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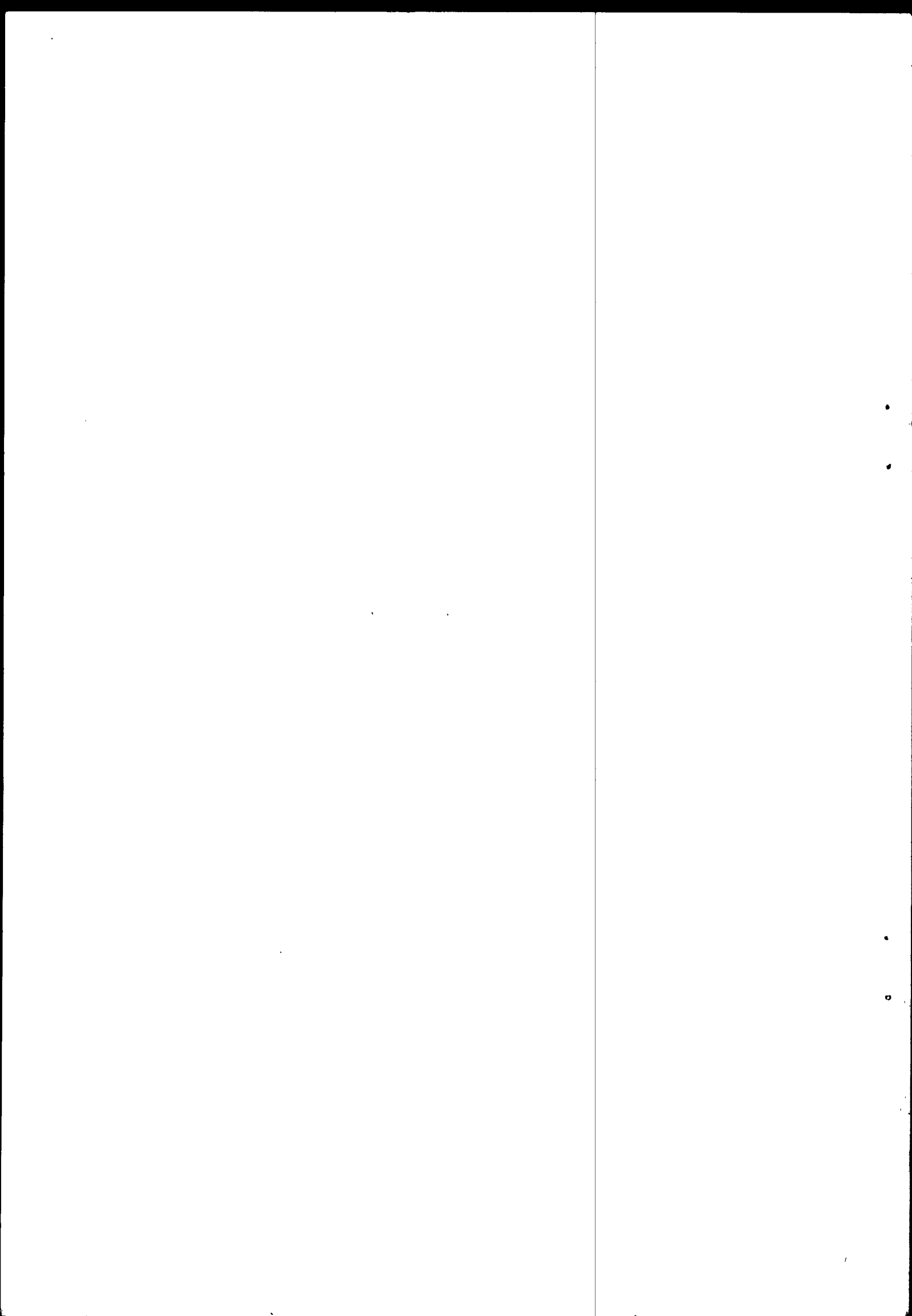
Report

drawn up on behalf of the Committee on Budgets

on the future of the Community budget

Rapporteur: Mr G. PFENNIG

PE 72.615/fin./Corr.



On 13 February 1981 the motion for a resolution tabled by Mr GLINNE on behalf of the Socialist Group on the future of the Community budget (Doc. 1-914/80) was referred to the Committee on Budgets as the committee responsible, pursuant to Rule 47 of the Rules of Procedure.

On 19 February 1981 the Committee on Budgets appointed Mr PFENNIG rapporteur.

The committee considered the draft report at its meetings of 13 May and 25 May 1981.

It adopted the report at its meeting of 25 May 1981 by 21 votes to 3.

Present: Mr Lange, chairman; Mr Notenboom and Mr Spinelli, vice-chairmen; Mr Pfennig, rapporteur; Mr Adonnino, Mr Aigner, Mr Arndt, Mr Balfe, Mr Balfour, Mrs Barbarella (deputizing for Mr Baillot), Mr Barbi, Mr Bonde, Mrs Boserup, Mr Dimopoulos, Mr Ghergo (deputizing for Mr Ryan), Mr Gouthier, Mrs Hoff, Mr R. Jackson, Mr Klepsch (deputizing for Mr K. Schön), Mr Langes, Mr Lega, Mr Price, Mr Simmonet and Mr Tuckman.

The explanatory statement will be presented orally.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, to which an explanatory statement will be given orally:

MOTION FOR A RESOLUTION

on the future of the Community budget

The European Parliament,

- having regard to the motion for a resolution tabled by Mr DIANA and others on the restructuring of economic and monetary policies in connection with the Council decision of 30 May 1980 (Doc. 1-319/80),
- having regard to its resolution on the Community's own resources of 9 April 1981 (Doc. 1-772/80),
- having regard to the Council's deliberations of 29/30 May 1980 on the problem of the United Kingdom contribution to the financing of the Community budget and the agreements resulting therefrom; having regard also to the mandate given to the Commission of the European Communities to solve the problem for 1982 by means of structural changes¹,
- convinced that all Institutions of the Community - Commission, Council and Parliament - should work together to resolve the outstanding structural problems,
- having regard to its resolution on convergence and budgetary questions of 15 November 1979²,
- having regard to its resolution on the 1981 draft budget³, in which it is pointed out that:
 - as a result of the ad hoc solution to the problem of the United Kingdom contribution, around 8% of total expenditure (in 1981) is committed to repayments to the United Kingdom and that these repayments will be even higher in 1982;
 - the measures taken to assist the United Kingdom must not be extended beyond the 1982 budget;

¹ Text of the mandate:

'Commission mandate, to be fulfilled by the end of June 1981: The examination will concern the development of Community policies, without calling into question the common financial responsibility for these policies which are financed from the Community's own resources, or the basic principles of the common agricultural policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them.' (OJ No. C 158, 27.6.1980, p. 7)

² OJ No. C 309, 10.12.1979

³ OJ No. C 313, 1.12.1980, p. 39

- there is a need to clarify the underlying priorities of the Community and to formulate guidelines and exact criteria regarding the nature and function of the common policies, according priority to those policies which
 - + can be implemented more effectively and/or more cheaply by the Community than by the Member States,
 - + aim to bring about a lasting improvement in economic structures and have a genuine Community dimension,
- the 'structural changes' to be made should help to even out the existing differences between the Member States and assist economic convergence,
- having regard to its request, in drawing up its guidelines for the 1982 budget, that the Commission should specify in its annual document on the coordination of the national budgets 'to what extent the Community budget helps lighten the burden on the national budgets, to what extent and why any other transfers of resources from the national budgets to the Community budget are necessary and to what extent and why any growth of the Community budget that is more rapid than that of the national budgets is not an inflationary factor but a factor making for greater stability and efficiency,¹
- having regard to the penultimate paragraph of its resolution on convergence and budgetary questions², which recognized the decisive importance of distributive effects as between sectors, regions and countries in reviewing existing policies and establishing priorities for the future,
- having regard to the report of the Committee on Budgets (Doc. 1-264/81)

Council's mandate of 30 May 1980

1. Points out that the mandate must be interpreted as calling not just for a purely budgetary correction of the position of individual countries as 'net contributors', but for the establishment of a practical basis that will enable the Community to perform the tasks incumbent upon it in the light of the aims of the existing Treaties, for the selection of those Community policies which are to be given priority as well as for proposals already at this stage for restructuring the budget with a view to their implementation, taking account in particular of the regional differences within the Community and hence promoting the convergence of the Member States' economies;

¹ Minutes of the sitting of 12 March 1981 (PE 72.055).

² OJ No. C 50, 9.3.1981, p, 93.

Efforts made to date to solve structural problems

2. Recalls that in its resolution of 15 November 1979 on convergence and budgetary questions¹
 - (a) it considered it essential that the development of genuinely common policies and the coordination of national policies be expedited in particular in the economic and monetary spheres in order to find immediate solutions, by means of a common policy on convergence, to the financial imbalances and the burdens which they place on certain Member States,
 - (b) it insisted that, in order to attain these objectives, a new and lasting system of financial equalization between all Member States be set up within the framework of the Community budget;
3. Notes that the efforts undertaken since 1970, such as the Werner Plan, the Tindemans Report and the various plans and action programmes drawn up by the Commission with the objective of economic and monetary union, have so far made no headway because of the lack of sufficient political will on the part of the governments of the Member States and the resulting shortcomings in the Community's decision-making procedure;
4. Is obliged to note with regret that the Council of 29/30 May 1980, instead of arriving at a long-term solution to the Community's structural problems, felt compelled to adopt a temporary solution for one Member State which is geared specifically to the budgetary revenue of that particular Member State, places an intolerable burden on the Community budget in 1981 and 1982 and constitutes a dangerous precedent for the solution of acknowledged problems of imbalance, which by totally paralyzing the financial resources the Community needs to implement common policies, will have a fatal effect, especially on the accession of new Member States;
 - A. Appraisal of Community policies and measures in the past
5. Points to the fact that the agricultural policy is so far the sole Community policy involving expenditure to be conducted on a common basis, even though the agricultural structural policy continues to be managed and financed predominantly by the Member States;

that in some sectors this policy has resulted in expenditure going out of control, because the mechanisms have been geared almost entirely to

¹ OJ No. C 309, 10.12.1979

prices, so that the policy is in need of reform, although the principles of Article 39 of the EEC Treaty must not be undermined by such reform;

6. Notes at the same time with regret that other Community policies, for example the energy and research, industrial and transport policies, are being pursued only in a disjointed, i.e. ad hoc manner (Community contributions to projects and measures), and that expenditure on them is widely and inefficiently dispersed; that the Community's regional and social policies are being implemented without sufficient concentration on the most deprived regions of Europe and hence without regard to the need for redistribution of budget expenditure or to the aims of economic convergence and a more balanced distribution of incomes among European citizens;
7. Points out that all non-budgetary activities have hitherto been designed to prevent distortions resulting from national measures rather than to create uniform legal, economic and living conditions, owing to the absence in this sector of a coherent concept for the further developments of the Community at no cost to the latter;

B. General reform of the budget

Aims

8. Calls on the Commission and the Council not to regard a reform of the budget merely as a means of restructuring and redistributing existing revenue and expenditure, but to realize that an economic and monetary union such as they have constantly advocated comprises, in addition to free trade in goods, capital and services - including a common external tariff - an agreement on the Community's finances in which clarity prevails between the Community and the Member States with regard to
 - (a) the collection of taxes and dues, especially the former,
 - (b) the distribution of this revenue between Community and Member States, including a system of financial equalization, and
 - (c) responsibility for public expenditure and for the numerous regulatory, coordinating and non-budgetary activities;
9. Takes the view that a lasting solution to the budgetary problems is to be found only within an overall concept of this kind and that this also

entails a new division of powers between the individual Institutions of the Community;

10. Considers indispensable a reform of the budgetary structure which will, in an initial stage, clarify the distinction between compulsory and non-compulsory expenditure and which will also establish a balance between revenue and expenditure, which will render superfluous the fund system (which merely leads to a global redistribution of revenue over a wide area instead of it being concentrated on a few specific regions or projects) and make irrelevant concepts of 'net contributions' and 'fair return', which regularly divert both non-fiscal and non-budgetary 'revenue' from the Community and also undermine the usefulness of a common financial policy for the Community as a whole;

Financial agreement

- Non-budgetary activities and public expenditure

11. Notes that the MacDougall report, in discussing the nature of new public expenditure policies for the Community, sets forth examples of practices in various federal countries which provide basic patterns by which the European Community could be guided and which show that the establishment of new Community expenditure policies would not necessarily involve the transfer of decision-making powers and financial responsibilities from the Member States to the Community (as this would lead only to centralism instead of union) and accordingly considers necessary the definition of those areas of policy in which
 - (a) criteria are to be established at Community level,
 - (b) in addition, administrative and/or financing functions are still exercised at Community level (instead of or jointly with or in addition to the Member States), for which the necessary own resources of the Community will then be available;
12. a. Regards the existing Treaties, concerning the question of whether and in what policy areas the Community is entitled to establish **binding** criteria, as a sufficient basis for delimiting the respective responsibilities of the Community and the Member States,
 - b. Concerning the question of whether, and in what areas additional administrative and/or financing functions need to be exercised at Community level, considers the existing Treaties incomplete and in need of elaboration, and is therefore of the opinion that the basic pattern of the various federations set out in the MacDougall report¹ ought to be valid for the European Community also (even though it has not yet become a federation), since on the basis of this model:

¹MacDougall report, Vol. I, p. 13, paragraph 7; Vol II, chapter 12.

- (1) Community and Member States manage their budgets separately independently of each other (as far as revenue and expenditure are concerned).
 - (2) Each finances its own administrative machinery (in particular buildings and officials);
 - (3) With regard to the spending function, a formal separation between Community and Member States is desirable;
13. Is of the opinion that, relative to the objectives of the Treaties, the powers that are conferred on the Community by them to establish common criteria have not been exploited hitherto to the extent desirable for integration, despite the fact that these provisions confer on the Community the power to determine the form of coordinating and legislative measures, by means of which the uniformity of legal and economic conditions, especially uniform living standards extending beyond the territory of any one Member State, may be created without this necessarily involving expenditure at Community level, but with any necessary expenditure being effected by the Member States on the basis of common criteria;
14. Considers a review of the executive functions of the Community to be necessary, with the aim of creating, in addition to the few existing administrations (ECSC, Euratom, cartel administration, centres in Berlin and Dublin), a financial and customs administration specific to the Community which, as in any federation, constitutes a cornerstone of economic and monetary union and the only example of which, at present, is the financial administration of the ECSC;
15. Draws attention as regards the Community's powers of expenditure to the MacDougall report¹, according to which, in order to promote integration and eliminate regional discrepancies, Community expenditure is desirable and necessary to finance the following

¹MacDougall Report, Vol II, chapter 12.

functions in particular:

- (a) external relations:
 - international development aid
- (b) social security:
 - unemployment, invalidity and physical disability, retraining, job creation
- (c) education:
 - vocational training for young people, particularly children of migrant workers
- (d) housing: accommodation for migrant workers
- (e) economic services:
 - (aa) agriculture: market support, structural measures
 - (bb) fisheries: structural measures
 - (cc) industry: reorganization of coal, iron and steel, shipbuilding and textile sectors; research and development into telecommunications, aerospace, data processing; uniformity of technical standards and norms
 - (dd) energy: stock-building, research and development
 - (ee) transport: cross-border infrastructure
 - (ff) regional: investment and employment incentives
 - (gg) environment: research projects
 - (hh) research promotion in general: development in the economic and military spheres
- (f) miscellaneous: disaster relief
- (g) financial equalization;

16. Considers it desirable, as far as types of expenditure are concerned, that agriculture and development aid, in addition to coal and steel, should also fall primarily within the responsibility of the Community in future, because of the economies of scale which can be achieved at EC level;

- The levying of taxes and dues

17. Takes the view that the establishment of common criteria for certain types of taxation particularly the harmonization of value added tax, personal income tax and corporation tax, if it is also extended to tax rates in the long term, is a proper responsibility of the Community and in addition, apart from duties and common market levies, the collection of taxes by the Community is not absolutely essential, especially as the citizens of Europe should not be faced by an additional tax burden;

- The distribution of public revenue and financial equalization

18. Reiterates, however, the demand made in its resolution on the Community's own resources that the Community take a greater share of the revenue from value added tax, and at a later stage, personal income and corporation tax, in such a way that the revenue from these types of taxation is made available jointly to the Community and the Member States and distributed between Community and Member States on the basis of a mechanism laid down in an EC treaty; following the distribution each party should be free to dispose of its share as it sees fit;
19. Takes the view that if all the functions in the sectors referred to are assumed by the Community, the size of its budget will increase, while at the same time relieving the burden on the Member States' budgets; considers that this increase can be justified by the more efficient discharging of these functions at Community level and that a start must therefore be made to make available the own resources for this purpose called for in the resolution on the Community's own resources as soon as practical programmes have been prepared for the areas of expenditure referred to in paragraph 15;
20. Reiterates its call for the establishment of a system of fiscal equalization to assist the financially weaker Member States and points out that there is no system of fiscal equalization in the Member States of the Community, with the exception of Germany, and therefore the experience of the federations studied in the McDougall report must be used, which showed that redistribution - where the Community has no powers to raise its own taxes - cannot be achieved directly through fiscal and transfer programmes (from high income brackets to lower income brackets)

via revenue and hence redistribution via the governments of the Member States, i.e. via expenditure should be considered;

21. Is of the opinion, with regard to the criteria for equalization payments, that in the long term, as in the case of the federations studied, the only equalization system which can be considered is one based on a comparison of the fiscal capacity and expenditure requirements of the Member States (fiscal equalization capacity), because the Community and the Member States will presumably obtain their revenue in the long term from a combined tax system and because a system based on fiscal capacity equalization leads to more uniform standards in the exercise of public functions in the Community as a whole; considers as correct, however - particularly for short-term developments - the recommendation contained in the McDougall report¹ that economic performance criteria should also be used, as governments bear a large responsibility for the overall performance of their national economies; refers in this connection to the proposals set out in its resolution on the Community's own resources;
22. Is aware, with regard to the procedure for equalization payments and the efficiency of an equalization system, that on the basis of the comparative studies a horizontal fiscal equalization system (whereby the Member States with an above-average fiscal capacity make direct transfers to those with a below average fiscal capacity) works most effectively; draws attention to the McDougall report² which indicates that expenditure of around 10,000 m EUA - concentrated on the weakest regions of the Community could be considered initially as an acceptable 'redistributive capacity' for the Community; points out, however, that in view of the specific structure of the Community and the reasons advanced in paragraph 20, a system of equalization via the Community budget is politically feasible and calls on the Commission to draw up corresponding proposals without delay;

¹Chapter 13 of the Conclusions.

²MacDougall Report, Vol. I, pp 68 and 77.

Institutional balance within the Community

23. Reiterates once again its call for a balance to be established between the two arms of the budgetary authority;
24. Is of the opinion that a solution needs to be found forthwith as regards
- (a) the connection between measures involving expenditure and Parliament's right to authorize expenditure, in such a way that either Parliament is involved in general in framing these measures or that they may not enter into force without prior authorization of expenditure by Parliament,
 - (b) the recognition of the budget as a legal basis empowering the Commission to effect expenditure corresponding to the appropriations entered in the budget,
 - (c) the participation of Parliament in fixing the level of revenue,
 - (d) the expansion of the scope of the budget to include Community borrowing and lending operations and the development funds;
25. Takes the view that for the operation of the Community and for its balanced future development, not only democratic control by Parliament is necessary but also the recognition by the Council as a unified Community organ of the need to take decisions by majority vote and within the Council itself, pursuant to the Treaty;

C. Specific budgetary reforms, in particular with a view to 1982

Expenditure

26. Notes that the budget of the European Communities basically does justice only to the agricultural sector;
27. Urges that, beginning with the financial year 1982 and in application of this general concept:
- Community expenditure should be restructured and that the budget should thereby become an effective instrument of convergence.

- without calling into question the basic principles of the common agricultural policy as laid down in Article 39 of the EEC Treaty, agricultural policy reform should be seen as the most urgent short-term task of budgetary reform; in this connection, the sole existing price support mechanism should be modified and supplemented by other mechanisms such as producer coresponsibility, direct payments and premiums, with a view in particular to controlling the unrestricted production of surpluses, facilitating the introduction of measures specifically designed to improve regional agricultural structures and hence to achieve the aim of higher productivity referred to in the Treaty and 'thus' ensure a fair standard of living for the agricultural community (Article 39 of the EEC Treaty).
- expenditure should in principle become a predictable element, if necessary even by amending the provisions governing agricultural spending, so that the expenditure incurred is determined by the available appropriations.
- in the context of the present volume of the budget, the first task should be to adapt the expenditure side of the budget to the general areas of expenditure listed in section B before attempting to achieve an overall increase in revenue;

28. Calls on the Commission to review expenditure to date so as to ascertain whether it falls into the above mentioned categories and secondly to draw up specific programmes in these areas and a discussion paper on the form this expenditure is to take;

points out that a continuation of the system of specific-purpose grants may lead to a confused grant situation, in which those eligible to receive them need to spend a great deal of time finding out what programmes exist and how to apply for funds;

calls for a study of how 'European' programmes, which are carried out without Community involvement but with a greater or lesser participation by Member States through public funds, 'club contributions', or through loans and guarantees (e.g. aerospace industry), can be integrated into the functional framework and the budget of the Community;

considers it necessary to ascertain for all expenditure whether the functions concerned are to be financed solely by the Community or jointly with the Member States and expects in the case of sole financing by the Community all subsidiary financing by the Member States to be stopped (e.g. in the case of steel, agricultural guidance, etc.) and furthermore considers it necessary beginning with the 1982 budget, to justify all expenditure in future showing why the Community is carrying out this expenditure, so as to avoid unnecessary Community expenditure such as exists to a certain extent in the agricultural sector;

29. Believes that because of the strong external influences at EC level, Community programmes in shipbuilding, textiles, fisheries, energy, data processing, uniformity of technical standards and norms enjoy absolute priority, and that in order to prevent the increasing lack of homogeneity at EC level, specific regional programmes should be set up for the sub-standard regions of the Community - including a 'mediterranean programme' - into which all regional expenditure may be channelled;
30. Will no longer accept after 1982, a system of financial compensation which is concealed in the general body of the budget, and will agree only to supplementary compensation in the context of a budgetary policy which is based on the principles referred to under section B and which prevents any Member State from being faced by an unacceptable situation;

Revenue

31. Insists that, simultaneously with the called-for restructuring of the expenditure side of the budget and the resulting curb on agricultural expenditure, the available revenue be allocated to those Community policies recognized as necessary in the listed areas of expenditure;
32. Refers to the call made in its resolution on the draft 1981 budget¹ for the financial resources available to the Community to be increased, as a transitional measure, by
- suspending all or part of the repayments to the Member States of the expenditure incurred in collecting own resources,
 - making available unused appropriations and surpluses from previous financial years,
 - paying to the Community the interest on Community resources deposited in the Member States;

¹OJ No. C 313, 1.12.1980, p. 39 ff (para. 59).

33. Calls, finally, on the Commission and Council to introduce the measures needed to increase the Community's share of value added tax;

Conclusion

34. Calls on the Commission to take account of the proposals contained in this report when carrying out its mandate and to submit to the European Parliament by December 1981 specific proposals for the development of a financial agreement, together with a timetable for its implementation.

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35. Instructs its President to forward this resolution to the Council and Commission of the European Communities.

ANNEX

MOTION FOR A RESOLUTION (DOCUMENT 1-914/80)

tabled by Mr Glinne on behalf of the Socialist Group
pursuant to Rule 25 of the Rules of Procedure
on the future of the Community budget

The European Parliament,

- whereas to give the process of building Europe a much-needed fillip there must be a new 'deal' which will enable the countries of Europe to cope with the present challenges,
 - whereas with this in mind an evaluation must be made of what has been achieved, and what remains to be done in the process of building Europe, particularly where the common agricultural policy is concerned,
 - whereas, moreover, any valid European policy implies the existence of an economic area unique to the Community which must be defended or the conditions for which must be created,
 - whereas the Community cannot on its present basis fully meet its commitments in the field of development aid nor usefully contribute to any redefinition of the rules governing international economic relations,
 - whereas the Community is currently in a state of crisis, and whereas to overcome it common policies must be rapidly formulated, notably in the fields of energy, industry and research, without which the social and regional policies will remain ineffective,
 - whereas in order to define these policies the problem of how to finance them and hence how to increase own resources must also be tackled,
 - whereas the question of own resources cannot therefore be solved without regard to the specific objectives and priorities which the Community sets itself,
 - whereas the instructions issued by the Council on 30 May 1980 require all the Community Institutions to take part in this process of reflexion, and whereas in fulfilling its role the European Parliament must play its full part in this,
1. Decides to consider all the problems covered by the instructions given to the Commission on 30 May 1980;
 2. Requests the appropriate committee to submit its conclusions to Parliament at the May part-session after consulting other committees;
 3. Notes that any decision on own resources must be subordinated to the decisions taken by the Community on the major political problems mentioned above.

