

Challenges for the Defense Budget after the Economic Crisis A European View

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In Europe, some of the most dangerous effects of the 2008 financial and economic crisis have not been fully understood yet. For almost three years, the focus has been on the financial sector, the job market, and on the stability of the common currency. These were the fields where the immediate effects of the crisis were most damaging and where systemic stability was at stake. Due to massive state intervention, the system did not collapse; and where it crumbled, further state intervention prevented worse. However, any such state intervention comes at a price. In part, that price is obvious, and in part it is hidden. In the obvious sense, “price” is not a metaphor, but an actual price tag attached to the various stimulus packages scrambled together by European governments. This massive spending and the simultaneous loss of revenue have created historic budget deficits and debt. The hidden price comes in many forms – the diminished trust of the citizens in the capitalist system, for example. Or, particularly in Germany, the increased wariness about the European Union’s principles of economic solidarity. In turn, deficit and debt force governments to cut the budget significantly. In almost all European states, as in the U.S., the defense budget is being used as a convenient quarry for saving money, exactly because the adverse effects of cutting defense are (hopefully) long-term and quite abstract – and therefore, also, hidden. As a consequence, many European states are on the verge of losing even basic defense capabilities, despite painful reform efforts to make their military more efficient. Most unfortunately, this is happening at a time in global politics where the traditional guarantor of European security, the United States, is struggling with its own budget crisis and problems of military overstretch and is therefore urging

the Europeans to take on a greater share of the burden of their own defense. Thus, at least for Europe, the financial and economic crisis is about to pave the way for an even more dangerous security crisis.

In this essay, I shall give an overview of how the EU and various European states respond to that challenge. In doing so, I first will outline the key strategic concepts on the EU level of how to cope with the twin imperatives of budget consolidation and maintaining/creating an effective defense. It is important to note that I will deal with “defense” in a narrow sense that relates to military capabilities and department of defense budgets only. Especially in Germany, where the concept of “Vernetzte Sicherheit” (somewhat akin to NATO’s “comprehensive approach”) is very much en vogue, many will point to the increased effort put into civil and preventive measures of security. For the purposes of this essay, however, a focus on hard power as the ultimate guarantor of national security is justified. Accordingly, the second section will provide brief sketches of the situation in four major European states (Germany, France, United Kingdom, and Poland) and analyze how their current defense policies relate to the EU level. The third and concluding section will point out the central problems of the current approaches and give three specific recommendations on how to fix them.

Defense Budgets and EU Strategy

The European economies were hit hard by the crisis. Although Europe’s economic powerhouses, most notably Germany, were recovering quickly, it took the EU states, by and large, longer to regain sure footing than it took threshold countries such as Brazil and China. In fact, some EU member countries such as Greece, Spain, or Ireland are still in the throes of severe crisis. And even a generally strong country like Germany has amassed a national debt of approximately 75% of GDP (compared to, for instance, the U.S. 93%, France 84%, China 19%).¹ As a consequence, all European states face significant pressure to reduce their budgets. With regard to the defense budgets, these cuts hurt even more than they do the U.S. because Europeans start cutting at a much lower, even existential level. As NATO Secretary General Anders Fogh Rasmussen put it: “There is a point where you no longer cut fat; you’re cutting into muscle, and then into bone.”²

The next section’s case studies will explore in greater detail what that means for the defense budgets of various European states. But what is more is that Europe is facing these budget pressures at a politically difficult time. With the ever-increasing number of members now at 27, the EU is experiencing a time of weariness when it comes to further integration. Formulating political initiatives that find a consensus among EU members is becoming increasingly hard, especially since many EU citizens fail to see what advantages the Union and its “Brussels bureaucracy” yield for them. In fact, after the doomed attempt at an EU constitution and the heavy lifting of the Lisbon Treaty, even some of

¹ Estimation of the IMF for 2010. [http://www.economywatch.com/economic-statistics/economic-indicators/General_Government_Gross_Debt_Percentage_GDP/] All web content cited in this essay accessed on May 7, 2011.

² Anders Fogh Rasmussen, Speech at the German Marshall Fund of the United States in Brussels, October 8, 2010. [http://www.nato.int/cps/en/natolive/opinions_66727.htm]

the most passionate Europeans seem to have run out of steam. These are not encouraging conditions for a concerted effort regarding European defense policy. After all, defense has always been the hardest of all political areas to Europeanize – the failure of the European Defense Community in 1954 has been the archetypal trauma accompanying all future steps towards a common security and defense policy. It underlined that security is the most basic task of the state, its *raison d'être*. Further integration of European defense policy thus, more than any other policy, tinkers with the sovereignty of the member states. Hence it is quite plausible to expect the European states to vanish into military and strategic irrelevance rather than to truly unite on issues of defense and security strategy.

These difficulties notwithstanding, the economic and financial crisis offers some paradoxical glimmers of hope. Saving costs has become a political mantra all over Europe, and further integration of European security and defense policy is a very promising way to relieve national budget pressures. The need to cut national expenses while simultaneously maintaining sound military capabilities is a strong incentive for EU states to further integration or at least to increase military cooperation – be it in research and development, procurement, training, or actual missions.

The basic ideas on how to do that have been familiar for a long time. Europeans do not need to re-invent the wheel, they just have to build a cart around it and get rolling. The three basic concepts are pooling, sharing, and the new toolbox contained in the Lisbon Treaty. *Pooling* means that EU states agree on joint resources and forces. It is no longer necessary nor economically viable for every member state to maintain its own current force structure. Certain parts of the national forces can be brought together with those of another state and used jointly, thus decreasing individual costs and possibly even increasing (or at least maintaining) effectiveness. The Franco-German Brigade is an early example of this principle. Pooling can also reduce costs significantly when applied to common procurement on the EU level. *Sharing* describes the next step of the same logic. Further integration of EU defense policy would allow individual states to focus on their strengths and to discard other parts of their force structure. Certain states could specialize in, say, tactical airlift, while others could specialize in, say, mechanized infantry. The catch, of course, is that then all states would be able to use each other's forces when necessary. So while such a specialization would greatly help to save costs, it requires a reliable political arrangement of shared sovereignty, command, and trust that is very tricky to establish.

The Council of the European Union, in its conclusions of December 9, 2010, underlined the necessity of more coordinated reform efforts among EU states and described a way forward.³ The document breaks down into four key conclusions. First, it explicitly endorses the so-called “Ghent Initiative” of the German and the Swedish ministers of defense from September 2010. The initiative encourages all EU states to undertake a review of their forces, grouping them in three categories: Capabilities that are essential to national security and need to be maintained on the national level exclusively; capabilities that could be maintained in closer cooperation with partners without forfeiting authority over them (pooling); and capabilities that could be abolished when provided by partners instead

³ For the official document see: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/esdp/118348.pdf

(sharing). The Council has set “mid 2011” as time line for further discussion of the preliminary results of this analysis.

The second key conclusion of the Council pertains to the French-British cooperation agreement of November 2010. In what quickly became known as the “entente frugale,” the two major military powers of the EU agreed on a number of cooperative measures to reduce defense spending while maintaining effectiveness. Those propositions include joint use and greater interoperability of present and future aircraft carriers, sharing of military communications satellites, and the creation of a Combined Joint Expeditionary Force with land, sea, and air components. This agreement drew criticism for its timidity – there are actually very few concrete results of the cooperation so far – and for its apparent preference of bilateral over multilateral, EU-wide solutions. The Council’s conclusions, however, commend the agreement “which promise[s] to contribute to improving European defense capabilities.” In other words, better to have bilateral initiatives on defense cooperation than none at all.

Third, the Council emphasized the role of the European Defense Agency (EDA) in fostering further cooperation through coordinating research, development, and procurement. So far, the Agency has not lived up to the high hopes its creation in 2004 engendered. Although it has slowly developed into a conduit between industry and politics, it is still characterized by a lack of ambition that is the result of unclear mandates, national preferences, and – mostly – hesitation on the part of EDA’s chiefs to test the limits of the institution’s potential. The recent Council conclusions explicitly “encourage” them to do just that and show more leadership in identifying possible synergies to be tapped by measures of pooling and sharing.

As a fourth key conclusion, the Council points to the new tools provided by the Lisbon Treaty, especially the Permanent Structured Cooperation (PSC) of Articles 42 and 46 of the Treaty of the European Union.⁴ PSC allows for closer defense cooperation among EU members who are willing and able to do so without affecting the EU-wide state of affairs. On issues of defense, it thus allows for a “core Europe” to initiate further cooperation that might but need not be reproduced on the EU level. As is typical for the EU, PSC has so far been debated in terms of process only (Can there be more than one PSC at the same time? How can EU states join an existing PSC later on, what are the criteria?). Now it is time to come up with substance. For instance, PSC could provide an excellent framework for those nations who want to take the lead in establishing specific force sharing programs. Moreover, PSC is singularly well-suited to shift the debate about defense cooperation from the issue of tight budgets back to the even more important question of what kind of military the EU and its member states need. After all, in order to find a force sharing arrangement that allows for meaningful cuts in national budgets, you should have a clear idea what that shared force is supposed to accomplish. Such strategic concerns, unfortunately, are far from the minds of national defense planners these days who sweat under the heel of their finance minister. It is heartening that the Council in its conclusions tasks the PSC

⁴ A concise and helpful introduction to PSC is Sven Biscop, *Permanent Structured Cooperation and the Future of ESDP*, Egmont Paper No. 20, 2008: <http://www.egmontinstitute.be/paperegm/ep20.pdf>



“with a view to strengthen the EU’s ability to respond to crises.” Crisis response means deployability, effectiveness, and actual fighting capability. As we shall see in the next section, that is a strategic yard stick that is not all that common among the defense reforms of European states.

State of National Defense: Four Sketches

A closer look at four major European states – Germany, France, United Kingdom, and Poland – will reveal how exactly the financial and economic crisis has affected national defense. Given the limited scope of this essay, the sketches of the individual defense budgets, military reforms, and future postures must necessarily remain brief but will nonetheless demonstrate current, worrisome trends in European defense.⁵ A concise assessment of these developments and suggestions for improvement will be given in the concluding section.

Germany

For the past twenty years, the *Bundeswehr*, Germany’s armed force, has undergone constant transformation. With the end of the Cold War, unified Germany had to handle the unique challenge of integrating the armed forces of former Eastern Germany into the *Bundeswehr*. At the same time, the pronounced shift in the international security

⁵ For a similar approach to the one presented here see Hilmar Linnenkamp, *Situationsanalyse ausgewählter Mitgliedstaaten*, in: Hans-Gert Pöttering / Gerd F. Kaldrack (eds.), *Eine einsatzfähige Armee für Europa – Die Zukunft der Gemeinsamen Sicherheits- und Verteidigungspolitik nach Lissabon*, Baden-Baden: Nomos 2011.

⁶ For a more comprehensive set of data see Christian Mölling, Sophie-Charlotte Brune, Marcel Dickow, *Finanzkrise und Verteidigungskooperation: Materialien zu acht europäischen Ländern und den USA*, SWP Working Paper, October 2010. [http://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/Finanzkrise_und_Verteidigungskooperation_final_ks.pdf]

environment led both NATO and the EU into a series of out-of-area missions, most notably in Kosovo and, later, Afghanistan. These missions proved a dual challenge for Germany, political and military. Waging war outside of Alliance territory, albeit in the framework of multilateral institutions, was a new experience for the Federal Republic that required enormous (and continuing) political effort as well as a re-interpretation of the German constitution by the highest court of the land, the *Bundesverfassungsgericht*. In addition, Germany as well as many other European partners found out quickly that its military capabilities were hardly adequate to the task of these missions.

While this lesson was being digested, the economic crisis gave a whole new dynamic and seriousness to reforming the armed forces. In fact, the trigger of the current and most far-reaching reform since the founding of the Bundeswehr in 1955 was not a security-political decision by the minister of defense but a budget decision by the minister of finance. As a reaction to the crisis, Germany instated a constitutional amendment limiting new federal debt to 3.5% of GDP. Following this new authority and in order to comply with this *Schuldenbremse* (“brake on debt”), the finance minister in 2010 prescribed every ministry an exact amount of money to be saved over the next four years (later amended to five years). In relation to its overall budget, defense had to cut the most: 8.3 billion Euros between 2010 and 2014 (now 2015). Considering that the annual budget of German defense is about 30 billion Euros, those are staggering numbers.

In a bold move, then-defense minister Karl-Theodor zu Guttenberg used the momentum of those numbers to leverage and kill one of his conservative party’s sacred cows: conscription. The sensibility (and feasibility) of maintaining a conscription army under circumstances that required leaner and more professional forces had been contested for years.



Sold as a cost-saving exercise in dramatic financial times by Germany's most popular minister, protest was suddenly flimsy. As it turns out, however, ending conscription does not save money but creates extra cost for recruitment and competitive salaries – at least in the short and medium term.

Therefore other, less spectacular building blocks of the reform package become even more relevant. Yet very few of them have been decided upon, mostly because of the change at the top of the ministry. Zu Guttenberg had to resign over allegations of plagiarism in his PhD dissertation. His replacement, former minister of the interior and head of the chancellor, Thomas de Maizière, enjoys a reputation as an able manager of government structures and revealed his approach to restructuring the Bundeswehr and the ministry in May 2011 – with many of the details not to be clear before September 2011.

Still, the outline of the reform package is set. The number of soldiers – currently about 252,000 – will be reduced sharply. Most observers think a force structure of about 180,000 most likely. In addition, the organizational structure of the Bundeswehr and the ministry itself will be trimmed. The real savings, however, will not come from cutting personnel but from cutting equipment, both in existence and in projected procurement. Across the board, active weapon systems will be put out of service, including six U206A submarines, 15 Transall transport aircraft, 100 Tornado fighter bombers, and 60 Marder armored tracked vehicles. As far as contracts and international agreements allow, major defense projects will be reduced in scope. Strategic and tactical airlift (A400M transporter and NH-90 and Tiger helicopters) will be affected as well as 37 Eurofighter jets, more than a quarter of the projected 400 Puma armored tracked vehicles, and, very likely, the last transatlantic armament project, the missile defense system MEADS. In general, standardized off-the-shelf solutions will be preferred over customized development.

France

In contrast to the Federal Republic of Germany, France has always been – or at least seen itself – as a great military power. Indeed, in terms of nuclear capabilities, a broad military-industrial base, and the readiness and willingness of a former colonial power to be a decisive actor in global security affairs, France and the UK are exceptional states in Europe today. As a consequence, both have stressed and protected their ability to act independently if necessary. For France with its Gaullist tradition of balancing U.S. influence over Europe, this is particularly relevant. Even its return to NATO's military structures in 2009 did not change this basic rationale – as evidenced by the intervention in Libya in early 2011.

To keep an effective and affordable balance between expeditionary forces and territorial defense, France began reforming its military in the 1990s. In this process, conscription was abolished and defense planning was organized through Five-Year-Plans. Due to the financial and economic crisis, the current plan, 2009-2014, had to be overhauled in 2010. According to the new plan, defense is supposed to save 3.5 billion Euros between 2011 and 2013. Given an annual defense budget of about 40 billion Euros, the cuts are not quite as brutal as in Germany but still difficult to manage.

First saving measures include the closing of sites, both at home and abroad. The military presence in Africa in particular is to be downgraded significantly. Simultaneously, there will be a drastic reduction in the number of the armed forces. The 2008 White Paper on defense already suggested to cut 54,000 jobs (out of about 250,000 total), but even a further reduction would not be surprising. In addition, the modernization of the Mirage 2000 jet fighter will be postponed as will be the acquisition of the aerial refueling and transport airplane MRTT (Multi-Role Tanker Transport).

At the same time, French insistence on a strong and independent military industry leads to some counter-intuitive decisions such as increasing the 2011 order of the Rafale jet fighter from 22 to 33 airplanes. This is to guarantee production despite cancellations by other states. Similarly, systems such as the Harfang drone and the A400M transport aircraft will be seen through despite additional costs because they are regarded as strategically significant – both in terms of military use and industrial context.

Hence, France is particularly interested in saving costs through increased cooperation with European partners. The Franco-British agreement of 2010 was a first step in that direction but it is unclear what the next steps will look like. What is clear, though, is that France will not be able to reach its savings goal and maintain its mission-oriented posture without creating new pooling and sharing agreements with its European partners.

United Kingdom

Like France, the UK has revised its defense in the late 1990s in order to incorporate the new requirements of a changed international scenery. The resulting Strategic Defense Review of 1998 defined the parallel conduction of two major expeditionary missions as the base line for strategic planning. With the Kosovo war and especially after British commitment to the wars in Afghanistan and Iraq, special forces, surveillance and reconnaissance, and quick power projection received particular emphasis – and additional funding of about five billion Euros to the average annual defense budget of about 40 billion Euros. Thus, Great Britain was the only European country that played an active, independent, and significant role in international military affairs.

However, just like France, the UK reacted to the financial and economic crisis by deciding to reduce its defense budget by 8% until the year 2014. This directive, set forth in the Strategic Defense and Security Review of October 2010, essentially ends the time of Great Britain as a world power. Major operations such as in the Iraq war or unilateral missions on the scale of the Falklands war will no longer be possible with the forces such a budget can sustain. Until 2020, Great Britain's land forces will encompass only five brigades, the overall troops will be reduced from 180,000 to 163,000, the nuclear submarines will not be modernized, and many crucial systems will be put out of service, including tanks, tor-nados, and the aircraft carrier Ark Royal (plus airplanes). Two new aircraft carriers remain under construction because the abortion of the program would be more expensive than its completion – yet they will not be functioning before 2020 anyway.

Of course, such dire prospects serve as an incentive for greater military cooperation with capable partners. However, as the Franco-British agreement indicated, Great Britain is

particularly reluctant to seek this cooperation in multilateral treaties and even less so in the context of European Union frameworks. Although Great Britain supported the conclusions of the Council, recommending pooling, sharing, and similar initiatives on the EU level, it is very much ready to abstain from such action. In part, this is explained by the traditional British distrust of EU institutions. But even more importantly, it reflects the British desire to remain an independent actor with a broader, truly global horizon. They do not want to be tied down to the complicated, expensive, and ineffectual nitty-gritty of EU procurement arrangements (think A400M) but want instead to cooperate directly, exclusively, and on equal terms with partners of reliable and proper standing such as France or the U.S. Since the British defense industry is by far the most competitive European player on the global market and thus less dependent on European arrangements or state backing, this policy of aloofness is easier to sustain for the UK than, for instance, for France. Yet it remains doubtful whether Great Britain can build sufficient bilateral partnerships to compensate the effects of its budget crisis on its military strength. More likely, it will have to resort to multilateral and/or EU agreements in the long term – but until then, it will be lost as a driver behind the urgently needed innovation of such agreements.

Poland

With an annual budget of less than 7 billion Euros, Poland's defense is much smaller than that of the first three states examined here. Still, only Italy, Spain, and the Netherlands spend (somewhat) more on defense than Poland, and it has by far the strongest military among all central and eastern European members of the EU. Poland has managed a successful transformation of its military over the last two decades, the most visible sign of which is the streamlined force structure. At the end of the Cold War, Poland had about 500,000 soldiers; at the beginning of the 21st century, the number was at 130,000. When the shift towards an all-professional army is completed, its size will not exceed 100,000 soldiers.

Poland demonstrated that such a reduction need not mean a loss of effectiveness. Liberated from the Warsaw Pact, Poland puts special emphasis on national sovereignty and international responsibility. So when Poland's security political alignment with the U.S. called for military burden sharing, Poland delivered. To maintain such a prominent role as, for example, in Iraq and Afghanistan, Poland passed a law that fixed the defense budget at 1.95% of GDP. Within the EU, only Greece, France, the UK, and Cyprus reach a higher share. In combination with reduced troop levels that means an improved money-per-soldier ratio, enabling the Polish military to punch at least somewhat above its weight.

Before the crisis, Poland's economy was going strong, and it quickly recovered from the 2008 slump. This roller-coaster ride also affected defense planning. In 2009, the defense budget was cut by 20%, in 2011, it grew by 7%. Poland spends heavily on modernizing its military equipment, planning to invest 35 billion Euros over the next fifteen years in new airplanes, helicopters, and mechanized infantry. Thus, Poland is showing a very different dynamic than Germany, France, and the United Kingdom. Although it is developing from a much lower level, Poland demonstrates that trends in defense spending and force transformation are ultimately a question of political priorities rather than a question of budget constraints. With its firm integration in the so-called Weimar Triangle – a forum

of trilateral cooperation between France, Germany, and Poland – it is to be hoped that Poland can inspire other partners to adopt this view.

Concluding Recommendations

The sketches in the previous section have illustrated two things. First, how the budget pressures downgrade nearly all European defense capabilities. And second, how far the EU member states are from a common European approach that will save costs and secure effectiveness. There are a lot of intelligent solutions and tools to bring them about – from the Ghent Initiative to the Weimar Triangle, from the European Defense Agency to Permanent Structured Cooperation. In practice, however, every state plans and acts for itself. There are two dozen national defense transformations and reforms underway in Europe, but hardly any truly European reform. Unless there develops a greater degree of cooperation and common planning among at least a few of the major powers in Europe, the national militaries are doomed to kluge.

So Europe does not need new processes, tools, and institutions to retain relevance in international security affairs. What it needs is political will and proper leadership to make the best out of a difficult situation. Here are three ideas that might help mustering this will and leadership – and the necessary popular and bureaucratic support.

The EU should produce a regular report on military strategy, development, and procurement that reflects not just a common political approach but also identifies potential for closer cooperation between the member states. Every two years, for example, the EDA in cooperation with the High Representative of the Union for Foreign Affairs and Security Policy could present this report. It would require intensive – and regular – debate among all member states about military policy and enforce consensus. It would also allow for sustained qualitative assessments and a reliable evaluation of progress. The current era of scattered initiatives (Ghent, Weimar, entente frugale) would give way to a more focused and substantial approach that would demand and reward greater political effort, visibility, and leadership.

The second idea is to make better use of best practice models. Europeans do have collected a lot of experience in common security over the last two decades. Those experiences range from first steps in pooling and sharing to jointly fought missions and they are contained in existing institutions such as the Eurokorps or the European Battlegroups. There has been too little exchange and discussion of these experiences; if at all analyzed and processed, they vanish in separate bureaucracies. Parliamentarians, EU and national, would be well-advised to press for greater transparency and rigor when it comes to learning from the best practice models buried in these treasure chests. The ideas derived from comparing notes on those experiences might create the political tail wind defense issues in Europe are waiting for.

The third and final recommendation aims at the most basic of European defense: European leaders need to change the tone of the debate. It is all about saving money when it should be about security. Most Europeans do not feel threatened at all, however, and they do not



grasp that their freedom, their wealth, and their values depend on a liberal world order that is in constant peril. Europe benefits enormously from the stability of the international system but in military terms it does relatively little to uphold it. Of course, Europe and especially states such as Germany contribute significantly to international stability through development aid and economic cooperation. International order, though, is never a given; it needs to be created and, sometimes, defended with force. Thus, leaders and elites in Europe need to communicate to the people that hard power capabilities are neither archaic nor dispensable. Otherwise, they will not get the democratic mandate for solid defense expenditures. And while pooling, sharing, and cost-saving exercises can ameliorate the consequences of a lean budget, it is clear by now that security and a responsible role in international affairs come at a price. Europe cannot pool and share its way out of this dilemma. In the end, one needs to buy things – planes, tanks, rifles, computers – and pay the people using them. The sooner Europeans come around to this insight, the more likely they will remain safe, independent, and influential actors in the international arena.