

# Defence budgets in Europe: Downturn or U-turn?

by Olivier de France

The year 2014 was dubbed a ‘game-changer’ for European security. Is 2015 going to be a game-changer for European defence spending? After Germany, the Netherlands, Poland, the Czech Republic, Slovakia, Romania and the Baltic states, France has now announced it is planning to raise national defence spending from 2016 onwards.

The significance of such commitments should not be downplayed. Defence expenditure has been shrinking in Europe for the best part of two decades, and public spending has fallen sharply with the onset of the financial crisis in 2008. The current efforts to boost defence budgets do more than simply buck the trend: they look like they will have a visible effect on real spending over coming years in some key European states. Yet such reports should also not be overblown: what this buys Europe in terms of output is as yet uncertain. In parallel, some European countries have in fact embarked on further cuts. As such, the overall picture as yet far from clear.

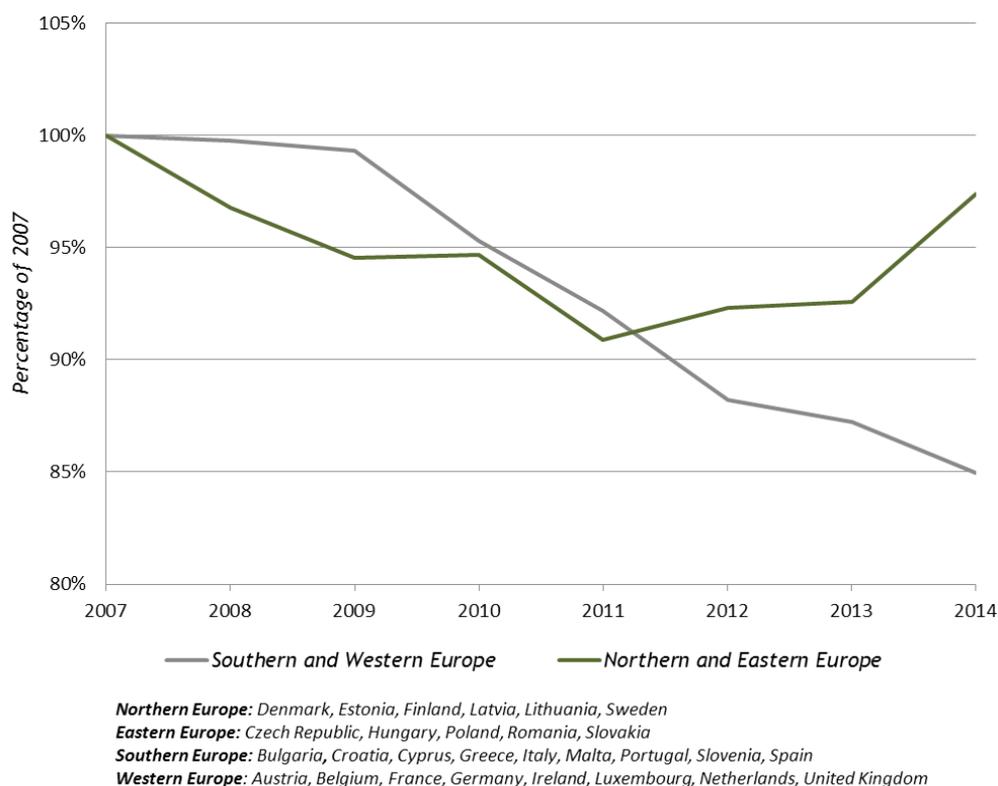
From Crimea to Aleppo, and from Lampedusa to Paris, the events which unfolded in and outside Europe over the past year have pushed security back to the very top of the EU political agenda. That this would affect how European countries spend their money on defence was much less of

a given. At the September 2014 NATO summit in Newport, Wales, European leaders signed a pledge to ‘halt any decline in defence expenditure; aim to increase defence expenditure in real terms as GDP grows, and aim to move towards the 2% guideline within a decade’. The Newport ‘pledge’ came after months of mounting challenges to the European security order, which have badly shaken some of the assumptions that its societies take as self-evident: expanding commerce does not automatically foster peace, not everyone plays by the European rulebook, or is likely to do so in the foreseeable future; and force remains a currency, not least in the Union’s backyard. As these hard truths sink in, what kind of impact will they have in coming months and years on how EU countries spend their money on defence?

## Three scenarios

There are three ways of describing the possible legacy of the crises of the past year for European states: a *status quo*, a political reaction, or a game-changing response. Business as usual, or *status quo*, is an outcome which supposes that in the long run, events will not have fundamentally compromised Europe’s underlying vital or strategic interests. Under this scenario, terror attacks and turmoil

## Comparative regional defence spending in Europe (2007-2014, as % of 2007)



Source: EDA, NATO, SIPRI, IISS

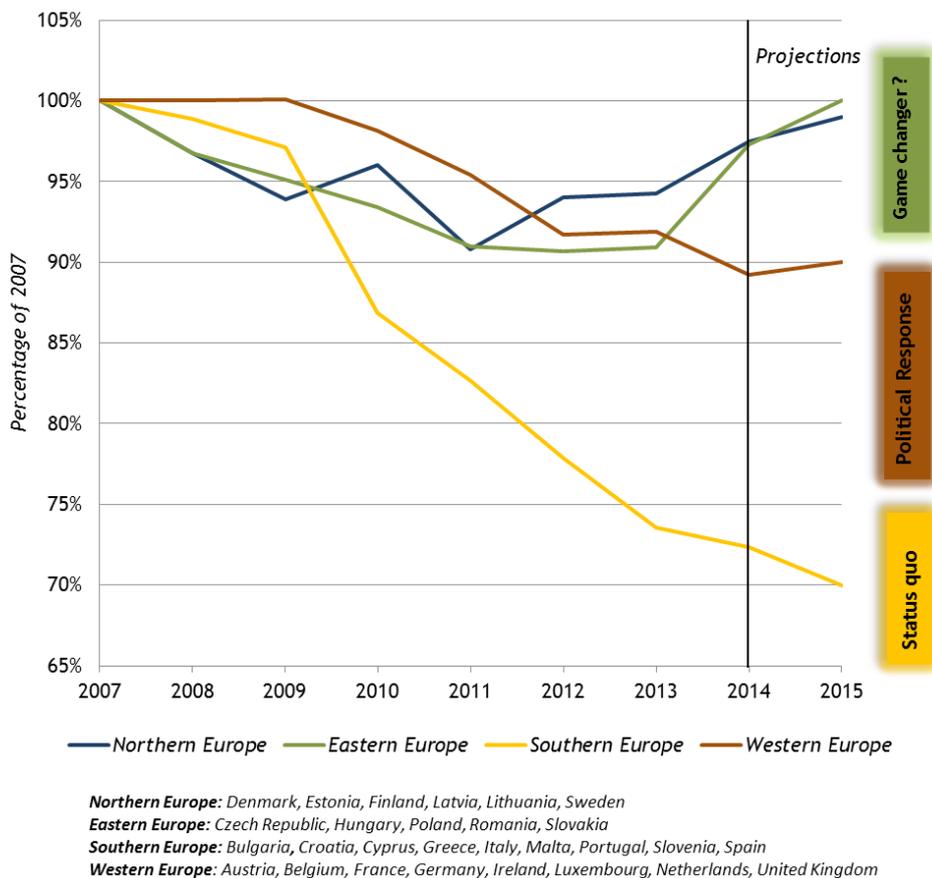
in Europe's backyard are not perceived as posing an *existential* threat to states' interests, that is to say their territorial integrity or the livelihoods of their citizens. As a result, the trend towards the so-called 'demilitarisation' of Europe continues unabated, fuelled both by structural and circumstantial factors. Widespread war fatigue amongst Western publics, the end of the Cold War, sluggish economic growth since the 1990s, and more recently the financial crisis continue to make it hard for countries to spend their dwindling resources on defence.

The second outcome sees European states react in a predominantly political way. In such a scenario, the events of 2014 are again not perceived as posing an existential danger to their vital interests. As such, they do not affect the military calculus. They are, however, seen as a threat to *strategic* interests – something which leads to a political shift. Countries send a visible political signal that they intend to buck the declining trend in budgets which has prevailed since the end of the Cold War, at least temporarily. Such a move amounts to a political statement more than a military investment: it is not likely to have any effect on the country's military *per se*. It is a way however of showing that recent events have caused countries to sit up, take notice, and take defence more seriously.

The last possible scenario is that 2014 turns out to be a game-changer, which has a lasting impact on both the political and military calculus of European countries. The deteriorating security environment is perceived as a threat to *strategic and vital* interests, triggering a response that has both political and military implications. Not only is the trend of declining budgets halted – it is reversed, and unlocks a level or a manner of defence spending which is likely to have a tangible effect on the military. In turn, this contributes to making European armies more effective and more credible.

What do current projections look like, based on the fallout from the Newport summit? Announcements by European countries to date paint a somewhat varied picture. The initial response to the events of the past year might be described as political and military in north-eastern Europe, political in western Europe, and neither political nor military in south-western Europe. It helps to bear in mind however that the north-eastern states which have committed to more defence spending also have lower baselines of defence spending, have made cuts to their budgets in recent years, or sometimes both. Defence expenditure in western Europe starts from a higher base. The south-western states which have not yet reacted are often those that have been the worst affected by the financial crisis.

## Projected regional defence spending in Europe (2007-2015, as % of 2007)



Source: EDA, NATO, SIPRI, IISS

If these categories are anything to go by, the logical conclusion will be that threats to Europe are still seen differently in Lisbon, Warsaw, Dublin, Rome, Vilnius or Stockholm. Purists will grumble that Europe is a complicated place in which domestic and electoral politics have too much of a say. They will argue that the credibility of the transatlantic partnership has been damaged by news that some countries will decrease the numbers they had pledged to increase at Newport. The fact remains, however, that the summit's investment pledge has reversed a trend in spending that reached back twenty years.

### It's (more) complicated

Before too categorical a conclusion is drawn from the trends which have emerged to date, there is a need for some reflection on what they mean or hide. This is perhaps especially true in light of the recent media flurry about NATO countries renegeing on their 2% pledge. Most of these reports do not stand up to scrutiny and share a number of common flaws.

First of all, reality is more complicated. Defence spending in European countries like France or

Denmark is painstakingly planned over four to five year periods, and it is the result of domestic and highly political compromises in every European country. The margins for manoeuvre year on year are therefore limited *ab initio*. Recent commitments by European countries to spend more will mean departing from initial planning, and therefore reaching a new political consensus. At the same time, it is also true that some European countries decided to cut their defence budgets barely weeks after signing up to the Newport pledge – another stark reminder of the sway of domestic politics across Europe. It is perhaps telling that in the run-up to the UK general elections, none of the main parties have set out exactly how they plan to balance fiscal discipline against defence spending requirements. Given that the country's GDP has been growing over the past few years, abiding by 2% target will require either spending indeed more on defence or resorting to some creative bookkeeping.

More broadly, NATO's 2% benchmark remains both a useful political statement and a broadly recognisable target. But it is not in itself a measure of output – i.e. of the amount of security defence spending actually buys – which is notoriously difficult to measure. Increases in defence spending can

have an adverse influence on security if they are badly allocated, and vice-versa. If a state's procurement is too heavy, its military tools unbalanced, its equipment obsolete and expensive to maintain, or its army too personnel-heavy, money may simply go to waste or indeed create more inefficiencies. Press reports to often equate or confuse defence spending with capabilities or even personnel numbers. As France shows, a country's troop numbers can fall whilst its defence spending rises or stays level.

In practical terms, levels of spending alone also do not indicate whether a country has what it takes to deploy the capabilities it has, and give little indication of the power it is able to project. A given state may have all the trappings of an effective military, without the ability to use them. It may suffer from readiness or usability issues, and this goes not only for the smaller players in European defence. Numbers have surfaced for Germany, France, Italy or the UK which put readiness levels for fighter jets, attack and transport helicopters at below 50% (in one case 15%), and that there are issues with main battle tanks, amphibious vehicles and submarines. They resonate with highly publicised reports of enablers breaking down and troops in Europe training with inadequate equipment. On the other hand, expensive capabilities may have been added to a country's military line-up, but without the means to deploy or use them.

In more methodological terms, a familiar flaw with using standard spending metrics is forgetting that they yield different results because they are calculated in different ways. The perimeter of what is counted within defence budgets fluctuates across databases, across countries, and sometimes within countries across time. It might include pensions, or not, expected or delayed expenditure (e.g. *recettes exceptionnelles* and *reports de charge* in France), policing, procurement, development aid, the effect of exchange rates, inflation, purchasing power parity, or distinguish between money earmarked for defence, and money actually spent.

## Guns, butter and risk

The technicalities of tracking defence budgets should not distract, however, from the fundamental principal that defence spending is a political construct. It is the product of a trade-off between fiscal constraints and a state's security demands. Beyond the rhetoric of summit press releases, it is a clear signal of a country's willingness to engage internationally. European governments are caught here in the classic public policy dilemma of addressing long-term issues in the face of short-

term demands, with a finite amount of financial resources.

When governments make decisions about defence spending, they take into account not only guns and butter but also a third underlying factor: risk. Governments need resources to provide for infrastructure, healthcare and education. But they will serve little purpose if the government cannot guarantee the basic safety of the societies which use them. In turn, this typically requires some credible deterrence to ward off any potential threats, or indeed prevent them from emerging in the first place. This seldom comes cheap, and is not always in tune with current public opinion in Europe.

That being said, the decisions made by European governments do not always boil down to lack of strategic culture. Different threat perceptions matter. In some cases, the choice stems from a political assessment of threat levels which leads to an informed decision *not* to invest in national defence, while addressing national security concerns through other means. In this sense output, however difficult to measure, remains of greater significance than the nominal sums allocated to defence. The evidence so far is that the events of the past year have had a nominal effect on how most European countries spend money on defence. Whether these budding efforts are enough to have any impact on European security will depend on how concerted and sustained they prove to be.

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