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The Costs and Benefits of Greek EC Membership

by Heinz-Jürgen Axt, Berlin*

At the time of the southward enlargement of the European Community there were many who doubted whether the new member countries would be able to cope with the strains of accession. It is now a good six years since Greece joined the EC, and the costs and benefits of membership from the viewpoint of the new member countries can be assessed in the light of the Greek experience.

When the European Community was founded in 1957, all the member countries except Italy were at a similar level of development and competitiveness. The situation changed with the accession of Ireland and then the southward enlargement of the Community to include Greece, Spain and Portugal. Greece's backwardness in relation to the other EC members is well illustrated by the following indicators. In 1982 Greece's per capita gross domestic product was ECU 3,979, compared with an average of ECU 8,857 for the Community of Ten. In Greece 18% of GDP was generated by agriculture, 30% by industry and 52% by services, whereas the corresponding averages for the Community as a whole were 4, 39 and 57% respectively. Agriculture employed 30% of the Greek labour force and industry 29%, as against figures of 7.7% and 36.2% respectively for the EC as a whole. Hence in Greece agriculture continues to play a significant role and industry is less developed, and both sectors are less productive than the EC average. Greek industry is dominated by small and medium-sized enterprises, with 99% of all firms employing fewer than 50 persons and more than 93% even fewer than ten.

Many sceptics doubted that the EC would be able to stand the strain of the disparities between the North and the South or that the new member countries would be able to stand the strain of accession to the Community. They argued that the EC had come into being as a union of highly developed industrial countries at a time of rapid growth and did not have the instruments and policies necessary to integrate Greece and the two other southern European countries of Spain and Portugal,

which were at a significantly lower level of development than the other EC countries, at a time of worldwide economic stagnation and crisis in the Community without entailing heavy economic cost for the acceding countries. There were therefore calls for an active structural policy that would narrow the development gap between the new members and the rest of the EC by means of targeted promotional measures in industrial, agricultural, regional and social policy.¹

Those in the opposite camp campaigned for free trade and liberalisation and argued that the danger of a "peripherisation" of southern Europe in the context of an enlarged Community was slight.² After a transitional period in which uncompetitive firms would be squeezed out, the unrestricted mobility of factors of production within the large EC market – guaranteed by realisation of the "four basic freedoms" of the free movement of goods, capital, labour and services – would lead to a general optimisation of economic benefits and prosperity. Measures to protect competitively weak industries in Greece would only impede the division of labour within the Community in accordance with the theory of comparative costs.

A good six years have now elapsed since Greece joined the Community, and its experiences can serve as

¹ Cf. S. A. Musto: Die Süderweiterung der Europäischen Gemeinschaft, in: *Kyklos*, Vol. 34, No. 2, 1981, pp. 242-273. With regard to Greece, cf. H.-J. Axt: Die PASOK. Aufstieg und Wandel des verspäteten Sozialismus in Griechenland, Bonn 1985; and H.-J. Axt: Wandel und Kontinuität in Griechenland. Zur wirtschaftlichen und politischen Entwicklung seit 1981, in: *Aus Politik und Zeitgeschichte*, Vol. 26/85, 29. 6. 1985, pp. 21-37.

² G. N. Yannopoulos: Integration and Convergence. Lessons from Greece's Experience in the European Community, in: *INTERECONOMICS*, Vol. 20, No. 2 (March/April 1985), pp. 93-97.

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a basis for assessing the costs and benefits of EC membership from the viewpoint of the new member countries and examining the consequences for the intended reform of the Community. It should nevertheless be borne in mind that particular problems surround cost-benefit analyses of this kind.

First there is the problem of attribution. Which effects are the result of EC membership and which are not? Who can prove conclusively that a particular development is ascribable to entry to the Community if one cannot say how things might have turned out otherwise?

Secondly, the analysis is necessarily limited, in the present case by the fact that it considers only trade on the one hand and high-expenditure EC policies and EC budgetary arrangements on the other. Such interesting questions as whether small and medium-sized Greek firms can or cannot stand up to competition from the EC or whether there is evidence of modernisation induced or at least stimulated by EC membership must remain unanswered. Similarly, it has not been possible to calculate the costs and benefits to the Community arising from Greece's accession.

Thirdly, it must be taken into account that the recession caused Greece's international

competitiveness to decline appreciably at precisely the time when the country was joining the Community and encountering growing competition from EC countries as a result of the dismantling of tariff barriers.

Impact on Foreign Trade

Trade with the EC has traditionally held great importance for Greece. Between 1958 and 1985 imports from the EC (intra-Community imports) averaged 48.7% of total imports. In the case of intra-Community exports the figure was 48.4%. The product composition of Greek exports has changed. Whereas in 1960 the main export goods in descending order of importance were drinks and tobacco, food and raw materials, by 1970 manufactured products had already moved to first place as a result of Greek industrialisation in the sixties. Fuel has become the largest imported item in value terms owing to the rise in oil prices since 1973. The jump in oil prices also had a distorting effect on the trade statistics as a whole. Until 1972 fuel imports averaged 6.4% of total imports, but after 1973 they accounted for 21.5%. In some instances they must therefore be excluded from extra-Community imports to avoid distorting the results.

Greece has a perennial deficit in its trade both with the world as a whole and with the EC (see Table 1). Between

Table 1
Greece's Trade with the World and with the European Community of Ten
(values in millions of ECUs)

| | World | | | Intra-Community | | | | | |
|-------------------|---------|---------|---------|--|--|--|--|-------------------|-------------------|
| | Imports | Exports | Balance | Imports Value Percentage change | Exports Value Percentage change | Balance Value Percentage change | Exports as percentage of imports | | |
| 1958 | 565 | 232 | - 333 | 301 | 117 | - 184 | 38.9 | | |
| 1960 | 702 | 203 | - 499 | 313 | 87 | - 226 | 27.8 | | |
| 1965 | 1134 | 328 | - 806 | 585 | 149 | - 436 | 25.5 | 12.7 ² | 11.4 ² |
| 1970 | 1958 | 643 | -1315 | 976 | 335 | - 641 | 34.3 | | |
| 1975 | 4301 | 1855 | -2446 | 1829 | 921 | - 908 | 50.4 | | |
| 1976 | 5426 | 2295 | -3131 | 2153 | 1147 | -1006 | 53.3 | 17.7 | 24.5 |
| 1977 | 5999 | 2411 | -3588 | 2547 | 1151 | -1396 | 45.2 | 18.3 | 0.3 |
| 1978 | 6150 | 2645 | -3505 | 2655 | 1344 | -1311 | 50.6 | 4.2 | 16.8 |
| 1979 | 7028 | 2841 | -4187 | 3066 | 1395 | -1671 | 45.5 | 15.5 | 3.8 |
| 1980 | 7634 | 3728 | -3906 | 3030 | 1775 | -1255 | 58.5 | - 1.2 | 27.2 |
| 1981 | 8017 | 3860 | -4157 | 4011 | 1671 | -2340 | 41.7 | 32.4 | - 5.9 |
| 1982 | 10189 | 4381 | -5808 | 4706 | 2030 | -2676 | 43.1 | 17.3 | 21.5 |
| 1983 | 10863 | 5028 | -5835 | 5212 | 2639 | -2573 | 50.6 | 10.8 | 30.0 |
| 1984 | 12259 | 6138 | -6122 | 5763 | 3322 | -2440 | 57.6 | 10.6 | 25.9 |
| 1985 | 13361 | 5950 | -7411 | 6236 | 3174 | -3062 | 50.9 | 8.2 | - 4.5 |
| 1986 ¹ | 8499 | 4195 | -4304 | 4829 | 2657 | -2172 | 55.0 | 3.2 | 14.3 |

¹ January to September 1986. Changes in relation to the corresponding period of the previous year.

² Annual average for the period from 1960 to 1975.

Sources: Eurostat: External Trade, Statistical Yearbook 1986; Eurostat: External Trade, Monthly Statistics, 11/1986.

1960 and 1980 the deficit vis-à-vis the EC grew by an average of 10.3 % a year. In 1981, the first year of Greek membership, it increased by an unprecedented 86.5 %; this extreme deterioration was not mitigated in the years that followed, since between 1982 and 1986 the deficit on intra-Community trade continued to rise by an average of 7.7 % a year. The dramatic increase from 1981 onwards led to a corresponding rise in the EC trade deficit as a proportion of the overall deficit. Between 1971 and 1980 the intra-Community deficit accounted for 40.8 % of the total, but between 1981 and 1985 it already amounted to 45.5 %. If oil imports are excluded for the reasons stated above, the Community's share of the total deficit rose from 56.5 to 87.5 % between the two periods, an increase of around 30 percentage points!

Analysis of the extraordinarily rapid growth in the deficit in trade with the EC since 1981 shows that factors on both the export and import sides played a role. The average rate of growth in intra-Community imports accelerated from 12.3 % a year in the period from 1971 to 1980 to 15.9 % in the period from 1981 to 1985, whereas the expansion in intra-Community exports slowed down from 19.3 to 13.4 %.

The rise in the intra-Community deficit as a proportion of the overall deficit was due to a combination of factors. In the 1981-85 period the average annual rate of growth in intra-Community imports was 3.6 percentage points higher than in the period from 1971 to 1980, but there was a slowdown in the growth of intra-Community exports (by 5.9 percentage points), in extra-Community exports (by 14.2 percentage points) and in extra-Community imports (by 7.4 percentage points including oil imports or by 9.5 percentage points if they are excluded.)

The burden on the Greek trade balance as a result of joining the EC is also reflected in the fact that the import cover ratio in intra-Community trade fell from an average of 50.6 % in the period from 1976 to 1980 to one of 48.8 % in the 1981-85 period, whereas in extra-Community trade it improved from 37.5 to 44.3 %.

Joining the European Community can therefore be seen to have had the following effects on Greece's foreign trade:

□ The fact that after 1981 only imports from the EC were able to accelerate whereas other trade flows with the EC and third countries grew more slowly than the average of previous years indicates that accession had

a *particularly strong effect on imports from the Community.*

□ *Trade diversion* has clearly occurred in the case of imports since 1981. The Common Customs Tariff, which raises the cost of imports from third countries, encouraged imports from within the Community, while those from outside slowed down appreciably.

□ Greek entry to the EC also clearly gave rise to *trade creation*. The other EC countries were able to expand sales to the Greek market much more rapidly than before. However, Greek exporters did not benefit to anything like the same extent as producers from other EC countries.

□ Entry to the EC can at best be seen as a *relative advantage* for Greek exporters, in that the slowdown in the growth of exports to Community countries after 1981 was less marked than that in exports to third countries. The general slackening of Greek export growth suggests a deterioration in the international competitiveness of the Greek economy.

□ The flood of imports from EC countries not only meant a diversion of trade flows but also placed an *additional burden* on the trade balance in that the deficit on intra-Community trade increased much faster than the previous long-term trend.

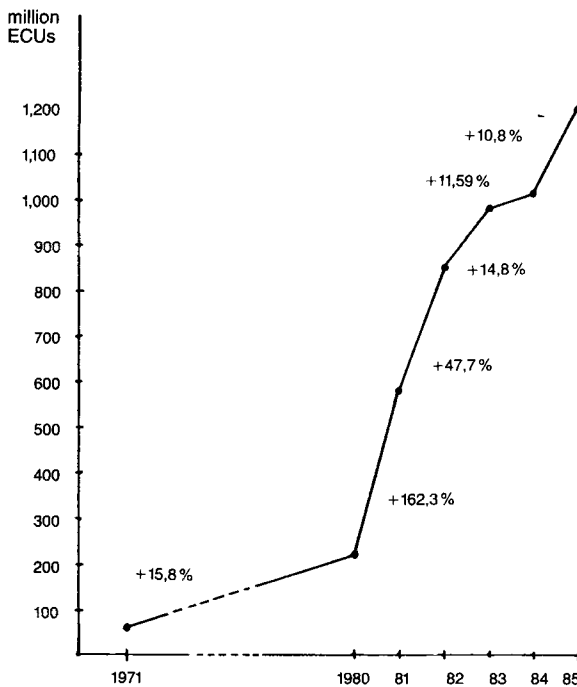
Flood of Imports

Imports from the Community jumped by 32.4 % in the first year of Greece's membership, a rate of growth that had never been known before. After 1981 they continued to increase at the pace seen in the seventies. This expansion in intra-Community imports from 1981 onwards altered the ratio between Community and non-Community imports; excluding fuel for the reasons explained above, intra-Community imports as a proportion of total imports rose from an average of 53.9 % in the period from 1958 to 1980 to one of 63.6 % between 1981 and 1985, an increase of just under 10 percentage points.³

Two product groups were chiefly responsible for the rise in imports from the EC: food (SITC 0) and manufactured products (SITC 6). Food imports from the Community expanded by an average of 15.8 % a year between 1971 and 1980, but accelerated dramatically after accession (see Figure 1). In 1981 they rose at the phenomenally rapid rate of 162.3 % and from 1981 to 1985 by an annual average of 49.4 %, thereby inverting Greece's balance on intra-Community agricultural trade; whereas before 1981 Greece had always had a substantial surplus in agricultural trade with which to

³ This shift towards imports from Community countries is not evident in the Eurostat statistics, since oil imports (SITC 3) are always included.

Figure 1
Intra-Community Imports of Food (SITC 0)
 – Percentage growth rates –



reduce the overall deficit, from 1981 onwards it found itself with a permanent and significant deficit.

In the five years from 1976 to 1980 Greece earned a cumulative surplus of ECU 679 million in agricultural trade; in the next five years it ran up a deficit of ECU 1,494 million. The striking deterioration in the agricultural trade balance with the EC was due to the expansion in imports, which tripled as a proportion of total imports (1971-80, 6.1%; 1981-85, 18.1%, both at annual average rates), rather than to a slowdown in export growth. From 1981 to 1985 exports to the EC grew at an average annual rate of 20%, 5 percentage points higher than in the period from 1976 to 1980.

The extremely rapid growth in agricultural imports from the EC is on the one hand an expression of trade diversion at the expense of imports from third countries, whose average annual rate of growth fell from 7.4% (1976-80) to 0.1% (1981-85). That the agricultural balance was further worsened by additional imports from the EC after accession is evident from the following figures: between 1976 and 1980 total agricultural

imports from EC and non-EC countries averaged 10.3% of overall imports (excluding oil imports, SITC 3), but the proportion increased by half to 15.3% in the period from 1981 to 1985. If it had merely been a question of imports from the EC displacing imports from third countries the ratio would have remained more or less unchanged.

Relative Export Advantages

Anyone hoping that entry to the Common Market would significantly improve Greece's export opportunities was disillusioned by developments after 1981. In any case, accession was unlikely to produce appreciable benefits in the export field, since Greek exports to the EC had been free of duty since 1968 in the case of industrial goods and since 1974 in that of many agricultural products, although the latter were still subject to quantitative restrictions.⁴

However, if the declining competitiveness of Greek products in world markets that was apparent from the early eighties onwards is taken into account, membership of the EC proves to have been a *relative advantage*, relative in the sense that the average annual rate of growth of exports to the EC declined less than that of exports to third countries (from 17.1% in 1961-80

Table 2
Average Annual Rates of Growth of Greek Exports to the EC

| | 1971-1980 | 1981-1985 |
|--------|-----------|-----------|
| SITC 0 | 23.0 % | 25.0 % |
| SITC 6 | 19.8 % | 9.6 % |
| SITC 8 | 25.1 % | 20.1 % |

Table 3
Calculation of the Monetary Burden caused by the Increase in the Deficit in Intra-Community Trade from 1981 onwards
 (in millions of ECUs)

| | Deficit | | | Net burden | |
|-----------|--------------------|--|---|------------------------|------------------------|
| | Real G = 23.5 % | Estimated using cal- culation 1 G = 9.2 % | Estimated using cal- culation 2 G = 11.3 % | Using calculation 1 | Using calculation 2 |
| 1981 | -2.340 | -1.370 | -1.397 | 970 | 943 |
| 1982 | -2.676 | -1.496 | -1.555 | 1.180 | 1.121 |
| 1983 | -2.573 | -1.634 | -1.731 | 939 | 842 |
| 1984 | -2.440 | -1.784 | -1.927 | 656 | 513 |
| 1985 | -3.062 | -1.948 | -2.145 | 1.114 | 917 |
| 1981-1985 | -13.091 | -8.232 | -8.755 | 4.859 | 4.336 |

⁴ Cf. H.-J. Axt: Die Süderweiterung der Europäischen Gemeinschaft. Priorität für marktwirtschaftliche Freihandelslösungen oder entwicklungspolitische Intentionen?, in: Neue Politische Literatur, Vol. 26, No. 4, 1981, pp. 474-505.

G = Average annual rate of growth.
 Sources: Eurostat: External Trade, Statistical Yearbook 1986; Eurostat: External Trade, Monthly Statistics, 11/1986; own calculations.

to 13.4 % in 1981-85 in the case of intra-Community exports and from 17.9 to 7.5 % in that of exports to other countries).

Greek exports to the EC attenuated the general slowdown in export growth but could not completely compensate for it. After 1981 the EC market offered no prospect of a growth in sales faster than the long-term trend rate. Among the most important products exported to EC countries, there was an acceleration in the rate of growth of only food exports (SITC 0), while manufactured goods (SITC 6) and various other manufactured products (SITC 8) such as clothing, shoes, furniture, fittings and other apparatus recorded a slowdown (see Table 2).

Monetary Burden

Any attempt to estimate the monetary burden on Greece as a result of the influx of imports from the EC must be subject to the reservations mentioned above. No sufficiently reliable method of calculation can be found, because one only knows what actually transpired, but not what might have occurred if Greece had not joined the Community. Consequently, the following figures should be regarded solely as indicators of trends and as a means of putting other data into perspective.

Two different calculations have been made to indicate the possible range of variation (see Table 3):

Calculation 1 assumes that after 1981 the intra-Community trade deficit would have continued to increase at the rate recorded between 1976 and 1980. Hence for the period from 1981 to 1985 a 9.2 % growth in the deficit is assumed.

Calculation 2 is based on the same assumption but also takes account of the deterioration in Greece's international competitiveness, as reflected in the fact that the rate of growth in the trade deficit vis-à-vis third countries accelerated from 12.3 % (1976-80) to 15.1 % (1981-85). An annual average rate of growth of 11.3 % after 1981 is therefore used.

Calculation 1 produces a cumulative estimated deficit of ECU 8,232 million for the period from 1981 to 1985. Subtracting this from the actual cumulative deficit of

ECU 13,091 million puts the burden resulting from the flood of imports from the EC at ECU 4,859 million for the period 1981-85. Using calculation 2 gives a cost of ECU 4,336 million. In a cost-benefit analysis of Greek membership the cost must therefore be put at between ECU 4,336 and 4,859 million.

Benefits to Greece from the EAGGF

The European Community uses a number of expenditure policies to move towards realisation of the economic community. Its activities in the fields of research, energy, industry, transportation and development aid cannot be described in detail here. The three most important policies – the Common Agricultural Policy, regional policy and social policy – accounted for 95.3 % of all EC budget payments to member countries in 1985.

The agricultural policy financed through the European Agricultural Guidance and Guarantee Fund (EAGGF) was responsible for 83 % of all EC payments to member countries in 1985. The Fund's disbursements are divided between two sections: the Guarantee Section and the Guidance Section. The Guarantee Section, which handled 96 % of all EAGGF resources in 1985, finances expenditure arising from the common marketing and agricultural pricing policy. The Guidance Section contributes to the financing of structural policy measures.

The Guarantee Section's payments to Greece (including monetary compensatory amounts) increased more than eightfold between 1981 and 1985, from ECU 146.2 to 1,192.6 million.⁵ Between 1981 and 1983 more than a quarter of these sums (27.4 %) related to tobacco, 25.5 % to fruit and vegetables, 15 % to cotton, 12.4 % to cereals and rice and 10.9 % to olive oil.⁶ The allocation of financial resources in Greece therefore differs considerably from that in the rest of the Community, where on average over the last fifteen years around two-thirds of all guarantee payments have gone on just four products for which a market organisation exists: milk, cereals, beef and sugar. However, in value terms these products account for just under half of total EC agricultural output, thereby highlighting a structural flaw in the Common Agricultural Policy, namely the especial encouragement given to agricultural products produced by the older member countries. Since Greece produces only relatively small quantities of the four above-mentioned products it receives correspondingly less by way of payments.

Comparison of the EAGGF guarantee payments to Greece with the country's share of total EC agricultural

⁵ Cf. Commission of the European Communities: Fifteenth Financial Report on the European Agricultural Guidance and Guarantee Fund, COM 86/631, Brussels 1986; Court of Auditors: Annual Report concerning the financial year 1985 accompanied by the Replies of the Institutions, in: Official Journal of the European Communities, C. 321, 15. 12. 1986; Bundesministerium für Finanzen: Der Haushalt der Europäischen Gemeinschaft 1986, Bonn 1986.

⁶ Cf. Epitropi ton Europaikon Koinotiton. Grafeio Athinon I Ellada stin Europaiki Koinotita. Ta prota tria chronia, Athens 1984.

output on the one hand and its contribution to the EC budget on the other (Table 4) shows that Greece does enjoy favourable treatment, since its share of guarantee payments (6 %) is higher than its shares of agricultural output (5.1 %) and of budget contributions (1.5 %). However, it cannot be said to enjoy particular benefits that take account of the country's level of development and its greater dependence on agriculture, which are not the kind of criteria used in determining the granting of guarantee resources; more decisive factors are the existence of a common market organisation for a country's agricultural products and the volume produced, since it is this that determines the level of payment.

Between 1981 and 1985 the Guidance Section paid Greece a total of ECU 172.9 million, just $\frac{1}{23}$ of the country's receipts of guarantee payments.

Payments from the Regional Fund

The Regional Fund, which was set up by Council Resolution in 1975, has the task of reducing regional

disparities within the Community, be they regional disparities within member states or differences in the level of economic development of EC countries. With Greece's entry to the Community, the latter aspect posed a particular challenge for Community regional policy, and one that it has not been able to meet adequately so far. Despite an increase in its resources, the Regional Fund plays a modest role by comparison with the Agricultural Fund; in 1985 the Regional Fund's resources were equal to less than 8 % of total agricultural expenditure. The Fund's meagre resources are supposed to correct regional distortions that in some cases are being exacerbated by other EC policies. For example, in 1985 Greece received funds totalling ECU 309 million from the Regional Fund but saw its trade deficit increase by around three times this amount as a result of the dismantling of customs barriers.

Until the end of 1984 Regional Fund resources were distributed according to rigid country quotas. Greece's was 13 %; those for the other EC countries were as follows: Belgium 1.11 %, Denmark 1.06 %, Germany 4.65 %, France 13.64 %, Ireland 5.94 %, Italy 35.49 %,

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

Table 4
Comparison of EAGGF Guarantee Payments with
Contribution to the EC Budget and Shares
of EC Agricultural Output

| | Percentage of guarantee payments (1985) | Percentage of contributions to EC budget (1985) | Percentage share of EC agricultural output (1982) |
|----------------------|--|--|---|
| Belgium | 4.6 | 5.0 | 3.1 |
| Denmark | 4.2 | 2.4 | 4.0 |
| Fed. Rep. of Germany | 18.4 | 28.8 | 18.4 |
| Greece | 6.0 | 1.5 | 5.1 |
| France | 23.5 | 20.4 | 25.8 |
| Ireland | 5.9 | 1.1 | 2.2 |
| Italy | 17.3 | 13.9 | 19.6 |
| Luxembourg | 0.02 | 0.2 | 0.1 |
| Netherlands | 10.4 | 7.2 | 8.3 |
| United Kingdom | 9.6 | 19.5 | 13.4 |
| Community of Ten | 100 | 100 | 100 |

Sources: See footnote 5; own calculations.

Luxembourg 0.07%, the Netherlands 1.24% and the United Kingdom 23.8%.⁷ Greece, Italy, Ireland and the United Kingdom thus received around three-quarters of the total resources.

A new system of distribution has been in operation since 1985, whereby each EC country has lower and upper limits. In the case of Greece these are 12.35 and 15.74%. In this way, the EC Commission should be able to concentrate resources more strongly on areas where productivity is lowest and unemployment highest. It continues to be the case that funds are granted only if member countries submit appropriate applications for examination by the Commission.

Between 1981 and 1985 Greece received ECU 1,014.6 million in actual disbursements from the Regional Fund; the figures for individual years were

ECU 122, 152.3, 214.6, 216.7 and 309 million.⁸ If Regional Fund payments are set in relation to the number of inhabitants of the areas affected, the 1985 figures were ECU 58.7 per inhabitant for the United Kingdom, ECU 58.2 for Greece, ECU 55.6 for Italy and ECU 44 for Ireland. This clearly illustrates that the allocation of Regional Fund resources does not depend solely on a country's economic backwardness by comparison with the rest of the Community; regional disparities within a country are also of great importance.

The European Social Fund

As with the Regional Fund, the financial resources of the European Social Fund, whose responsibilities were defined in terms of employment policy in the EEC Treaty and only later widened to include general social policy measures, are very modest, being equivalent to only 6.8% of total agricultural expenditure in 1985. The Social Fund was originally set up to palliate the adverse social effects of economic integration. Around three-quarters of the ECU 1,413 million that the Fund paid to EC countries in 1985 went to the "big four", with Italy receiving 27.2%, the United Kingdom 20%, France 18.1% and Germany 7.8%. Greece's share was 5.5%, less than Ireland's (12.1%) but more than those of Belgium (3.5%), the Netherlands (3.2%), Denmark (2.4%) and Luxembourg (0.04%).⁹ Over the five years from 1981 to 1985 Greece received ECU 6.6, 23.5, 20.4, 71.3 and 79 million.

⁷ A comparison of each country's quota with its percentage contribution to the EC budget (Table 4, column 2) shows its net recipient or contributor position.

⁸ The report of the Court of Auditors states the actual payments, which are reproduced here. By contrast, Commission of the European Communities: Eleventh Report from the Commission, European Regional Development Fund, COM 86/545, Brussels 1986, shows commitment authorisations.

⁹ Cf. Court of Auditors, op. cit., p. 178.

Table 5
Greece's Financial Contributions to and Receipts from the EC Budget

| | Contribution to the EC budget | | Receipts from the EC budget | | Net position | |
|-----------|----------------------------------|----------------------------------|--------------------------------|----------------------------------|------------------------|----------------------|
| | in millions of ECUs | percentage share ¹ | in millions of ECUs | percentage share ¹ | in millions of ECUs | percentage change |
| 1981 | 254.5 | 1.4 | 394.7 | 2.5 | 140.2 | |
| 1982 | 381.6 | 1.8 | 985.9 | 5.5 | 604.3 | 331.0 |
| 1983 | 377.7 | 1.6 | 1351.4 | 6.2 | 973.7 | 61.1 |
| 1984 | 355.8 | 1.4 | 1364.0 | 5.7 | 1008.2 | 3.5 |
| 1985 | 388.0 | 1.5 | 1702.8 | 6.9 | 1314.8 | 30.3 |
| 1981-1985 | 1757.6 | 1.5 | 5798.8 | 5.4 | 4041.2 | |

¹ Community of Ten = 100%; 1981-85 = annual average.

Source: Court of Auditors: Annual Report concerning the financial year 1985 accompanied by the Replies of the Institutions, in: Official Journal of the European Communities, C 321, 15. 12. 1986.

Low Redistributive Effect of the EC Budget

Originally, member countries' contributions to the EC budget were determined by set quotas which took account of their economic strength but were also influenced by political factors, such as the weighting of votes in Community bodies. Since 1980 the budget has been funded entirely from "own resources", a term used to describe receipts from the application of the Common Customs Tariff to goods from third countries, agricultural levies to raise the prices of imported agricultural products from third countries to the higher EC level and a set proportion of VAT receipts. The own resources system of financing should have come into full operation after the expiry of the transitional arrangements for Greece at the end of 1983, but this was not possible since Greece did not meet its obligation to introduce value added tax until 1st January 1987.

As Table 5 shows, Greece is a net recipient from the EC budget, receiving financial payments from the Community that exceed its budget contributions. In 1985, for example, Greece's contributions amounted to 1.5 % of the total but its receipts constituted 5.4 % of all budget payments to member countries. While Greece's contributions have more or less stagnated since 1982, receipts from the EC have risen steadily, resulting in a steady increase of net receipts, which tripled from 1981 to 1982. Their rate of growth in subsequent years was lower but still appreciable, averaging 31.6 % between 1983 and 1985. The other net recipients from the EC budget are Italy, Ireland, Belgium, Luxembourg, Denmark and the Netherlands. Germany, the United Kingdom and France are net contributors, in other words they pay more into the budget than they receive back in payments.

Setting the net amounts in relation to the size of the population reveals that in 1984 each German paid a net contribution of DM 124 to the EC budget, each Briton DM 32 and each Frenchman DM 31. By contrast, Ireland received net per capita payments of DM 579, Greece DM 222, Denmark DM 199, Belgium and Luxembourg DM 151 (as a result of the location of Community institutions in these countries), Italy DM 59 and the Netherlands DM 65.¹⁰

If GNP is taken as a yardstick for assessing countries' financial contributions, it will be seen that Greece's contribution to the EC budget (1.4 % in 1984) is more or less equal to the Greek share of the Community's GNP

(1.5 %). The same applies broadly to the other member countries. Greece's financial contribution to the EC budget is therefore justified, if measured in terms of the country's economic strength. However, the distribution of EC resources among member countries is open to criticism. Here Greece is disadvantaged if its level of development is taken as the basis of assessment. The misdirection of EC expenditure is due primarily to the fact that the agricultural fund accounts for around two-thirds of all EC expenditure (65.7 % in 1986) and that agricultural resources are distributed less according to economic strength and the need for financial transfers than to the extent to which Community policies have been developed for particular products. Overall, the transfer of resources and the redistributive effect of the EC budget to the benefit of less developed member countries at the expense of their more developed neighbours is slight; in 1983 it amounted to 16 %.¹¹

Cost-Benefit Analysis

Greece is a substantial net recipient of funds from the EC budget. Commentators in the media therefore regularly claim that the Greek Prime Minister, Mr. Papandreou, has changed from opposition to the EC to advocacy of the Common Market because of these financial transfers. For example, the Financial Times wrote on 3rd February 1986 that Mr. Papandreou and his cabinet had become pro-European because of "the sweet sound of the Brussels cash register". However, this interpretation ignores the fact that Greece has incurred considerable costs in connection with trade with the EC as a result of joining the Community.

Comparing the trade costs of Greek membership of the EC with the net financial transfers (Table 6) produces very sobering results; in the period from 1981 to 1985

Table 6
Cost-Benefit Statement of Greek Membership of the EC, 1981-85

| | Costs (ECU million) | | Benefits (ECU million) | Cost-benefit ratio c = 100 | |
|-----------|------------------------|------|---------------------------|----------------------------------|-----|
| | a | b | c | d | e |
| 1981 | 943 | 970 | 140.2 | 673 | 692 |
| 1982 | 1121 | 1180 | 604.3 | 186 | 195 |
| 1983 | 842 | 939 | 973.7 | 87 | 96 |
| 1984 | 513 | 656 | 1008.2 | 51 | 65 |
| 1985 | 917 | 1114 | 1314.8 | 70 | 85 |
| 1981-1985 | 4336 | 4859 | 4041.2 | 107 | 120 |

Notes:

a = costs according to calculation 2 in Table 2.

b = costs according to calculation 1 in Table 2.

c = net transfer to Greece from the EC budget, Table 4.

d = with regard to cost calculation 2.

e = with regard to cost calculation 1.

¹⁰ Bundesministerium für Finanzen, op. cit.

¹¹ B. May: Kosten und Nutzen der deutschen EG-Mitgliedschaft, Bonn 1985, p. 89.

Greece's losses in trade with the EC were more or less equal to the financial transfers from the EC, and may actually have been greater.

The benefit of Greek membership over the five-year period totalled ECU 4,041.2 million, as against trade costs of between ECU 4,336 and 4,859 million. It is quite in keeping with the offsetting of interests practised within the EC that countries such as Greece are net recipients from the EC budget and losers in the trade field, whereas countries such as Germany gain on the trade front and are net contributors to the budget. However, the fact that Greece's net budgetary receipts are completely neutralised by its trade losses cannot be reconciled with the claims of Community solidarity.

Nevertheless, it can also be seen that the cost-benefit ratio improved noticeably after 1981. While in 1981 the trade losses were more than six times the value of the net financial transfer from the EC, the ratio improves steadily from then onwards (columns d and e in Table 6). In 1983 the financial transfer exceeded the trade losses and in 1984 it was almost twice as large. In 1985 the ratio worsened somewhat, but there still remained a clear net benefit.

Need for Consolidation and Reform

Given the unsatisfactory overall cost-benefit balance for Greece, the question arises as to its causes and the effects it may have on reform of the Community currently under discussion. The following points are of particular importance in this context:

□ Countries such as Greece obviously have too much ground to make up in terms of development for them to gain from an opening of markets *per se*. Liberalisation and the freeing of market forces are damaging if they are not accompanied by active EC structural aid programmes to assist the weaker countries. Such aid in the form of financial transfers is insufficient if it does not even equal the country's trade losses, as in the case of Greece. (Similar trends also seem to be emerging in the trade of Spain and Portugal.)

□ The continued inadequacy of financial transfers from the EC is due to the well-known problem that agricultural expenditure constitutes too large a share of total EC spending, so that too few resources are left for structural policies (Guidance Section of the EAGGF, the Regional Fund and the Social Fund). In addition, the new member countries are adversely affected by the structural flaw in agricultural policy, whereby financial support goes mainly to agricultural products from northern and central Europe while Mediterranean products receive far less assistance. The Common

Agricultural Policy pays no heed to the comparatively low level of development of countries such as Greece.

□ The inadequacy of the Regional Fund's resources shows that up to now the economically stronger EC countries have not been prepared to transfer resources on a sufficient scale to tackle the Community's regional problems, thereby acknowledging that the sacrifice of some of their own growth would, as it were, be the price to pay for the benefits they derive from the dismantling of tariff barriers.

□ The example of Greece also demonstrates that the EC's budget problems lie primarily on the expenditure side and not on the revenue side; Greece's budget contribution broadly corresponds to the country's economic strength. Greece is disadvantaged in regard to expenditure mainly because the allocation of agricultural funds is determined not by a country's economic capability but by the scope of existing Community policies for agricultural products. The transfer of EC budget resources to less developed member countries is correspondingly limited.

□ Given the smallness of the net financial transfers it receives from the EC by comparison with its losses on the trade front, Greece has a strong case for demanding increased financial resources, a line the Greek Government is pursuing. The Community's Integrated Mediterranean Programmes are a step in the right direction, albeit still a modest one. On the other hand, it should also be borne in mind that Greece joined the EC at a time when the country was passing through an economic crisis. Its declining competitiveness was not the main cause of Greece's trade deficits with the EC from 1981 onwards, but it should be obvious that the Greek Government must make considerable efforts of its own to improve the international competitiveness of the Greek economy.

□ Reorganisation of the EC budget and the focusing of resources on an effective structural policy to aid disadvantaged and backward regions are urgent prerequisites for the reform of the Community and the completion of the internal market set out as objectives in the Single European Act. Budgetary expenditure for structural purposes should no longer merely compensate countries like Greece for the costs of economic liberalisation but should set real improvements in train. It must be obvious that a consolidation of the enlarged EC is indispensable in this regard. A further enlargement of the Community to include Turkey would make this urgent task much more difficult. The reservations about Turkish entry become all the more credible the more energetically the Community presses ahead with reform and consolidation.