V. Europe and the impact of austerity on military expenditure

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As a result of the global financial and economic crisis that started in 2008, budget deficits soared across most of Europe, and in 2011 discussions on military expenditure in Europe were dominated by the impact of the austerity measures enacted by governments in an effort to reduce these deficits. On the one hand, acute debt crises in Greece, Italy and Spain have led to the imposition of particularly severe austerity measures—with major cuts to public spending and increases in taxation—in some cases as a condition of international bailout packages. On the other hand, countries such as the United Kingdom that have not faced such imminent debt problems have also cut public spending, based on the belief that reducing deficits is the overwhelming economic priority following the crisis.

Total military expenditure in Europe in 2011 was, however, essentially unchanged in real terms compared with 2010, at $407 billion. A small reduction of 1.9 per cent in real terms in Western and Central Europe was offset by a 10.2 per cent real increase in Eastern Europe.

The rise in Eastern Europe comes from increases in Russia and Azerbaijan. Russia returned to its long-term trend of rising military expenditure, after a brief dip in 2010. An increase of 9.3 per cent in real terms took Russian military spending to $71.9 billion in 2011, meaning that Russia overtook the UK and France to become the world's third largest spender. Russia plans continued increases in military spending; its draft budget plans include an increase in national defence spending of 53 per cent in real terms between 2011 and 2014.[1] The State Armaments Programme for the period 2011–20—which covers arms procurement and research and development (R&D)—is expected to cost over 20 trillion roubles ($650 billion), with the aim of replacing 70 per cent of Russia's mostly Soviet-era military equipment with modern weaponry by 2020.[2] The planned spending includes 700 billion roubles ($31 billion) for the Russian military–industrial complex to update its equipment and technology.[3] Meanwhile,

[1] Cooper, J., 'Military spending in the Russian federal budget, 2010–2014', Research note, 12 Aug. 2011, <http://www.sipri.org/research/armaments/milex/publications/unpubl_milex/>. SIPRI's figures for Russia also include military pensions, expenditure on paramilitary forces and estimates for a number of other small items.

[2] The precise total expenditure for the programme has not yet been determined, with different sources suggesting figures of 19-23 trillion roubles. E.g. Agence France-Presse, 'Putin outlines push for stronger military', *Defense News*, 20 Feb. 2012.

[3] Litovkin, D., 'Triumf and Tsirkon are going into the force: Deputy Defense Minister Vladimir Popovkin explained, how to rearm the army', *Izvestiya*, 11 Mar. 2011, Translation from Russian, Open Source Center.

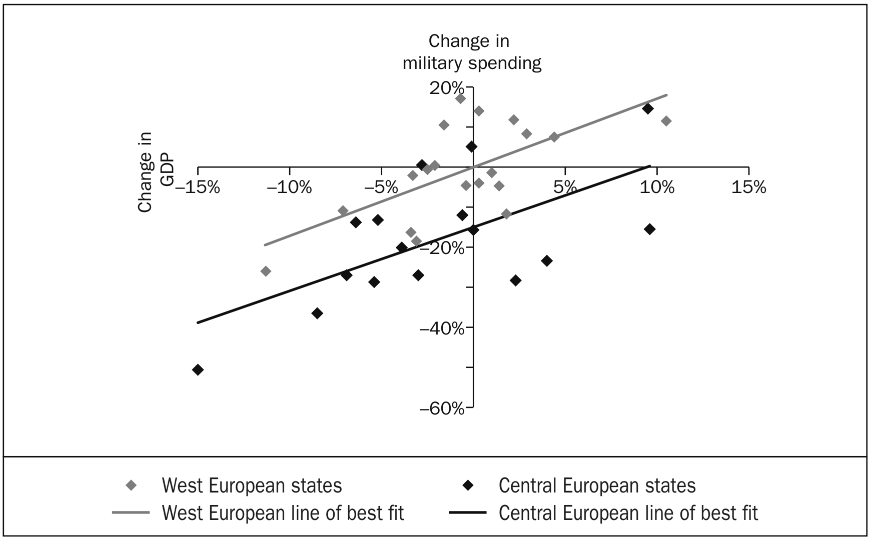

Figure 4.1. Changes in military spending versus gross domestic product, Western Europe and Central Europe, 2008–11

Note: Each country is represented by a point determined by its real-terms change in GDP (horizontal axis) and its real-terms change in military spending (vertical axis) between 2008 and 2011. The lines of best fit show the average relationship between the variables. In both Central and Western Europe, a majority of countries had falling military spending and a positive relationship between changes in the two variables. However, in Central Europe not only were the average falls in GDP higher, but the line of best fit is much lower. Thus, while a West European country with unchanged GDP would, on average, have had unchanged military spending, a Central European country with unchanged GDP would, on average, have cut its military spending by 15%.

Azerbaijan's increase of 89 per cent in real terms was the largest worldwide and took its military spending to $3.1 billion.[4]

Two-thirds of countries in Western and Central Europe have cut military spending since 2008. The size of these cuts shows, unsurprisingly, a strong relationship with trends in gross domestic product (GDP), which has generally fallen. Conversely, many of the countries that have increased military spending—notably Norway, Poland, Sweden, Switzerland and Turkey—have maintained economic growth through the crisis. Perhaps surprisingly, the relationship between changes in military spending and changes in either public debt or public sector deficits as a share of GDP has been much weaker. In comparison with West European countries, the falls in military spending in the former Communist states of Central Europe have been much larger, both absolutely and relative to their GDP growth rates; on average, Central European countries reduced spending by 15 per

[4] On arms acquisitions by Armenia and Azerbaijan see chapter 6, section IV, in this volume.

cent more than West European countries, given the same change in GDP (see figure 4.1).[5] The large falls in military spending in Central Europe followed a period of significant increases in military spending by many recent and aspiring members of the North Atlantic Treaty Organization (NATO), which proved unsustainable in the economic crisis. Nonetheless, a few Central European countries (Croatia, Romania and Serbia) are considering making large new purchases of combat aircraft.[6]

The three major spenders in Western Europe—the UK, France and Germany—have made only modest reductions in military spending since 2008, in each case by less than 5 per cent in real terms, although the 2011 figures for the UK are higher due to the cost of the Libya War, which had reached $340 million by September 2011.[7] However, the UK and Germany are planning further cuts: the UK by 7.5 per cent in real terms by financial year 2014/15 compared to financial year 2010/11 and Germany by around 10 per cent by 2015 compared to 2011. France is planning to maintain roughly constant spending in real terms up to 2013.[8]

The crisis countries of Southern Europe

Among West European countries, Greece, Italy, Portugal and Spain in Southern Europe and Ireland have been hardest hit by the economic crisis and have faced acute sovereign debt crises that have called into question governments' abilities to service or refinance their debts. Greece, Ireland and Portugal have required bailouts from the European Union (EU) and the International Monetary Fund (IMF), while rising yields on Italian Government debt—a measure of the perceived risk of lending to the country—contributed to the fall of the Italian Government of Silvio Berlusconi. These countries have introduced particularly severe austerity packages, either as part of conditions attached to bailouts or in order to restore lenders' con-

[5] Western Europe includes the 19 states Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Malta, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and UK. Iceland and Luxembourg are excluded due to lack of data. Central Europe includes the 16 states Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, FYR Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

[6] 'Croatian Gripen offer', *Airforces Monthly*, Dec. 2011, p. 13; 'U.S.–Romania F-16 talks snag', *Defense News*, 6 June 2011, p. 3; and Cvejic, B., 'Combat aircraft due in 2012', *Danas*, 22 Dec. 2011, Translation from Serbian, Open Source Center.

[7] Hammond, P., British Secretary of State for Defence, 'Delivering on the frontline: operational success and sustainable armed forces', Speech, Royal United Services Institute for Defence and Security Studies (RUSI), 8 Dec. 2011, <http://www.rusi.org/events/ref:E4EBAA415CBC7A>.

[8] British Treasury, *Spending Review 2010*, Cm 7942 (The Stationery Office: London, Oct. 2010); Loi de programmation des finances publiques pour les années 2011 à 2014 [Law on the public finance programme for the years 2011 to 2014], French Law no. 2010-1645 of 28 Dec. 2010, <http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000023310845>; and Muller, A., 'Germany to boost defense budget by 133m Euros', *Defense News*, 7 Sep. 2011.

fidence.[9] Spain's debt crisis has been less severe, but its economic situation is particularly dire, with unemployment at 22 per cent in January 2012. The Spanish Government has, like other countries, chosen to prioritize deficit reduction.[10] These austerity measures have included military expenditure; the cuts since 2008 of four of these countries—Greece, Ireland, Italy and Spain—were among the largest in Western Europe.

Greece

Assessing trends in Greece's military expenditure is complicated by the fact that the official defence budget does not include all military spending; in particular, military pensions are not included.[11] Figures published by NATO on the military expenditure of member states are more comprehensive, but at the time of writing were only available up to 2010, and the 2010 figure was an estimate that may have been superseded by budget changes.[12] SIPRI's figures for 2010 and 2011 are therefore estimates based on the trend in the defence budget.[13]

Greek military spending actually increased slightly in 2011, but this followed an exceptionally large fall—by almost one-third in real terms—in 2010, when the original budget was greatly reduced during the year. The defence budget for 2012 shows a further 16 per cent fall in nominal terms, with further cuts planned in coming years as part of the austerity package. Included are large cuts to wages and pensions, in common with all public sector employees.[14] The armed forces are also being restructured, with cuts in the number of troops and major equipment. Greece reduced the number of its troop deployed to NATO's Kosovo Force (KFOR) from 711 at the end of 2010 to 215 at the end of 2011.[15] Greece placed no new orders for major arms in 2011, but payments for previous large orders from France and Germany meant that spending on equipment as a share of total military spending spiked in 2009–10.[16] During 2011 there were discussions over the potential purchase of French frigates on a delayed payment basis, but no

[9] 'Timeline: the unfolding Eurozone debt crisis', BBC News, 13 Feb. 2012, <http://www.bbc.co.uk/news/business-13856580>.

[10] 'Spain's unemployment total passes 5 million', BBC News, 27 Jan. 2012, <http://www.bbc.co.uk/news/world-16754600>.

[11] This section does not take account of the effects of new austerity measures agreed by the Greek Parliament on 12 Feb. 2012.

[12] North Atlantic Treaty Organization (NATO), 'Financial and economic data relating to NATO defence', 10 Mar. 2011, <http://www.nato.int/cps/en/natolive/news_71296.htm>.

[13] SIPRI figures for Greece also include spending on the coastguard, which operates as a paramilitary force.

[14] 'Greek government austerity measures', BBC News, 19 Oct. 2011, <http://www.bbc.co.uk/news/business-13940431>.

[15] Athanasopoulos, A., 'Fewer generals and camps', *To Vima*, 5 Dec. 2010, Translation from Greek, Open Source Center; and SIPRI Multilateral Peace Operations Database, <http://www.sipri.org/databases/pko>. See also Valmas, T., 'Greece to reduce Kosovo force as budget cuts bite', *Jane's Defence Weekly*, 16 June 2010.

[16] North Atlantic Treaty Organization (note 12).

decision had been made by early 2012. In the long term, the 2011–25 Arms Procurement Plan has been reduced by 70 per cent in comparison with the previous 2006–20 plan.[17]

For a long time, Greece has had the highest military burden—military spending as a share of GDP—in the EU, driven by its long-running tensions with Turkey over Cyprus and maritime disputes in the Aegean Sea. The process of cuts to military spending has therefore been made easier by improved relations with Turkey, which announced a 'zero problems with neighbours' strategy in 2010 and removed Greece from a list of countries perceived as a threat. Renewed efforts have also been made to resolve the maritime disputes.[18] Greece's military spending cuts actually took its military burden below that of the UK in 2010, a trend that is likely to persist on the basis of current plans.

Italy

Italy's military spending is also less than fully transparent, in that it is distributed across different departmental budgets. Spending on overseas military operations (in Afghanistan, Kosovo, Lebanon and Libya) is approved by the Italian Parliament separately from the Ministry of Defence budget.[19] Over €1 billion ($1.4 billion) of additional military procurement and R&D spending each year is funded by the Ministry of Economic Development.[20] As was the case for Greece, NATO figures for Italy for 2011 were not available at the time of writing. SIPRI's estimate for Italian military spending in 2011 is thus subject to some uncertainty. Meanwhile, future trends can only be assessed on the basis of the portion of military spending covered by the defence budget.

With this caveat, SIPRI estimates a 16 per cent real-terms drop in Italian military spending between 2008 and 2011. Existing cuts have fallen heavily on operations and maintenance expenditure and were expected to require a freeze on recruitment in 2011.[21] However, despite new austerity packages passed in 2011, including a freeze in public sector wages, the Ministry of Defence budget will actually increase slightly in nominal terms up to 2014,

[17] Müller, A., 'Germany raps French warship deal with Greece', *Defense News*, 18 Oct. 2011; and Dimakas, L., 'An 11% reduction in defense expenditure during 2010', *Ta Nea*, 12 Apr. 2011, Translation from Greek, Open Source Center.

[18] See Perlo-Freeman et al., 'Military expenditure', *SIPRI Yearbook 2011*, pp. 173–76; and Bekdil, B. E. and Eginsoy, U., 'Turks, Greeks seek to end Aegean impasse', *Defense News*, 1 Nov. 2011, p. 11.

[19] Kington, T. 'Italian military hit by 10% budget cut', *Defense News*, 27 May 2010.

[20] D'Agostino G., Di Stefano, L. and Pieroni L., 'Is military burden a stimulus for economic growth? The case of Italy', Paper presented at the 15th Annual International Conference on Economics and Security, 15–16 June 2011; and Kington, T., 'Italy trims defense amid debt crisis', *Defense News*, 18 July 2011, pp. 1, 7.

[21] Kington (note 20); 'Italy's 2011 budget', *Il Foglio*, 23 Oct. 2010, Translation from Italian, Open Source Center; and Bassi, A., 'The Defense Ministry cuts recruitment to zero', *Milano Finanza*, 2 Nov. 2010, Translation from Italian, Open Source Center.

according to the three-year budget plan of October 2011.[22] On the other hand, a major cut of €1.9 billion ($2.6 billion) has been made to the Ministry of Economic Development budget up to 2014, although it was uncertain whether this would affect the military procurement and R&D component.[23] Italy also plans to reduce its overseas military operations, so overall military spending may fall.[24]

Spain

Spain's real-terms increase of 29 per cent in military expenditure over the period 2000–2008 was one of the biggest in Western Europe. However, between the onset of the crisis and 2011, military expenditure fell by 18 per cent and dropped to just 1 per cent of GDP—the third lowest military burden in NATO, after Luxembourg and Hungary.

One consequence of these cuts is that the Spanish Ministry of Defence is now unable to afford repayments of its €26 billion ($36 billion) debts to arms suppliers for 19 major military modernization programmes that were initiated in the 2000s. One temporary solution may be a restructuring of the debts, which the companies would manage by taking loans from the Ministry of Industry—effectively creating an indirect source of extra-budgetary military spending. The acquisition programmes were started during the period of economic growth and increasing military spending but arguably lacked clear strategic justification. Constantino Méndez, Spanish Secretary of State for Defence, admitted in October 2010: 'We should not have acquired systems that we are not going to use, for conflict scenarios that do not exist and, what is worse, with funds that we did not have then and we do not have now'.[25]

The implications of reduced spending

Current and impending military spending cuts have prompted unease in many quarters that European countries risk losing global influence as they fall further behind the United States in military capabilities, while rising powers such as China rapidly catch up and even overtake them. Perennial accusations of free riding on US military power have become more vocal on both sides of the Atlantic.

[22] Italian Ministry of Economy and Finance, 'Italy delivers', 15 Sep. 2011, <http://www.mef.gov.it/documenti/open.asp?idd=27880>; Italian Ministry of Economy and Finance (MEF), *Il budget dello stato per il triennio 2011–2013* [The state budget for the period 2011–13] (MEF: Rome, Oct. 2010), pp. 443–69; and Italian Ministry of Economy and Finance (MEF), *Il budget dello stato per il triennio 2012–2014* [The state budget for the period 2012–14] (MEF: Rome, Oct. 2011), pp. 435–63.

[23] Kington (note 20).

[24] Agence France-Presse, 'Italy to scale back overseas military operations', *Defense News*, 6 July 2011.

[25] Gonzales, M., 'Defense Ministry renegotiates debt of 26 billion that it cannot pay', *El Pais*, 13 Aug. 2011, Translation from Spanish, Open Source Center.

Most prominent among those raising such fears were the NATO Secretary General, Anders Fogh Rasmussen, and the US Secretary of Defense, Robert Gates. Rasmussen, speaking at the Munich Security Conference in February 2011, while recognizing the need for military spending to reflect economic realities, argued that 'Europe simply cannot afford to get out of the security business' and warned that failure to spend enough on the military would lead to a Europe that would be 'divided', 'weaker' and 'increasingly adrift from the United States'.[26] Gates, speaking in Brussels in June 2011, predicted a 'dim and dismal future' for NATO, with the USA losing interest in increasingly irrelevant European allies if the latter continue to reduce military spending.[27]

However, such views are not universally shared among commentators. One US political scientist argued that, far from free riding, European countries were making a rational strategic response in a 'golden age of peace and security', where threats are lower than in any previous era and the ability to achieve goals through military action severely limited; and that arguably, the adjustment was needed by the USA, where the extensive use of military power over the past decade had brought at best dubious results.[28] A similar case was made by a French commentator, who argued that strategic influence had little to do with the share of GDP devoted to military spending, that the threats and risks cited as a consequence of low military spending were generally vague, and likewise the concrete gains that can be made through military force are limited. However, he acknowledged a role for marine power in ensuring the maintenance of vital sea lines of communication, an interest shared by European and Asian states.[29]

Ultimately, the question of what level of military spending is appropriate for European states must come from an overall strategic assessment of what threats there are to security; to what extent military power is an appropriate and effective tool for meeting such threats; what sort of influence the EU, NATO and their member states are seeking to achieve; and in what ways military power can contribute to such influence. The economic crisis has certainly prompted such thinking in a number of

[26] Fogh Rasmussen, A., NATO Secretary General, 'Building security in an age of austerity', Keynote speech, 2011 Munich Security Conference, 4 Feb. 2011, <http://www.nato.int/cps/en/natolive/opinions_70400.htm>.

[27] Gates, R., 'Reflections on the status and future of the transatlantic alliance', Keynote speech, Security and Defence Agenda Conference, Brussels, 10 June 2011, <http://www.securitydefenceagenda.org/Contentnavigation/Activities/Activitiesoverview/tabid/1292/EventType/EventView/EventId/1070/EventDateID/1087/PageID/5141/Reflectionsonthestatusandfutureofthetransatlanticalliance.aspx>.

[28] Fettweis, C. J., 'Free riding or restraint? Examining European grand strategy', *Comparative Strategy*, vol. 30, no. 4 (2011).

[29] Le Guelte, G., 'Le budget d'armement, facteur de puissance?' [The arms budget, a determinant of power?], *Revue Défense Nationale*, no. 737 (Feb. 2011), pp. 23–34.

countries.[30] Meanwhile, the prospect of lower military budgets has led to renewed interest in greater European defence cooperation as a means of obtaining more capability for any given level of spending. Discussion within the EU has focused on the 'pooling and sharing' of capabilities, while NATO has promoted the concept of 'smart defence', which encourages more coordinated prioritization of capabilities and specialization by individual member states as well as greater cooperation through measures such as pooling and sharing.[31] The concept of pooling and sharing was launched at a meeting of EU defence ministers in Ghent, Belgium, in September 2010, where they agreed to draw up a list of suitable projects.[32] As with other European defence cooperation initiatives, questions remain about how far it can be taken given countries' concerns over preserving national sovereignty, but moves such as the major British–French Defence and Security Cooperation Treaty of November 2010 may indicate a greater degree of political commitment.[33] One commentator argues that pooling and sharing is most likely to succeed through promoting 'islands of co-operation' between small groups of like-minded countries on particular areas of defence, rather than attempting more wide-reaching cooperation across a larger 'core group' of EU members.[34]

However, the debate over what military forces, capabilities and levels of spending European countries actually need is strongly conflated with the question of transatlantic cohesion in the face of the spending gap between the USA and Europe. That this gap is the result of US increases, more than European decreases, is rarely highlighted, and the thought that the problem may come from the former rather than the latter is rarely mooted in senior policy circles.

[30] E.g. the UK's most recent strategic defence review was prompted by its budget crisis. British Ministry of Defence, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*, Cm 7948 (The Stationery Office: London, Oct. 2010). In 2011 the French Government also announced that a review of its 2008 Defence and National Security White Paper would take place in 2012. Guibert, N., 'La France va réviser sa stratégie de défense' [France will revise its defence strategy], *Le Monde*, 8 Sep. 2011.

[31] European Defence Agency (EDA), 'EDA's pooling and sharing', Fact sheet, 20 Jan. 2012, <http://eda.europa.eu/publications/12-02-01/Pooling_Sharing_fact_sheet>; and North Atlantic Treaty Organization (NATO), 'Smart defence', 8 Feb. 2012, <http://www.nato.int/cps/en/SID-AF04C059-D03FE758/natolive/topics_84268.htm?>. On cooperation in arms production see chapter 5, section I, in this volume.

[32] European Defence Agency (note 31).

[33] Treaty between the United Kingdom of Great Britain and Northern Ireland and the French Republic for Defence and Security Co-operation, signed 2 Nov. 2010, Cm 7976 (The Stationery Office: Norwich, 10 Nov. 2010).

[34] Valasek, T., *Surviving Austerity: The Case for a New Approach to EU Military Collaboration* (Centre for European Reform: London, Apr. 2011).