

Reform of the Community budget

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Reform of the Community budget: the Delors Packages

The budgetary crisis

In the early 1980s, the reform of the European Community budget was becoming increasingly necessary.

Indeed, a real budgetary crisis was developing. Expenditure was continuing to grow. The common agricultural policy was becoming more and more expensive because of chronic overproduction of the products eligible for price guarantees, and it was accounting for an excessive share of the total budget (70 %). The enlargement of the Community to include Greece, Portugal and Spain meant that these countries were entitled to agricultural subsidies and regional aid. The Community budget doubled in six years (from ECU 18 400 million in 1980 to ECU 36 200 million in 1987). Revenue, however, proved insufficient. Of the three 'own resources', the first two (customs duties on imports and agricultural levies) were no longer increasing because of successive tariff cuts and the move towards food self-sufficiency in the Community. That entailed a need to increase the third resource, which was based on value added tax (VAT) but limited to 1 %, before being raised to 1.4 %, and was unenthusiastically received by the less developed Member States. The Member States were thus obliged to make up the budget deficit through national contributions in the form of 'advances', not all of which were refundable. That ran counter to the notion of the Community's 'own resources'.

These accounting difficulties were accompanied by an institutional crisis. The European Parliament, elected by direct universal suffrage in 1979, sought to increase its influence over the budgetary procedure which, in practice, was limited to the Commission's proposals and to the decisions taken by the Council of Ministers. All it could do, to this end, was to exercise its right to adopt (or reject) the overall budget. This led to frequent disputes which delayed the adoption of a budget for that year by several months. It was time to put an end to these budgetary squabbles.

A reform of the financial system and a strengthening of budgetary discipline proved necessary, in particular because the adoption of the Single European Act (SEA), which established new economic and social objectives, increased the structural expenditure designed to enhance cohesion in the Community.

The Delors I and II Packages

Reform of the Community budget was achieved under the aegis of Jacques Delors, President of the Commission from January 1985. The starting point was a communication issued by the Commission in 1987, commonly known as the Delors I Package. In 1992, a further communication from the Commission known as the Delors II Package continued the reforms undertaken in 1988.

The Delors I Package culminated in the 1988 reforms, which had two objectives.

The first was to guarantee the financing of the Community budget. To that end, a fourth own resource was introduced: based on the GNP of the Member States, it was calculated by reference to the difference between expenditure and the yield of the other 'own resources'. It was, therefore, a back-up resource intended to balance the Community budget. However, the 'traditional' own resources were dwindling and it was becoming apparent that the national contributions based on the Member States' GNP were increasing. Moreover, with the aim once again of guaranteeing budgetary security, the combined total of the Community's resources was henceforth given an upper limit, set at a percentage of its GNP: 1.15 % in 1988, increasing to 1.20 % in 1992.

The second objective aimed to improve the annual budgetary procedure and to put an end to budgetary squabbles. This was achieved through the conclusion of an interinstitutional agreement between the Council, the Commission and the European Parliament on 29 June 1988. The agreement set rules for reinforced budgetary discipline and fixed 'financial perspectives' for a five-year period (1988–1992). The financial perspectives indicated the maximum amount and the composition of foreseeable Community expenditure for a given period. They interpreted the priorities established for managing Community policies and set the

limits for an increase in expenditure in accordance with the ceiling for own resources. The growth rate of agricultural guarantees was limited to 74 % of the annual growth rate of the Community's GNP. Allocations for structural policies, however, were doubled between 1987 and 1993, increasing from 17.2 % of expenditure to 27 %.

After this system had operated satisfactorily for five years, the Commission issued a further communication in 1992: the Delors II Package. This suggested the renewal of the interinstitutional agreement and in particular the idea of the financial perspectives. The new interinstitutional agreement was concluded on 23 October 1993. In a context of economic depression, it provided for financial perspectives over a period of seven years (1993–1999) instead of five. The previous guidelines were continued, and ambitious challenges associated with the signing of the Treaty on European Union were set: curbing of agricultural expenditure following the May 1992 CAP reform, another doubling of the structural funds with the establishment of a Cohesion Fund for the less prosperous countries of the Community, and the achievement of Economic and Monetary Union (EMU). As far as own resources were concerned, the Delors II Package led to the decision of 31 October 1994 which set their ceiling to 1.20 % of Community GNP in 1993, rising to 1.27 % in 1999. The decision also provided for the reduction of the call rate of the VAT-based resource, which fell from 1.4 % to 1 % between 1995 and 1999; this further increased the share of the fourth resource based on the GNP of the Member States.