

## BUDGETARY FEDERALISM: FINANCIAL RELATIONS OF THE NETHERLANDS

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### 1 Introduction

The Kingdom of the Netherlands comprises three countries: the Netherlands in Europe, the Caribbean group of islands of the Netherlands Antilles, and the island of Aruba, which has a *status aparte* within the Kingdom. The Netherlands Antilles, for their part, comprise five insular land territories: Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten. Politically, relations between the Kingdom and the three countries show signs of federalism; they have been laid down in a Charter for the Kingdom. The Charter also establishes the financial relations between the Kingdom and its parts, at least, it gives an outline.

The Netherlands, the former colonizer and the largest of the three countries comprising the Kingdom, has no federal structure itself. Its form of government is the decentralized unitary state. Legislative and administrative powers have been left to provinces and municipalities, whose history is longer than the Dutch national history.<sup>1</sup> According to the Dutch Constitution, the financial ratio between provinces and municipalities on the one hand and the state on the other must be established by law. The Constitution also prescribes, that the question which taxes may be levied by provincial and municipal administrations is laid down by law.<sup>2</sup>

The Kingdom of the Netherlands is a party to the Treaties establishing the European Community, which is an international organization, and creating a European Union, which is a confederate cooperation of 15 European countries. European Community membership and the European Union commitments primarily apply to the Netherlands: the Netherlands Antilles and Aruba are bound on the basis of association only. The Netherlands' financial contributions to the European Community and the European Union are substantial. Decisions with regard to the nature and amount of these payments are made both on a national and a European level.

This article compares financial relations within the quasi-federative Kingdom of the Netherlands to the financial relations which exist within the decentralized unitary state of the Netherlands. These relations are also compared with the financial relations between the Netherlands and the European Community. The purpose of this is to establish how the power of the various administrations as regards budgetary and financial matters, relates to the structure of the various political levels.

In this framework attention will be paid to the following questions:

- Who in the various structures establishes the budget of revenue and expenditure?
- Who in the various structures is authorized to execute expenditure?
- What do the own resources of the various administrations consist of?

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1. The plural in 'Kingdom of the Netherlands' does not refer to the three countries which now comprise the Kingdom, but to the formerly autonomous Dutch provinces, joined together in a confederacy until 1795.

2. Article 132, paragraph 6, of the Constitution.

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- On which levels are taxes being levied?
- To what degree do the various governments monitor each other financially?

## **2 The Kingdom of the Netherlands**

### *2.1 The budgets of the countries of the Kingdom*

With regard to the financial relations *between* the three countries of the Kingdom, autonomy of the parts is taken as the starting-point. In principle, the Netherlands, the Netherlands Antilles and Aruba independently manage their own affairs, including their finances. The Charter for the Kingdom establishes only those financial matters which can be considered to be affairs of the Kingdom. Financial relations *within* the countries are based on the Dutch Constitution, the Constitution of the Netherlands Antilles, and the Constitution of Aruba, respectively.

The result of this system is, that the Kingdom has no budgetary authority. Each of the countries establishes, according to its own accountancy rules, a budget of revenue and expenditure. These rules differ little, anyway, not only because the underlying principles of the Dutch Constitution and the Constitutions of the Antilles and Aruba are the same, but also because the Government Accounts Acts of the Netherlands Antilles and Aruba have been modeled on the Dutch Government Accounts Act.

#### **2.1.1 The Dutch budget of revenue and expenditure**

The Dutch Budget Authority is the national legislator, i.e., the government and the Chambers of Representatives together. The Dutch government is made up of the King and the ministers. Parliament, called the States General, consists of an Upper Chamber and a Lower Chamber. The proposals for a budget act are presented by the Minister of Finance on the third Tuesday in September. This budget of the Netherlands, the nation, is confusingly called *Rijksbegroting* (i.e. Budget of the Kingdom), and is divided into one or more proposals per ministerial department, which will be discussed separately, first by the Lower Chamber and then by the Upper Chamber. The Lower Chamber has the right to amend, the Upper Chamber can only accept or reject the budget.

The legislator does not always manage to establish the Budget before the beginning of the financial year. This is seldom caused by differences of opinion between the government and the parliament, but it is usually due to the extent of the parliamentary procedure. After its annual General Debate regarding the total of the Budget, the Lower Chamber usually adopts various, though generally small amendments per budget. Constitutionally, the Lower Chamber is at complete liberty how to amend the budgets. It seldom happens that the total of the amendments leads to a lower level of expenditure. Formally, the amounts established are maximum amounts, however, in practice the Chambers big-heartedly cooperate in creating supplementary budgets, even after the expenditure has actually been made. Budget acts have not been rejected since 1919.

One part of the *Rijksbegroting* is the budget of Kingdom Relations, managed by the Minister of Home Affairs and Kingdom Relations. It contains the Dutch

expenditure for the benefit of the relations with the other parts of the Kingdom. Part of this expenditure results from Article 43 of the Charter, which requires that each country shall take care of realizing fundamental human rights and freedoms, legal certainty and the good quality of government. Guaranteeing this is a matter of the Kingdom, so the Charter expressly says. This budget is concerned with expenditure for police cooperation, law enforcement and the coastguards on Aruba and the Netherlands Antilles, budgeted for about 15 million euro for 2002<sup>3</sup>.

A second category of expenses for the benefit of Kingdom matters is of a slightly different nature and, therefore, included in an other chapter of the Dutch budget. The King, in accordance with the Charter, governs the Kingdom and each of its countries, but is represented by a Governor in the Netherlands Antilles and Aruba. The Netherlands finances the office bureaus of the Governors of the Netherlands Antilles and Aruba.

Besides expenditure for Kingdom matters, the Netherlands gives aid and assistance for the promotion of the autonomy of the Kingdom partners. This kind of mutual aid and assistance, which the Charter requires of the other countries in the Kingdom as well, focuses primarily on the realization of sound public finances in the various countries<sup>4</sup>. In her annual speech before the Dutch parliament, in the framework of the opening of the parliamentary year, the Queen formulated this as follows: "The Netherlands Antilles, with the help of the IMF, is working at a lasting social and economic recovery. The Netherlands is actively contributing to this. In Aruba, balanced development of public finances requires permanent attention." The Dutch contribution to the overseas developments has been budgeted for some 100 million euro in the 2002 Budget and is taking shape in various cooperative programs.

Finally, part of the Budget is allocated for a fund for the benefit of the enforcement of a proper level of administration in the insular land territories of Bonaire, Saba and Sint Eustatius. This so-called *Solidariteitsfonds* (Solidarity Fund), required by the Charter in so many words, was called into being after Aruba, which is relatively prosperous, managed to get a *status aparte* within the Kingdom in 1986.<sup>5</sup> The Netherlands Antilles, the Netherlands and Aruba each contribute to this fund. In this way, the deficits of the aforementioned insular land territories are prevented from being at the expense of Curaçao and Sint Maarten.

### 2.1.2 The budgets of the Netherlands Antilles and Aruba

Apart from having their own governments, both the Netherlands Antilles and Aruba have a parliament of their own, called the *Staten*. The government, with the

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3. The assumption that the coastguard is a matter of the Kingdom, is being disputed by the Netherlands Antilles and Aruba. The Council of State of the Kingdom, the highest advisory body, has also judged that the base for taking measures relating to the coastguard should be found primarily in Article 38 of the Charter. This means that taking such measures is not appropriate for the bodies of the Kingdom, but that a joint arrangement between the countries will be necessary.

4. Article 36 of the Charter.

5. Article 36a of the Charter.

Governor acting as the representative of the King, and the *Staten* make up the legislator, responsible for establishing *landsverordeningen* (i.e. Acts of the Netherlands Antilles and Aruba). These Antillean and Aruban acts are equivalents to Dutch acts. The Constitutions of the Netherlands Antilles and Aruba stipulate that the budget shall be established by law, which makes the government and the *Staten* the common budget authority.

In both countries, government presents a draft budget to the *Staten* each year. The budget of the Netherlands Antilles is presented no later than the second Tuesday in September, the final date for the Aruban budget to be presented is September 1st. Officially, the *Staten* have the authority to modify the budget, however, in practice there appears to be relatively little room for it. Not only does a large part of the expenditure result from commitments already adopted, the Government Accounts Acts of the Netherlands Antilles and Aruba also require that the budgets be balanced. Such a legal obligation does not rest with the Dutch budgetary authority.

Besides expenditure intended for the country's own matters, the budgets of the Netherlands Antilles and Aruba contain items for Kingdom matters as well. The Charter<sup>6</sup> requires that the Netherlands Antilles and Aruba contribute, in accordance with their means, towards the expenses involved in defending the Kingdom and maintaining its independence, as well as towards the expenses involved in taking care of other Kingdom matters as far as this care is intended to benefit these countries. All in all, there is little difference between expenditure for own matters and for Kingdom matters; the Antillean and Aruban expenditure for the Kingdom will usually benefit their own countries, and staff expenditure of the two countries for the organization of the Kingdom is limited.

The budgets of the Netherlands Antilles and Aruba do include the expenditure for the ministers plenipotentiary, one for each country, who represent the governments of these countries in Kingdom matters. Together with the fifteen (Dutch) Ministers appointed by the King, they make up the Council of Ministers of the Kingdom. Anyway, their say in this Council is quite limited. There is no separate Kingdom parliament; the Dutch States-General function as such in Kingdom matters.

Besides Kingdom matters, there is a category of "matters of cooperation", existing on the basis of a cooperative arrangement made between the Netherlands Antilles and Aruba. As a result of this arrangement, which is an example of a joint arrangement between the countries based on the Charter<sup>7</sup>, Aruba and the Netherlands Antilles regulate certain matters together or in a uniform way. The financial and budgetary consequences of this cooperation are small: its main purpose is to bring about legal and administrative uniformity. Expenditure is made for the aforementioned Solidarity Fund, but the resources of the Netherlands Antilles and Aruba may not be sufficient for them to be able to make the compulsory payments. It has been agreed that, in that case, the Netherlands will help out.

In practice, presenting and establishing the budgets of these countries in time has proven to be quite a job, particularly as far as the Netherlands Antilles are concerned. The complicated internal structure of the Antilles is a contributing factor

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6. Article 35 of the Charter.

7. Article 38 of the Charter.

to this problem. The presentation and establishment of the budget of the Netherlands Antilles partly depend on the question whether the budgets of the insular land territories have been presented and fixed in time. Partly as a result from conditions to be discussed below, these budgets invariably show large deficits, which subsequently have to be eliminated from the Antillean budget, whether or not with the help of the Solidarity Fund<sup>8</sup>. These problems regarding content are not the only causes of the delays, though; budgetary discipline as such seems to have room for improvement as well.

## 2.2 *Revenue and expenditure of the countries of the Kingdom*

The authority to execute expenditure for the purpose of implementing their budgets belongs to the governments of the various countries of the Kingdom. Adoption of the budget should be regarded as an authorization to the governments to execute expenditure. If there is no such authorization, the Government Accounts Regulations of the various countries offer an interim regulation to the effect that execution of expenditure may temporarily be based on the previous budget. Both the Netherlands Antilles and Aruba have to make use of this provision frequently and even, sometimes, for a long time, and every now and then the Netherlands also need resort to this possibility.

The items of revenue can be grouped in various categories. Major sources of income are resources from taxation and from money loans. Additional revenue can result from fees, participation in company profits, revenue from state property, etc. Authorization to receive these revenues does not spring from the budget. Authorization to collect taxes is based on the act or *landsverordening* by which that tax is imposed. Contracting loans requires a specific authorization by act or *landsverordening*, and the chamber of representatives needs to be notified about the founding of or participation in a legal person governed by private law. On the basis of this notification, the parliament can enforce authorization by act or *landsverordening*, if necessary.

Concerning the contracting or guaranteeing of loans outside the Kingdom, there is an additional condition that decisions about them must be taken in harmony with the wishes of the Kingdom government. The government of the Kingdom has to assess whether Kingdom interests are compatible with these decisions. If so, the Council of Ministers will have to agree with the plan.<sup>9</sup> It goes without saying, that this provision rather affects the power of decision of the Netherlands Antilles and Aruba than it affects the Dutch say, because of the origins of the Council's Ministers and because of the judicial and actual relations within the Kingdom.

Similar conditions apply with regard to entering into economic or financial agreements. If the governments of the Netherlands Antilles or Aruba want to

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8. According to Article 110 of the Netherlands Antilles Insular Land Territories Regulation, deficits on the budgets of Bonaire, Saba, Sint Eustatius and Sint Maarten must either be approved by act of the Netherlands Antilles or altered in such a way that the altered balance brings about a balanced island budget.

9. Article 29 of the Charter.

conclude such an international treaty, only for their own country, the Kingdom government will cooperate, unless this is incompatible with the country's alliance within the Kingdom.<sup>10</sup> Conversely, the King will not bind the Netherlands Antilles and Aruba to such a treaty if the country's government, indicating the grounds on which it expects adverse consequences for the country, has declared that the country should not be bound. The same goes for the annulment of financial treaties, unless the treaty's provisions do not allow that the Netherlands Antilles or Aruba are excluded from annulment.<sup>11</sup>

The position of the insular land territories is striking, in particular the distinction made between Curaçao on the one hand and the other islands on the other. Curaçao has the authority, based on the Netherlands Antilles Insular Land Territories Regulation (ERNA), to contract money loans independently, provided an island ordinance provides a base for this. Curaçao even has the authority to contract loans outside the Kingdom, provided the Kingdom government agrees to this. Consequently, the powers of the *island* of Curaçao are comparable with those of the *country* of the Netherlands Antilles. The other insular land territories, on the other hand, are not allowed to contract loans at all, which largely explains their considerable budget deficits.

In the area of levying taxes, the semi-federal relation between Country and insular land territories leads to a rather complicated division of powers. An enumeration of the country's powers goes hand in hand with a certain financial autonomy of the various islands. According to Article 2(a) ERNA, the insular land territories bear *no* responsibility for legislation on many, specified taxes. The same goes for the levying and collecting of these taxes. On the other hand, the insular land territories have the exclusive right to levy surtax, as well as taxes that have not been listed. Besides, the country's legislation on some direct taxes can only be modified after consultations with the governing bodies of the insular land territories.

On the basis of Article 89 of the Constitution of the Netherlands Antilles, proceeds from taxes and fees levied under an act of that country have to be transferred to the government of the insular land territories, in accordance with rules laid down by the Insular Land Territories Regulation, as far as this revenue is supposed to originate from the territory concerned. Article 86 ERNA interprets this stipulation in such a way that revenues from the indirect, specified taxes (import and export duties, value added tax, excise, etc.) go to the Country, but that the insular land territory of Curaçao should retain 50 percent of the proceeds from that island. It is the Governor of the Antilles who should determine the final amount of Curaçao's share. According to article 87 ERNA, the proceeds of the direct taxes (incomes and profits, land-tax, community charge) go to the various insular land territories, though 25 percent of the total proceeds from taxation on income and profits in Curaçao go to the Country. Such a compulsory payment does not apply to the other islands.

### 3 Local government in the Netherlands

#### 3.1 *The budgets of the local governments*

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10. Article 26 of the Charter.

11. Article 25 of the Charter.

Provinces and municipalities in the Netherlands, the country, adopt their own budgets. The Province Act and the Municipality Act, issued by the national legislator, provide budget rules which are largely identical. At a provincial level, the provincial council is the budgetary authority; at a municipal level, the local (or town) council is the competent authority. These bodies, directly elected by the inhabitants, are also responsible for the general provincial and municipal administrations, respectively, including provision of provincial and municipal bye-laws.

Budgets are laid down on the recommendation of the provincial and municipal executives, called *Gedeputeerde Staten* and Burgomaster and Aldermen, respectively. Members of the provincial executive and aldermen are elected by and from the representative bodies.<sup>12</sup> The adopted provincial budget has to be sent to the Minister of Home Affairs not later than 15 November of the year preceding that in which the budget is to be implemented. The municipal budget has to be sent to the provincial executive, supervisor of municipal finances since days of old, also before 15 November.

Provincial and local councils see to it that their budgets are balanced, at least in the longer term. Items of expenditure in the budget are those deemed necessary for the implementation of provincial or municipal responsibilities and activities, including contingencies. Compulsory expenditure such as interest on and repayment of money loans and other payable debts, as well as expenditure imposed by or under the law or resulting from enforced cooperation in implementing laws, must also be included. Should these items have been omitted, they will be included in the budget by the aforementioned supervisors. Should the resources insufficiently cover the compulsory and incidental expenditure, the supervisors will decrease the amount for contingencies or, if necessary, the non-compulsory expenditure.

If the Minister of Home Affairs is of the opinion that a provincial budget is not balanced, and in the coming years it is not likely to be balanced either, this Minister has to approve the budget explicitly. If a budget has not been presented in time or if the account has been laid down late or shows a deficit, the Minister's approval may also be required. The same rules apply to the municipal budgets, which have to be approved by the provincial executives. Approval can only be refused if it would be contrary to the law or the general financial good. This specific form of approval has taken the place of the integral, ex-ante supervision that used to be exercised on provincial and municipal finances.

Their budgets are binding on the provincial and municipal governments; expenditure may not exceed the amount budgeted for that particular purpose. The provincial and municipal executives are responsible for the concrete implementation of the respective budgets. Each item of expenditure based on a budget which has not yet been approved needs permission from the supervisors mentioned above, unless exemption from this obligation has been granted for certain items and up to a certain amount of money. Urgent expenditure can be decided on without previous approval of the budget or the budget modification, provided this decision is sent to the

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12. In the near future, the Municipality Act will allow the councils to appoint aldermen who were not elected council members.

supervisor right away. If, however, the budget or a modification of the budget is not approved, the provincial or municipal council members that have lent their services to the decision, may be held liable towards the municipality. So far, this has never happened in practice.

### 3.2 *Revenue and expenditure of the local governments*

Provincial and municipal expenditure may result from the local authorities' autonomous responsibilities, i.e., responsibilities considered necessary in the framework of their 'own housekeeping', but also from obligations imposed by higher governments (joint government). Legally, the distinction between autonomy and joint government may lead to different types of expenditure, e.g. compulsory or non-compulsory expenditure, but it also affects the revenues.

On the basis of the Financial Relations Act, provinces and municipalities receive general payments from the funds for provincial and municipal financing. These funds make up a separate part of the *Rijksbegroting*. Every year, an amount of state resources is set apart for these funds. In the year 2002, fund resources amount to over 1 billion (one thousand million) euro for the benefit of the provinces and 12 billion euro for the municipalities.<sup>13</sup> These amounts of money are distributed among the provinces and municipalities, their possible own revenues and the differences in necessary expenditure taken into account. To this end, the law provides some criteria relevant to the distribution.

The general payments go to the provincial or municipal public resources, so they can be spent freely. If the municipality's own revenues are at an acceptable level, but its public finances are considerably and structurally deficient when it comes to satisfying basic needs, supplementary benefits can be applied for and granted. This usually involves additional conditions, such as all kinds of precautionary supervision by the administrators of the fund for municipal financing: the Ministers of Home Affairs and Finance. Combined with the precautionary supervision by *Gedeputeerde Staten* as stipulated in the Municipality Act, the imposed conditions can restrict the municipality's elbowroom drastically.<sup>14</sup>

The funds for local finances may temporarily pay out specific sums, which also go to the provincial or municipal public resources. Besides, payments by or under the law can be made for covering provincial or municipal specific costs, usually relating to stipulations laid out at a higher level and which have to be implemented by provinces or municipalities. In general, provinces and municipalities have little scope for policy-making when spending these resources.

Apart from the resources granted by the national government, provinces and municipalities have limited own resources, to be divided into resources from fees (levies and duties) and from taxation. The Province Act and the Municipality Act list the taxes that may be levied by the sub-national governments. Provinces and

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13. There are 12 provinces and, for some time now, less than 500 municipalities in the Netherlands. In the near future, municipal re-division will further reduce the number of municipalities.

14. The number of municipalities using this facility has dropped from nearly 20 to 5 in the past 10 years.

municipalities are not allowed to levy taxes not included in these lists, unless other acts expressly offer a base for this. By bye-law and within the boundaries of the law, the provincial and municipal councils, who are also the provincial and municipal budgetary authorities, determine the chargeable event, the taxable amount, and the tax rate. One condition is, that rates may not be made subject to the taxpayer's income, wealth or profit.

In 2002, 37% of the municipal revenue will be made up by municipal fund payments, and 46% by all kinds of specific payments. It should be noted, that the share of the general payments has gradually increased since 1986. Duties and taxes make up the remaining 17%. At a provincial level, the percentages amount to 35 (Provinces' Fund), 38 (specific payments) and 27 (duties and taxes), respectively. The share of the general payments from the Provinces' Fund has shown an increase as well, at the expense of the specific payments. The share of provincial taxes has also gone up considerably.<sup>15</sup>

Provinces and municipalities send their decisions regarding the contracting of loans, the lending of money and the issuing of guarantees to the supervising Minister and to *Gedeputeerde Staten*, respectively.<sup>16</sup> Obligatory approval as it used to exist, has expired; consequently, financial freedom of the sub-national authorities has increased in this area as well. Financial crashes, both at a provincial and a municipal level, have raised the question whether this freedom may have been granted too easily. Consequently, recent proposals modifying the Municipality Act include various measures to improve financial supervision, for example by establishing local audit offices.<sup>17</sup>

#### 4 The Netherlands within the European Community

##### 4.1 *The budget of the European Community*

On the European level an annual budget is laid down, which has to include all items of revenue and expenditure of the European Community. Administrative expenditure occasioned for the Community institutions by the provisions of the Treaty on European Union will also be charged to this budget. This concerns expenditure executed by these institutions to facilitate the common foreign and security policy of the 15 Member States (the so-called second European pillar) and to facilitate cooperation in the fields of justice and home affairs (the third pillar). Policy expenditure for the implementation of this Treaty is only partly charged to the European budget. The other part is financed on the basis of a distribution code and is

15. Annexes to the budgets of the Provinces' Fund and the Municipalities' Fund for the year 2002, parliamentary documents 28000, chapters B and C, nos. 2.

16. The Financing of Local Authorities Act provides further details.

17. In 1999, the province of Zuid-Holland reached an administrative crisis when Ceteco, a company to which the province had lent a considerable amount of money, went bankrupt. The municipality of Rotterdam was for a long time faced with former burgomasters' and aldermen's behavior regarding the claiming of expenses.

charged to the accounts of the Member States.<sup>18</sup>

The procedure to adopt the European budget is rather complicated. The budget's coming into being requires the Commission as well as the Council and the European Parliament to be involved, however, the latter two bodies actually make up the budgetary authority. The Commission consists of independent members, appointed by the Member States' governments by common consent, and its responsibility has been restricted to drawing up a preliminary draft budget. After that, acting by a qualified majority, the Council, in which each Member State is represented by a Minister, establishes the draft budget and places it before the European Parliament.<sup>19</sup>

The European Parliament's approval of the draft budget shall have the effect of the budget standing as finally adopted. However, the European Parliament may decide to 1) modify the draft budget by way of amendments, or 2) propose modifications with regard to the so-called compulsory expenditure. In either case the draft budget will be returned to the Council. The Council may, acting by a qualified majority, overrule any of the amendments adopted by the European Parliament by modifying them. The Parliament in turn may amend or reject these modifications, provided it acts by a majority of its Members and three-fifths of the votes cast. Accordingly, the European Parliament eventually decides on the level of non-compulsory expenditure.

The Council's powers with regard to the parliamentary proposals modifying the compulsory expenditure are dependent on the question whether or not these proposals will lead to an increase in expenditure. If there is no increase in expenditure, the Council can only reject the proposed modifications acting by a qualified majority. Where, on the other hand, the proposed modifications have the effect of increasing the amount of expenditure, the Council has to act by a qualified majority accepting the proposals, if they are to modify the budget. The European Parliament has no authority to overrule the Council's judgement with regard to the compulsory expenditure, apart from the power to reject the draft budget completely, if there are important reasons. This is only possible if its Members act by a majority and two-thirds of the votes cast.<sup>20</sup>

A typical feature of the procedure is that establishing the budget is part of a more comprehensive set of decision-making regarding the finances of the Community and the Union, both on a national and a European level. The financial frameworks concerning budgetary decision-making have, to a large extent, already been determined before the reading of the draft budget. Firstly, the scope of decision-making has been curtailed as a result of the stipulation that the budget should be balanced.<sup>21</sup> Secondly, prior to establishing the budget, both the revenue and the expenditure of the Community are limited, which considerably reduces the elbowroom of the bodies involved.

The Commission, responsible for the budget's preparation and implementation,

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18. See Article 28 of the Treaty on European Union.

19. Cf. Article 205 of the EC Treaty.

20. This possibility was made use of with regard to the 1980 and 1985 draft budgets and the 1982 draft supplementary budget.

21. Article 268 of the EC Treaty.

annually fixes a maximum rate of increase in relation to the expenditure during the current year for the non-compulsory expenditure (expenditure not necessarily resulting from the EC Treaty). This maximum rate can only be increased by agreement between the Council and the European Parliament. Besides, the annual budgetary expenditure has to stay within the long-term limits established by the European Council in the so-called Financial Perspective. The maximum amount of expenditure for the years 2000-2006 has been fixed at 1.27% of the Member States' collective gross national product.<sup>22</sup> Just as on previous occasions, the European Parliament, by inter-institutional agreement, has conformed to this expenditure framework.

The Financial Perspective is in turn related to the Community resources, as laid down in a so-called decision on own resources. Before it can enter into force, such a Council decision has to be approved by the Member States in accordance with their national provisions. Since the budget, without prejudice to other revenue, is completely financed from the Community's own resources, the European budgetary authorities are bound to act within the limits of these appropriations.<sup>23</sup>

#### 4.2 *Revenue and expenditure of the European Community*

European expenditure can be separated into European Community expenditure and expenditure based on the Treaty on European Union, as mentioned before. Community expenditure can in turn be divided into some main categories. The physical expenditure of the Community largely focuses on realizing the common agricultural policy. For the greater part, this is expenditure necessarily resulting from the EC Treaty and from decisions implementing the Treaty; for that reason, they are referred to in the Treaty as compulsory expenditure. Currently, almost 50% of the budget is spent to the advantage of agriculture.

A second category of physical Community expenditure results from so-called structural policies based on Structural and Cohesion Funds, e.g. the European Social Fund and the European Regional Fund. Before the introduction of an integral budget for the European Community, these funds were fed separately, however, they have been regular parts of the budget since. These structural policies involve an amount of over 30 billion euro, which is about 30% of the total budget. The remaining 20% go to administrative expenditure, reserve funds, pre-accession support to future Member States (Candidate Countries) and expenditure for internal and external policy.

For the financing of this expenditure the Community has own resources at its disposal that can be divided into four main categories. This concerns Member States' payments based on 1) levies in the framework of the common agricultural policy and 2) import duties collected at a national level (together amounting to approximately 15%), and payments related to 3) the value added tax (about 36%). The fourth source of income is the financial contribution paid by the Member States

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22. This expenditure rate equals the maximum ceiling of own resources laid down for the years 1995-1999.

23. Article 269 of the EC Treaty.

on the basis of their gross national product. This contribution has been introduced last, however, it is the largest source of Community revenue (approximately 48%). All in all, the Dutch contribution to EC revenue has amounted to 6 billion (6 thousand million) euro. Estimated EC-expenditure in the past few years to the advantage of the Netherlands amounts to approximately 2 billion Euro.<sup>24</sup>

Direct taxes are not levied from the Member States' citizens. Recent suggestions by some prominent European politicians that the time would be ripe to introduce European taxes, has not been met with great enthusiasm in the Member States. Organizational improvement of the Community and the Union and strengthening of the (democratic) controls on the European flows of money seem to be crucial for imposing such burdens.<sup>25</sup> As long as parliamentary involvement in laying down European rules is limited and the Court of Auditors can not give a discharge in respect of the European Community annual accounts, a cautious policy is appropriate here.

## 5 Conclusions

The Netherlands, the country, is part of two federal systems that are quite different. The Kingdom of the Netherlands is a paper edifice without official organization and without financial resources. A federal budgetary authority is missing. Besides, the set of tasks appointed to this 'federation' is very limited. The Kingdom is primarily a complex, mainly intergovernmental decision-making model which covers matters that concern the Netherlands as well as the Netherlands Antilles and Aruba.

The European Community, on the other hand, is a complex organization with far-reaching powers in the fields indicated in the Treaties by the Member States. Its government and decision-making are featuring both intergovernmental and supranational elements. For the implementation of the responsibilities it has been charged with, the 'federation' has a resource fund the size of which is determined by its Member States. However, distribution of the resources on hand is predominantly a supranational matter, for which a European budgetary authority has been created.

The Dutch position in the one cooperative structure is quite different from its position in the other, if only because of the size of the country. Both models assume equality of the composing parts, however, on the administrative level the bigger countries have a much stronger position than the smaller ones. These differences as to strength are expressed in the decision-making procedures. Within the Kingdom, the Netherlands is the big brother; within the European Community it is rather a paragon of virtue.

In both federative organizations the Netherlands is a major financier. Deficits of the smaller partners within the Kingdom are made up by the Netherlands. In the EC-

24. 'Memorandum on the condition of the Kingdom's finances', a memorandum by the Minister of Finance, dated 19 September 2000, Annex 9, and 'The state of the European Union', a memorandum by the Minister of Foreign Affairs, dated 18 September 2001, Chapter 4.

25. In 2001 the European Commission reclaimed about 200 million euro from the Dutch state because of the incorrect use of ESF-payments. Negotiations are going on between the Commission and the Netherlands about the amount of the reimbursement.

context, the Dutch payments are in proportion, but the revenues it receives are not. This leads to the conclusion, that the main motive to participate in these organizations is not financial. Kingdom relations are the price the Netherlands has to pay to be able to deal with its colonial past, the EC-structure facilitates this relatively small nation's economic survival.

One would expect similarities between the ways in which the political relations between the Netherlands and the overseas territories, on the one hand, and the administrative relations between the Netherlands and its sub-national authorities, on the other, have been shaped. Nothing could be farther from the truth. Provinces and municipalities have an administrative autonomy of their own, within the boundaries set by law and Constitution, but financially they are completely dependent on the central government. The scope of the available resources is determined on a national level; the local authorities have no authority over it. However, they do have a say in the spending of the resources; to this end, there are provincial and municipal budgetary authorities.

In this respect, transfer of power to local authorities is to a large extent similar to the assignment of powers to the European Community. The European administrative bodies also have a certain autonomy within the limits of the Treaties and the available resources. The structures chosen for the financing of both the local authorities and the European Community are similar, viz. funds fed by national resources, but with a separate management for the spending of the resources.

In the political organizations mentioned above, the Netherlands has certainly not completely handed over the financial reins. In a period of ongoing internationalization and decentralization, the nation-state appears to be the pivot. The fact that the wagons in which the Netherlands is riding not always head for the right direction, is obviously unavoidable. That direction is subject to far more factors than the way in which a certain political organization has been shaped and the financial relations established in that organization.

The conclusion that can be drawn is that terms such as federation or unitary state are general characterizations of political relations, which do not say much about the way in which decisions are taken, financial decisions in particular. The ways in which the Dutch state has a say in the organizations in which it participates, vary. However, there are some remarkable constants in this variety:

1. No matter the chosen structure, all governments with which the Netherlands is united in a political organization have an obligation to balance their budget, except the Netherlands itself.
2. The Dutch budget makes no distinction between legally compulsory and non-compulsory expenditure,<sup>26</sup> whereas such a distinction is essential in the European and decentralized budgets.
3. Specific payments from the Dutch national government are increasingly giving way to general payments, allowing the receiving partners (EC, provinces and municipalities) more freedom of policy.

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26. In its first Constitutions (1814 and 1815) the Netherlands knew this distinction. It was abolished in 1840.

WARMELINK

4. The right to impose direct taxes on citizens in the several organizations is reserved to the Dutch state.