Chapter 9

The budgetary revolution: from near bankruptcy to stability

The transformation of the Community's budget — in scale, in predictability and in the manner in which it was agreed — was a vital component in the evolution of the European Community/Union (EC/EU) between 1986 and 2000. Indeed it is probably fair to say that the Delors I package of 1988 was as central a part of the Community's most productive period in the late 1980s and early 1990s as were the single market project, the Single European Act and the push for economic and monetary union. But because of its inherent complexity and technicality, the groundbreaking budgetary deal is seldom given the attention that it deserves.

The problem

'The Community is at present faced with a budgetary situation which can only be characterised as being on the brink of bankruptcy' ([1]). The opening words of the Commission's February 1987 review of the EC's budgetary position could hardly have been more stark. They were also entirely accurate. For nearly a decade the Community had been confronted by a growing mismatch between ever rising expenditure and static, or even shrinking, income ([2]). Spending on the common agricultural policy (CAP) in particular seemed to increase year on year, its scale seemingly impossible for either the Commission or the Member States to control. The Community's 'own resources' meanwhile — the sums of money that accrued automatically to the EC and were intended to be its main source of income — were contracting: the amount brought in by agricultural levies shrank as Europe grew more self-sufficient in many food products, and therefore

([1]) COM(87) 101 final, 28 February 1987, 'Report by the Commission to the Council and Parliament on the financing of the Community budget'.

([2]) Roy Jenkins told Valéry Giscard d'Estaing this in 1980: Tickell Papers, All Souls College Oxford, File 18, 'Record of a conversation', 26 November 1980.

imported less; customs duties declined as tariff levels fell; and the sums raised from value added tax (VAT) diminished in real terms as consumer expenditure dropped as a proportion of Community gross national product (GNP). The new money released by the 1984 agreement at the Fontainebleau European Council to increase the share of VAT handed over to the Community from 1 % of the total to 1.4 % had been wholly used up before 1986 had come to an end.

This underlying budgetary problem had acutely serious knock-on effects. To cite the Commission's report once more: 'the Community has sunk into a morass of budgetary malpractices needed to conceal or postpone the real financial implications of Community policies' (1). These included overvaluing agricultural stocks, rolling spending over from one year to the next and allowing 'commitments' (i.e. promises of expenditure in the future) to grow out of proportion with the EC's actual ability to pay. Equally seriously, the budgetary shortfalls aggravated pre-existing friction between the three institutions jointly responsible for agreeing each new budget: the Parliament, the Council and the Commission (2). As one internal Commission document drawn up in the course of 1987 noted ruefully, none of the previous three budgets had been agreed within the normal time frame, thereby injecting a further element of unpredictability into the Community's precarious financial position (3). The status quo was already highly unstable; the prospects of coping with the increased expenditure implied by enlargement to Spain and Portugal and the costs of the new policy priorities identified in the Single European Act were almost non-existent. Change was essential.

A radical solution

In taking a new look at Community finances, and especially at its 'own resources', the European Commission was doing no more than fulfilling the mandate it had been given as part of the 1984 Fontainebleau deal (4). But it was typical of Jaques Delors to use the opportunity to press for a bold solution rather than a minimalist one. The proposal devised by the Commission over the course of 1986 and the early part of 1987 had four main components. Thus the budgetary overhaul envisaged included two main aspects: the first was the introduction of a new 'fourth resource' that would automatically make up the difference between the budgeted sum and existing own resources with Member State contributions directly linked to their respective GNPs; the second was a suggested move to 5-year financial perspectives, rather than separately negotiated annual budgets. As a quid pro quo for the suggestion that Member States should dig deep into their pockets to underwrite Community spending, the Commission for its part proposed a set of steps designed to bring expenditure under control, notably a series of 'stabilisers' intended to check the rise in agricultural spending (5). Such control of expenditure, especially when combined with multiannual financial perspectives, would bring an element of predictability and discipline to Community spending that had been lacking hitherto. The fourth component of the Commission package was the proposal for a radical increase in Community spending on Structural Funds, designed to help the poorer regions of the EC (and especially the newest entrants, i.e. Greece, Spain and Portugal) cope with the challenge of the single market. The amount of money being directed to the poorest regions of the Community was to more than double between 1988 and 1992 (6). All of

(1) COM (87) 101 final.

(2) For earlier instances of Parliament–Council friction over the budget see Bussière, É., Dujardin, V. et al. (eds), *The European Commission 1973-86 — History and memories of an institution*, Publications Office of the European Union, Luxembourg, 2014, p. 246.

(3) HAEU, DORIE 826, SEC(87) 460/1, 3 April 1987, 'Commission services working document on budgetary discipline'.

(4) European Council meeting at Fontainebleau, 25 and 26 June 1984 — Conclusions of the presidency: http://www.consilium.europa.eu/media/20673/1984_june_-_fontainebleau__eng_.pdf

(5) See Chapter 14.1 'The common agricultural policy'.

(6) COM(87) 100 final, 15 February 1987, 'Making a success of the Single Act: a new frontier for Europe'.

The Heads of State or Government adopted conclusions concerning budgetary discipline and increasing the structural funds at the Brussels European Council on 11 and 12 February 1988.
Family photograph, from left to right, front row: Jacques Santer, Luxembourg Prime Minister; Giovanni Goria, Italian Prime Minister; Poul Schlüter, Danish Prime Minister; Margaret Thatcher, UK Prime Minister; François Mitterrand, French President; Jacques Delors, President of the European Commission; Helmut Kohl, German Chancellor and acting President of the Council; Wilfried Martens, Belgian Prime Minister; Charles Haughey, Irish Prime Minister; Andreas Papandreou, Greek Prime Minister; Felipe González, Spanish Prime Minister.
Back row: Theódoros Pángalos, Greek Deputy Minister for Foreign Affairs; Ruud Lubbers, Dutch Prime Minister; Leo Tindemans, Belgian Minister for Foreign Relations; Uffe Ellemann-Jensen, Danish Minister for Foreign Affairs; Geoffrey Howe, UK Secretary of State for Foreign and Commonwealth Affairs; Hans-Dietrich Genscher, German Minister for Foreign Affairs; Jacques Chirac, French Prime Minister; Michael O'Kennedy, Irish Minister for Agriculture and Food; Jacques Poos, Luxembourg Minister for Foreign Affairs, Foreign Trade and Cooperation; and Francisco Fernández Ordóñez, Spanish Minister for Foreign Affairs.

this would be underwritten by an interinstitutional agreement committing the Parliament, the Council and the Commission to the new approach — and in the process bringing to an end the bitter interinstitutional infighting that had characterised the years since 1979.

The Commission justified this new approach by pointing to the commitments that the Member States had entered into with the single market project, enlargement and the SEA. 'In order to succeed in its new responsibilities, the Community must first complete the reforms it has started, especially since 1984, with the aim of adapting its old policies to the new conditions: the reform of the CAP to take account of new production and trade conditions, the reform of the Structural Funds to make of them instruments of economic development, and the reform of the financing rules to ensure a budgetary discipline as rigorous as that which the Member States impose upon themselves' ([1]). Delors and the three rapporteurs who had drawn up the reform programme — Henning Christophersen, Grigoris Varfis and Frans Andriessen — also toured the capitals in early 1987 to sell the budget solution. And the Commission President was notably solicitous

([1]) Ibid.

in ensuring that the new President of the European Parliament, Lord Henry Plumb, was consulted in advance [1]. But despite all of these efforts, so far-reaching a package was always likely to be hard for the Member States to swallow: the first European Council meeting designed to reach a budgetary deal broke up without agreement in December 1987 [2]. It was thus only at a second emergency summit, convened in Brussels in February 1988 under the presidency of Helmut Kohl, that a deal on the new budgetary approach was struck. Crucial to obtaining this outcome was the last-minute willingness by Germany to saddle some of the additional cost. Important too was the determination of the Delors Commission not to allow the package to be made less radical, despite the initial failure at Copenhagen [3].

The impact

The 1988 budgetary deal provided a stable financial platform for the Community's most successful period of development. No longer would the Commission's ability to act be vulnerable to annual breakdowns in the budgetary process. The 5-year financial perspective, meanwhile, meant that programmes — especially within the context of the Structural Funds — could be planned over a meaningful period of time, rather than being subject to annual variations in the amount of money available [4]. Interinstitutional relations also improved, with the Parliament, the Council and the Commission freed from their annual three-way tug of war over expenditure — a development of great significance at a time when all three institutions had to work well together if they were to stand any chance of delivering the ambitious legislative programme needed to create a functioning internal market by the 1992 deadline. The Community was able to increase its expenditure, so as to take on additional duties and engage the necessary staff, without constantly being held in check by a lack of money. In the course of the 1988-1992 period, for instance, the total number of employees at the European Commission rose by over 2 000, from 15 905 to 17 946 [5]. And the restraint on agricultural spending paved the way for more far-reaching CAP reform in the early 1990s [6]. All told it was a highly important — and generally very successful — package of reforms, and as such deserves to be seen as one of the key enabling factors behind the Community's surge of progress during the late 1980s and early 1990s. The only downside, as would become apparent at the very end of the century, was that the Commission's internal management processes struggled to keep full control of all of the new responsibilities and new money with which it had been entrusted [7]. Few officials had much grounding in management or finance, their background more often being law, politics, economics or international relations. In the boom years that followed, though, little heed was paid to such matters.

Needless to say, the move from annual budgets to 5-year or longer financial perspectives did mean that when eventually a new budgetary negotiation needed to be held, it was that much more tense and fraught because the stakes were that much higher. To make matters worse, 1992, the year when a new financial perspective had to be negotiated,

(1) HAEC, COM(86), Minutes No 854, second part, meeting of 17 December 1986.
(2) *Financial Times*, 7 December 1987.
(3) The Commission's determination to hold fast was clear from its post-mortem on the Copenhagen failure and its preparations for the Brussels meeting. HAEC, COM(87), Minutes No 899, second part, meeting of 6 December 1987; COM(88), Minutes No 905, second part, 27 January 1988; COM(88), Minutes No 906, second part, 3 February 1988.
(4) Delors, whose background included a spell at the French Commissariat du Plan, was particularly appreciative of this feature: interview with Jacques Delors, 16 January 2016.
(5) Figures from 'Table 6: Staff of the Community institutions from 1968 to 2000', European Commission, *The Community budget: the facts in figures*, Office for Official Publications of the European Communities, Luxembourg, 2000, p. 47.
(6) See Chapter 14.1 'The common agricultural policy'.
(7) Peter Wilmott emphasised the dismissive attitude displayed by many at the Commission to 'management': interview with Peter Wilmott, 7 March 2017.

'"My dough, my dough!" — "I'm starting to find you quite likeable!"'
The cartoonist Plantu depicted the disagreement between the UK Prime Minister, Margaret Thatcher, and her European partners on the budget at the Copenhagen European Council on 4 and 5 December 1987.

coincided with both a period of economic downturn (whereas in 1988 European economies had been booming) and a souring of the mood in Brussels, triggered mainly by the difficulties in ratifying the Maastricht Treaty. The same Edinburgh Council at which a deal on the financial perspective was eventually done also had to devise special arrangements to allow the Danish government to consult its people once more about the treaty change, the first referendum having resulted in a 'no' vote ([1]). The presidency furthermore was held by a UK government that was deep in a struggle of its own to get the Maastricht Treaty through the House of Commons in the face of a determined group of rebels from the ruling Conservative Party. In addition, with the real costs of reunification belatedly becoming apparent, Germany was in no mood to repeat the largesse that had helped unlock the 1988 deal. Yet despite these potentially worrying obstacles a new financial perspective was once more agreed, this time due to last 7 years, until 1999, rather than just 5 years. A Delors II package thus followed Delors I. Once again it promised budgetary discipline in return for additional money being directed towards the poorer EU Member States. And, as in 1988, the European Council deal committing Member States and the Commission was quickly followed by a new interinstitutional agreement committing the European Parliament too. The new budgetary formula had worked once more, despite the self-confessed loss of momentum and dynamism being experienced by Delors, its principal architect ([2]).

([1]) *Financial Times*, 14 December 1992.

([2]) Interview with Jacques Delors, 16 January 2016.

Even more remarkable perhaps was the successful agreement in March 1999 of a new 7-year deal covering 2000-2007. On this occasion the core challenge was that of adapting EU expenditure to deal with the imminent arrival of multiple new Member States. By the late 1990s it was, after all, already clear that a major new enlargement would take place, although neither the exact timing nor which individual states would join was yet set in stone. It was also certain that enlargement would not be cheap, since all of the states expected to join were likely to be net beneficiaries from the EU budget, not net contributors. Thinking through the budgetary implications of large-scale enlargement was thus at the heart of the Agenda 2000 exercise under way within the Santer Commission from 1996 onwards ([1]). And agreement on an expensive financial framework was never likely to be easy. In the event, however, it was made still more problematic by the way in which the final stages of the negotiations over the new financial deal coincided with the fall of the Santer Commission. The budgetary process appeared to have been robbed of its key institutional pilot at precisely the most delicate and difficult point of the multiannual cycle. Somewhat against the odds, however, the 15 Member States were able to agree upon a complex, messy, but nevertheless viable compromise at a lengthy European Council meeting in Berlin. Of particular note was the sizeable sum 'ring-fenced' for the benefit of the new Member States ([2]).

Changing revenue and expenditure

With so much being altered in budgetary terms between 1986 and 2000, it is hard to single out the most important changes. A few trends do stand out however. The first and most basic is the very significant increase in the size of the EC/EU budget over the 15-year period under review. In 1986 annual expenditure stood at EUR 35 820.2 million; by 1992 this had risen to EUR 60 844.1 million; and by 2000 the total was EUR 92 253.6 million — an increase over the whole period of 157 % ([3]). This reflected the fact that the EU of 2000 was not just geographically larger than it had been in 1986 — with 15 Member States rather than 12 — but also did much more in policy terms, spending significantly higher sums of money in the process. Despite this, however, the budget remained small both in terms of a percentage of EC/EU GNP and when compared to national public expenditure. The budget represented 0.9 % of EC gross domestic product (GDP) in 1986 and 1.09 % of EU GDP in 2000. And as a percentage of total Member State public spending the 1986 budget was 2.1 %, a figure that had crept up to 2.4 % by the start of the 21st century ([4]). Of the 15 Member States, 10 had annual national public expenditure amounts that exceeded the annual EU total, with only Finland, Portugal, Greece, Ireland and Luxembourg spending less ([5]).

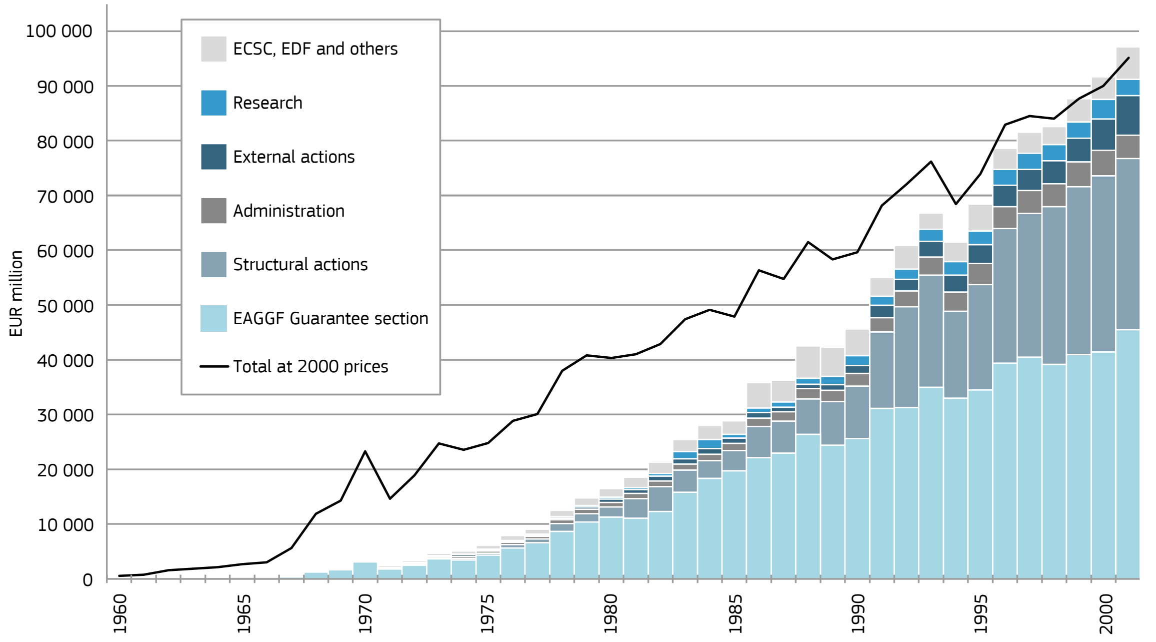
The second important change in the overall numbers occurred in the sources of the EC/EU budget. In the mid 1980s there were three main sources of income: agricultural duties brought in 6.8 % of the total, customs duties 24.3 % and VAT 66 %. By 1992 the situation was beginning to change markedly, with agricultural duties representing 3.3 %, customs duties 18.9 %, VAT 58 % and the new 'fourth resource' constituting 13.9 %. And by 2000 the picture was dramatically altered: agricultural duties only brought in 2.3 % of the total, customs duties 13 % and VAT 38.1 %, while the fourth resource had become the single biggest source of

([1]) Interview with Jim Cloos, 4 July 2016.
([2]) *Financial Times*, 27 March 1999.

([3]) Author's calculations on the basis of 'Table 1: Community expenditure from 1958 to 2001', European Commission, *The Community budget: the facts in figures*, pp. 30-31
([4]) 'Table 3: Community expenditure in relation to the total of Member States budgets and Community', ibid., pp. 38-39.
([5]) 'Chart 4: Comparison between public expenditure by the Member States and Community expenditure in 2000', ibid. p. 41.

FIGURE 1

COMMUNITY EXPENDITURE FROM 1958 TO 2001 AT CURRENT PRICES AND 2000 PRICES



Source: European Commission, *The Community budget: the facts in figures*, Office for Official Publications of the European Communities, Luxembourg, 2000, p. 32.

money, contributing 42.3 % of overall income. As the 21st century began, the EU was hence primarily financed out of the fourth resource introduced in 1988, with the original two own resources accounting for a mere 15 % of the total.

A third major change had occurred in terms of what the EC/EU spent its money on. It was true of course that spending on agriculture remained the single biggest item throughout the period covered by this volume. However, as a portion of overall spending the CAP steadily declined over the 15 years. In 1986 expenditure on the European Agricultural Guidance and Guarantee Fund (EAGGF) constituted 61.7 % of the budget, dwarfing the second-largest category of expenditure, namely the Structural Funds at 15.8 % of the total. By 1992 the EAGGF's share of the total had fallen to 51.4 %, with the Structural Funds now up to 30.2 % of the budget. And by 2000 EAGGF funding accounted for 45 % of EU expenditure, with the Structural Funds now at 34.6 % ([1]). The trend towards the dethroning of the CAP as the EU's most expensive policy was unmistakeable. Other categories of expenditure that had risen significantly included research (2.2 % in 1986, 3.9 % by 2000), external action (3 % in 1986, rising to 6 % of the total in 2000) and administrative costs, which had accounted for 4.3 % of the total in 1986 and stood at 5.1 % by 2000 ([2]).

Piers Ludlow

([1]) 'Table 2: Community expenditure from 1958 to 2001', ibid., pp. 35-36.
([2]) Ibid.