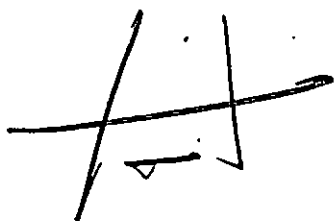
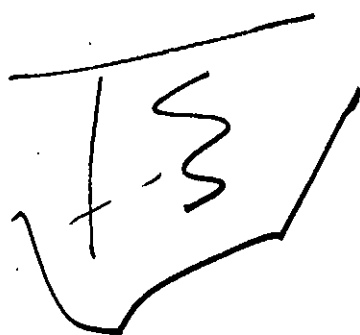


"BRITAIN ON THE BRINK OF EUROPE"  
Federal Trust, Hartley Wintney, 17-19/XI/1972

- (1) Agenda, list of participants
- (2) Burrows, Bernard: "On the brink: defence"
- (3) Coombes, David: "Re-inforcing the institutions of the Communities: a summary of the next steps"
- (4) Dosser, Douglas: "Growth points in economic and monetary union"
- (5) Pinder, John: "The external policy of the community and outside pressures"

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**BRITAIN ON THE BRINK OF EUROPE**



3577

November 17 - 19, 1972

Federal Trust,  
12A Maddox Street,  
London W1R 9PL.

## Agenda

### Friday, November 17

19.00 hrs.	Arrival of participants
19.30	dinner
20.30	<b>LOOKING BACK AT THE SUMMIT</b> Introduced by Richard Mayne Chairman: Georges Berthoin

### Saturday, November 18

08.30 hrs.	breakfast
09.30	<b>POLICY GROWTH POINTS IN ECONOMIC AND MONETARY UNION</b> Introduced by Douglas Dosser Chairman: Sir Brandon Rhys Williams
11.15	coffee
11.30	<b>EUROPEAN UNION: SECURITY ASPECTS</b> Introduced by Sir Bernard Burrows (paper available) Chairman: Noel Salter
13.00	lunch
	afternoon free
16.15	tea
16.45	<b>COMMUNITY INSTITUTIONS: FORCING CHANGE</b> Introduced by David Coombes Chairman: Jean Wahl
19.30	dinner
20.30	<b>EXTERNAL RELATIONS: THE NEW CONTEXT</b> Introduced by Christopher Irwin (paper available) Chairman: Robert Schaetzel

### Sunday, November 19

08.30 hrs.	breakfast
09.30	<b>BEYOND THE BRINK: ARE THERE NEW PRIORITIES?</b> Introduced by Riccardo Perissich Chairman: John Pinder
11.00	coffee
11.15	Discussion continued
13.00	lunch (followed by departure)

### List of Participants

Lionel W.B. BARRAS	Managing Director, Compagnie Européenne pour le Développement Industriel et Financier, Brussels
Colin BEEVER	Metra Consulting Group
Georges BERTHOIN	Head of the Delegation of the European Communities to the United Kingdom
E. BERTUCCIOLI	Broadcaster, British Broadcasting Corporation
David BLAKE	Sunday Times Correspondent, Brussels
Sir Bernard BURROWS	Former U.K. Permanent Representative to N.A.T.O.: Trustee, Federal Trust
Robert COHEN	Chef de Cabinet Adjoint to Mr. Mansholt, Commission of the European Communities, Brussels
Adolfo COMBA	Directorate-General for External Affairs, Commission of the European Communities, Brussels
David COOMBES	Professor of Politics, University of Technology, Loughborough
John COOPER	Director, J. Henry Schroder Wagg & Co. Ltd.
Jan DAUMAN	Manager, Planning and Administration, External Affairs Division, I.D.M. (U.K.) Ltd.
Ian DAVIDSON	European Editor, The Financial Times
Douglas DOSSER	Professor of Economic Theory, University of York
René FOCH	Foreign Policy Adviser to the Independent Republicans: Delegation of the Commission of the European Communities, Paris
Franz FROSCHEAER	Chef de Cabinet Adjoint to Mr. Haferkamp, Commission of the European Communities, Brussels
J.S. GAMMON	Assistant to the European Co-Ordinator, Dunlop Company Ltd.
John GOULDEN	Planning Staff, Foreign and Commonwealth Office
Helmut HASPER	Former Military Adviser to the S.P.D.: N.A.T.O., Brussels
W.N. HUGH-JONES	Assistant-Secretary, Cabinet Office
M.R.H. JENKINS	Personal Assistant to the Rt. Hon. George Thomson, M.P.

List of Participants (cont'd.)

Tim JOSLING	Lecturer in Economics, London School of Economics, University of London
Robert KLEIMAN	Member of the Editorial Board of the New York Times; Research Associate at the International Institute for Strategic Studies
Andrew KNIGHT	Assistant Editor, The Economist
Claude LE SACHE	Chief Assistant, French Service, British Broadcasting Corporation
A.F.C. MORRIS	Directorate-General for Press and Information, Commission of the European Communities, Brussels
Richard NORTON-TAYLOR	Guardian Correspondent, Brussels
Michael PALLISER	Head of the United Kingdom Delegation to the European Communities, Brussels
Riccardo PERISSICH	Member of Mr. Spinelli's Cabinet, Commission of the European Communities, Brussels
John PINDER	Director, Political and Economic Planning; Trustee, Federal Trust
Peter READMAN	Charter Consolidated Ltd.
Tom RICHARDSON	Financial Policy and Aid Department, Foreign and Commonwealth Office
Noel SALTER	Special Assistant to the Secretary-General, Commonwealth Secretariat
Robert SCHAEZTEL	Former Head of the United States Mission to the European Communities
Stefano SILVESTRI	Istituto Affari Internazionali, Rome
David SPANIER	European Editor, The Times
Altiero SPINELLI	Member of the Commission of the European Communities, Brussels
Roland TAVITIAN	Director for Economic Structure and Development, Commission of the European Communities, Brussels
Hugh THOMAS	Graduate School for Contemporary European Studies, University of Reading
E.G. THOMPSON	Director, Chemlab Industries Ltd.
The Rt. Hon. George THOMSON	Labour Member of Parliament for Dundee East
Jean WAHL	Ministre Plenipotentiaire, French Embassy
M.J. WILLIAMS	European Course Director, Civil Service College
Sir Brandon Rhys WILLIAMS, Bt.	Conservative Member of Parliament for South Kensington

List of Participants (cont'd.)

Rudolfo ZAMBARDINO

Principal Lecturer, North Staffordshire  
Polytechnic

Richard MAYNE

Christopher IRWIN )

Penny DAVID )

Judy MANDER )

Federal Trust

## NOTES

~~SECRET~~  
BERNARD  
BURROWS

On the Brink: Defence

Mr. Heath said in an interview published in The Times on October 3 that defence would not be dealt with at the European Summit, and that the defence question would move in a different way. European countries would co-ordinate their views with regard to the Security Conference and M.B.F.R.; but as regards the constructive aspects of defence, the Eurogroup could be developed and would suffice. Lord Carrington said at the Conservative Party Conference that the evolution of European defence must include some form of European nuclear force and that Europe should do more in its own defence.

The Eurogroup has done two things. It has put together financial programmes for additional or at least anticipated expenditure by European countries on defence, thereby slightly altering the balance between the U.S. and European contributions to the cost of the defence of Western Europe. This gave some help to the U.S. Administration in resisting Congressional and other pressures to reduce the number of U.S. forces in Europe. Secondly, the Eurogroup has set up machinery to study and in some cases to implement methods of co-operation and joint working between European countries in various fields of defence support, including the joint production of military equipment, joint training, common logistics and common medical services.

The Eurogroup could also be used for preparing a common European view on defence matters which arise in discussion in N.A.T.O. as a whole, including, for example, strategic and tactical concepts, and S.A.L.T. and M.B.F.R. Not much use has hitherto been made of this potential function.

The group has a very informal structure. It consists of the Ministers of Defence of the countries concerned meeting two or three times a year, and of the N.A.T.O. Permanent Representatives of those countries meeting more frequently in the intervals. There are embryonic secretarial arrangements provided by the N.A.T.O. Delegations.

France is not a member of the Eurogroup, having declined an invitation to participate. French representatives have however taken part in meetings of some of the working groups set up for

particular studies, notably that on joint production. It was possible in this case to proceed without France because the Eurogroup was set up within the framework of N.A.T.O. defence planning, from which France withdrew in 1966.

The Eurogroup has been a useful way of beginning European consultation and co-operation in the field of defence, since nothing else was available; but it has serious defects: the absence of the French; the absence of links with political or financial institutions or even discussion forums; the limits on radical thinking imposed by the involvement of all those concerned in N.A.T.O. defence planning. If the Eurogroup were to develop and execute concrete programmes for merging support services etc., its status and machinery would require radical change. It would, for example, require joint finance and all the budgetary and accounting mechanism that goes with this. It might be no more difficult to set up a new institution, especially if this were related to the Community where common financing for other purposes is already well established and existing financial mechanisms could be used.

The obstacles to a European nuclear force, in the sense of a sharing of control over nuclear decision-making, are well known. In this sense it can hardly be a reality until there is a unified or at least federal European state. On the other hand, there would be every advantage in European consultation about nuclear strategy, tactics and organisation such as now goes on in the N.A.T.O. Nuclear Planning Group. But this cannot take place in the Eurogroup as at present constituted because of the absence of France.

At the same time, the members of the enlarged Community have started on a cautious approach to the harmonisation of foreign policy, and are in particular consulting together with regard to the Conference on Security and Co-operation in Europe. It would seem natural and indeed inevitable that the discussion of a European attitude at this Conference should also involve, at least in the background, consideration of the strategic situation in Europe, and the part that western Europe should play either in maintaining the present security relationship between the two Alliances, N.A.T.O. and the Warsaw Pact, or substituting a new security system. In this assessment must be included not only the relationship of threat/deterrence with Russia, but also the relationship of western Europe with the U.S. in the Alliance, and an estimate of the length of time during which the U.S. are going to maintain their forces in Europe and their nuclear guarantee of west European security. It is difficult to see how these factors can be properly taken into account without a study of defence policy, defence resources and defence organisation.

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- C.S.C.E.

The need for this has been recognized to some extent by the creation of the liaison mechanisms. The Community has set up a sub-group of its Political Committee (Davignon Committee) to cover the political aspects of the preparation for the C.S.C.E. A second body, the Ad Hoc Group, in which the Commission is represented as well as the Community members, prepares the economic aspects. Co-ordination with N.A.T.O. is effected by having the same people represent the Community countries in the political sub-group of the Community and in the N.A.T.O. Political Committee in which N.A.T.O.-wide consultation on the C.S.C.E. takes place.

K Convergence may also operate in two other areas: the Community may be expected to intensify its work on monetary policy, international trade, and industrial organisation, including the trans-national company and intra-Community mergers. The inequalities of defence expenditure among Community members is an element in the comparison of fiscal situations of the member countries which must sooner or later influence the way towards economic and monetary union. The defence factors in the U.S.-Europe financial balance - burden-sharing in relation both to overall defence expenditure and especially to the foreign exchange costs of U.S. forces in Europe - are bound to be introduced at least by the American side in any transatlantic debate on a future world monetary system.

American opinion could also be influenced in the direction of a continued high level of involvement in the defence of Europe by improvement in the quality if not the quantity of European forces in N.A.T.O. and evidence that European unification was proceeding in the political and military spheres, where it is to American advantage, and not only in the economic and agricultural spheres where it is apparently harmful to American interests.

different  
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(NATO-CEE...)

Defence industries in Europe are obvious fields for merger and consortium-formation. Few of them can continue to exist on a national basis. Even fewer could exist without government orders and patronage. Trans-national companies or consortia will need orders and programmes of research and development agreed between governments.

(multi-national)

Hence, through the necessities of financial and industrial decision-making, the members of the Community will be led sooner or later to consider together their defence requirements and defence organisation.

It was agreed on October 9 that Ministers of the Nine should, at a meeting on November 6, appraise the political implications of a co-ordinated Community approach to economic relations with the

USA → CBR

countries of the Mediterranean, including the suggestion of a free trade area. Must not such an appraisal include an estimate of the political implications of military manifestations in the Mediterranean? It is well known that the presence of Soviet naval forces there is of greater political than military importance. French naval co-operation in N.A.T.O. exercises and surveillance is more evident in the Mediterranean than in most other areas.

Now long can these various strands be kept separate? At present it is politically inconvenient in France, Denmark and Ireland, and perhaps also in the U.K., to speak openly of the need for the Community to concern itself with defence policy or defence organisation. This position is becoming logically untenable. The Eurogroup is a temporary expedient whose work can never be organically related to Community functions which will decisively influence the defence policy of Community members. There is little chance of immediately setting up a Community-based defence institution. What is required is to recognise that defence policy is going to become increasingly relevant to other matters on which the Community is already engaged, and to set in hand a study both of the long-term requirements for taking this into account and of the transactional arrangements. Acceptance by Community countries that for the time being the Eurogroup should be the instrument for European consultation on defence might be better than nothing, provided that it implied French participation in the Group, and a link from it to the Community.

Sir Bernard Burrows  
October 18, 1972

Stefano

credo via per  
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del tuo ufficio. In  
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a Gianni

RE-INFORCING THE INSTITUTIONS OF THE COMMUNITIES:

A Summary of the Next Steps

by

David Coombes

## INTRODUCTION

This is going to be a short statement of practical steps which should be considered now by the institutions of the Community in the light of the tasks assigned to them by the October 1972 Summit:

1. 'to decide before the end of the first stage in the achievement of the economic and monetary union, on the basis of the report which the Commission, pursuant to the resolution of 22 March 1971, is to submit before 1 May 1973, on the measures relating to the Community Institutions and Member States which are necessary to the proper functioning of an economic and monetary union' and
2. 'to put into effect without delay the practical measures designed to achieve this reinforcement and to improve the relations both of the Council and of the Commission with the Assembly.'

The paper is intended as a continuation, or rather as a re-consideration, of the principles and ideas set out in the last paper which I gave on this subject at a Federal Trust conference in July 1971. That paper has now been published in a revised form by Lo Spettatore Internazionale (Vol. VI No. 3 July-August 1971). I have not changed my mind on any of the fundamental points made in that paper, although naturally I confess that many of the practical suggestions now need refinement in view of events of the last twelve months.

However, since I am not prepared to take back any of the argument of principle in that paper, there is no point in going over the same ground again now; (indeed, it will be remembered by Federal Trust regulars that my exposition then was interrupted by a spectator running on to the pitch to protest that I had already spent too much time saying familiar things). The argument for reform which was made then, and which is the basis of the present proposals, will be summarized now in the barest form.

## THE PRESSURES FOR CHANGE

The need for institutional reforms should not obscure the fact that the formal arrangement of institutions in the Treaty of Rome was a good response to the problems foreseen. The main problem so far is that the institutions seem to have come to operate less and less in a way which would make proper use of these arrangements. The plans for further integration approved by the heads of governments are quite unrealistic in terms of the present working of the institutions.

### 1. Old Pressures

Some pressures for change have been with us for some time and would prevail without enlargement and without extending the functions of the institutions beyond those of the transitional period:

- a) The Council is inefficient, owing much to sheer congestion and delay, themselves arising from obsession with procedural questions and refusal or inability to delegate.
- b) Given that the EEC is not a finite operation or one confined to a special field, and is undertaken on the understanding that developments in one area (say, removal of tariffs) will be balanced by those in another (say, regional policy), there has been a marked failure to co-ordinate policy, with the result that integration is very advanced in some areas (say, agriculture) but very backward in others, however closely related (say, monetary policy).
- c) Given the 'expansive' nature of the tasks entrusted to the EEC, there has been too great a tendency to get stuck on matters defined as being within the scope of the treaties, partly because the legislative and policy-making competences of the institutions are defined not generally but in relation to particular objectives.

d) Failure to make a united and timely response to outside threats or offers. (A notable exception, perhaps, being the Kennedy Round, although even there nothing was achieved in agriculture.)

e) There have been inconsistencies in making expenditure (especially where staff and equipment are concerned), there is excessive 'compartmentalization' (making proper co-ordination and control impossible) and the principle of juste retour has taken away most of the benefits offered by the ability to programme expenditure on certain projects in common. (Here the Council is mainly to blame; but also the services of the Commission for control of expenditure are quite inappropriate.)

f) Government of Community affairs is unrepresentative. The predominance of the Council and of the permanent representatives means that only national governments are adequately represented while regions, minorities, people and political oppositions are hardly represented at all. (Even the representation of minorities - or even majorities - within governments is uncertain.)

There are of course other weaknesses but these are the ones which most create the demand for institutional change. Most of them are closely related, of course, but I have tried to select them as effects rather than as causes.

## 2. New Pressures

The enlargement of the Community and the extension of its functions as envisaged at the summits of 1969 and 1972 will bring a set of new pressures, as well as intensifying some of the old.

a) There will be an enormous problem simply in adapting the institutions to the accession of three new members and in administering the adjustments required in law and policy.

b) The subject-matter of new proposals for common action is likely to present a much greater challenge than in the past to the institutions' ability to carry the consent of conflicting political forces.

of the Community have been performed by a process of legislative activity of varying generality, in future the emphasis is likely to be on administrative, executive activity. This will be particularly so in so far as decisions on management and relations with third countries have been assigned to the Community functions.

by which the achievement of the common market stage, reacting to pressure from outside the Community, is likely to be even more important than before.

e) The recent Summit has already indicated how much weight the new member states are going to place on diversifying Community expenditure. The use of Community funds as an instrument of policy is likely to become increasingly important and decisions on such matters - both from the point of view of social and economic objectives and that of efficiency - increasingly difficult.

f) There seems to be a growing lack of support among people for the Community as a whole. The problem would seem to be one of 'passive conformity', although there is already open hostility in at least one new member state. This may make it difficult for representatives of national governments to agree to unpopular policies.

g) The need for the institutions to be more widely representative arises not just from the changing nature of the subject-matter, but also from the increasing quantity of the administrative functions which are likely to become Community business.

In summary, then, given the above, the main pressures on the institutions of the Community, where reform is crucial, namely:

i) to the performance of executive functions: the role of initiative and of executive mediation (perhaps) in the coordination and control of policy and its execution, the exercise of powers in response to unforeseen and unforeseeable events, and in the application of the instruments of government to economic and social development - sharpening and refinement of the armoury of instruments to achieve greater efficiency and performance.

2) In representation of the interests, aspirations and ideas of the people living in the countries of the Community: when inter-governmental procedures become so important, national institutions designed to provide this representation become less effective; furthermore in a process of integration like that of the Community defence of the national interest ceases to be valid as a means of representing the people of a country - for the very purpose of membership is to seek and to operate a common interest; in the Community national governments must surrender some of their right to interpret the public interest.,

These problems are quite common to international organisation in modern times and international organisations usually develop only to the point where the pressures bringing these problems arise. Even some nation-states have found them impossible to solve or have had to trim their objectives in face of them. An international organisation which succeeds in dealing even partially with these problems will need to be very ambitious. The Treaty of Rome is ambitious in institutional terms, but as I remarked initially, the boldness and imagination of its interpreters has not matched what was offered.

#### THE RESPONSE SO FAR

Since the time (1969) when the French Government felt able to participate again in practical discussion about the growth of the Communities, the governments of the member states have agreed to a number of steps, which in one way or another provide some response to the pressures just analysed.

##### 1. The Positive Response

a) The summit meeting of heads of state or of government has become nothing less than a new Community institution. The use of the summit to formulate broad guide-lines of common action, to agree in principle to constitutional changes, and to legitimate agreement on major decisions can be seen as an alternative to revision of the treaties. Spinelli is quite right to see the

summit as having become in effect the Community's 'constituent assembly' (the European Adventure, pp. 23-24, 169). It is in addition an attempt to substitute for an effective executive authority in the exercise of initiative.

- b) For some time now the reaction to congestion of the Council has been to delegate tasks to inter-governmental committees of national officials.
- c) The need to respond to the world outside the Community has been answered by the tentative steps towards consultation on foreign policy in the Davignon arrangements and by proposals for a political secretariat. The difficulty of getting external affairs recognised as a Community responsibility has been by-passed by attempting to treat them with new machinery.
- d) The member states have agreed at last to introduce a system of own resources, which in theory should help further recognition that the Community budget is more than an account of the administrative activity of an international organisation and has become a means of re-allocating resources.
- e) The question of representative institutions has been placed firmly on the agenda, initially by the Commission's and Council's undertaking in 1970 and now by the 1972 summit. The Commission's working group has recommended extending the Parliament's legislative powers and increasing its power in appointment of the executive. Where expenditure is concerned the Parliament has won enough concession to ensure itself a means of being difficult if badly treated.
- f) The governments have now agreed that Article 235 can be used by the Community institutions to take measures in extension of the treaties.

However, none of these measures can be regarded as adequate and some of them are positive only because they represent a reaction of some kind. In practice many of them lead up a blind alley.

## 2. The Negative Response

a) The importance of the summits indicates above all the unwillingness of (at least some) national governments to allow the process of formulating the common interest to pass out of their own hands. The assumption that it is legitimate for the broad lines of policy to be settled by an institution of this kind endows the governments of the member states with much greater authority vis-a-vis their own peoples than most of them enjoy in domestic policy. Only those political organisations which are represented in government are represented at the summit. A particular danger of the summit is that, being essentially 'extra-constitutional', there is no guarantee that its decisions (vague as they must be) will be carried out or that the bargains struck will be respected. The decisions of summits do not constitute 'laws', against which injustice or inconsistency can be condemned or which can be amended or repealed. Summits are not designed for defence of the weak or for the assurance of order; as institutions they have less to do with constitutional government than with the politics of empires or the government of the underworld: the only sanction against non-performance is anarchy; order is the responsibility of the best armed and least fearful.

b) Delegation to inter-government committees of officials is invariably a cure worse than the disease. If it does not cause more delay as officials worry about their responsibility in 'political' matters, it induces a flow of authority from national ministers to national officials which cannot be supported by national political systems.

c) Since most of the immediate pressures for taking a common stand in relations with third countries arise directly from what the Community has already achieved or from what it plans to attempt immediately, it is not helpful to integrate foreign policy by machinery outside the Community.

d) The Community does not have the power on its own to raise new forms of own resources, although it is required by the Treaty of Rome to balance its budget, so that the flexibility promised in theory by the introduction of own resources will depend in practice on the level of expenditure. However,

it is still far from clear who will have the final word over the budget after 1975. If it is the Council, then the principle of juste retour and the difficulties of co-ordinating and controlling expenditure will undoubtedly continue in practice. The creation of own resources itself creates pressure for change, however, by taking away the power of the purse from national parliaments.

e) Although many interesting proposals for strengthening the European Parliament have been made, the governments refused to agree at the summit to make any real progress towards making the Parliament more representative or giving it specific, new powers. (It is a terrible anomaly that the Parliament has some power over the budget but none over general legislation.)

f) The use of Article 235 to use powers in matters where the Treaty of Rome does not specifically provide them is certainly a way of keeping such matters within the framework of the Community. However on its own it achieves little except to burden the institutions with more tasks. It must be accompanied by other changes to strengthen the institutions.

In general, therefore, even the recent summit has done little to indicate that the governments are able to agree to institutional measures adequate to meet the pressures for change.

Two important opportunities have been confirmed, however. First, there is the request for the 'institutions' (note the plural) to decide on measures by 31 December 1973 (the end of the first stage of economic and monetary union) on the basis of a report from the Commission. Secondly, there is the invitation to the Commission and Council to act now to improve their relations with the Parliament and to do this without waiting for direct elections. I shall now suggest how these two opportunities might be used by the institutions to prepare for a more appropriate response. The opportunities exist, however, at different levels - the first is an opportunity to get the right principles legitimated and adopted for the longer term and the second is a question of immediate priorities.

## THE PRINCIPLES OF INSTITUTIONAL CHANGE

From what has been written before regulars of Federal Trust meetings will already be aware of the principles which I would like to see in the Commission's report for 1 May 1973.

I still maintain (see Politics and Bureaucracy in the European Community, 1970, P.E.P. ) that the only way towards providing the needed executive authority and representation is to strengthen the political authority of the Commission, and to do so by giving it better access to a 'constituency' of political forces and groups. The only reasonable way to do this in the longer term is to strengthen its ties with the European Parliament and eventually to provide for direct election of the latter and for co-decision between Parliament and Council in legislation.

There are numerous problems in such a development all of which urgently need to be discussed at the highest level possible. Not the least of these problems is the possibility of conflict between the aim of representation and that of effective executive action. It could well be that the interposition of another dimension of obligatory consultation and of possible obstruction alongside that of the national governments might block the process of decision-making even more. (This has been one of the main criticisms of the Vedel proposals.) Could it be (as Professor Vile has frequently warned Federal Trust meetings) that integration can proceed only by stealth and that introducing greater responsiveness (especially to parliamentary groups) will only strengthen the centrifugal and particularistic interests.

It is very difficult to judge at this stage just what might be the consequences of providing for direct elections in terms of a re-alignment of political parties and so on, but it is possible now to realise that strengthening the Parliament as an organ of political representation is not on its own going to provide a mobilised body of opinion on the side of effective executive action. This is why the role of the Commission in any future constitutional development will be crucial. For the sort of objectives which the

governments now wish to seek in common, it is essential to get the competences established first and then to see the problem of representation as a subject for constitutional checks and balances provided as a consequence.

However, since the Council cannot be expected to provide the function of executive authority and since the governments seem unable to agree on their own to vest the Commission with this function, then the process of transferring the necessary competences must be initiated by the Commission itself and in this it might well elicit the support (for what it is worth) of the present European Parliament. Advantage should be taken of the fact that the summit entrusts the task of proposing institutional reform to the 'Institutions' (plural). This is the opportunity to set up a Standing Constitutional Conference representing Parliament, Commission, Council and Court of Justice.

Constitutional changes of two kinds are required. First, there are changes in the balance of powers between Community on the one hand and member states on the other - the question of competences, which in an economic and monetary union will concern not only powers to legislate but also powers to take discretionary action and to review past legislation (like the agricultural policy). Secondly there will be the introduction of a constitution governing the operation of the Community institutions themselves, providing for adequate checks and balances and recognising the need for direct representation at the level of the Community of the people in the member states.

Given the wording of the invitation issued by the summit, the Parliament now has the opportunity to play a full part in the decisions on both kinds of constitutional change. What is not clear is just how far the summit's recommendation supercedes the procedure of Article 236. Will all the decisions of the Institutions be seen as requiring amendment of the Treaty of Rome? At least it should now be firmly maintained that no 'package' of constitutional measures can be allowed to go forward without full support of all the Institutions as well as of the member states. (According to the

wording of the communique it is 'The Community Institutions and where appropriate, the representatives of the Governments of Member States' who are invited to decide.)

## PRIORITIES

It is, of course, impossible just to wait for constitutional changes. There are a number of ways in which action is possible and necessary from 1 January 1973.

### 1. The Role of the Commission

Following the 1972 summit the initiative rests with the Commission in various ways: it should use every opportunity to assert itself as the executive authority of the Community; indeed, with the institutions as they now are, only the Commission can hope to provide the leadership required both to see the mandate given by the summit carried out, and to set the pace and the fashion for the constitutional changes foreseen above.

In the first place, the Commission has now been given a green light where Article 235 is concerned. It should take full advantage of this to ensure that it has a part to play in the preparation of new measures.

In budgetary matters the Commission has a vital task to perform in reviewing the same results more efficiently. In this respect it needs to be much more ambitious in exercising its responsibility to prepare the draft budget. The existence of own resources should lead the Commission to undertake a study of what the long-term needs of Community expenditure are likely to be in relation to likely financial resources. New forms of income should be proposed where necessary.

The intended uses of Article 235 and the proposals upon which the proposed budgetary allocations will be based should be included in a general programme along with action which the Commission intends to take with regard to powers already entrusted to it by the treaties. This programme (like the programme proposed by Spinelli, European Adventure, p. 44-45) should be approved by the Parliament before being submitted to the Council.

One purpose of presenting such a programme would not simply be to seek political authority from the other institutions, but also to increase the efficiency of Community expenditure (we return to this aspect below) and to provide a basis for rationalising the Commission's own organisation and strengthening the collegiality and sense of political purpose of the Commission itself.

At the same time the Commission will need to undertake a re-organisation of its own services in which the following steps should be taken:

- a) a complete re-allocation of functions, distinguishing between line and staff functions, and as far as possible re-organising line functions in order to give each Commissioner one department as his personal responsibility; (this will assist individual responsibility to the Parliament, increase political direction and control of departments (directorates-general), and improve co-ordination among related functions);
- b) a system of 'cabinet committees' (in the British sense) should be adopted at the level of the Commission, grouping Commissioners for major parts of the programme under the presidency of the President and Vice-Presidents of the Commission; the system should be flexible allowing for adjustments over time;
- c) servicing these committees and responsible for long-term planning, general co-ordination, statistical techniques applied to policy-making, and overall planning of expenditure, a special Political Office should be set up as part of the General Secretariat;

d) the President should be freed of departmental duties with the exception of certain vital staff functions such as those of the General Secretariat (including the Political Office), Information and the Legal Service;

e) The Commission should be freed from the need to provide a career for its senior officials (A5 and above): there should be financial incentives for early retirement and the Commission should be given autonomy (answerable to the Parliament) in the way it chooses to allocate posts in different parts of the service;

f) certain routine functions in agriculture, competition, customs and so on should be delegated to special agencies.

In general, the tendency for Commissioners to regard themselves as un-official 'spokesmen' for their countries of origin should be resisted. Individually and collectively Commissioners should seek to build up political support in all member states.

## 2. The Role of the Governments

If the member-states' governments are genuine in their desire to make the progress agreed at the summit, then they must seek to re-capture the spirit and the methods of working which made progress towards the common market possible. This will mean two things above all: a willingness to concede to the Commission the right to act on behalf of the common interest where discretionary authority is required (especially in conducting relations with third countries and in economic management), and a preparedness, with or without majority-voting, to seek solutions which go beyond a simple compromise among national positions. In both respects of course the role of the Commission is crucial, but it is up to the governments, and in their ultimate interests, to endow the Commission's proposal with that special authority which re-assures the minority and allows the national interest to be re-interpreted in the light of a common good.

In practice this means that governments will have to be less anxious about presenting a common front on all issues and on all aspects of an issue. The discreet 'alliances' between the Commission and certain national representatives against the latter's own government's position, which are said to have eased the movement towards agreement in the past, must be permitted. The Permanent Representatives must be seen fully as representatives of the Community as well as national envoys. The attitude of British representatives could make all the difference.

### 3. The Role of Parliament

This must include the part to be played by national parliaments, which has been much neglected up to now. Before direct elections it is here that the most influential representatives of main political tendencies will be found and both the Commission and the European Parliament could make much of this fact. The members of the Commission should be far more interested in opinion in the national parliaments among members of non-government parties and groups. They could do far more to mobilise opinion in national parliaments and also to facilitate cross-country linkages of political parties. Given that its members are from national parliaments there are numerous practical steps which the European Parliament could take to collaborate more with national parliaments regarding the timing of sessions, the venue of meetings, the supply of information, the availability of services and so on. Before direct elections the political parties of the Community must be prepared for the new dimension of power which will be created.

As far as the powers of the European Parliament itself are concerned, these need to be developed in close collaboration with the Commission. Rather than go into the general question of future legislative powers, I shall mention here the more immediate possibility of budgetary powers.

The Vedel report was wrong to draw attention away from budgetary procedure in order to direct it at general legislative and other powers. It is quite true that budgetary provisions make sense only in terms of the legislative

provisions from which they arise. However the Vedel report concentrated on legal difficulties in defining legislative powers, without emphasising the political fact that with the introduction of own resources the budget (and therefore the policies which it supports) is no longer financed by the member states. This presents a great opportunity to carry out a long overdue re-assessment of the way the Community seeks its existing objectives. It should lead not to a doctrinaire, constitutional debate about the Parliament's powers, but to an initiative to bring more efficiency and democracy into Community decision-making. In this the Parliament must recognise its need for an effective authority to act on its behalf and this is clearly the Commission.

Budgetary decision-making in the Community falls far short of most criteria of what is efficient and democratic - even when taking account of the reforms which come into force in 1975. The Council should not have the right to override the will of the majority in the Parliament when the budget is financed from ressources propres. Yet the right to adopt the budget is treated far too equivocally in the Luxembourg Treaty. The Council is not sufficiently consistent in its membership to ensure adequate continuity between general policy (including ordinary legislation) and budgetary allocations. The Council's weakness in this respect has already been revealed on many occasions when it has failed to allow the Commission's services to expand commensurately with increased responsibilities. For the same reason, the Council cannot approach budgetary questions from a sufficiently long-term perspective. Its concern is necessarily with limiting the increase in expenditure from one year to another. At the same time its inconsistent membership means that the Council cannot undertake a properly co-ordinated review of objectives to form a basis of budgetary decisions. The Council is also ill-equipped to perform the vital work of a posteriori review of administration. Its members certainly do not have the time for this, but it is a task of too much political importance to be delegated to committees of national officials. Moreover, a posteriori review is of the greatest value as a 'feed-back' to current and new budgetary decisions.

The main need is for some institution to ensure adequate financial co-ordination of Community policies. The best way of getting this function performed would be to make the Commission answerable to the Parliament for it. The right to adopt or reject the budget as a whole after 1975 could then be regarded as a sanction in the hands of a majority in the Parliament to ensure that budgetary decisions were rational and effective. First, this means ensuring that the Communities' direct income will be equal to the expenditure which new policies will require and this in turn means seeking the Parliament's approval for the proposed level of resources in any one year well before the final stage of the budgetary procedure. The Parliament must be given enough information to be able to tell whether the budget proposals justify the amount of revenue demanded, and if possible it should also be told of the alternatives from which this set of decisions to spend has been chosen. (If it turns out to be the Council and not the Parliament which has the right to decide the Community rate of the VAT, then it is likely that this rate will be kept down, thus hampering the freedom of the Community to propose adequate programmes of spending.)

Budgetary allocations take on political meaning only when they reflect some concerted and positive action by an executive body. There is not much job for parliaments in approving allocations which result from decisions, which even the budgetary authority itself can do little to influence. The Commission has a long way to go before it can really be said to have seized the opportunity of own resources to set up a programme of Community action which the Parliament can accept or reject. The Directorate-General responsible for budgetary questions has been re-organised to take account of the change to direct income, but it still seems to be staffed mainly by people with a financial rather than an economic outlook. It is still predominantly concerned with regularity and propriety rather than with value for money.

Although it is in its implications for policy that any shift in authority to the Parliament could be most exciting, those for administrative efficiency are also important. As we have remarked, administrators are usually

sceptical about parliament's ability or willingness to play a useful part in deciding whether the costs and returns of projects have been properly forecast. Today this task goes beyond concern with financial estimating and includes administrative questions, such as whether the best means of achieving a certain end have been chosen or whether the organisation and procedure adopted are the most suitable. It is quite true that parliaments tend to lack the means for this task and, when they do carry it out, it is not as a part of prior approval of the expenditure concerned. In fact a great deal of attention has been paid just recently to the need as part of the budgetary process for regular review of the administrative process. However parliaments have an important role to play in this, especially by means of specialised committees inquiring into and reporting on the performance of the administration in its various sections. This review of administrative performance is at its best when it compares past objectives with results and seeks to learn from this when making recommendations about future action. In other words, effective use of the right to approve allocations depends on effective control of previous expenditure.

This would call eventually for something more general than a posteriori financial control, although this is itself a vital task for the European Parliament to perform. Ideally the Parliament's existing specialised committees need to keep under review the performance of their part of the Commission's administration in relation to budgetary estimates. From the work of these committees it is likely that, not only the Parliament, but also the Commission would find better ways to carry out policy, and would notice defects in administrative conduct. Indeed, only the Parliament could perform this important role.

In conclusion, then, by taking up the need for improvement in the way budgetary decisions are taken even before the full introduction of own resources, the Commission could set in motion a working relationship with the Parliament which would provide a valuable basis for future constitutional arrangements. The legal distinction between legislative and budgetary powers could be overcome simply by maintaining that budgetary provisions make no

sense without reference to the objectives on which they are based. Although the Council still has the final word on the budget before 1975, there is nothing to prevent the Commission asking the Parliament's opinion on a medium-term programme (anything from two to four years) in which estimates of future expenditure are included. There is nothing to prevent the Parliament beginning now to use its committees to examine the work of the Commission's departments from the point of view of the efficiency of the measures adopted for achieving policy objectives. In other words this kind of working relationship could be established independently of the formal budgetary and legislative procedures. Although formal budgetary and legislative powers will be needed as a basis of the Parliament's authority, they will not on their own give it an assurance of effective influence and control over Community government. Establishing a relationship with the Commission which ensures a flow of the right kind of information in the right form might well do so.

Donner  
DOUGLAS  
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Growth Points in  
Economic and Monetary Union

Preamble

This current composite term links together issues of European integration of very different clarity, usefulness and feasibility. The difficulties mostly arise in the 'economic union' arm of the concept. The aims and methods for 'monetary union' are comparatively well agreed; all that is well-agreed regarding 'economic union' is that fiscal, budgetary, and prices and incomes policies are required to supplement 'monetary union' as follow-ups if one is a monetarist or pre-cursors if one is an economist. What these elements of economic union imply for European policy largely lack definition at present, or are wrongly defined.

The diffuseness of economic union can be emphasised by contrast to monetary union in another way. For the latter, the target can be clearly stated: a uni-currency area (all the rest - common central bank, no exchange rates between members or balances of payments, etc. - follow), and the method is now mostly agreed in principle by pro-market economists. This is as set down in the Federal Trust paper of Magnifico-Williamson. Very briefly, this envisages the creation of a European currency controlled by a European central bank, near-floating against extra-Community currencies, existing alongside member state currencies, near-locked with each other, in the intermediate phase, and standing on its own in the final phase of monetary union.

Matters are very different in the case of 'economic union'. It is impossible to define the final phase. For this depends on nothing less than the degree of European integration envisaged in 10, 20, years time. To put it another way, some intermediate stage of economic union making some transfer of economic decision-making to Brussels will form the final phase for those who are pro-Market federalists, but a preliminary stage for those who are unionists.

Thus, there is no analogue to the intermediate and final phases of monetary union; in economic union it is a matter of inching along a number of paths, unclear as to when or where we might say economic union has been achieved.

The phrase 'number of paths' also indicates another difference of economic union compared with monetary union: the latter has a singular target, and a measure of getting there, i.e. the proportionate displacement of national money by Community currency.

However, this is slightly illusory on closer examination. The aim of monetary union as a single currency area is still a proximate aim so far as economics is concerned, since it only holds economic merit if it enhances the ultimate economic gains expected from the Common Market, involving real income growth rates (suitably qualified by environmental factors), employment, and price stability.

Both monetary union and economic union in fact have the same ultimate aims; it is only that monetary union has a handy catchphrase, 'common currency', to hang on.

Actually, a similar proximate, unifying, measure of progress is available for economic union. This is the size of the Eurobudget in relation to the sum of member-state budgets. This corresponds to the European/national currency measure, but of course highlights once again the undefined or open-ended nature of union, since some will argue that 10% or 20% budgetary transfer represents the 'end' of the process.

The constituents of economic union act in a much more direct way on the ultimate aims than monetary union. They are thus likely to be judged more directly and more harshly than currency union. They are more acutely observable by electorates and the balance of cost (the 'loss' of fiscal and budgetary sovereignty) and advantages (arguable gains to employment, etc.) harshly and unfairly drawn.

Monetary union has a simply target, and a reasonable means of approaching it. The target itself is rather 'neutral' and academic as far as political electorates are concerned. The relation between the target and the ultimate economic aims is not much questioned.

All this is the converse for economic union. We have a variety of methods, fiscal, budgetary, etc., leading straight to a variety of ultimate aims. The advantage of operating these on a European scale has to be much more explicitly stated, and is likely to be much more harshly examined by electorates in member states.

Since monetary union is simpler and more advanced in aim and method, and proposals for growth points exist, this paper will concentrate almost entirely on economic union.

Most growth points in economic union can be viewed as part and parcel of the European budget, the revenue side (fiscal developments) and the expenditure side (composed as of now of the C.A.P. and the European Social Fund but with the expected addition of an Industrial Policy and a Regional Fund). These five elements of economic union all involve resource use, and we shall call them 'budgetary growth points'.

There are extra-budgetary growth points also which do not demand resources (over and above administrative services). Among these are medium-term planning (to include prices and incomes policies), monopoly policy, and the development of the European Capital Market.

We shall look at these growth points of economic union in turn.

#### Fiscal Harmonisation

The long battle of some of us against the Commission's interpretation of fiscal harmonisation as fiscal equalisation in the three harmonisable fields of sales taxes, excises and corporation tax at last glimpses success - though, no doubt, not particularly due to our efforts. Rather, opinion is changing under the twin pressures of the economic - the need to retain national/regional management instruments as monetary ones are lost - and the political - the impossibility of removing national autonomy over rates, at least, in the medium-term.

The force of fiscal unification is still strong, of course, particularly in the Commission. The competitive bias of the Treaty makes for discomfort over differences in taxes facing similar businesses in different member-states. And for the true unionist, who seeks the creation of a single economic of Europe, identity of tax schedules facing businesses and individuals is a natural analogy with present member-states.

Against this force for fiscal uniformity, we have the newer recognition of the necessity for considerable fiscal flexibility, arising from the reasons stated.

Thus, a Community fiscal system needs to be developed which combines scope for each of these forces. The present author has proposed such a system. To save repeating this in the text of this short paper, please see attached article from The Times, Business Section, October 9.

The proposed system, which basically puts the corporation tax in front of the V.A.T. as the Community tax in the medium term, has the following merits:

- (i) The Community tax system, consisting as it would do of the corporation tax and 1% of the V.A.T., goes some way toward fiscal unification, provides sufficient revenues for the Eurobudget in the medium term, and is expandable (by increasing the V.A.T.%) in the long-term, if further Eurobudget growth is then acceptable.
- (ii) The member-state tax systems, consisting of the member-state V.A.T. as well as the non-harmonisable taxes, provide ample scope for fiscal flexibility, i.e. the fiscal management of nations/regions in the Community, and also leaves plenty of resources in member-state budgets for their own autonomous policies.
- (iii) Politically, that tax is transferred to Brussels which least obviously impinges on shop prices, and where some of the tax-paying sector would welcome the economies of a single tax payment on an international (Community) operation.
- (iv) The corporation tax is probably a slightly progressive Community tax, state-by-state, compared with the neutrality or proportionality of the V.A.T.

It will be seen that the proposal combines economic, political and social merit. Its main drawbacks are (a) the varying degree of incorporation of business in member-states and (b) a change of direction of Commission fiscal philosophy and planning.

#### Common Agricultural Policy

This item is only listed in this paper to point out that it is, in fact, a part of 'economic union', being a prices and incomes policy, an employment policy (even now outside of agricultural employment), and a structural policy. The study of growth points in economic union therefore ought logically to include reorganisation and coordination of agricultural policy along with other growth points.

### European Social Fund

The original scope of the Social Fund has already been extended, in 1970, so that financial intervention for retraining and resettlement of workpeople is possible when unemployment has been caused either directly or indirectly by Community policies.

Thus the only limitation to much more extensive use of the Fund lies in resources made available to it (at present, about 40 mn.u.a.), plus perhaps a clearer definition of qualifying purposes.

Over and above its present scope, the idea has been mooted of an eventual extension to a Community system of social security in its unemployment context.

Some of the quantitative or budgetary consequences of extensions of the use of the Social Fund are dealt with later.

### Industrial Policy

The general aspirations of industrial policy are well-known, consisting of the promotion of greater size for the firm, trans-frontierism and advanced technology.

The only existing Community instrument, the loan-making European Investment Bank, should, it has been declared, be supplemented by: Community Development Contracts, a European Research and Development Agency, a Community public procurement policy. The first two additions would create a charge on the Eurobudget.

These laudable-sounding plans are still mostly at blueprint stage. As in the case of the Social Fund, the function of each needs sharper definition in terms of principles of disbursement and, most important, funds to effect them.

### Regional Policy

Small and piecemeal provision is available for regional policy at present (the European Investment Bank and small parts of E.C.S.C. and, prospectively, C.A.P. funds).

The hottest favourite as a growth point in economic union is thus the least advanced as to definition of principles of disbursement and power to disburse. In our quantitative budgetary estimates later, we assume that the creation of a Common Regional Policy and Regional Fund is imminent.

The Budgetary Growth Points of  
Economic Union: a Quantitative Viewpoint

It is very instructive in evaluating the feasibilities and priorities of the above actual and potential revenues and expenditures, to put them together in a series of hypothetical Eurobudgets. The figures are, of course, approximate in the extreme\*, but are sufficient to throw up some illuminating facts.

Only the first budget has a basis in current official policy, this budget being confined to extrapolated growth of present expenditures (which means almost entirely on the C.A.P.). It is financed in the case of the Six by the common external tariff, the agricultural levies, and up to 1% of the V.A.T., but by a modified system to reduce the U.K.'s share to 18.92% in 1977 (this being proportional to the U.K./E.E.C. ratio of national income).

Eurobudget, 1977 (£mn.)

Total revenue	£1600	C.A.P. expenditure	£1400
		Other expenditure	£200
(U.K. contribution	£300)	(U.K. receipts	£100)

There is little scope for any new expenditure policies without radical changes in the revenue-raising system. Let us assume that strong pressures develop to achieve this by 1980. We can then present four budgets, which in turn represent simply a continuation of the present budget, an expanded budget using to the full the already allowable revenue sources (1% of V.A.T.), and much expanded budgets using newly-agreed revenue systems, either 1% of V.A.T. or using the corporation tax.

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\* All the figures are derived from 1970 national accounts and are all based on 1970 prices. Later figures, e.g. for 1980, thus reflect real rates of growth of national income and other aggregates, but not inflation.

Eurobudget I, 1980

(present expenditure structures)

Total revenue	£1800	C.A.P. expenditure	£1600
		Other expenditure	£200
(U.K. contribution	£400)	(U.K. receipts	£300)

In the case of Budget I, the full financing system is in force, including, that is, up to 1% V.A.T. as required to meet, essentially, the costs of the C.A.P. This budget is determined by the expected growth of the C.A.P.; in fact it involves the U.K. in paying over between a 0.4% and a 0.5% V.A.T. Budget I is not very realistic or interesting, except as a basis for the expanded Budgets.

Eurobudget II, 1980

(full use of 1% V.A.T.)

Total revenue	£2200	C.A.P. expenditure	£1600
		Other expenditure	£600
(U.K. contribution	£550)	(U.K. receipts	?)

The first important fact now clearly emerges: there is no worthwhile scope left for the important new policies discussed earlier (Social Fund, Industrial Policy, C.R.P.) with presently agreed revenue provisions.

To make room for one or more of these policies, revenue sources must be expanded either by the V.A.T. method (Commission method) or the corporation tax method (as proposed in this paper). This is done in the following Budgets III and IV.

Eurobudget III, 1980

(increment of 1% V.A.T.  
added to Budget II)

Total revenue	£3350	C.A.P. expenditure	£1600
		Other expenditure	£1750
(U.K. contribution	£785)	(U.K. receipts	?)

Eurobudget IV, 1980

(corporation tax proceeds  
added to Budget II)

Total revenue	£7000	C.A.P. expenditure	£1600
		Other expenditure	£5400
(U.K. contribution	£1500)	(U.K. receipts	? )

The first important lesson from Budgets II, III and IV lies in the fact that considerably more scope arises if the corporation tax becomes the Community Tax System. To achieve the same effect using the V.A.T. requires an additional 4½%\* over the 1% maximum already agreed and written into Budget II.

In the case of the U.K., this would involve an increase in the standard rate, assumed to be 10%, of 5½%, which would be the Commission's tax on the British public. Note that this would be fully reflected in shop prices so that, once again, the public would face a substantial price increase acting as a serious check on enthusiasm for the new expenditure policies provided for.

Another important lesson to be drawn from the sketched Budgets II, III and IV is that even if either the corporation tax becomes the Community tax or the Community receives the proceeds of a 5½% V.A.T., the revenues provided are not all that vast, when it is considered there will be fully nine claimants compared with the restricted beneficiaries of the C.A.P.

This prompts the point that, even if the advanced position of Budget IV were reached (whichever tax is used), a serious question of priorities between the three new heads discussed is required. Insofar as expenditure falls short of Budget IV, the ordering is all the more important.

This is, however, perhaps not quite as serious a problem when it is noted that there is considerable overlap between the three heads, e.g. they all have an employment aspect and they all have a regional aspect.

Whether it is wise to press on with three embryonic new policies, or amalgamate them into a Common Industrial Policy integrated in principles of application and administration, or pursue the creation of new Funds (and administering departments) alongside the Social Fund, is an open question.

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\* This does depend on the base of the VAT and the base of the corporation tax growing in line, in both real and monetary terms, to 1980.

The question which would be the next to pursue, but which it is perhaps premature to do, is what can be done in detail with a Social-Industrial-Regional Fund of the magnitude of "Other expenditure" in Budget IV. There are numerous ways of merely looking at its magnitude before attempting any analysis of its efficacy, e.g. in relation to total unemployment in the Community (implied unemployment benefit per head), as a proportion of national product of a list of backward regions, or of the rate of growth of these or the whole Community, or again, its comparison to existing member-state assistance to industries/regions, etc. etc.

As emphasised in the attached article, the growth of the Eurobudget can be looked at from the financing or the 'demand' side, but the present writer feels they should be given co-ordinate importance. If anything, the financing side is more important at present in that agreements on structural taxation policies today with important long-term implications (as the agreement on 'resources propres' was) throw up a rate of growth of revenue, for whose use there is never any shortage of useful expenditure projects.

We have seen how much revenue is thrown up by alternative taxing systems. This is still somewhat limited, and rigorous ordering of expenditure priorities, through the three potential Funds, or an amalgamated one, is necessary. Besides the solid economic effects of this or that tax-expenditure package, it might be particularly important at the present juncture to use taxes that are not directly inflationary, and pick expenditure programmes which will yield early, easy-to-see, employment benefits, especially in the regions.

#### Extra-Budgetary Growth Points of Economic Union

Several items could be included here, but one problem is the degree to which consultations, without binding force on member-states, should be contrived as growth points in economic union. Where budgetary growth points were concerned, they were necessarily linked with resource use and no such blurring occurred. The list under the head of extra-budgetary can be severely pruned if Community instruments are considered necessary to define a worthwhile growth point, or can become indefinitely large if consultative telephone calls are allowed to count. Whilst the latter are no doubt important, it is perhaps better to take the stricter view.

This does mean, however, that there are virtually no such growth points of any substance at present under way.

In the case of joint medium-term planning (including prices and incomes), the Commission collects together the intentions of the member-states and publishes them on a common basis. They have no force, and it is widely believed that figures sent in by member-states are not prepared too seriously. One implication for the U.K. is that, on the face of it, the Treasury would have to accede to the exhortations of the Select Committee on Public Expenditure and make public its medium-term forecasts.

The remaining two extra-budgetary fields we picked out earlier, monopoly regulation and capital market development, are both characterised by the existence of embryonic Community instruments, or blueprints for instruments, but by a lack of any real action. Both are extremely intractable fields, and behaviour of firms and institutions in various member-states are likely to be little affected even after the issue of Directives and Regulations on monopolistic practices, open Community tendering, open access to security markets for new issues from any Community source, etc. etc.

In general, these extra budgetary growth points for economic union lack bite, either through being largely consultative or because. (just as monetary union presupposes the public policies of economic union) they depend on integration and development of private sector Community business.

Though budgetary growth points unfortunately require resources, they are likely to have a more straightforward and effective impact for Community advancement.

#### The Balance between Monetary and Economic Union

We have an idea of the content of monetary union from the outset of this short paper, and by its end, have developed a little idea of the reality of economic union.

If our own predelictions may be used as a working hypothesis, a preference exists for budgetary growth points, financed by a Community corporation tax. This tax (or even the Community part of V.A.T., but less advantageously) could be levied in Europas, which would help the introduction of the new currency.

The Eurobudget itself would naturally be cast in Europas, and thus the new expenditure envisaged would be made to transfer - receiving regional institutions or industries in terms of the new currency.

These new expenditures themselves should be primarily employment-creating, e.g. payroll subsidies for all or most firms in depressed regions, rather than less-visible, longer-term, subsidies to high-technology businesses.

Thus the cost of membership, in the shape of, as this paper has indicated, necessarily new tax levies, has least impact on shop prices, whilst the benefit is most obvious, in employment and regional improvement. The benefits also come directly in the European currency!

Douglas Dosser  
P.E.P.  
October 23, 1972

Appendix

Extract from The Times, Business Section, of October 9, 1972

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As the EEC summit opens, Douglas Dosser considers  
fresh means of raising Community revenues

EUROPEAN CORPORATION TAX?

A key indicator of the pact of European Community economic and political integration through the 70s and beyond will be provided by the transfer of fiscal authority to Brussels. We are already committed, on entry, to a system of paying over customs duties, agricultural levies, and the yield equivalent to up to 1% on the value-added tax base by 1978. On present indications this could represent a sum of approximately £500m to £600m or 4% of British Budget revenues.

Revenues passing to Brussels, whose extent is, in principle, separable from the scope of decision-making in Brussels, will depend on both taxation and expenditure developments of the Eurobudget. It is at present undynamic on both sides, since the present revenue raisers of customs duties and agricultural levies will diminish rather than increase, as will the item which accounts for nearly 90% of current Eurobudget expenditures, the Common Agricultural Policy.

What will be the prospective growth in size of the Eurobudget cannot therefore be deduced by extrapolation of present policies. It should be examined on two scores: what taxes can suitably become Community revenues; and what new public expenditures can fruitfully be operated on a European scale. The process is interdependent.

Little can or indeed need be said about the expenditure side at present. Industrial policy, foreign aid and in particular, regional policies are prime candidates. New initiatives for Community expenditures in these fields can be expected when the new members begin to nudge at the present agricultural dominance of the Eurobudget (which is now much to their disadvantage).

Much more can be said on the taxation side, and indeed it is vital to consider this now, since main lines are being laid now which will lead to stations in 1978 and beyond, at which we may not want to arrive.

New Eurobudget revenues must come from taxation. And, as we know, the V.A.T. has its foot in the door as the Community tax. The 1% allowable in 1978 could become 5% in the early 1980's. The other candidate for the Community tax is the corporation tax.

These are the only two for consideration. It is generally accepted that the personal income tax will remain a national tax for as long as we want to look forward. This is because it most closely reflects member-states' differing historic and cultural attitudes towards taxation, and further member-states should retain one great tax to determine their own level of 'welfare state'. The social security financial system may eventually be harmonized, but with its complexity this is equally far off.

So it is a straight contest between the value-added tax and the corporation tax, though in the very long run, both may fall into the Community purse.

Whilst the tide is flowing for the value-added tax there are strong arguments for preferring the corporation tax. The major tension in tax harmonisation discussion lies between those who view it as a means of constructing a uniformized, equal-rate, tax system duplicating that in a nation-state, and those who would retain national and/or regional differences for the sake of economic management; fiscal uniformity versus fiscal flexibility.

Both sides command powerful supporting arguments. For the first group, fiscal uniformity provides a wonderful focus for the development of Europeanism in the widest sense, now that customs union is completed, and the agricultural system seen as a 'special interest' settlement.

But on the other hand, the need to retain fiscal flexibility is actually heightened by economic and monetary union. For this involves the extinction of national exchange-rates, compromises national monetary policies, and thus puts the heat on fiscal instruments for adjustment of member-state, or regional, economies, as unemployment and inflation rates diverge.

The preference for the corporation tax as medium-term Community tax can be derived from this simple tension, through many subsidiary arguments also support it.

The corporation tax should be made uniform and the revenue paid to Brussels. This provides an impetus to Europeanization where the atmosphere is ripe for it, namely in business. It could facilitate the growth of European capital markets, and it economizes tax work in the private sector where firms would only have to complete one tax return on international operations. While it facilitates fiscal unification, it does little harm to fiscal flexibility.

Precisely opposite arguments apply to the value-added tax. To unify (and raise) it to Community standards is to incite anti-EEC sentiment where it is most acute, that is, in the shops. Nor is it very critical for the development of EEC internal trade, which is already buoyant and where VAT tax differences are a minor cost element, and limited in effect anyway by the destination principle. On the other hand, the VAT is a powerful national or regional tool for fiscal management, and member-state discretion over rates should continue.

In terms of revenue, paying over the corporation tax and the already committed 1% value-added tax in the 1980s would involve paying over roughly 12% of British budget revenues.

The transfer of fiscal resources up to this point and beyond must of course depend on the development of mutually agreed worthwhile Community expenditure projects. Continuing finance, as the idea of the preeminence of the European budget grows, can come from the value-added tax, where each transfer of 1% value-added tax rate passes over an additional 1.5% of British budgetary revenues.

Long-run policy should make fiscal revenue transfer depend on establishing the right taxes and expenditure for the European budget, and fiscal decision-making transfer depend on the development of an effective European Parliament.

Short-run, and more urgent, policy should pinpoint the corporation tax as being the economically desirable and politically acceptable Community tax in the present stage of European integration, with the value-added tax held in reserve if and when the member-states are prepared to go much farther into economic and monetary (and political) union in the 1980's.

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## The External Policy of the Community and Outside Pressures

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1. In the past, the extent of 'spill-over' as a major dynamic element in the evolution of the Community has received considerable attention. The impact of external challenges and pressures--external federators--on the Community's development has received less attention. While their importance in the origin of European integration is widely accepted, relative to spill-over or institutional pressure (i.e. internal federators), they have received only limited attention as potential motors for the future development of the Community.
2. This paper is primarily concerned with external federators. It seeks to identify the opportunities available to the Community as a result of changes or developments in the situations of others. It concentrates on those areas which, in our view, have received insufficient attention, although it also attempts to underline the need for certain policies in relation to problems that have already been the subject for considerable thought.
3. The value of the external federators should be assessed in relation to one or more of the following criteria:
  - 1) as likely to have an effect on the internal policies of the Community
  - 2) as likely to have an effect on the Community's institutional practices
  - 3) as likely to encourage broader internal and external support for the Community
  - 4) as likely 'to promote a better international equilibrium' (Paris communiqué)
  - 5) as likely to strengthen the international bargaining position of the Community
  - 6) as likely to bring material benefit to the inhabitants of the Community.

### COMECON Countries

4. The movement towards detente in Europe--carefully handled--is perhaps the most important potential external federator for the Community in the long term. In recent months there have been definite signs that the attitude of the Comecon countries towards the Community is shifting in a positive direction. Apart from this, the countries of Eastern Europe have a clear interest in the way in which the Community will develop. Thus while the issue of recognition is one changing factor--and it is likely to be resolved in the context of the Conference on Security and Cooperation in Europe next year--perhaps the most tangible aspect of the role of the socialist countries as potential external federators is the desire and the need for much greater commercial, technological and financial cooperation with the West.

5. There are a number of inherent dangers that seem to us to underline the need for a Community stance on these questions. They stem from the political nature of contacts with the socialist states. First, in as much as the improving atmosphere in Europe flows from the success of the Ostpolitik of the Brandt Government, there are signs that certain Community countries, notably France, would regard any further moves towards normalisation as the beginnings of a special relationship between the Federal Republic and the socialist states. It would therefore appear advantageous for the countries of the Community to conduct the next stages of the Ostpolitik together. Second, this applies as much to economic relations with the Comecon countries as to political relations: working apart, the countries of the Community will be running the risk of weakening one another through undercutting, apart from the fact that only by working together can they hope to marshall the vast resources required to take part in the huge projects that are the focus of economic opportunity in the East. Third, this latter point is emphasised by the need to be able to compete with Japan, and since Kissinger's October visit to Moscow, the United States, in order to secure a reasonable share of the resource development contracts. Fourth, the socialist states may intend a special place for Comecon in the conduct of external economic relations. While we may side with Romania in regretting the restraining effects of this on national flexibility, the lessons of the 1960's demonstrated that it is always wiser to work with Moscow at the same time as forging bilateral contacts directly with the smaller East European states. Finally, there is the political aspect of any form of economic relations with these countries. Outside the Soviet Union and Czechoslovakia, the East European governments look forward to closer economic cooperation with the West as a means of assisting the restructuring of their economies that would enable them to adopt more outward looking policies. Such changes have enormous political implications. In so assisting them, the Community must develop a concept of what changes it would like to see, and tailor its policies accordingly.

6. The treaty obligations of the Community do not add up to an Ostpolitik. Article 113 of the Rome Treaty stipulates that from the end of the transitional period (31st December 1972) the members of the Community must negotiate trade agreements as a Community. Member governments have been permitted to negotiate these agreements themselves until the end of this period and they may run to 1974. Beyond this, there is little available or being effectively used for the conduct of a Community Ostpolitik. In particular, the vital area of international cooperation agreements--of increasing importance in relation to the conduct of East-West trade--falls beyond the present scope of the Community. Further, while Article 114 of the Treaty establishes a formal role for both the Commission and the Council in negotiating trade agreements, there is nothing to stop the Commission merely rubber-stamping agreements that are essentially the product of bilateral negotiation, nor to prevent existing bilateral agreements being rolled over. In this context, the ten year trade and cooperation agreements that the French Government recently concluded with the USSR and Poland seem calculated to leave the Community with a minimal role in East-West relations.

7. The weakness of this minimalist approach is that it is dangerously apolitical and ill-equipped to deal with the external factors that we have alluded to. It is therefore worth outlining a set of more constructive measures.

8. The Community should have an Ostpolitik of its own, alongside those of the member states.

9. The Community should therefore stand ready to conclude trade and cooperation agreements with the socialist countries and propose Joint Commissions to supervise their implementation. In this context, the institutions of the Community should be enabled to play an important role in relation to industrial cooperation agreements. Thus the Community could devise a framework or code for the conclusion of these agreements in future. Many cooperation ventures demand enormous finance, which could be backed by the European Investment Bank. A European Research and Development Fund could also offer resources that would facilitate cooperation projects. To encourage the socialist states to cooperate with the Community, the Community could include items of particular interest to East European exporters in making tariff concessions on a most-favoured-nation basis and take their views into account in negotiations about non-tariff distortions to trade. The resources of a European Reserve Fund could be used to help finance an all-European fund, upon which partial, and eventually full, East-West convertibility could be based.

10. The Community's internal policies could be adapted in ways useful to East-West economic relations. Thus European Companies could serve as vehicles for the consortia of firms from different Community countries that should join forces to participate in the mammoth development projects for which the Comecon countries are seeking outside help. Advantages offered by the Community could be available to the European rather than national companies. These advantages might include the Community's collective diplomatic as well as financial backing which could be decisive for very big projects. In addition, the Community would benefit from a common policy on insurances and credit rates.

11. It has already been suggested that in addition to detailed measures relating to the Comecon countries, the Community requires an overall political concept of what it is trying to achieve with its Ostpolitik. This might be developed within the Davignon framework, although the Commission would obviously have to exercise its rights to be a partner in the discussions. A model for this already exists. In preparing for the CSCE two adjuncts to the Davignon framework have been established: first, a sub-group of national officials which deals with the political aspects of the Conference, and secondly an Ad Hoc Group in which the Commission is also represented and which covers the economic aspects of the Conference. The two groups meet together to discuss questions of economic and political significance. Coordination with NATO objectives is achieved by appointing members of the two groups from amongst the national delegations to NATO. This could provide a framework for longer-term Community action.

12. While the Commission would obviously be responsible for matters where member countries have already delegated competence to it, and would be involved in overall economic policy discussions in relation to Eastern Europe, it might be found useful to include it in discussions where more strictly political and military issues are the prime subject matter. For example, in planning any East-West force reductions consideration would have to be given to alternative forms of employment etc., on which the Commission might justly claim a say.

13. We have looked at the potential of the Comecon countries as external federators in some detail, since the adoption by the Community of a constructive policy in this area--as was called for in the Summit Communiqué--could have a profound effect on its future evolution. In this respect, it fulfills most of the criteria outlined in paragraph 3.

#### Less-Developed Countries

14. A number of Commonwealth countries eligible for association with the Community have expressed reservations about taking it up because of the possible political implications. These seem to hinge on the fact that the Community is prepared to treat some LDC's better than others. Although this attitude is currently confined to only a few countries, if it spread it would weaken the Community's overall relations with the less-developed world, and reinforce outside criticism of Community development policy. We therefore suggest that the Community should attempt to eliminate the present system of discrimination in its relations with various developing countries (principally those covered by Yaoundé) during the course of the next two Yaounde Conventions, i.e. by 1984.

15. A sequence of steps could be envisaged to reduce the differentials between countries at different levels in the hierarchy of LDC relations with the Community (Yaoundé, other trade agreements, and generalised preferences). A number of specific measures could be implemented: tariffs on tropical products could be eliminated; the quota levels of the GPS could be expanded by 20% annually and be progressively extended to include processed agricultural products; reverse preferences could be eliminated over the ten-year period; joint commissions could be established with the LDC's (e.g. with groups of countries, such as Africa, Latin America, or bilaterally with the very large countries, i.e. India and China) to monitor the problems and potentials of their relationships with the Community.

16. At the same time, as has been done when previous Yaoundé Conventions were negotiated, the Associated States could be compensated from the Development Fund. Since most of the Yaoundé countries are amongst the

poorest in the world, however, the main criteria for allocation of resources from the Fund could, in any case, be related to this, rather than to the loss of preferential status per se. The Fund should be made available to countries in other parts of the world as well. In this context, the member countries should contribute sufficient funds so that the Community's aid programme is equivalent to that of one of the larger member countries. Additionally, a policy of 'capital localisation' could be developed to supplement this, where countries were prepared to enter into a treaty commitment, under which private investments from the Community would be treated according to agreed rules, while at the same time the capital would be transferred gradually, over a fairly long transitional period, to local ownership. Compensation to the investors would be paid at least in part as a form of aid. The case for this is particularly strong where foreign localisation thus provides a form of compensation for resource depletion in advance.

17. A recent study undertaken at Kiel University showed that those industries in the Community sheltering behind a high degree of protection, such as the textile industry, had notably high profit levels. It would be in the material interest of the Community as a whole for the European Social Fund to be given greater resources to help people working in such industries to obtain other employment, thus enabling the quota levels to be increased without hardship for those people. Suitably integrated with regional policy, this might provide a useful contribution to alleviation problems both within and outside the Community.

18. There is also scope - as recognised in the Paris Communiqué - for the development of commodity agreements without contravening GATT as might be the case with further tariff discrimination. A French proposal put forward in 1963 suggested that levies made in accordance with such agreements could be returned to LDC's in the form of aid. This idea is worth exploring further in the Community context.

#### The Indian Sub-Continent

19. With the enlargement of the European Communities - and the exclusion of Commonwealth Asian countries from any form of association agreement with the Community, India will find itself in a less favourable international position. This is not merely because it will be confronted by the CET in those areas not covered by generalised preferences, losing the jute Commonwealth preference, but also it will be a less competitive export position than the Commonwealth countries that have taken up association. In particular, India's jute, cotton and coir products will suffer. Generally, manufactures, semi-manufactures and processed agricultural products industries will be disadvantaged. Obviously, this poses particular problems for those labour-intensive industries which provide a major source of employment. In the context of the proposed trade talks with India, it is useful to examine various ideas that might be used to mutual benefit.

20. Apart from the moral case for paying special attention to the sub-continent - which in itself is extremely strong, not least because India is a great democracy - there are a number of reasons for the Community to take an initiative in self-interest. One of these might be termed strategic self-interest: can the Community afford to allow India to allow its economic problems to fester in the long run? If the Community fails to see the potential dangers of doing nothing, or obversely, the advantages of doing something, then others won't. Comecon countries have been increasingly important as sources of aid and trade. Between 1954 and 1971, India received one-sixth of Soviet Bloc aid to non-communist countries, and there are signs that some form of association between Comecon and India is being sought. The failure on the part of the Community to counter this tendency in the future can only reinforce accusations of isolationism.

21. What sort of things could be done? We have already made a number of proposals concerning Community relations with the LDC's as a whole. In view of the previous paragraph there appears to be a strong case for introducing these measures to India as soon as possible. Their application to India could serve a useful pilot role prior to their general introduction. For example, India provides a particularly suitable candidate for policies of capital localisation. In addition, the Community could include those processed products of especial concern to India - coir, jute and cotton - in making tariff concessions on an m.f.n. basis.

22. Finally, the Community ought to sponsor the Ford Foundation project 'Operation Calcutta' and other equally urgent urban renewal programmes. There would doubtless be many young people throughout the Community who would be willing to give their energies and inspiration to such schemes.

#### The Atlantic Area

23. The negotiations due to take place during the course of the next year provide an opportunity for the Community to make a constructive contribution to the creation of a more open world economy. But unless it is able to assert its equality to the United States in international economic relations, the chance will be lost. This is its main task, and it is essentially one of adjustment rather than revolution in Atlantic relations.

24. The Americans are keen that the Community should share responsibility with them in the underpinning of the international monetary system. Its vulnerability to US domestic problems in recent times has been the source of major difficulties. The Community must therefore strengthen its own monetary unity, possibly along the lines suggested by Magnifico and

Williamson in their Federal Trust report\* which advocated the development of marketable assets denominated in Europas. It should also urge that the dollar be made convertible, while accepting that it be devalued enough to restore balance to the U.S. external payments. At the same time, the Community should move towards voting as a single unit in the IMF.

25. A way must be found to enable domestic economic problems to be tackled during a period of tariff reductions without recourse to protectionism. The Community should press for the creation in the context of GATT of a system of rules and institutions that would permit an orderly restriction of imports by a country in economic or social difficulty. At the same time, the Community should encourage others to join with it in exploring ways in which reduced competitiveness directly arising from the implementation of social policies (such as those designed to limit pollution) does not damage an industry's competitive position.

26. One important external federator in the next few years could be the continuing U.S. pressures for reduction of the cost of its contribution to European defence. The effects of this on European defence policies have received considerable attention. Its effects on the economic policies of the Community have been relatively ignored. This is primarily because the problem has been conceived in a narrow sectoral way--off-set and burden-sharing contributions being met from European defence budgets. As the ways to meet U.S. demands for burden-sharing and off-set by greater European contributions to the defence infrastructure are used up, it will be necessary to look more broadly at the economic relations of the two if the American forces are to stay in Western Europe. In this way, the institutions of the Community will have to take a greater interest in the defence field, and develop policies in relation to it.

27. A retreat from the sectoral approach would be equally useful in relation to questions of tariff reductions. If agricultural policy is taken into account together with industrial protection, the Community and the U.S. exercise protection at broadly similar levels. It is difficult to establish that either has a terms of trade advantage. This seems an excellent basis from which to pursue process reciprocal liberalisation. A generalised process of *écrêtement*, with steeper cuts for high levels of protection than for low ones, could be applied on both industry and agriculture. The reduction in the agricultural sector could be based on, first, a binding of levels of protection, and secondly, on a pricing policy which keeps the growth of prices slower than the rate of general inflation, with help for farmers increasingly taking the form of income rather than price support.

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'European Monetary Integration'

Conclusion

28. The Community will be affected by all the pressures we have touched on in this paper. Their value as external federators will reflect the Community's ability to perceive them and to be sufficiently political to respond with policies that make the most of the opportunities that they provide.

Christopher Irwin  
John Pinder  
November, 1972

# APPENDIX

## Evaluation of Suggestions in Relation to Criteria Established in Paragraph 3

Geographic area	Comecon	LDC's	US
Criteria			
1.	Harmonisation of credit and insurance rates European Companies. R&D Fund strengthened.	Commodity agreements Redeployment policy. Capital localisation Extension of GPS	Europas Defence finance Tariff reduction Capital localisation
2.	Joint Commission Recognition ICA portfolio for Cmsn. European Reserve Fund to finance convertibility Cmsn. voice in detente EIB provides credit.	Joint Commissions Extension of EDF New role for ESF	Monetary union Defence competence GATT dialogue
3.	Encourages Comecon good-neighbourliness. Satisfies Pan-Europeanists.	Satisfied development lobby, and LDC critics	
4.	EC-Comecon balance	Adjustment of relations	Balance to US in international economic relations
5.		Lessens US objections	Balance to US in GATT, IMF, etc.
6.	Development of EW trade Return of resource development Participation in mammoth projects	Competitive imports from LDC's	Less pressure on defence budgets