The European Commission’s proposals on budgetary discipline (February 1984)

Caption: In February 1984, the European Commission calls for greater budgetary discipline within the Community, since that will go some way towards correcting budgetary imbalances and increasing the Communities’ own resources.
Source: Bulletin of the European Communities. February 1984, No 2. Luxembourg: Office for official publications of the European Communities.

URL: http://www.cvce.eu/obj/the_european_commission_s_proposals_on_budgetary_discipline_february_1984-en-abe6b240-a5ea-4bd7-8ec0-8e0e37489f2e.html
Publication date: 22/10/2012

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Budget discipline

'The need for discipline which applies to the Community as much as to its Member Stares is of a general nature. Optimum use of the Community's resources can be ensured only if the budget as a whole is managed in a rigorous fashion, in line with clearly defined forecasts and priorities and on the basis of precise rules applicable to all types of expenditure. Such a discipline has to be imposed in agreement with Parliament, given the role which the latter plays in the budget procedure.

In the Commission's view there would be advantage in introducing certain improvements into the existing budget procedure which, while complying with the Treaty, would enable a better choice of budgetary options to be made on the basis of the Community's aims and priorities. The Commission is therefore proposing a set of rules to be applied to the whole of the budget which will be supplemented by special rules relevant to the nature of the particular expenditure or new development of the Community in question. Thus as regards agricultural expenditure the Commission is asking the European Council to approve the financial provision which it has proposed and which it has refined by the incorporation of certain adjustments the need for which has become apparent during the course of discussion (see 'Common agricultural policy: Financial guidelines' below).

As regards other types of expenditure, the Commission proposes to introduce certain specific forms of framework, by drawing a distinction between expenditure whose normal rhythm is stable (administrative appropriations), expenditure which can be the subject of qualitative guidelines (in particular structural expenditure) and finally expenditure which by its nature is dependent upon multiannual programming. The aim is that the budget authority should be provided, on the basis of a proposal from the Commission and before the start of the budget procedure proper, with all the information necessary in order to define the priorities in the Community's objectives and to assess the means required in order to attain them.

The Commission therefore submits the following draft conclusions for adoption by the European Council.

1. The European Council requests the Council to agree with Parliament and the Commission on an improvement in the budget procedure (with due respect for Article 203, and in particular paragraph 9 thereof) so as to provide a greater rationalization of budgetary options in line with the objectives of the Community.

To this end it submits the following provisions:

2. Before the opening of the budget procedure proper a conciliation between the three institutions will take place, on the basis of a report from the Commission quantifying the main budget components for the year ahead: the estimated revenues and volume of the budget as a whole compared with the previous year, together with the estimated volume compared with the previous year of each of the major budget parameters.[1]

3. As regards agricultural expenditure, the European Council endorses the financial guidelines proposed by the Commission with regard to agricultural expenditure, in the form in which the Commission has refined them as a result of the Council's discussions (see 'Common agricultural policy: Financial guidelines' below). In this way the common agricultural policy will be better integrated into the budget procedure of the Community.

The Commission's forecasts will be drawn up in accordance with the guideline thus laid down.

4. As regards other expenditure:

(i) The Council will seek with Parliament, on the basis of proposals from the Commission, agreement on multiannual programming in all fields where this is appropriate, in line with Community objectives.

(ii) In the case of actions or policies which have already been the subject of such multiannual programming, or which have been subject to qualitative guidelines (to be established also through conciliation between the Council, Parliament and the Commission), the main budget parameters will be costed on the basis of a normal implementation of these programmes or guidelines.

(iii) In the case of other actions (including new actions) the main budget parameters will be costed on the basis of the clearly defined aims which the Commission proposes should be achieved. In proposing these aims the Commission will take proper account of the need to apply to the Community budget a discipline compatible with that applied to the budgets of its Member States.

If the total volume of non-obligatory expenditure costed in the above manner would lead to the maximum rate being exceeded, the Commission will submit a full and reasoned justification, taking into consideration not only the requirements of the development of the Community but also the economic and financial situation of the Community and the Member States.

5. The aim of the conciliation is to secure the greatest possible measure of agreement among the institutions on the structure and volume of the budget.

The Commission shall draw up the preliminary draft budget upon completion of the conciliation, within the limits of the total volume of expenditure proposed in its report; it shall incorporate the points on which agreement had been reached and shall take account of the discussions which will have taken place on other issues.

6. The preliminary draft budget shall also contain a contingency reserve. The primary purpose of this reserve shall be to provide for conjunctural fluctuations in agricultural expenditure; but it shall also be available in the case of a shortfall in the actual receipts from the Community's own resources by comparison with the budget forecasts.

7. The Commission will continue to report regularly to the Council and Parliament on the implementation of the budget, as regards both agricultural and non-agricultural expenditure. In the event of an overrun or the likelihood thereof it shall submit appropriate proposals to the Council and Parliament.'

Common agricultural policy: Financial guidelines

1. The amendments which the Commission has proposed to the rules governing the various common agricultural market organizations will, if implemented, ensure control of agricultural expenditure and act as a brake on its future growth. It is on the assumption that the Council will endorse all these measures that the Commission now submits the following financial guidelines.

2. The Commission will give the European Council an undertaking to adopt a qualitative guideline with respect to its own management, namely that the rate of growth of agricultural expenditure,[2] as an average calculated over several years, is to remain below the rate of growth of the Community's own resource base[3] calculated on a similar basis. The average in each case shall be that of the current year and the two preceding years.[4]

3. The Commission suggests that the European Council expressly request the Council to adopt the same qualitative guideline in the decisions falling within its competence.

4. The Commission requests the Council to adopt special procedural rules in order better to ensure strict budget discipline in the management of the common agricultural policy.

5. As regards the decisions which have a determinant effect on the volume of agricultural expenditure, that is the decision on agricultural prices which the Council of Agriculture Ministers must take each year on a proposal from the Commission, the Commission proposes the following rules:

(a) When submitting its agricultural proposals the Commission will supply a quantified estimate of their budget impact in relation to the movement in the growth of the Community's own resource base calculated according to a common and constant formula, namely the sliding average of the growth rates for the current year, the year immediately preceding and the year ahead. These figures will allow a judgment to be made of the compatibility of the proposals with the guideline referred to in paragraph 2 of this section.

(b) The Commission will draw up its proposals on prices (and related measures) in the light of the guideline referred to in paragraph 2. To this end the Commission confirms that it intends in the coming years to pursue a restrictive price policy for sectors in surplus and for those where a rapid growth in expenditure is coupled with limited outlets for disposal.

(c) On this basis the Commission suggests that the European Council request the Council to adopt the following rule: if in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session.

6. As regards the preparation and implementation of the budget the Commission proposes the following rules:

(a) In submitting its budget proposals in the context of its preliminary draft budget the Commission will take account of all foreseeable expenditure in the budget year concerned, including that stemming from its price proposals.

The aim of the Commission and the Council will thus be to keep EAGGF Guarantee expenditure within the appropriations for the year.

(b) The Commission will institute an early-warning procedure enabling it to detect promptly any risk during the year of budgetary overruns and report to the Council and Parliament forthwith.[5]

It will in any event report to the Council and Parliament each month on the trend of agricultural expenditure.

After making use of all the opportunities afforded by the routine management of the CAP it will if need be propose to the Council and Parliament measures designed, without detriment to the principles of the CAP, to restrict increases in agricultural expenditure. It will be incumbent on those institutions to take the necessary decisions as speedily as possible so that these measures can achieve their purpose. Where appropriate the Council's decisions could be taken at a special session of the kind referred to in paragraph 5(c).

The Commission will not introduce a supplementary budget until it has exhausted all the opportunities for savings afforded by the routine management of the CAP and by any additional Council decisions.

(c) In the event of failure to respect the qualitative guideline referred to in paragraph 2 (by reason either of a special Council decision [5(c)] or of a supplementary budget), adherence thereto will mean that both the Council and the Commission must during the following two financial years ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by the qualitative guideline. In so doing they must concentrate primarily on the production sectors responsible for the failure to adhere to the guideline.

Future financing of the Community

'The Commission proposed in May 1983 that under the 1970 decision on own resources a new Community decision-making procedure should be instituted for setting the rare of call-up applicable to the basis of assessment for VAT.

The procedure would be operated for the first time before the setting of a VAT call-up rate above 1.4%.

The Commission's proposal received the support of the European Parliament, with the qualification that the matter must be dealt with in the framework of the powers pertaining to national ratification procedures. From the Council discussions it emerged that the overwhelming majority of the Member States wished to continue the principle of a ceiling rate laid down in the 1970 decision and the requirement that any increase in the ceiling rate is to be agreed by the Member States unanimously and ratified by the national Parliaments.

This being so, the Commission would now make the point that the Community is consequently in the same position as at the time of the 1970 decision; the Community has accordingly to set a new ceiling on the increase of VAT own resources.

The 1970 decision gave the Community financial security for 13 years.[6] A decision of like scope is called for now, taking account of a number of considerations that did not apply when the 1970 decision was taken.

Future development of the Community budget in the context of budget discipline

1. Raising the own-resources ceiling is this time part and parcel of a set of arrangements proposed by the Commission for containing farm spending and establishing strict budget discipline generally.

The strict budget management guaranteed by the decisions which the Council takes on the basis of the Commission's proposals will ensure that the new resources are of a permanent nature by enabling the growth of the Community budget to be kept within bounds.

At the same time the European Council's decision on the future financing of the Community must show a dynamic approach and offer a real prospect of further development in the medium term.

For there are cases where joint action by the Member States is more effective and economical than piecemeal national measures. With all due respect for the constraints on public spending throughout the Community, the financing system of the Community must therefore be given sufficient flexibility to take on further developments in line with these economy requirements, particularly as they mean in practice that the demands on the national budgets are less.

Enlargement

2. The raising of the own-resources ceiling must also enable the Community budget to cover the financial implications of Spanish and Portuguese accession.

The annual profile of the budgetary effects of enlargement cannot be determined at the present stage of the negotiations with Spain and Portugal. To start with, the increase in Community expenditure will stem mainly from higher structural expenditure for the benefit of the acceding countries and the Mediterranean regions of the Community; later on, enlargement might involve a net increase in the Community budget of 0.1-0.2% of VAT.

Rate of growth of own resources

3. Prudence demands that we should not bank on a real growth rate in Community GDP of more than 2.5% p.a. over the coming years.

The average annual growth in the VAT basis of assessment should not exceed that in GDP. Moreover, the trend in movement of the other revenues is sluggish: in fact in real terms their value has actually declined.[7]

In 1978 customs duties and the other common policy-related revenues accounted for 45% of available own resources, but in 1984 the figure is only 42%.

This trend can be expected to continue, and indeed to gather pace, in the years ahead. Most customs duties are bound in GATT and come under a dismantling schedule which could be speeded up in accordance with the progress of world efforts to liberalize international trade.

As for the agricultural levies, they are a particularly erratic source of finance, whose yield will be adversely affected by the implementation of the Commission's proposed CAP reforms.

Care must be taken therefore not to equate an increase in the Community budget with an increase in the VAT revenues required. The relative diminution in the other resources automatically involves, for a given real increase in the budget, a faster increase in the VAT revenues called up. Thus is has been estimated that tariff dismantling and the fall in the agricultural levies consequent on CAP reform could mean, at a time-scale of 10-15 years, a 0.2% increase in the VAT call-up rate merely to maintain the real value of available own resources.

Time needed

4. To gain the Council's agreement to a proposal for going above the own-resources ceiling, and after that to obtain ratification by the national parliaments (12 of them after enlargement), will take at least two years. This cuts two years off the period during which the higher own-resources ceiling will allow trouble-free Community budgeting.

Moreover the credibility of the Community system would suffer severely if the national parliaments had to be constantly applied to in order to obtain the wherewithal to go ahead with the common venture.

In the two financial years that will elapse between the exhaustion of own resources within the 1% ceiling and the advent of the new resources, budget growth will be completely straitjacketed. Hence there is bound to be an accumulation of commitments and deferments of expenditure which will have to be honoured later. This is inevitable even if the Commission's proposals for the reform of the CAP are adopted in full in principle by the Brussels European Council in March, for even then it would still take time to turn the decisions-in-principle into operational regulations, and time again for the regulations to have their full budgetary impact. So it could be that the Community budget will have to be temporarily increased for so long as it takes to implement the arrangements for properly containing farm spending. This factor, which may be discounted in a long-term context, would become very relevant indeed if the new own-resources ceiling were not consonant with the long-term context and in fact only afforded the Community a breathing space.

5. In view of the foregoing, the Commission is proposing that the Council today take a decision of like importance to that of 1970, raising by one point the maximum rate determining the revenue from value-added tax which may be assigned to the Community.

The Commission is of the opinion that this increase of the ceiling rate from 1 to 2% of the basis of assessment for VAT would give the Community secure financing for long enough to cover the whole transitional period of its enlargement to include Spain and Portugal.[8]

In asking the European Council to give the Community this financial security — monitored in accordance with the budget discipline rules — it is thus asking the Member States to have the same degree of confidence in Europe as they did in 1970.

It is not asking them to accept the principle of automatic, regular increases in Community revenue-generation.

By deciding to make available to the Community a certain range of potential resources the Member States will not be authorizing their deployment; the actual expenditure and revenue of the Community will be determined through the annual budget procedure, strictly within the framework of the rules on budget discipline proposed by the Commission.'

1. The report will be drawn up within the context of the three-year forecasts which the Commission submits each year for the three financial years following.
2. The amounts to be taken into account are the expenditure chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the budget. This expenditure is currently presented in the budget in a manner which includes 'negative expenditure', i.e. is already reduced by the incidence of the financial contribution by milk producers (co-responsibility levy). The calculation of agricultural expenditure for the purposes of the guideline shall be this expenditure, further reduced by the sum of amounts corresponding to the marketing of ACP sugar and refunds in connection with food aid, the payments by producers in respect of the sugar and isoglucose levies as well as the revenues from any future internal agricultural charges.
3. The amounts to be taken into account are the potential revenues upon which Titles 1 and 2 of Section III (Revenue) of the budget are determined. The calculation of the Community's own resource base for the purposes of the guideline shall be the total VAT base upon which the VAT rate of the year in question is calculated, the amount of financial contributions (if any) included in the budget of the year together with the own resources, other than those derived from VAT, set out in Revenue Title 1 less the sugar and isoglucose levies. For the purpose of calculating the VAT base account shall not be taken of any abatements on the VAT payments of individual Member States.
4. In calculating the rates of growth in the own-resource base and in agricultural expenditure, due account will need to be taken of:
(i) Changes in the own-resource base, e.g. as a result of an increase in the VAT ceiling;
(ii) any discrepancy in timing between the full availability to the Community of the additional own resources derived in the two new Member States and changes in agricultural expenditure occasioned by their accession. (One possible solution would be the neutralization, for the purposes of the calculation of this guideline, of the effects of enlargement during the first years of the transitional period.)
5. Apart from a Council decision on prices in excess of the Commission's proposals (when the special decision-making procedure in paragraph 5(c) would apply), such 'overruns' could only occur as a result of compelling economic developments which could not have been foreseen when the budget was adopted.
6. Whereas in 1981 the VAT call-up rate was still the same as in 1979, namely, 0.78, in 1982 it suddenly moved to over 0.9. Since 1983 the Community budget has been up against the own-resources ceiling, as the combined result of farm spending and offset payments to correct the imbalances in the distribution of budget charges. (Had it not been for the offset payments the 1983 call-up rate would have been 0.875.)
7. The traditional own resources (agricultural levies, sugar and isoglucose levies, customs duties) rose in face value by an average 6.8% p.a. in the period 1978-83, while during the same period GDP implied prices rose by 8.9% p.a. The real value of the traditional own resources thus fell by an average 1.9% p.a. during those five years.
8. During that period it is also necessary to allow for the effects, at the appropriate time, of budgetizing the EDF.