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PROMOTING INTEGRATION THROUGH BUDGETARY REALLOCATION

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The budget and the process of budgetary decision-making have served a variety of functions in democratic nation-states over the years. While various authors have provided extensive lists of purposes for national budgets, there are three basic functions of public finance around which there is relatively common agreement. On one side, the budget distributes the resources of a society among various programs, activities, agencies or projects that the political system of each country has decided are legitimate goals for that society. In this sense the budget indicates what each society wants its government to do. This also has the effect of deciding what will be the allocation between the public and private sectors since by definition what is not public is private. On the other side, the budget indicates what amount of resources will be used to finance the approved programs, activities, agencies or projects and how those resources will be raised. The source of the required resources will ordinarily be some combination of a variety of taxes and borrowing, if taxes do not equate to spending. The two sides of the budget therefore equal each other or as Wildavsky says the budget has translated financial resources to human purposes.[1] To the extent that budgetary outcomes coincide with budgetary expectations, there is budgetary control. The control aspect of budgeting in societies with limited governments is the start point and end point of budgetary activity.

In this century a third function has been added to national budgeting which looks to the purposes behind budgetary policies and outcomes. The budget has become an instrument through which to attempt to achieve economic stabilization. When it is consciously used to implement a specific set of goals it is referred to as fiscal policy i.e. to use the fiscal powers of the state to affect the economy in a favorable way. In recent years, national governments have had mixed success in achieving the objectives of fiscal policy - full employment, economic growth and price stability - in large part because so much of national budgets are currently funding social welfare entitlement programs that are often indexed and usually viewed as "uncontrollable" in the short run. This causes the desired process to reverse. The economy drives the budget rather than the budget steering the economy. Nevertheless economic stabilization remains a sought-after function of budgeting. However, this function is ordinarily reserved for national governments because its sub-governments of cities, counties, states, provinces, prefectures, landers and regions are usually not large enough independently to affect entire national economies.

Advancing beyond the concept of the nation state, of increasing importance in this century has been the growth of formal international organizations and activities which have economic or defense objectives of a long term nature. If such institutions are to have any meaningful role in regional or world events some amount of resources is required to finance their activities. Either the international grouping will require its own budget and resources to finance its activities or national budgets will have to expend their resources to support agree-upon international organizational activities. This latter course of action has been more common than the former. As examples, the United Nations (UN), North Atlantic Treaty Organization (NATO) and the now defunct Warsaw Pact are/were financed with national resources despite their international character. Another point of note is that national contributions to international organizations are usually to finance administrative costs of operating such organizations. When countries assume operational functions in support of international organization mandates, national budgets usually assume the cost. e.g. The Iraqi war costs, although in support of a UN mandate, were borne by each participating nation in its own national budget. Financial support for the war did not come from the UN or NATO.

From this perspective the twelve member European Community (EC) as an international organization, is unique in two significant respects. First, the Community has its "own resources" and secondly, these resources overwhelmingly finance operational activities not just administrative costs. Administrative costs are about 5% of the Community budget. In its early days the EC was financed by national contributions but in 1970 the Council of Ministers decided to phase in, over a five year period, a system for financing the EC with its "own resources". The source of the "own resources" was to be (1) agricultural levies derived from trade with non-EC countries and revenues from internal markets in sugar (2) customs duties from tariffs on trade with non-member countries and (3) a varying portion of the value added tax (VAT) collected by each nation, originally set at 1% ceiling. When the revenue from these sources was not adequate to finance Community activities in the early 1980's the VAT was increased to 1.4%. The most recent revenue adjustment came in 1988 when a fourth source was added based upon a variable percentage of each nation's Gross National Product (GNP) after the other revenue sources have been considered. Currently, agricultural and sugar levies and custom duties provide approximately 27% of the Community revenues. The VAT provides 57% and the GNP levy, which was 0.0924% for 1989, along with prior year balances contributes the remaining 16%. The European Parliament (EP) has complained that the GNP levy was "an important, albeit timed" step towards a more progressive method of tax collection within the Community but that the manner in which it is levied gives the appearance of being a national contribution rather than "a genuine own resource".[2] Nevertheless "own resources" are just that the name implies - Community property that "belong' to the EC for use in support of its programs and activities without recourse to member states.

On the spending side of the EC budget the Common Agricultural Program (CAP) has been the major recipient because as the EC budget publication says ",.. only agricultural policy and its financing arrangement have so far become fully 'European'"[3] Spending on the CAP began in 1965 and rapidly rose to be the biggest item in the budget. During the period 1973-1988, Agricultural expenditures were less than 60% of the Community budget only one time (1981) and actually exceeded 75% on two occasions.[4] As recently as 1988, guaranteed agricultural spending was approximately 62% of the Community budget. This year it should decline to approximately 56% as a result of the 1988 Council decision concerning budgetary discipline to limit the rate of increase in agricultural expenditures not to exceed 74% of the rate of Community GNP increase and other agricultural related reforms.

One major achievement in this years budget is that structural funds now constitute 25% of the budget again as a driven by the 1988 Council decision to double commitment appropriations for structural funds by 1993. Resources for this purpose have grown from 17.7% of the 1988 budget.

In terms of the stabilization function of budgets, the EC budget for 1991 will constitute only 1.12% of the Community GNP, (the U.S. federal budget will constitute

25.1% of the U.S. GNP). This small amount as a percentage of Community GNP plus the fact that the budget must be balanced precludes using the EC budget as a stabilizing device. Being unable to operate at a deficit largely denies the Community budget of any stimulative economic effect even as it grows in relation to Community GNP. This does not imply that the Community is not involved in borrowing or lending operations but merely that such activities are outside the budget. According to one source, the Community budget is an accounting type of budget while national budgets are functional type of budgets.[5]

The relevant financial directive defines the budget of the EC as "...the instrument which sets out forecasts of, and authorizes in advance, the expected revenue and expenditure of the Communities for each year".[6] The budget includes the revenues and expenditures of all the Community institutions for the financial year that begins on January 1 and ends December 31. The budget is an annual document. The 1991 budget amounted to more than 58.5 billion ECU in commitment appropriations and 55.5 billion ECU in payment appropriations, an increase of approximately 18% over the 1990 budget. The large increase was driven by "exceptional events" including German unification.[7] Early estimates for the 1992 budget are in the range of 65 billion ECU. This translates to around 77.3 billion U.S. dollars. So much for budgeting in the present, what about the future?

The moderator of this panel has recently written that "The shape of the budget after the single market comes into force cannot be predicted precisely."[8] To this observation one has to express complete agreement because the current budgetary discipline has been agreed to only for the period 1988-1992. What happens beyond this period in terms of events and resources is the subject of much speculation. Much depends on whether or not in the face of changed circumstances another budgetary agreement can be reached.

The following comments will be offered by an outside observer whose primary interest to date has been with U.S. budgeting and budgetary processes. There may or may not be something to learn from the current confused U.S. experience just as there may or may not be something to glean from existing budgetary theory. Overall the state of budgetary theory as it relates to internal organizations is almost non-existent. There is even reason to question how far budgetary theory can be used to guide national budgeting. V.O. Key's famous lament about "The lack of a budgetary theory" is still somewhat valid.[9] Incrementalism came the closest to filling the theoretical void but has now fallen into disfavor without anything replacing it. Nevertheless the following comments are offered regarding the potential use of the EC budget as an instrument to promote integration through budgetary reallocation in the next few years. I consider reallocation to mean spending that differs in relative proportion form today's current budgetary allocation. Size is not as relevant as relative allocation.

The comments I will make are based upon two assumptions that I believe are not especially controversial and can be accepted without serious debate. The first is that the number of countries in the Community will not increase in the short run - no horizontal integration. This statement recognizes the fact of German unification but does not expect full membership to be extended to current applicants such as Turkey or Austria or the nations newly emerging from Soviet domination in Eastern Europe. The second assumption is that furthering integration of the Community in a verticle sense is a desired end in an of itself, even if integration proceeds slowly and over a long period of time. The direction must be forward at the risk of perishing, or at least atrophying-Eurosclerosis revisited. The bicycle analogy is an apt one - keep moving or fall down.

A few words about the larger environmental world situation are in order. Three exceptionally significant world issues, each of which affects the Community, must be mentioned to establish the context of future events. The peace that emerges in the aftermath of the war with Iraq and the emerging but not very clearly defined "New World Order" are certainly critical. However this matter is revolved, the Middle East is likely to be changed for the foreseeable future. And with change in the Middle East, the world's leading energy source, economic relationships will be adjusted throughout the industrial world. Changed economic realities are likely to drive major political and social change for better or for worse. From the positive perspective some kind of peace settlement of regional problems and the continued access to moderately price oil supplies would be favorable outcomes.

A second key series of events is flowing from the disintegration of the Soviet empire in Eastern Europe. The possible collapse of the Soviet Union as we now know it is also possible. How the Eastern European Countries adapt to more democratic freedoms and a market economy that they all proffess to desire remains a significant question. It will likely take more than a "Marshall Plan" for Eastern Europe to bring about constructive change. Whether free markets and democratic societies can succeed, separately or in tandem, remains a key issue but the scenario will certainly play itself toward a conclusion over the decade, as will the evolving situation in the USSR, with or without Mikhail Gorbachev. Last year's 400 million ECU technical assistance from the EC to the USSR and this year's establishment of a development bank to aid the former East bloc countries are a clear recognition of the interrelationships of Eastern and Western European development and well being.

The other major event worth noting is of course the merging of the Twelve that will result in "Europe 1992". It should not be lost sight of that the Single European Act called for the steps toward integration to occur before the other two events mentioned above transpired. Europe 1992 was and is a fact and while it is complicated by the above events, it is not dependent on them directly.

A quarter of a century ago Allen Schick in writing about budgetary development and reform in the U.S. focused on control, management and planning as complementary and sometimes competing processes in budgeting.[10] This design has served as a widely-accepted basis for viewing U.S. budgetary evolution. Nevertheless these important characteristics are not absolutely essential to budgeting in a national or international context. Only somebody asking for resources to spend and somebody approving scarce resources that have been, or will be acquired for spending, are absolutely essential. The term scarce is used in this connection because budgeting only makes sense when scarcity is involved. Without more requests for spending than the availability of resources to provide, there is no need to budget. In the absence of scarcity you simply do everything you want. This view coincides with the two sides of the budget mentioned earlier. Thus in theoretical terms the budget of the Community can be used for a fourth objective - integration by either or some combination of (1) raising more revenue by new taxes (2) spending more from existing tax bases as a result of economic growth providing more resources (3) directly reallocating existing spending from areas that have limited affect in furthering integration to those areas that have a higher impact in terms of integration and (4) by transferring new functions and additional resources that are currently performed by the twelve national governments to the Community. Items (1) and (2) will cause reallocation as long as they support spending in some mix other than the existing one

Let us look at these four possibilities in sequence. The Community currently does not tax the citizens of the twelve countries directly. It is interesting to note that on the other hand the European Coal and Steel Community (ECSC) does levy a tax on coal and steel producers to finance part of its activities, but the ECSC activities are in a separate budget. There has historically been a great reluctance within the Community to look favorably upon a direct EC tax because taxation is viewed as the ultimate national prerogative. It was, after all, the dispute over who could be taxed, by whom and for how much that began the evolution toward representative government for nation states in Europe. Similarly, the major weakness of the American Government under the Articles of Confederation was the inability to tax directly. Only when this was cured by the passing of the current U.S. Constitution did a federal republic develop. People within the Community who favor or oppose further integration are well aware that taxing directly would change the nature of the Community. Direct taxation would likely mean more money and therefore more spending by the Community for Community Programs. It is for this reason that taxation remains as an area that requires unanimous vote of member states rather than qualified majority. Direct taxes are not the only possible answer. The extent new taxes are sought as opposed to merely increasing the VAT contribution or the GNP assessment will probably be related to how fast or how slow integration occurs. A slow evolution will not likely energize the drive for alternative taxes. Conversely a drive for further and quicker integration should result in searching for alternative taxes. In the U.S., recent attempts to increase taxes without touching direct income taxes focused on tax increases for imported energy, increased excise "sin" taxes on items such as cigarettes, liquor, wine and beer, increased custom inspection fees for people entering the U.S. and increased user fees for airport and other transportation means. Such similar tax increases identified with Community programs offer a potential for increasing revenue. If the U.S. experience is any indicator, opposition exists to general tax increases for unspecified purposes. Greater acceptance appears for tax increases earmarked for specific purposes. Perhaps greater reliance on user fees, a classic method of raising earmarked revenue, represents the direction for needed revenue increases within the Community. A revenue enhancement by any name is still acceptable. The option of direct taxation in the Community is still possible but not likely in the short run.

Regarding the second option, the "fourth resource" which is based on a GNP levy is designed so it can provide more revenue provided the GNP of the countries involved grow.

The advantageous part is that the tax is based on the ability to pay concept. In other words a tax tied to the GNP depends on the size of the GNP to determine its yield. If Country A grew by 4% and Country B by 2%, the former's tax levy, if based on a fixed percent, would be double the latter. Not being consumption - based the levy does not have a higher incidence on countries that may be less able to afford it. This is the problem with simply raising VAT percentage. If post 1992 economic growth is as great as many of the proponents of integration expect, significant budgetary growth can be expected solely based on more revenues being generated by the existing tax regime. More revenue does not simply translate into more integration because the real impact will result from what programs or activities are the beneficiaries of increased spending. Certainly approved goals and objectives for specific policy areas determined by the political structure of the Community would be a major benefit in this direction. Implementing the stated EP strategic objective of devoting at least 6% of the general budget to research and development over some phased period of time would be such an example. Other policy areas such as the environment, transportation, youth training, and many others could be identified as proposed beneficiaries of future revenue growth. Within fixed amounts of increased spending, nations could submit proposed projects for Commission review and coordination. Within the agreed-upon fixed spending ceilings for subsequent budgets, program integration in pursuit of approved goals and objectives from a Community perspective is possible.

The third option, budgetary reallocation tends to offer the largest area for budgetary choice but also the largest potential for budgetary conflict. Redistributive policies are generally more controversial than distributive policies. As a starter, any reallocation of budgetary resources must take place within the context of the weight of agricultural spending. As the biggest program in the budget by far, the 1988 decision makes the first serious attempt to reduce the bite that CAP takes out of the budget. However, external events such as world market prices and the value of the U.S. dollar make controlling CAP expenditures difficult despite the best of intentions. One estimate of the 1988 reforms was that agricultural expenditures would increase about 2% per year in real terms compared with 6% growth per year before the budgetary agreement.[11] This should help make room for spending on other programs. Renewing the 1988 budgetary discipline agreement, even perhaps reducing the agricultural share of the GNP percent growth from 74% to 70% with subsequent reductions below that to the extent the political process will permit, would appear to be essential if CAP spending is to be controlled as a percentage of the budget in the long run. Political pressures from Community farm blocs during recent GATT negotiations makes this far less than a sure thing.

Another factor that will weigh heavily in reallocation decisions is the desire of the southern states to protect the gains they have made since structural funds were doubled. This must occur while balancing the northern states concern with budgetary discipline. Integration will not likely be furthered by merely holding structural funds, in real terms, at their 1993 level, since structural funds are the key Community device for integration. The quest for a further expansion based on a targets similar to the 1988 agreement such as to double the amount of structural funds by the year 2000 would go a major way in furthering integration. One complicating factor in this quest to reallocate budget priorities is of course what kind of aid to extend to Eastern Europe. No aid is certainly not a viable option. An alternative to devoting scarce Community resources is to encourage private sector initiatives in Eastern Europe. The tax codes of various nations could be altered to increase the incentive for private sector investment. The Community also can have a limited role in this connection. The matter of Eastern European requirements for capital investment raises the separate issue in a world wide context as to the availability of capital to meet all the needs of Middle East redevelopment, Central and Latin American development and of course the USSR. Certainly a high enough interest rate offered to savers will attract savings but resulting interest rates charged to borrowers could be so high as to discourage borrowing and economic expansion. A capital scarce world is a scenario that has been missing from economics and public finance text books for several decades but the problem may well be back at a highly inopportune time for European integration. To further a coordinated approach to the issue it would be advisable to bring the Community lending programs under budgetary discipline. Because these credit programs are about 25% as large as the budget simply treating them as an independent factor is questionable.

The fourth option, transferring complete functions from the nation state to international auspices is also an alternative. The potential list of functions that will not be transferred is easier to identify than vice versa. Things such as social security, unemployment and most other aspects of the welfare state are unlikely candidates for transfer because of the vast differences between the rich and poor members of the Community. The GNP of the richest countries is six times higher per capita than the GNP of the poorest countries. Regional disparities are twice as large as those in the U.S.[12] Hopefully, structural funds will reduce these imbalances if applied in adequate amounts and targeted at realistic goals. Structural funds are also the major hope in reducing disparities. National defense transfers may not be as far fetched a possibility for integration as one might expect. How the Soviet "threat" unfolds over the next decade and what kind of a NATO replaces the current structure may open up possibilities in this area. A European ground force financed by national contributions, of say, 1% of each country's GNP through the EC for NATO might be a workable proposal. A nuclear deterrent to back up conventional forces could rest with NATO including the U.S. as a member or a tri-partite organization consisting of current members of the nuclear club. Such possibilities are no more far fetched than the idea of the peaceful dissolution of the Warsaw Pact was five years ago.

What would be ideal would be the transfer of a large noncontroversial function which could convey the image of integration to the public and promote cohesion. In the case of the U.S. the institution that provided this was the Postal Service. From 1816 to 1861, 86% of the increase in federal civilian employment in the U.S. was in the postal service.[13] Granted that what government did in 19th century developing America and what is expected of late 20th century welfare state democracies is very different and national postal services do not need to be developed as they are already in being in the Community, still the option offers a thought-provoking possibility. The function in and of itself is non-controversial and while it would take a certain amount ingenuity and originality to make a Community wide system self sustaining largely based on user fees or to adjust local pay scales to intra community conditions, it offers an area for consideration.

Another area of policy worth thinking about in this context is the environment.

National solutions to environmental problems in all Europe are no more susceptible to solution by separate nation states than U.S. environmental problems are likely to be solved by the fifty states operating independently. The spillovers are just to great to be curbed by national boundaries. Transferring much of this effort with accompanying resources represents a logical step toward integration. Market type solutions as applied to polluters i.e. paying for the right to pollute could also offer a financial ability to pay for such a program.

None of the issues mentioned above are budgetary issues alone. In most respects one can make a case that they are not primarily budgetary issues. They represent policy issues that the Community may choose to face in the next few years. This is probably appropriate because the Single Act calling for the completion of the internal market by 1992 does not discuss the budget as an issue assisting or impeding the common market. The budget by definition then is the instrument where the results of decisions on completing the internal market and all other Community policy decisions will be recorded. In any well functioning unit of government, policy drives the budget and not vice versa. Only in cases where policies have escaped from budgetary control and caused large structural deficits has the process been reversed. This is currently the case in the U.S. where a budget agreement was reached in November 1990 to cover the succeeding five years and policies over that period will be required to fit within the budget agreement. The EC has faced a number of budgetary crisis in its relatively short existence. With integration marching on, resource constraints could be a major issue and failure to agree on finances may very well make wider agreement much more difficult. The EC will have to work hard to avoid such a situation by keeping in front of budgetary problems, and not permit failure to reach a budgetary agreement call a halt to integration. Also it must be recognized that the budget is not capable of recording all financial impacts on the Community. Non-budgetary issues such as the movement toward a common currency, increased competition, increased productivity and non budgetary costs of regulation are factors that will also have an impact on the extent and speed of integration.

The above discussion clearly demonstrates that understanding the budget in the context of EC integration requires that the budget be linked to both political considerations and economic developments. I am inclined to agree with Schick that, "It may be more illuminating to examine budgeting as a subset of other fields than as a field in its own right"[14] From this standpoint the most beneficial areas to study are probably the functioning of the budget process and the changing role of the budgetary actors in that process.[15] The evolving role of the EP as the second arm of the budget authority warrants close attention since its attempts the expand and realign priorities for non-compulsory expenditures is probably the key to future efforts at integration. From a U.S. perspective it is hard to imagine a budgetary process in which the legislature is not the key actor especially in the absence of what can be considered a true executive budget. The EC budget is a hybrid, partial executive budget which involves a unique mixture that is suitable for the relationships among all Community institutions. A rise in the power of the EP would probably be the biggest boost toward use of the budget to further integration.

The above statements are not meant to imply that there is no application of budgetary theory in the case of the EC budget but rather that existing theories and paradigms do not fit very well. The EC budget does not fit well with existing legislative-executive relations models, or parliamentary budget models. While much of the EC budget is based on incremental decision-making, incrementalism does not really explain where the budget is going, when it will get there or why it is moving in the direction that it is. Similarly macro-budgeting versus micro-budgeting models are not particularly meaningful beyond being descriptive nor are budgetary theories that view actors as either rich or poor, stable or unstable or some combination thereof. The Community budget merges all variations of these combinations into a unique blend. The reality is that the EC budget at this stage may be too unique and evolving to try to fit it into comprehensive theory. The EC budget may in fact be breaking ground for new theory. It may be more useful to refocus on Schick's competing processes of budgeting to find meaning in what is occurring. In addition, the key to further integration could very well be driven by how well integration is being accomplished by the existing budget. Nothing succeeds like success.

One of the key ingredients in budgeting is of course planning. By the term planning I simply mean setting goals and objectives. Certainly the Single Act which set as its goal "Europe 1992" or "Europe Without Frontiers" is a clear enough statement of the general thrust of activities from 1987 to 1992. Objectives then are developed from a variety of possible alternatives which are selected to achieve the agreed upon goals of integration. Clearly in budgetary terms, this means reducing the portion of the budget devoted to agricultural spending while increasing structural funds aimed at further integration. Quantifying these objectives i.e. double structural funds by the year 1993; limit agricultural growth to 74% of increase in GNP; are discrete enough for budgeteers to develop specific programs and projects to implement. From this standpoint the budget has clearly implemented approved programs to achieve agreed upon goals and objectives. The issue will now be dependent upon the next set of goals after 1992 arrives. What direction will effort at integration take? Whatever the direction the linkage between planning and budgeting has been made and can continue. This is especially significant in that the Single Act did not spell out the path for budgetary action. This was achieved through the functioning of the political actors of the EC in reaching the so-called interinstitutional agreement. One aspect of planning that must await further events relates to the outcomes of existing programs to achieve "Europe 1992". Future planning efforts must be based on the reality of what is achieved from current efforts. Herein planning makes its connection with management.

Managing the design, development, procurement, execution and evaluation of approved programs and activities is the essence of public administration. For integration to succeed there must be reasonable assurance that the programs, largely based on structural funds, are achieving the goals they set out to accomplish. If they clearly fail and are unsuccessful, support for continuing on the path to integration will decrease or new alternatives must be found. Similarly if Community projects and programs are simply based on national priorities they are not likely to further Community goals. Public managers will have to possess the needed analytical tools and skills to measure and manage on-going projects. Requiring quantitative performance measures in Community budgets must continue and actually be expanded. How else can programs be measured in terms of success or failure unless clear measures of performance are agreed upon in advance? The

1990 amendments to the budget directive called the Financial Regulation asks for more specific financial management practices such as a call for using appropriations "...in accordance with the principles of sound financial management, and in particular those of economy and cost-effectiveness. Quantified objectives must be identified and the progress of their realization monitored"[16] Also any proposal communicated from the Commission or Council that has "budgetary consequences" must include a "financial statement"[17]

Public sector financial management usually focuses on rates of spending to ensure overspending does not occur but rarely focuses on work accomplishment related to expenditure. Simple financial bookkeeping must be combined with management to carry out approved programs successfully. The budget is a vital tool in this relationship. The EC budget is striving in this direction but the jury is still out in terms of evaluating outcomes. The transparent linkage must be made between inputs of resources and outputs of specific goods and services as they to relate favorable outcomes, for budgets are made to achieve positive outcomes and not merely to spend money. The budget is the only continuing process and document to carry out these functions year to year. Here the management of budgetary resources relates to control.

Budgets of all types of government and business serve the basic function of control. Limited government evolved in terms of control over what the all powerful chief executive could spend funds to accomplish. The budget is the clear separation of the personal funds of the head of state from the funds of the state. Once having established this separation, a clear statement of government intent based upon some aspect of accountability and legality, the budget is in place to exercise control. Faulty and even primitive accounting techniques were an impediment to control in the prior century or two but these difficulties have largely been overcome by now. Budgetary control can be either prior to spending or after spending has occurred. The latter case is more familiar to us as auditing, the obvious reason for being for the Court of Auditors. Pre-spending controls however are largely based on Parliamentary limitations or administrative regulations. Both are designed to influence bureaucratic behavior before actions are taken that commit resources.

In the overall sense of representative government, control is the vehicle that we use to exert accountability and responsiveness from our elected representatives. By holding administrators to rigid standards of control we ensure that what is spelled out in the budget is clearly the activities that government will pursue with identified resources made available through the budget process. The ultimate blunt instrument in the process of control is the law. As budgets are enacted into law, violating the controls embodied in the budget can represent serious problems. The most common such problem ordinarily is considered to be overspending i.e. spending what has not legally been provided by law. Beyond that however is the issue of ethics. Has the spirit of the law been met as well as the letter of the law. Control starts by keeping behavior within the structure of the law and blends into how well the job is done and whether favorable outcomes are achieved.

The budget as a recurring activity of government is an interinstitutional process that involves a variety of actors of differing perspective, differing power bases and seeking different objectives. What makes it so interesting is that roles of the actors may change over time as well as the objectives of the budget may change. At times budgets are instruments to win wars or fight depression. The Community budget is now an important instrument to achieve Community integration. With this as an objective it must be kept in mind that while the budget evolves from the political process the budget does not compose the entire political framework. Many political things happen that do not affect the budget. Similarly, the budget is a major economic factor but it is not the entirety of economic policy in any society or international environment. What this leads to is the recognition that as an instrument of planning, management and control the Community budget is an effective instrument, probably the most effective instrument at the Community's disposal in terms of allocating and distributing Community resources but it is not the only instrument. Care must be exercised not to overload the budget with things it cannot achieve.

The breakdown of the U.S. budget process has largely come about because of U.S. society's attempts to make the budget all things to all people. The budget is viewed as an instrument of economic stabilization, an instrument to balance the economy, an instrument that guarantees a variety of pensions, medical care and social welfare programs and an instrument that reflects diverse executive and legislative priorities. Virtually every domestic political issue in U.S. society is embodied in the budget. In the first budget submitted by former President Ronald Reagan, he proposed eliminating the Departments of Energy and Education through the instrumentality of the budget. The budget was submitted without the Departments in question and their residual functions were distributed to other executive branch entities. Nothing came of this proposal but in a budget process that was very contentious and in which agreement was very difficult to reach, loading substantive proposals of this nature only added to budgetary impasse. It is not that these issues did not include funds in the budget but rather whether or not the U.S. has Departments of Energy and/or

Education are policy issues first and foremost which happen to have resource implications and not vice versa.

I mention this practice because while the budget can be used to further integration by reallocating shares of the budget to structural and social programs that further integration, the budget cannot be the instrument used to "force" such issues. There must be political consensus that this is the direction in which the Community wishes to proceed beyond 1992. The pace of this effort and the priority which it is accorded among the many other issues the Community faces are critical to the success or failure of the plans .The budget as an instrument and process should not receive the sole credit for bringing about integration nor should it receive the lion's share of the blame if integration halts or reverses. The political system has to demonstrate the priority and commitment to it and the economic system must generate the resources necessary to implement it. The budget serves as the vehicle to achieve whatever goals are decided upon because the budget is easy to understand and by its cyclical nature tends to force decisions in a sequential and systematic manner. The regularity of the budget is often overlooked as one of its main sources of strength. The budget rarely lets actors avoid issues over the long run. It always has a way of coming back again, and again, and again. For better or worse it is the most open manifestation of democratic government - people governing themselves according to old patterns as well as new patterns whose outcome we may not quite understand.

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