European Integration as a Financial Adjustment Problem

by Klaus-Dirk Henke, Hanover*

The European summit in Dublin has shown that any further European integration will be determined in great measure by agreement on the financing of future Community budgets and by the EC's expenditure policy. This article shows how the political controversy about the Community's budget expenditure and receipts can be raised to a more rational level by the adoption of an economic approach.

The advantages and disadvantages of European integration have not been subjected to a systematic examination from the point of view of either the member states or the newly acceding countries as yet. It need cause no surprise therefore that, instead of starting from such worth-while analyses, the representatives of the member countries are drawing on so-called net transfer calculations - which remind one of the cameralistic ideas of a bygone age - as a basis for decisions in connection with the advancing integration. Analyses of the flow of payments are used in the political discussion in an attempt to spot the "winners" and "losers" from integration. Depending on the findings of these analyses, member countries show themselves more or less eager to forward the integration. There are many reasons why the beneficiaries from integration cannot be identified by simply striking a balance from the member countries' point of view of in-payments (outflows) and out-payments (inflows). A few of them shall be mentioned here.

Since the EC's "own resources" resolution of April 21, 1970 and the implementation of the value-added tax (VAT) provision by more than three member states in 1979 it is no longer reasonable to regard the outflows to the Community budget as national contributions. The EC has a legal claim to the resources concerned, just as in Germany the Federal Government is by virtue of the "revenue equalization" entitled to certain receipts from the total public revenue. This line of argument does however not rule out the possibility that analyses the starting point of which is a simple payments flow analysis (regional incidence of payment commitments) may be wanted for an inquiry into the interregional redistribution effects of the Community budget, for instance. But even if in furtherance of such studies customs duties and agricultural levies are "debited" to individual member countries, this method is the correct one only in the exceptional case of imported goods being consumed within the country in which the import dues are payable.

The customs revenue for instance is determined by the geographical conditions pertaining to the importation of goods: a country without ports would have a relatively small resource outflow to the Community budget in the form of collected customs revenue and thus - ceteris paribus - a relatively larger net inflow. Distortions which have to be straightened out and require a more detailed incidence analysis will thus occur even when outflows are falsely interpreted as national financial contributions. In connection with the requisite inquiries into the regional

* University of Hanover.
incidence of the Community budget it may also be asked why the regional boundaries should be supposed to coincide with the national frontiers and whether it would not be more relevant if they were delineated according to economic criteria.

Against the Community Spirit

An equivalence of financial flows to provide a "just return" is neither implied in the letter nor in the spirit of the EEC treaty or the merger treaties. If a "just return" in the sense of an offset between in-payments and out-payments is nevertheless put forward by the individual nations as a guiding financial principle for the everyday application of integration policy, this is bound to impair the scope for redistribution between member states which, it may be inferred from the preamble and article 2 of the EEC treaty, is a Community task. Notions of equivalence, which suggest a lack of solidarity or a reluctance to a more far-reaching integration of the member countries, furthermore tend to jack up the spending covered by the Community budget.

Looking at single years by themselves – a practice typical of the discussion on net transfers – leads to false conclusions because of frequent structural breaks in the development of the EC (e.g. the basing of the EUA on market rates instead of fixed parities and the recurrent green currency adjustments). In many instances it is not made clear whether figures relate to authorizations for payment or commitment and whether planned or actual financial flows have been used in ex post facto analyses.

Distortions also result from the fact that the net transfer calculations take in the outlays on administration and materials of the EEC and the European Atomic Energy Community (EAE) as well as the administrative expenditure of the European Coal and Steel Community (ECSC) and the European Development Fund (EDF) but not the latter's expenditure on materials or the finances of the European Investment Bank (EIB). The Community budget to which the net transfer calculations related hitherto is only an inadequate indicator of the EC's finances and even more so of the financial flows induced by the EC.

Integration effects which are connected with the creation and/or diversion of trade flows must also be included in a realistic assessment, and consideration must be given in this connection to benefits and burdens ensuing from the minimum price orders for agricultural products or from prohibition of tariff and non-tariff obstacles to trade and the obstruction of labour mobility. The repercussions of progressive integration on the legislative and administrative opportunities open to the countries were also hitherto disregarded. Regulations already existing in member countries are often enforced generally, with the result that the newly acceding countries bear the costs of adjustments (e.g. in the context of tax harmonization or the introduction of VAT in countries willing to accede as a prerequisite of the levy of a VAT share for the EC).

As regards the booking of the monetary compensatory amounts accruing within the framework of the Common Agricultural Policy it is a matter of dispute whether the financial flows involved should be regarded as a benefit to exporters or importers. Great Britain in particular is adamant that the monetary compensatory amounts for agricultural products imported from other EC countries should not be counted as an inflow into the importing country. The "advantage", so the British argue, accrues to the EC.

---


2 EUA = European Unit of Account.