already achieved for 10 Member States, with Greece to follow in 1988 and Portugal in 1989), it was necessary to establish a common base of goods and services which would be assessed in a uniform manner for the financing of the Community. The percentage due to the Community is applied to this common base, regardless of the diversity of national systems and levels of VAT. It is subject to a ceiling, which can be changed only by agreement ratified by national parliaments. The ceiling was set initially at 1% and had to be raised to 1.4% in 1986. This followed budget deficits in 1984 and 1985, which were temporarily met by advances from Member States (refundable for 1984, non-refundable for 1985).

General Community budget: 1985 revenue

	Million ECU	*%*
Customs duties	8 310	29.6
Agricultural levies	1 122	4.0
Sugar and isoglucose levies	1 057	3.8
VAT	15 219	54.2
Non-refundable advances	1 651	5.9
Other	726	2.6
	28 085	

Expenditure

Our illustration (page 2) compares expenditure in the Community's general budget for 1973 with that for 1985. Total expenditure increased 6.3 times in this period, while consumer prices increased on average 3.3 times. Thus the budget almost doubled in real terms, as expenditure was diversified. This was to be expected. The Community is not to be compared to a mature national State: it must grow in order to bring about the formation of a true European Union. Besides, its expenditure is not simply additional to national government spending but rather takes its place, whenever a joint initiative is seen to be more effective, more profitable and therefore less onerous than disparate national efforts: this is often the case in scientific research, for example.

In comparison with the budget of international organizations and even, to a certain extent, with those of Member States, the Community budget is devoted overwhelmingly to operation expenditure. Administrative costs take up less than 5% of the total, despite the fact that running a multilingual Community requires an enormous amount of work and staff (for translation of thousands of documents, interpretation, etc.). The 'miscellaneous' expenditure in the illustration consists mainly of various refunds to Member States. For the rest, more than 90% of the budget is devoted to economic, social and regional expenditure in member countries and in the third world. Apart from spending on agricultural guarantees and some financing of the Community's Joint Research Centre, most expenditure is done on a cost-sharing basis, with the Community subsidizing, according to strict criteria, programmes or projects submitted by Member States or by public or private bodies.

The principal chapters of the budget are:

- ☐ Agriculture and fisheries, which accounted for 72.9% of expenditure in 1985. Farm price guarantees took 69.9%. At first glance the agricultural share of the budget may appear disproportionate, but this is because farming is the area in which Community financing has most effectively taken over from national financing. Community financing still represents only 3% of what Community citizens spend on food. The reasons for the growth in agricultural guarantee spending in recent years (from around 11 000 million ECU in 1981 to 20 000 million in 1985) are well known: the success of the common agriculture policy, in terms of increasing productivity and guaranteeing previously uncertain supplies, has finally run up against the limits of the market. As exports and internal consumption have grown more slowly than production, structural surpluses have built up. Since stocks for which no buyer has been found cannot be subsidized indefinitely from public funds, the Community is implementing new structural measures along with a restrictive policy which involves limiting guaranteed prices, making producers bear more of the cost of disposing of surpluses and establishing milk production quotas. Savings achieved in this way came to about 3 000 million ECU in 1985; for 1986 they are expected to be greater still.

- ☐ Regional policy, which absorbed 5.9% of expenditure in 1985. There was no regional spending at all in the 1973 budget: it is only since 1975 that the European Regional Development Fund has been in existence, helping poorer regions and areas worst hit by the recession. The Fund co-finances development programmes, infrastructural investment and industrial and service projects, as well as various schemes to encourage entrepreneurial initiatives.

- ☐ Social policy, which took 5.7% of the budget. Of this, most was spent through the European Social Fund, which co-finances training and retraining schemes and aid for recruitment. Special attention is given to young people (75% of spending), to workers in other problem categories and to poorer regions and areas of highest unemployment. Money is also given for education, culture, the environment and consumer protection. Unfortunately despite the surge in unemployment and numerous proposals by the European Commission, there has been little increase between 1973 and 1985 in the share of the budget devoted to social expenditure.

- Energy, research, industry and transport: these sectors accounted for a total of 2.6% of Community expenditure (0.3%, 1.9%, 0.2% and 0.1% respectively). The 721 million ECU involved is clearly not sufficient to meet the needs of the European economy, in which competitiveness and employment are threatened by technological advances in the United States and Japan.

- Development cooperation, to which 3.9% of expenditure was allocated: 1 092 million ECU, mainly for food aid and for assistance to Mediterranean, Asian and Latin American countries. In addition, the Lomé Convention provides for financial and technical aid to 66 African, Caribbean and Pacific countries. 8 500 million ECU is to be provided under the Convention between 1985 and 1990. This aid is financed outside the framework of the Community budget through the European Development Fund, which still depends on national contributions, and through loans from the European Investment Bank.

The decision-making process

The Community's annual general budget is established by a complex process which spreads over more than half the previous year. First the European Commission draws up a preliminary draft budget. This takes account of expenditure already committed or foreseen to operate Community policies and institutions, as well as expected revenue and guidelines laid down by the European Parliament and the Council of Ministers. The preliminary draft budget goes before the Council of Ministers, which adopts or amends it by qualified majority (54 votes out of 76, with Germany, France, Italy and the United Kingdom having 10 votes each, Spain 8, Belgium, Greece, the Netherlands and Portugal 5 each, Denmark and Ireland 3 each and Luxembourg 2). The Council's draft budget is then debated by the European Parliament, which can propose modifications or adopt amendments if there is a weighted majority in favour.

- In the case of 'obligatory' expenditure the Parliament has the right only to propose modifications. This applies to expenditure needed to honour the Community's legal obligations to third parties, such as farmers who receive price guarantees and developing countries that have signed cooperation agreements. The Council and the Commission have adopted a framework of budgetary discipline which is to apply in future to agricultural guarantee spending. The average growth of such spending is to be kept lower than the growth in the Community's own available resources.

- The Parliament can vote amendments to 'non-obligatory' expenditure. This consists of spending on policies to further the process of European integration and accounted for 21.6% of payment appropriations in 1985. For this section of the budget, the European Commission calculates a maximum rate of increase from one year to the next. The rate depends on the level of economic growth, inflation, and the growth of national budgets. It acts as a ceiling on the rights of Council and Parliament to amend the budget. However, if the Council increases non-obligatory expenditure by more than half the maximum rate, the Parliament still has a margin of manœuvre equal to half the rate; in such a case the maximum rate can be exceeded. It can also be exceeded by common consent of Council and Parliament.

On its second examination of the budget, the Council of Ministers must have a qualified majority to accept or reject (negative majority) modifications proposed by the Parliament, according to whether or not they increase obligatory spending. Parliamentary amendments to non-obligatory expenditure can also be rejected by the Council, but the Parliament can reinstate them on its second reading and, within limits, has the final word. At the end of that reading, unless the Parliament rejects the budget as a whole, the President of the Parliament declares it adopted.

To simplify the budgetary process and take account of the growing influence of the European Parliament, a procedure has been established for concertation between Parliament and the Council of Ministers. At each stage of the decision-making process, representatives of these two arms of the budgetary authority try to reconcile their points of view before taking formal positions.

None the less, the budgetary process often gives rise to a political crisis between the Parliament and the Council: the one institution is constantly concerned to strengthen its own role and increase the Community's capacity for action, while the other is traditionally more circumspect in allocating funds. In December 1979 the Parliament, which had earlier that year been elected by direct universal suffrage for the first time, took the unprecedented step of rejecting a draft budget. As a result the Community had to operate the following year on a month-to-month financing system, limited to 'provisional twelfths' of the previous budget, until the Council of Ministers agreed a compromise in July 1980. Just recently, in July 1986, the absence of an agreement on the maximum rate of increase of obligatory spending led the European Court of Justice to annul the decision of the President of the Parliament to adopt that year's budget; Council and Parliament were obliged to resume their dialogue and reach an agreement that allowed the prematurely interrupted budgetary process to be completed.

It was the changeover to a system of own resources outside the control of national parliaments that made it necessary, for obvious democratic reasons, gradually to strengthen the European Parliament's budgetary powers. This was done mainly on the basis of two treaties, signed in 1970 and 1975. The Parliament made several gains: autonomy over its own operating expenses, application of the negative majority mechanism to certain modifications of obligatory spending, the 'margin of manœuvre' and power of amendment in regard to non-obligatory spending, the right to adopt or reject the budget and finally the power to give a discharge to the Commission (or refuse it, as was done for 1982) after checking whether the budget was spent in accordance with the decisions of the budgetary authority. A further measure of control, relating to the legality, regularity and proper management of Community revenue and expenditure, was instituted in 1975 with the creation of an independent institution, the Court of Auditors of the European Community.

The limitations of the budgetary approach

An analysis of the budget tells us much about how European integration is proceeding, but two facts should be borne in mind:

- Firstly, a number of financial operations undertaken by the Community are outside the budget. These include the European Development Fund, mentioned above, as well as various borrowing and lending operations by the European Commission and the European Investment Bank. Finance raised on capital markets is used to support projects in the Third World as well as coal and steel modernization and restructuring, modernization in the energy sector, the development of small and medium-sized businesses, and priority investments in the regions, infrastructure, industrial and advanced technological cooperation, communications and the environment. A total of 8 300 million ECU (equivalent to 29% of the budget) was loaned for these purposes in 1985. Parliament and the Commission want some of these transactions brought into the general budget, in order to increase the transparency of Community finances.

- Figures never tell the whole truth. Apart from borrowing and lending, there is a whole range of activities that involve no expenditure and so are not mentioned in the budget. The Community has brought about, among other things, a considerable expansion of trade, more competition and economies of scale and improved productivity in firms. It has also given Europeans more weight in a world dominated by major continental powers. Clearly all that, which cannot be itemized in a budget, has done more for industry, workers and consumers than have the meagre budgetary resources allocated so far for industry, innovation and research: between them, those policies receive only 2% of appropriations (600 million ECU in 1985).

  Factors such as these should be borne in mind when drawing conclusions from the preponderance of agriculture in the Community budget or when entering into those arguments — of a kind familiar to all federal States — over each country's share of the Community's revenue and expenditure. The problem has mainly been raised by the United Kingdom, which has relatively low agricultural output, so that its farmers receive only a very small share of Community spending on agricultural price guarantees. In June 1984, after lengthy and difficult negotiations, the European Council agreed corrective measures to replace compensatory payments already granted to the United Kingdom. The agreement provided, as from 1986, for a reduction in VAT payments from the United Kingdom in order to reduce by two-thirds the gap between that country's share of VAT contributions and its share of Community spending. The European Parliament and the Commission would have preferred the balance to be restored by means of specific Community action and spending, which would be in keeping with the whole philosophy of European integration. It would be possible to reduce or eliminate this kind of budgetary imbalance by developing Community activity in non-agricultural fields.

It is worth noting that there is to be compensation, reducing in stages (87% of VAT contributions in 1986, 0% in 1992), for Spain and Portugal, to make up for the fact that they will only gradually receive the financial benefits of their recent accession to the Community.

Future prospects

Between 1979 and 1985 the Community budget has grown at a similar rate to national budgets, doubling in nominal terms (from 14 000 million to 28 000 million ECU for the Community, from 527 000 million to 1 014 million for the Member States). In the same period the Member States have also increased their volume of public debt by more than 900 000 million, while the Community is not able to go into debt to cover its budgetary deficits.

The present economic situation clearly obliges both national governments and the Community to observe great financial stringency.

More rapid growth of the Community budget has nevertheless become inevitable. There are several reasons for this:

☐ The enlargement of the Community to include Spain and Portugal, which will mean roughly similar growth of expenditure and revenue.

☐ Additional spending expected in the agriculture field, despite the stringency which is being practised. The causes: the falling value of stocks of farm produce for which there is no buyer and which had a real value of about 5 000 million ECU in 1985 compared with a book value of over 10 000 million; the return of the dollar to a more realistic value, with the effect of increasing the cost of export restitutions for farm produce (a 10% fall of the dollar costs the Community budget 1 000 million ECU).

☐ 'Catching-up' that needs to be done in the structural funds (Regional and Social Funds and the Guidance Section of the European Agricultural Guidance and Guarantee Fund – the Community agriculture fund). A gap has developed between the legal commitments incurred in these areas and the more modest sums of money actually paid out in each budgetary year. This 'burden of the past' must be cleared as soon as possible, but in addition the help of the Community for the least-favoured regions of the Community must be increased in order to strengthen Europe's economic and social cohesion.

- ☐ The need to spend more on research, technology, innovation and other new policies for which the funds at the moment are no more than derisory. Europe's ability to defend its international competitiveness, and therefore its chances of economic growth, depends on increased Community activity in these fields. For action in them to be effective, it is more and more frequently necessary for it to be conceived on a European scale.

As available resources were virtually exhausted in 1986, in spite of the new VAT threshold of 1.4%, the European Commission asks for:

- ☐ More transparency and consistency in the budget. The Commission has taken the initiative in laying the foundation for medium-term financial planning, covering four financial years. The objective is not only to make forecasts but also to set out perspectives based on priorities, thus making Community activity more effective and more consistent. Perspectives for 1987-90 have just been drawn up. They foresee for 1990 a budget of 45 500 million ECU in payments, of which 27 400 million would be for farm price guarantees, 8 900 million for structural policies (including the Social and Regional Funds), 2 000 million for research and 800 million for new policies.

- ☐ Implementation of the 1984 agreement of the Heads of State or Government at Fontainebleau, under which 'the maximum rate (of VAT resources) may be increased to 1.6% on 1 January 1988'. The Commission's 1987-90 perspectives assume a maximum rate of VAT growing from 1.43% to 1.47% between 1988 and 1990.

- ☐ A political re-examination of the problems and financial requirements of the Community, in line with what was agreed at Fontainebleau.

Stringency, by all means. However, 30 years after the signing of the Treaty of Rome, it makes no sense to talk of European integration if one is not prepared to give the Community the minimum of funds that it needs for its survival and for some relatively modest developments in the priority areas that are vital to the future of its 321 million citizens ■

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