

Opinion on the future financing of the Community — draft Decision on own resources

A. LEGAL BASIS FOR THE OPINION

On 23 May 1983 the Council referred the abovementioned matter to the Economic and Social Committee in accordance with Article 201 of the Treaty establishing the European Economic Community and Article 173 of the treaty establishing the European Atomic Energy Community.

Procedure

The Section for Economic and Financial Questions, was instructed to draw up the opinion on this matter. Mr van der Mensbrugge was appointed rapporteur.

The Section opinion was adopted at the 81st meeting held on 18 October 1983 by 23 votes to three, with seven abstentions.

B. OPINION OF THE ECONOMIC AND SOCIAL COMMITTEE

The Economic and Social Committee opinion was adopted by *108 votes to three, with seven abstentions*, during the 211th plenary session held on 26 and 27 October 1983.

The full text of the opinion is as follows:

I. Introduction

Deeply disturbed by the Community's present alarming plight, the Committee would point out that the current financial stalemate is merely symptomatic of a more deep-seated political unrest that is jeopardizing the Community's objectives.

The Committee calls on the relevant institutions and on economic and social interest groups, to bear these goals in mind and to combine their efforts to prevent a retreat into narrow nationalism and to protect the Community by ensuring development along the path of European union.

Great as the current financial difficulties are, the Committee is adamant that they must not be allowed to compromise the progress which the Community has made. It warns that an enfeebled Community would place people in all Member States at serious risk in many areas.

1. The economics crisis, involving growing unemployment, inadequate economic growth and significant economic and social differences within the Community, has led to a fissiparous reaction in some quarters that could threaten the momentum and undermine the foundations of the Community.

2. The Community's merits are, however, clear for all to see: it has been a stabilizing force and a haven of peace in Europe; it has strengthened democratic society; and it has paved the way for an exceptionally rapid advance in economic development and living standards.

3. Convinced as we are that the serious internal and external problems now confronting the Community cannot be solved by uncoordinated efforts, we believe that it is vital to keep the Community intact and preserve its vitality.

4. The Community thus needs to be strengthened, and appropriate action should be taken to this end. A strong Community can only benefit its constituent parts, including future members.

II. Basic principles

1. The tendency to want to go it alone in solving problems is a shortsighted attitude. The European Community implies solidarity, including financial solidarity. Without solidarity there can no longer be a Community.

2. The proposed increase in Community resources comes at a time when Member States are having great difficulty in balancing their budgets and are having to impose strict public spending limits. In the circumstances, it is only natural that the Community too should insist more than ever on even greater emphasis on 'economy', 'efficiency' and 'rationalization'.

3. Every type of rationalization and economy measure — particularly, though not exclusively, in agriculture — is therefore welcome. Anomalies need to be removed, a distinction made between essentials and non-essentials, and priorities fixed.

4. Although such rigour is needed, it must be applied intelligently. There are, for example, false economies in:

- transferring Community expenditure back to the Member States; such action would be of no overall benefit to the Member States and might even be financially detrimental since the advantages to be gained from integration would disappear. It is probably true to say that individual Member States could derive gain from the transfer of certain items of expenditure, as their contributions would then be significantly lower. Yet the fact remains that compartmentalization of the advantages and disadvantages inherent in membership would be damaging to the Member States and to the Community at large;

- failure, for reasons of cost, to adopt policies that are badly needed by the Community. In the long run, failure to act can be much more costly than action taken at the right time.

5. Political, psychological and economic factors dictate that any increase in resources must be backed by savings and rationalization wherever feasible. In spending policy, the major consideration at all times has to be whether action is rational from an economic viewpoint. Consequently new policies should be developed only where absolutely necessary, especially in areas where Community action can be more effective than national measures. What is of crucial importance is that expenditure should be warranted and not just serve the interests of one or other Member State. It goes without saying that such expenditure must be properly monitored.

6. The principle of the 'fair return' is fundamentally at odds with the spirit of solidarity on which the Community is founded ⁽¹⁾.

Eagerness to achieve some kind of balance between the advantages and disadvantages ultimately to be expected from membership of the Community is perhaps understandable.

Yet this balance cannot be measured in purely financial terms. The advantages — direct and indirect — of integration permeate all economic and social spheres and in most cases cannot be quantified.

Further, to want to get as much out of the Community as one has put in would make the concept of 'own resources' meaningless, refute the idea of a single budget and indeed jeopardize the Community's very *raison d'être*. Where costs and disadvantages weigh more heavily on some countries than on others, the correct solution is to frame appropriate common policies which will benefit both the individual Member States and the Community as a whole. These policies will take some time to come into effect. Meanwhile other transitional measures may be required to bring about the necessary corrections. As the Committee has been consulted solely on the Commission's proposal, such measures fall outside its terms of reference.

III. Community spending

1. Assuming that Community spending is designed to secure both economic development and social protection, the main objective must be growth and renewed momentum, as well as solving the problem of unemployment, particularly youth unemployment.

New common policies are not only necessary but urgent, as the Committee has repeatedly pointed out while calling for greater economic and social convergence.

⁽¹⁾ The Committee has recognized the need to transfer funds from rich countries to poor countries (opinion on the enlargement of the European Community to include Greece, Spain and Portugal (Brussels, 1979), 170th plenary session on 17 and 18 July 1979 (OJ No C 247, 1. 10. 1979, p. 24).

Some policies (for instance, in the monetary, transport, internal market, social protection or environment spheres) seek primarily to create the conditions required for economic recovery. Certain of these policies are inexpensive yet are highly effective.

Others (scientific research, energy, new technologies, etc.) are costly but Community action will be more profitable and rational than national activities. These should be seen in terms of an investment in future security, designed to equip the Community to face up to its competitors.

As the financial expression of expenditure and resources, the Community budget must give a clearer picture of the various economic alternatives, also in respect of common policies, so as to facilitate a proper socio-economic appraisal of such resources and expenditure.

2. Agricultural spending has undoubtedly reached alarming proportions in recent years.

Though the positive achievements of the CAP cannot be overlooked, nor its social and economic objectives ignored, there are undoubted distortions, especially in the shape of surpluses. The internal and external causes of this state of affairs are many and varied. An overhaul of the system is therefore needed so that production can be brought under control or reshaped, probably in stages. At the same time, however, there must be no straying from the objectives of Article 39 of the Treaty.

The Committee is therefore bound to applaud the Commission's attempt to reduce the share of Community spending devoted to agriculture. In rationalizing such spending care must be taken to avoid anomalies and achieve savings wherever possible.

However, agricultural expenditure should include only those items that are directly related to the common agricultural policy. The Commission to some extent does just that.

In particular the Committee advocates reappraisal of the desirability of including expenditure connected with (a) external relations agreements, (b) compensation agreements and (c) MCAs.

3. Increasing expenditure in other fields merely in order to re-establish equilibrium by reducing the

share of agricultural expenditure is highly questionable since (a) there is absolutely no guarantee that essential agricultural reforms would be duly carried out and (b) expenditure must, as a matter of principle, only be undertaken when it is recognized that there is a need for it.

4. In that the purpose is to bring agricultural spending down to a more acceptable level, the threshold figure of 33 % is not unreasonable as a rough guideline, viewed in relation to the Commission proposal and bearing in mind the resulting increase in resources. From the economic angle, however, it does not hold water as it is an arbitrary figure.

5. Although it is very difficult at the present time to calculate the financial consequences of enlargement — to which the Community is committed — it is virtually certain that the result will be an increase in expenditure. Unfortunately the information at the Committee's disposal is not as detailed as we would wish.

6. Nonetheless the Committee feels that the Council should take due account of the financial impact of its decisions.

IV. Technicalities of the proposed increase in community resources

1. Disregarding customs duties and other supplementary resources, VAT has certain things in its favour as an own-resource of the Community: (a) it is already in operation, and (b) it has many advantages from the point of view of practicability and efficacy. VAT reflects *grosso modo* each Member State's ability to contribute to the EEC and constitutes an adequate basis for the financing of the Community budget.

2. Acting in conjunction with the 33 % threshold, the proposal to gear VAT contributions to the level of agricultural production is designed to reduce the contribution of some Member States and increase that of others.

It would also act as a counterbalance to any propensity to excessive agricultural spending.

3. The introduction of a sectoral indicator of this kind could, of course, prove to be a questionable

precedent in encouraging unjustified 'segmentation' of the economy. As matters stand, however, it must generally be considered to foster a sense of responsibility conducive to greater realism in a sector which is commonly agreed to devour the lion's share of Community expenditure.

It will not necessarily act as an effective brake. Member States with a high agricultural output will probably be prepared to shoulder the resulting increase in their contributions because of the benefits they nonetheless stand to gain from the CAP. Consequently structural reforms could be pursued less energetically — and the 33 % target would be harder to attain.

The Committee fears that the introduction of an agricultural indicator would hinder the passage of new regulations in sectors which are not yet covered by such rules (potatoes, alcohol, forestry). It must be remembered, however, that the indicator's impact on the agricultural output of regulated sectors would be offset by the manifold advantages of the CAP.

It has also been argued that the agricultural indicator would in some respects disadvantage the major agricultural countries, which are not necessarily among the richest. However, the other two proposed indicators would exercise a corrective influence.

4. The two other indicators proposed by the Commission, namely per capita gross domestic product and the share of each Member State in the Community's net operating surplus, can be defended because their use would make it possible, even more satisfactorily than the simple use of VAT, to take account of each Member State's ability to contribute to the Community's budget. The agricultural indicator would then not play a disproportionate role in determining adjustments.

However, the Committee fears that practical difficulties would arise in connection with implementation and asks the Commission to investigate whether the methods used by the Member States for calculating per capita GDP are sufficiently comparable to avoid distortions.

The Commission could also consider whether, in the light of available data, the two non-agricultural indicators could be refined further by incorporating a regional component paying particular attention to the importance of agriculture for the region or tak-

ing account of the employment situation at national or regional level.

5. The system of variable VAT rates, geared in particular to agricultural production, is really nothing more than a makeshift solution devised to end the present deadlock.

Other arrangements with the same objective must therefore be explored without delay. If no alternative is found in time, variable rates will have to be applied, but on a purely temporary basis, i.e. as long as imbalances persist and better solutions have not been found. This is necessary to set the ball moving but adjustments must be made to keep the disadvantages to a minimum.

6. In view of the damage likely to be inflicted on the Community if the present restrictions on resources are maintained, the Committee is in favour of stepping up the Community's own resources. The lack of accurate data on feasible cuts and the policies to be developed makes it hard to ascertain the scale of spending required, and hence what increase will be necessary.

The proposal to raise the VAT ceiling from 1 to 1,4 % is acceptable provided that (a) expenditure is tailored to needs and (b) stringent controls are applied to ensure that spending is both justified and effective. This ceiling is anyway unlikely to be attained for several years. It must also be remembered that the increase from 1 to 1,4 % will have to be approved by the Member States' parliaments — a procedure which will require around two years.

7. Given the procedure proposed by the Commission, the possibility of increasing the VAT contribution beyond 1,4 % in steps of 0,4 % raises no objections in principle. Obviously, that would have to depend on the overall situation at the time, which is difficult to forecast at the present juncture.

8. The inclusion of ECSC customs duties in the Community's resources is acceptable provided that ECSC expenditure can be covered, should revenue from levies fall short of requirements.

9. With regard to the 10 % ceiling on Community receipts reimbursed to the Member States, it seems advisable to lower the upper limit.

10. Alternatives to the Commission proposals have been put forward during discussions. These include the possibility of levying a tax on the consumption of certain products or services.

Generally speaking, the Committee feels that the composition and underlying principles of specific taxes, devised to fund specific sectors, should be examined on an individual basis.

On the other hand, it feels that the introduction of these taxes for the purpose of increasing and diversifying the Community's general budget is a fundamental issue that needs to be studied in depth.

V. Conclusions

The Committee stands by the viewpoints expounded above and supports an increase in the Community's own resources, to be accompanied by concurrent restructuring of the Community budget.

The Committee has given its opinion on the basis of the Commission proposal of 6 May 1983. In the light of subsequent work on this matter and the delay before the Community can utilize new resources, it would stress that compulsory spending during the interim period must not be funded at the expense of new policies or the Social or Regional Funds.

Done at Brussels, 26 October 1983.

The Chairman
of the Economic and Social Committee
François CEYRAC

APPENDIX

to the opinion of the Economic and Social Committee

Rejected amendment

The following amendment, tabled in accordance with the Rules of Procedure, was rejected by the Committee during plenary session discussions

Page 9, point 5

Replace by the following:

'Bearing in mind the comments made above and elsewhere, the system of variable VAT rates is unacceptable. The various instruments currently provided for in the arsenal of the common agricultural policy, including the method of production quotas at guaranteed prices, must be enlisted in a way that is satisfactory from both a quantitative and qualitative viewpoint for purposes of solving the problem of overspending in connection with the CAP.'

Reasons

The system of rates varying according to national agricultural production criteria is unacceptable because it would re-nationalize production in certain respects, thereby undermining the unity of the market and Community solidarity.

Voting:

For: 8, against: 74, abstentions: 29