EU: Pressing Tasks

This year, the European Union has to make headway with finding solutions in two major problem areas: Agenda 2000 and the question of the reorganization of financial burdens amongst the member states. These reforms are closely bound up with the decision to enlarge the EU to include five Central/East European countries and Cyprus, whose accession negotiations are already underway.

In Agenda 2000, the European Commission has set the financial parameters for the EU until the year 2006 and made proposals for reforming agricultural and structural policy and setting up a new financial system for the EU. The initial thinking behind it was that the planned EU eastern enlargement would be impossible without adjustments to European agricultural policy, as farming is a major sector in the applicant countries and the cost of financing agricultural policy in its present form would be prohibitive when they accede.

At current support prices, the additional supply of agricultural produce expected from enlargement would entail an enormous rise in EU agricultural spending. Even a conservative estimate of ten billion euro would be impossible to finance, since for one thing EU agricultural policy expenditure is tied to the growth of the Union's national product and, for another, in the opinion of the Commission the EU's finances may not exceed 1.27% of Union gross national product even after a phase of enlargement.

The agricultural guidelines stipulate a maximum rise in agricultural spending of 0.74% if Union GDP increases by around 1 %. Because of this limit, the sudden rise in growth due to enlargement will not suffice to cover the corresponding increase in expenditure in the agricultural sector. At present, the Union's budget does not make up more than 1.07% of aggregate national product, but the remaining margin to 1.27% of Union GDP is too narrow to guarantee funding for the anticipated additional expenditure resulting from EU enlargement. This means that the financial system of the Union needs reorganizing to secure the finances for planned enlargement. The Commission's proposals on this in Agenda 2000 will ultimately mean that the fifteen member states will in future receive less in the form of return flows from the EU budget than they have in the past.

Regarding the common agricultural policy, the Commission proposes cutting agricultural price support. Any adverse effects these measures might have on farmers' incomes are to be offset by a sizable increase in compensation payments for land set-asides and beef and suckler cow premia and by introducing new premia for dairy cows. These measures, which signal a further movement away from pricing policy and toward income policy, are to be implemented in tandem with a policy of reorganizing and revitalizing rural development. In future, necessary adjustments in the agricultural sector are to be accompanied by appropriate development programmes in all affected areas, not just in regions whose development is lagging particularly behind.

It is difficult to achieve success in this area, however, since the fundamental changes being proposed will lead to losses of revenue in a number of member states. As the major beneficiary of the present system of agricultural financing, France is a resolute opponent of change and objects particularly vehemently to suggestions that individual member states cofinance agricultural policy's direct income support, which was put forward as one possible option by the EU Commisssion.

As an alternative, the Commission has proposed doing away with budgetary compensation for the United Kingdom and introducing a general budget corrective mechanism in favour of the present net contributors by introducing a ceiling for net contributions to the EU budget. Abolishing the British contribution rebate is warranted, since the reason, namely the relatively small return flows from the EU's agricultural policy programmes, no longer applies. Such a step, though, is likely to meet with determined British resistance.

The Commission's proposed option of a ceiling for net contributions by member states takes up a demand made by the former Federal German Government that net contributions be limited to 0.3% of the member state's gross national product. In 1997, Germany accounted for 57% of net contributions as compared with 5% and 0.8% from France and Italy respectively. Denmark, with a larger per capita income than Germany's, was even a net recipient in 1997. However, a mechanical ceiling, although it might be easier to implement in the EU, would evade the issue of a basic reform of EU finances. This is necessary, however, to slow down the tendency of the EU budget to expand and to reduce the disproportionate redistribution of resources amongst member states.

In a recent paper, the scientific advisory board at the German Federal Ministry of Economics and Technology therefore rightly argues that net contributors cannot be given substantial relief unless reforms are made to EU expenditure policy. One reason why today's volume of expenditure is so large and its structures often inefficient is because in the past integration crises have been averted with the aid of individual decisions. Also, under the present allocation of votes in the Council of Ministers, majority decisions on the pattern of expenditures foster misallocation.

EU expenditure policy should be brought more closely into line with the ^ principle of implementing only measures which represent a public good, such as the guaranteeing of a functional single market. If, on the other hand, agricultural and structural policy measures benefit individual member states, these should in future be required to share cofinancing costs in line with the principle of equivalent compensation. This would counteract the false incentive to apply for costly projects with little utility. Expenditure borne until now by the Union could also be returned to national jurisdiction under the subsidiarity principle. To do this, the entire catalogue of measures in agricultural, structural and regional policy would have to be reappraised. Altogether, savings could be made in Union expenditure which would suffice to meet the special costs of eastward enlargement. In the opinion of the advisory board, the present financial volume of the Union could in this way be kept at 1.07% of aggregate gross national product; there would be no need to resort to the 1.27 per cent limit.

The board suggests a contribution rate for member states which is based to 80% on the member state's share of Union gross national product and to 20% on its vote allocation in the Council of Ministers. In such a contribution rate arrangement, the EU financial contribution of states whose voting weight is less than their share of aggregate national product would rise degressively with gross national product. At present, the large populous states are at a disadvantage compared to the small states with regard to vote distribution, because measured against their population share they are allotted insufficient weight in majority decisions on measures involving large amounts of expenditure, which ultimately decide the size of financial contributions in the Union.

This contribution rate structure stands in glaring contrast to the proposal made by Spain, endorsed by Portugal and Greece, for the introduction of a progressive rate. This proposal envisages taking gross national product as the basis for assessment and applying a progessive rate aligned to the per capita incomes of the member states or to a prosperity scale. Essentially, the Spanish approach comes down to a taxation of individual citizens as members of the Union in line with their ability to pay, without according them equal voting rights in EU bodies.

Applying the Spanish progressive approach to member state contributions would pave the way once and for all for a Union of unbridled transfers. The opportunity would thus be wasted, in the face of the impending enlargement of the EU and of the funding requirements this involves, to undertake a fundamental reform not just of Union finances but of expenditure policy *perse,* which is the ultimate determinant of financial requirements.

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