

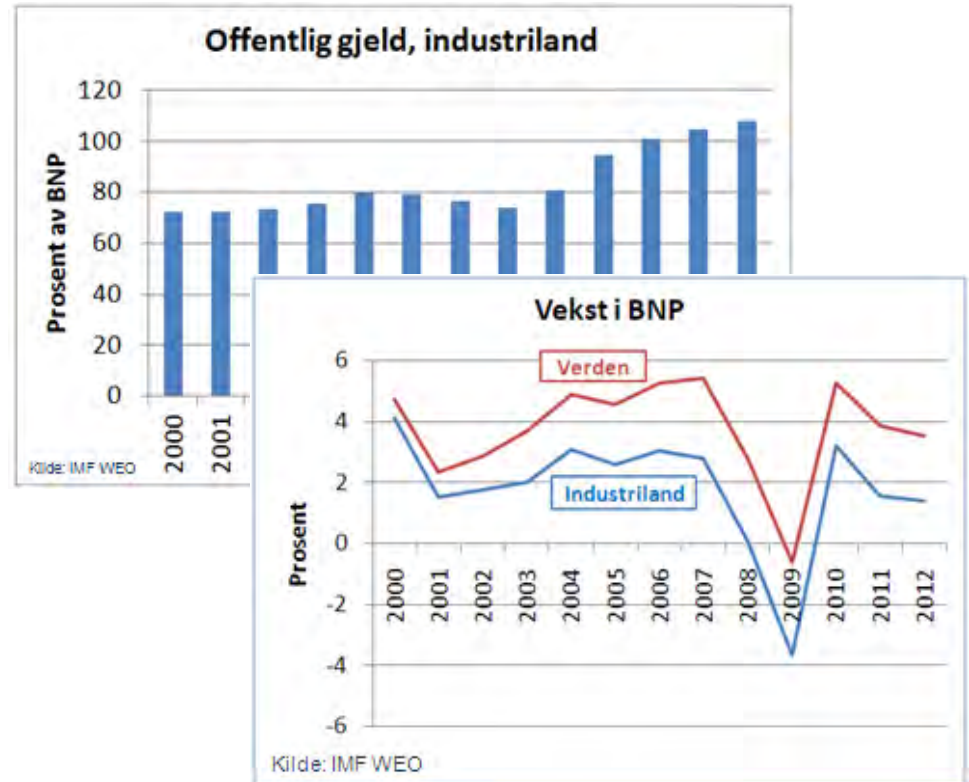
# Finanskrisen i Nato – Budsjettkutt og ressursmangel

FFI-seminar 4. september 2012

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# Smart defence – det store bildet



Smart forsvar = mer forsvar for mindre penger

# NATO military spending in the wake of the crisis

*Dr. Samuel Perlo-Freeman*

*Presentation for FFI 2012-09-04*

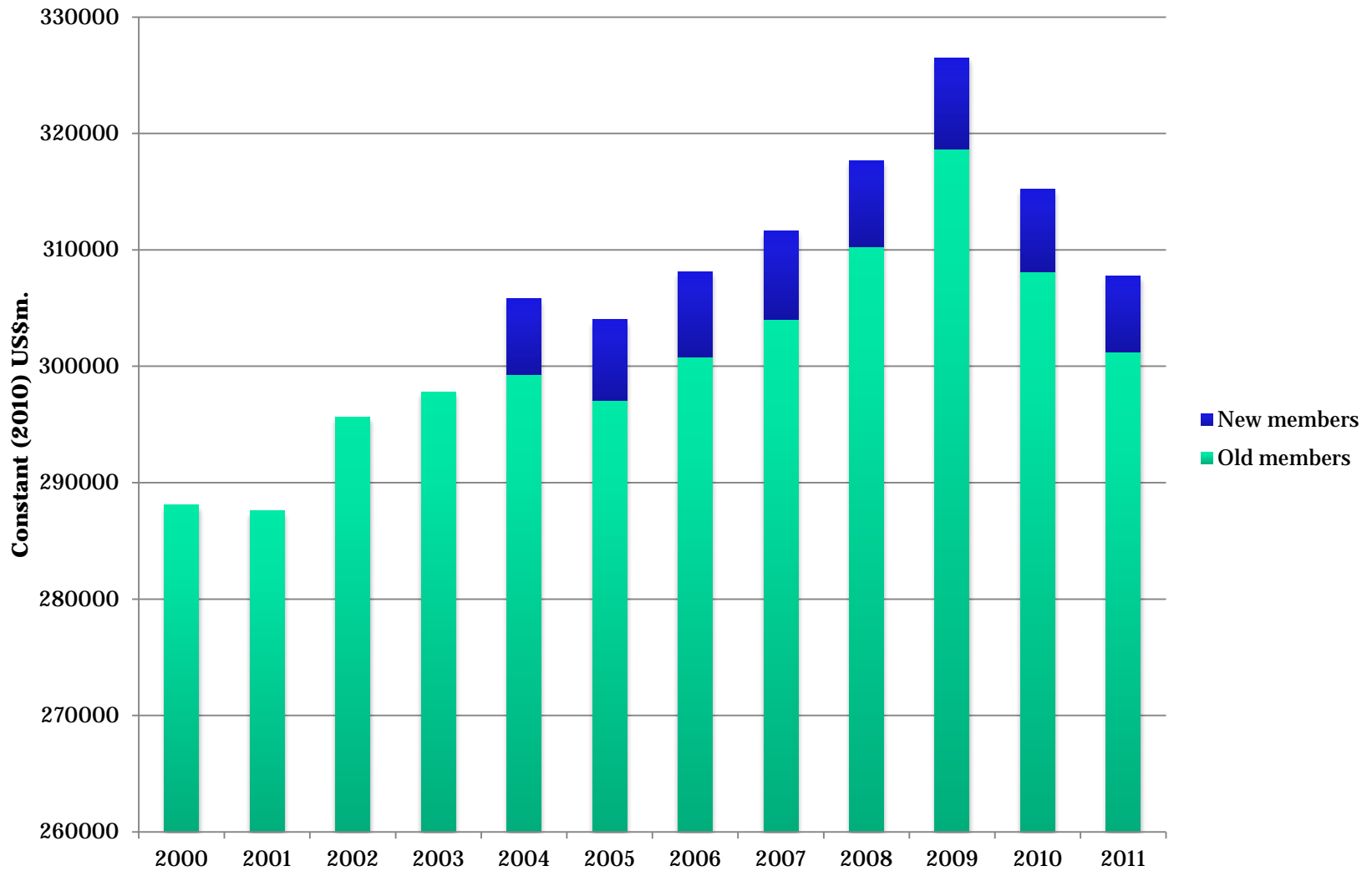
# **NATO military spending since 2008**

- Effect of the economic crisis not immediate.
- In 2009, central European countries started cutting, but major economies carried out stimulus measures.
- Total non-US NATO military spending down 3.1% in real terms from 2008-2011.

# **The USA – a special case**

- US military spending is still 9.6% higher in real terms in FY2011 than in FY2008. But fell for the first time since 1998 in 2011.
- Large part of the trend determined by war spending.
- Trends in outlays lag trends in budget authority by 1 year.
- Outlays lower than expected in 2010 and 2011 due to delays in Congress agreeing a budget.
- Budget Control Act 2011 implies very slight real terms falls in 'base' defense budget to 2017.
- Withdrawal from Afghanistan means total will fall.
- Automatic sequestration?????

# Non-US NATO millex 2000-2011



# NATO Europe changes 2008-11

Increasing (>5%)

Flat (Ch. <5%)

Decreasing (>5%)

Norway

Poland

Turkey

Denmark

France

Germany

Netherlands

Portugal

U.K.

Albania

Belgium

Bulgaria

Croatia

Czech Rep.

Estonia

Greece

Hungary

Italy

Latvia

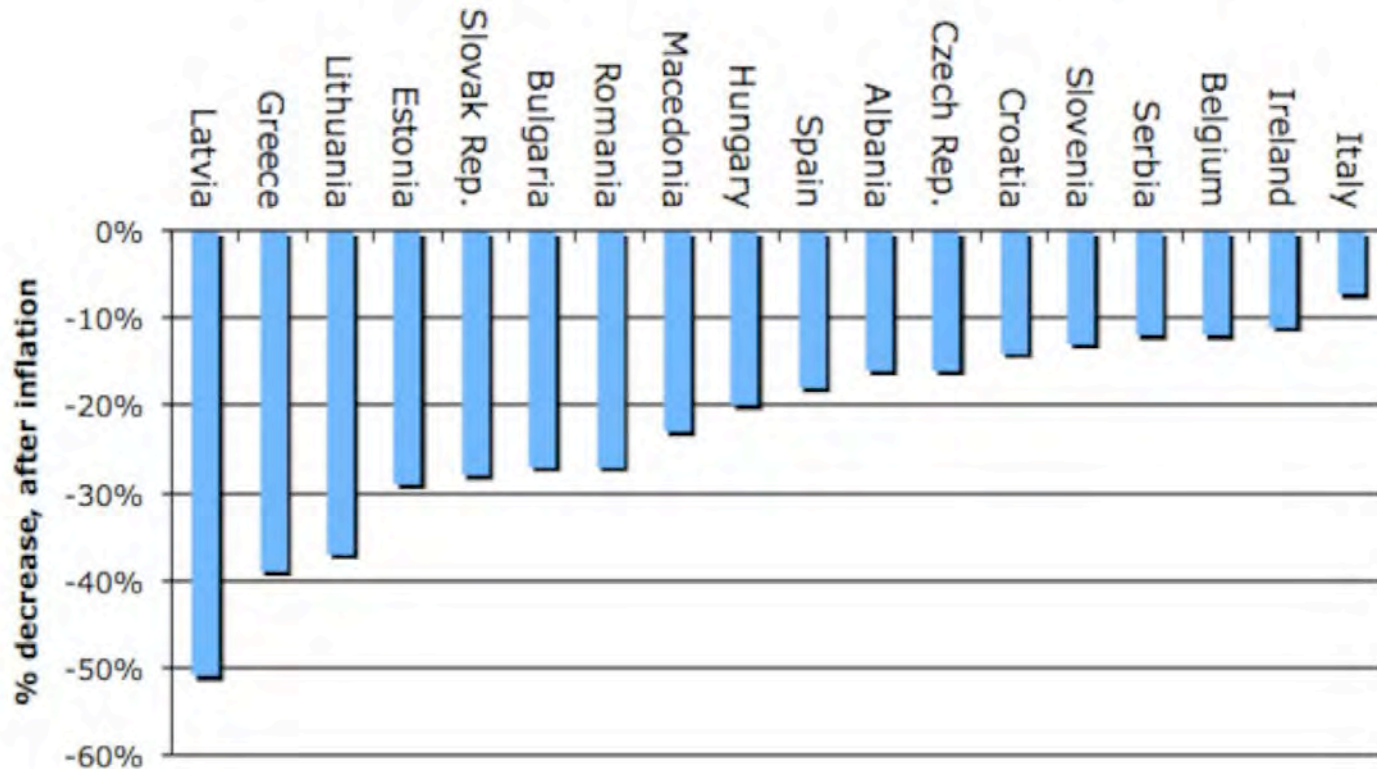
Lithuania

Romania, Slovakia

Slovenia, Spain

# Changes in Europe milex 2008-2011

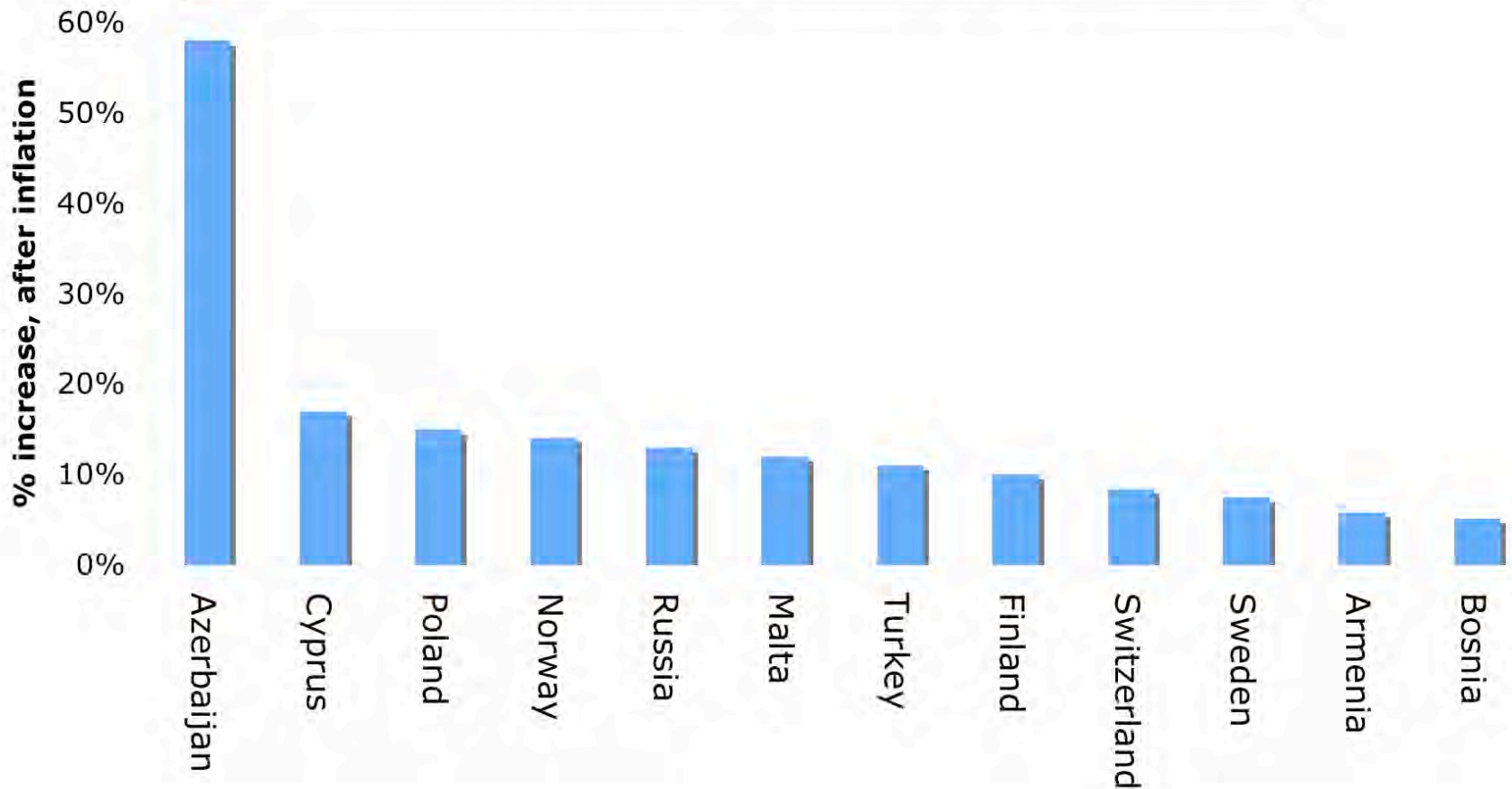
Biggest real decreases in Europe military spending, 2008-





# Changes in Europe millex 2008-2011

Biggest real increases in Europe military spending, 2008-11



# Budgets for 2012

Real terms changes:

Increase	<1% change	1-5% fall	5-10% fall	>10% fall
Estonia	France	Albania	Canada	Italy
Poland	Germany	Belgium	Croatia	Slovenia
Romania	Turkey	Bulgaria	Latvia	Spain
Norway		Czech.	Netherlands	USA
Greece??		Denmark	Portugal	
		Lithuania	Slovakia	
		U.K.		

# Future plans

## *Changes in nominal terms*

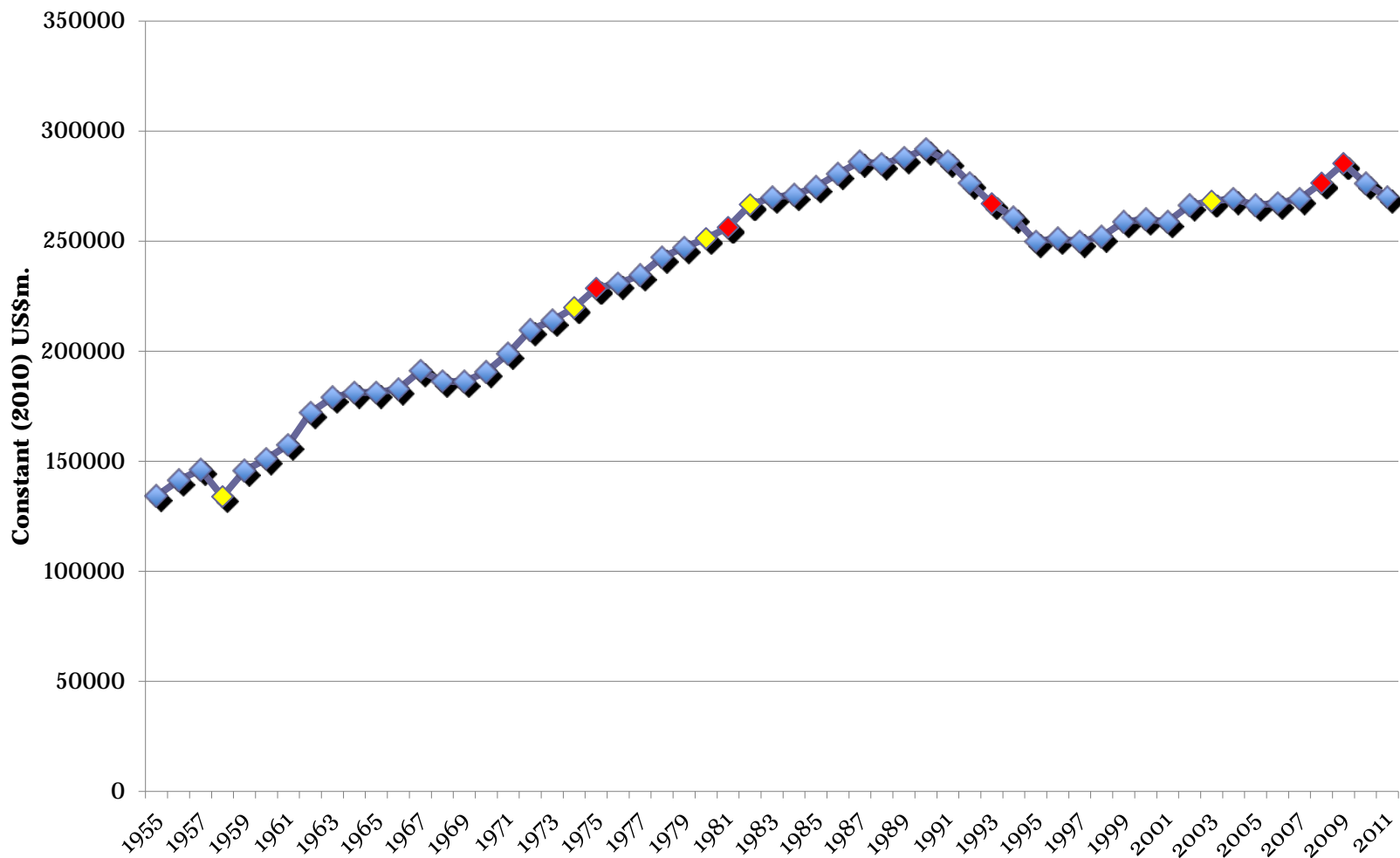
- Croatia:** Fall of 1% 2012-2014
- Czech Rep.:** Falls of 10% in 2013 and 2014 (rev.?)
- France:** Budget for 2013 up 1.8%
- Germany:** Down 1% by 2016.
- Italy:** Up 1.9% in 2013.
- Latvia:** +1.4% in 2013
- Lithuania:** +29% in 2013
- Netherlands:** Down 3% by 2016
- Romania:** +8.7% in 2013
- Slovakia:** Unchanged in 2013
- Turkey:** +18% projected by 2014
- U.K.:** Down 6% by 2014/15

# Explaining the changes

- Regression analysis on 35 western & central European countries, looking at real change in military spending between 2008-2011
- Change in military spending very strongly related to change in GDP over same period. Highly elastic.
- Surprisingly, no relationship with debt or deficit levels.
- Central European countries had significantly larger falls (11% other things equal)
- NATO countries also had larger falls (by 8%)
- Countries that had increased more since 2002 had slightly larger falls.

# Military spending of non-US NATO members that were members in 1955

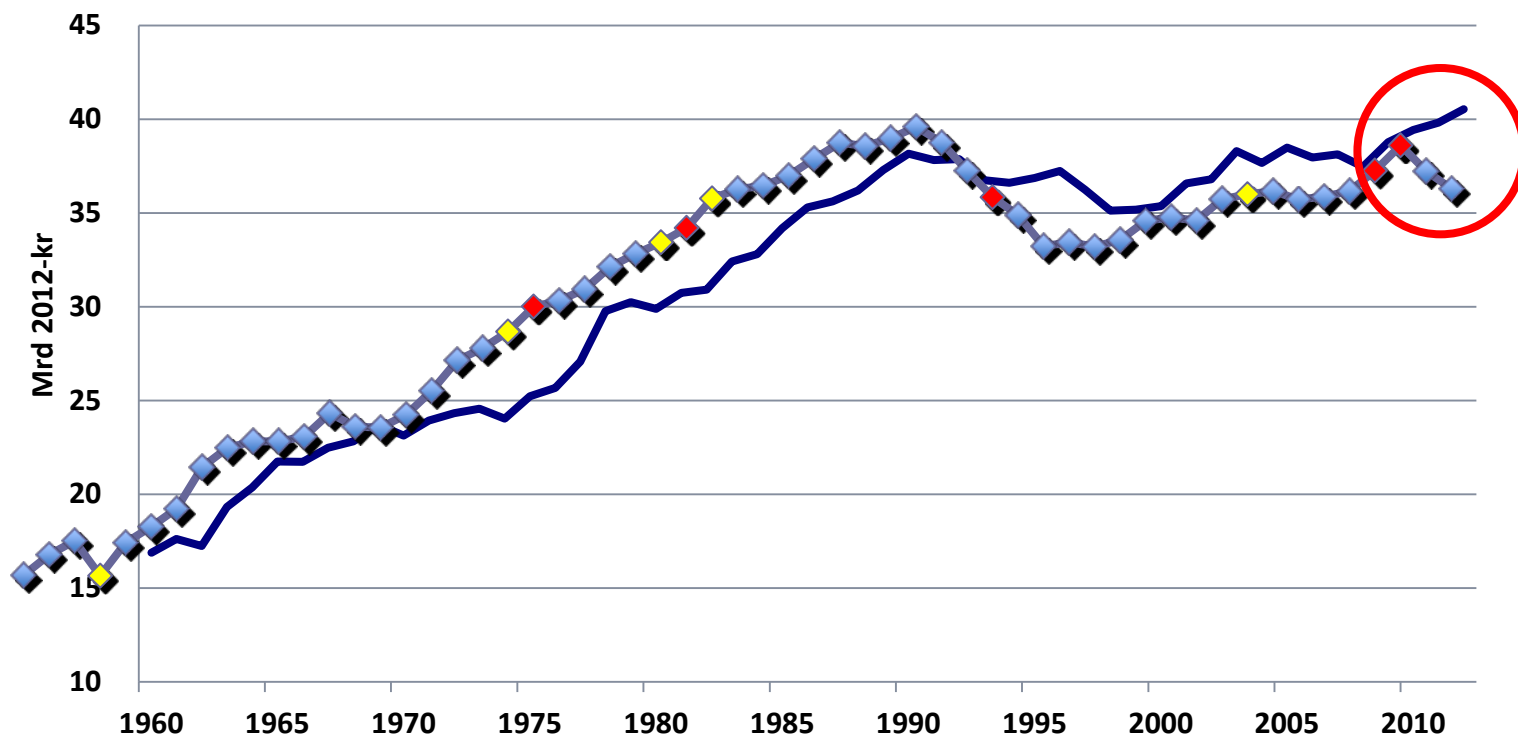
Red: years when at least 7 NATO countries saw negative real GDP growth. Yellow: At least 4 with negative growth, or at least 8 under 1%



# Historical context

- Recession since 2008 unique since WW2 in depth, length and universality.
- Other downturns coincided with significant strategic changes.
- Long-term determinants of NATO members' milex:
  - Wars
  - Democratic/non-democratic rule
  - Major strategic changes (e.g. End of Cold War)
  - GDP.
- However, effect of GDP changes not usually immediate. Takes time to feed through into changes in milex.
- Full effects of crisis may not be felt for some time.

# Utvikling i det norske forsvarsbudsjettet

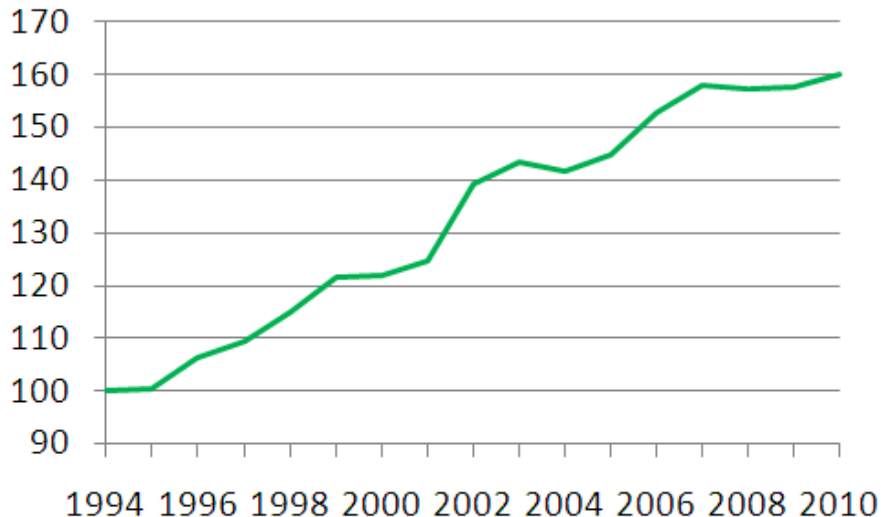


- Ressursmangelen i Nato ikke følt på samme måte her
- Må se både på finansieringssiden og kostnadssiden

Kilde: Forsvarsbudsjett,

# Forsvar blir dyrere

## Gjennomsnittlig lønn i Forsvaret



- Lønnsvekst og økt ytelse gjør at kostnadene per enhet øker
- Internasjonal budsjettutvikling strekker ikke til – smart defence tvinger seg frem

Kilde: FFI

www.defensenews.com
June 11, 2012 **Defensenews** 37

**By CLARK MURDOCK, RYAN CROTTY and KELLEY SAWYER**

The White House and Capitol Hill have spent months publicly battling over the size of defense cuts, while the Defense Department faces a far greater threat from within: the prospect of not only fewer defense dollars but also weaker defense dollars.

Most of the current commentary inside the Capital Beltway is focused on the \$500 billion in sequestration cuts that could emerge in January, but it is the escalating cost of continuing to do business that has spurred the defense dollar's purchasing power.

The deepest level of cuts being envisioned, the dreaded sequester, only goes half as far as has been seen in every previous drawdown this century, including the 10 percent after the 9/11 attacks and the 30 percent following the Vietnam War. Nonetheless, senators have stridently cut, invoking Spain from "mistakes" as to "catastrophic."

This reaction is in part the fact that the debt being hollowed out cost inflation. The is \$200 billion large in 2001, and yet the

## Weaker Defense Dollars

### Personnel, Ops Edging Out Weapons, Development

dollars available today for buying weapons and fielding new capabilities. Indeed, increasing personnel, operations and acquisition costs have combined to form a three-headed monster that is eating away at the foundation of U.S. military superiority.

Personnel and operating costs have always made up the largest portion of the budget, but they have recently ballooned to 70 percent of the total budget and are squeezing out the accounts that pay for new hardware and the development of the next generation of weapons.

The Government Accountability Office (GAO) has reported that the defense dollar is losing purchasing power faster than the consumer price index. Not only are our nation's defense dollars buying fewer capabilities, but those capabilities are arriving over cost and behind schedule.

Not only are our nation's defense dollars now buying fewer capabilities, but those capabilities are arriving over cost and behind schedule.

The Defense Department is clearly aware that it has a problem. As its own 2012 budget while paper notes, "military personnel costs have doubled since 2001... while the number of full-time military personnel, including activated reserves, increased by only eight percent during the same period."

But while the Pentagon has at

## Minister furious over £20bn bill for Eurofighter

By Neil Tweedie  
Last Updated: 1:48AM GMT 25/11/2006

The Government threw down the gauntlet to the makers of the Eurofighter yesterday, warning that it would no longer tolerate industrial inefficiencies that had effectively turned the project into a "charity".

The attack came as new figures suggested that the cost of buying 232 Eurofighters for the RAF is set to top £20 billion — making it far and away the most costly weapons project ever undertaken by Britain.

Figures released by the National Audit Office, the official spending watchdog, put the current price of a single Eurofighter, known as Typhoon in the RAF, at £66.7 million. That compares to a forecast price tag in 2003 of £56.8 million.

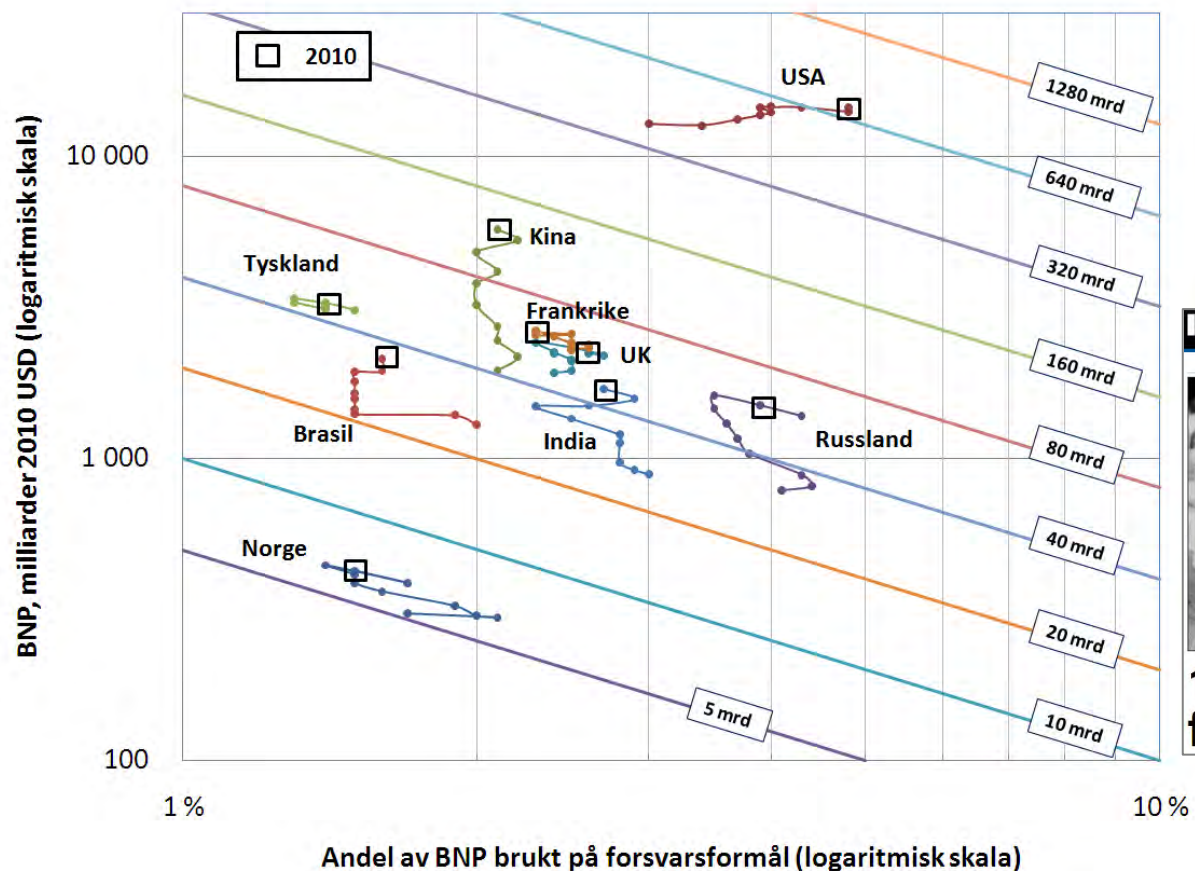
In a press conference coinciding with the release of the NAO's annual report on major Ministry of Defence projects, Lord Drayson, the minister for defence procurement, criticised the four-nation European consortium, describing it as "not fit for purpose".



The cost of a single Eurofighter: £66.7 million



# Prioritering av forsvar



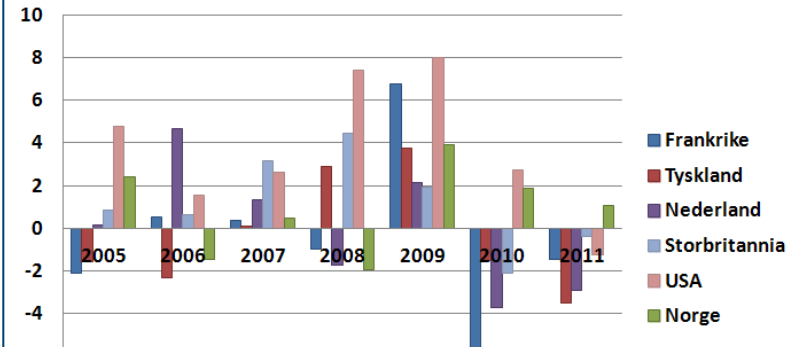
- Prioritering avgjør i hvilken grad et lands forsvarsbudsjett kan dekke kostnadsveksten

Kilde: SIPRI, FFI

# Oppsummering

- **Vanskeligere økonomi**
  - Nato-land kutter forsvarsutgifter
  - Norsk forsvar foreløpig skånet
  - Tøffere kamp om ressursene
- **Effektivisering viktigere enn noen sinne**
  - Enhetskostnadene øker
  - Budsjetveksten er usikker
  - Alternativet er strukturelle reduksjoner

Årlig prosentvis reell endring i forsvarsutgifter



www.defensenews.com June 11, 2012 DefenseNews 37

**By CLARK BIRROCK, IAN CROTTY and KELLY SIELES**

## Weaker Defense Dollars

### Personnel, Ops Edging Out Weapons, Development

The White House and Capitol Hill have spent months publicly hating over the size of defense cuts, while the Defense Department faces a far greater threat from within the prospect of not only fewer defense dollars but also weaker defense dollars. Most of the current commentary inside the Capital Beltway is focused on the \$600 billion in sequestration cuts that could emerge in January, but it is the escalating cost of continuing to do business that has sapped the defense dollar's purchasing power. The deepest level of cuts being envisioned, the dreaded sequester, only goes half as far as has been seen in every previous drawdown this century, including a drop of 45 percent after the Korean War, 33 percent after the Vietnam War and 50 percent following the Cold War. Nevertheless, senior Pentagon officials have recently opposed these cuts, invoking epithets ranging from "madness" and "devastating" to "catastrophic."

This reaction is likely due to the fact that the defense budget is being belittled not by internal cost inflation. The defense budget is \$300 billion larger than it was in 2001, and yet there are fewer dollars available today for buying weapons and building new capabilities. Indeed, increasing personnel, operations and acquisition costs have combined to form a three-headed monster that is eating away at the foundation of U.S. military superiority. Personnel and operating costs have always made up the largest portion of the budget, but they have recently ballooned to 70 percent of the total budget and are squeezing out the accounts that pay for new hardware and the development of the next generation of systems. If personnel costs are allowed to continue to grow at their current rate, they will, as Todd Harrison of the Center for Strategic and Budgetary Assessments has observed, cause the entire deficit by FY2033.

Similarly, the Congressional Budget Office reports that operating costs per active-duty soldier have nearly quadrupled since 1980, and doubled since 2001. The cost of fuel for these two accounts has

Not only are our nation's defense dollars buying fewer capabilities, but these capabilities are arriving over cost and behind schedule.

The Government Accountability Office has tracked the escalating costs of major weapon programs

Not only are our nation's defense dollars now buying fewer capabilities, but those capabilities are arriving over cost and behind schedule.

The Defense Department is clearly aware that it has a problem. As its own 2012 budget white paper notes, "military personnel costs have doubled since 2001 ... while the number of full-time military personnel, including activated reserves, increased by only eight percent during the same period."

But while the Pentagon has attempted to address this problem in its recent budget proposal by increasing health care fees and limiting future pay raises, it has not gone nearly far enough. Even

Ultimately, it is impossible to predict precisely how deep the long-term defense cuts will be. The looming threat of sequester cuts failed to produce a supercommittee deal in late 2011, and is likely to similarly fail to produce a grand bargain in 2012, as a lame-duck Congress, paralyzed by the prospect of more than \$6 trillion in sequestration and expiring tax cuts, kicks the can to the next Congress.

And while the total reduction to the defense budget top line might only be the 17 percent enacted by the budget caps and the sequester, it will feel much deeper to the Pentagon because of the reduced purchasing power of the defense dollar.

As the Defense Department, the White House and Congress mope back and forth, playing toward a political endgame, the deeper issues affecting the strength of the defense dollar get lost in the

tim malpractice."

Sigmund Johnsen varslar et klart statsbudsjett for 2013

## Johnsen varslar krisetilpasset statsbudsjett

Den økonomiske krisen i Europa gjør at finansminister Sigmund Johnsen (Ap) varslar et stramt og krisetilpasset statsbudsjett for 2013.

NTB 08. aug. 2012 08:13 (Oppdatert 08. aug. 2012 13:11)

Den internasjonale veksten er fortsatt svak. Det underbygger behovet for et budsjett som er tilpasset konjunktursituasjonen. Så vi må øke deler av utgiftene, for å si det sånn, sier Johnsen til Dagbladet.

I slutten av august samles Regjeringen til budsjettkonferanse for å avgjøre fordelingen av midlene i statsbudsjettet for neste år.

«Et riktig statsbudsjett blir viktig, men særlig kronkurs og lennsauktvilking spiller inn», sier Johnsen, som legger til at Regjeringen følger norske banker og finansinstitusjoner svært tett for å passe på at de er solide nok.