



CHATHAM HOUSE

Chatham House, 10 St James's Square, London SW1Y 4LE  
T: +44 (0)20 7957 5700 E: [contact@chathamhouse.org.uk](mailto:contact@chathamhouse.org.uk)  
F: +44 (0)20 7957 5710 [www.chathamhouse.org.uk](http://www.chathamhouse.org.uk)

Charity Registration Number: 208223

## Transcript

# Strong Economy, Strong Defence, Strategic Reach: Protecting National Security in the 21st Century

Rt Hon Dr Liam Fox MP

Secretary of State for Defence

19 May 2011

The views expressed in this document are the sole responsibility of the author(s) and do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the speaker and Chatham House should be credited, preferably with the details of the event. Where this document refers to or reports statements made by speakers at an event every effort has been made to provide a fair representation of their views and opinions, but the ultimate responsibility for accuracy lies with this document's author(s). The published text of speeches and presentations may differ from delivery.

### **Rt Hon Dr Liam Fox MP:**

The true test of Government is to act not for party political advantage, but to act in the national interest.

The Coalition Government inherited a level of debt and economic mismanagement that represents a national economic emergency.

To deal with it we have had to take difficult and potentially unpopular measures.

But they are essential if we are to put Britain back on track in the long-term.

This is as important for national security as it is for national prosperity.

This requires not only dealing with the here and now, but charting a course 10, 15, 20 years ahead – acting to position the country for the safety and prosperity of future generations.

### **Acting in the national interest**

So in no area is this more important than in Defence and Security.

Our Armed Forces remain at a high and sustained operational tempo.

The requirement to fight, and win, the wars of today is not optional but necessary to protect national security and meet the national interest.

And when our Armed Forces are committed, they deserve and the country expects that they get the support they need to do the job we ask of them.

That is why current operations in Afghanistan and in Libya remain the priority for the Ministry of Defence and the men and women of our Armed Forces fighting on the front-line get first call on MOD resources.

But the requirement for strategic thinking, for strategic planning and preparation – the requirement to play the long-game – is equally necessary.

Why?

First – because conflict and threats to national security do not fit neatly into electoral cycles.

The hunt for Osama bin Laden and the campaign against al-Qaeda's brand of violent extremism has been taken forward under three American Presidents and three British Prime Ministers of different political persuasions.

For the long watch of the Cold War – it took 10 different US Presidents and 9 different British Prime Ministers.

Second – the character of conflict evolves and new threats arise, but the complex military equipment required to meet these challenges can take a decade or more to design and build.

So we must constantly scan the horizon and prepare for the world as it will be, not as we hope it will be.

In Defence, contingency planning is central to ensuring that we are prepared for what may come – even if we can't predict exactly when and where threats may emerge.

This drives a continuing requirement for Armed Forces that are agile, adaptable and of the highest quality.

Third – building and sustaining the power, influence and prosperity of a country in the long flow of history – particularly in our age of rapid change and unpredictability – requires action now to ensure the country can succeed in the future.

Energy security is one example.

Climate change would be another.

So today I want to set out what we have achieved in Defence over the last year to set in place a long-term strategy for the safety, security and prosperity of our citizens.

The Strategic Defence and Security Review has ensured that we will remain in the premier league of military powers.

It is not an agenda for retrenchment; it's an ambitious agenda for transformation over time.

It is not an agenda for the next general election; it's an agenda for the next generation.

This long-term vision for Britain's Defence depends upon a sound economic base that enables sustainable military power to be built – together economic power and military power are the foundation of global influence.

A proper strategy for the long-term health of our country must balance ends and ways with the means available.

That is why tackling the crisis in the public finances is not just an issue of economics but an issue of national security too.

It is central to sustaining in the long-term Britain's reach, military power and influence.

## **The lessons of history**

Let us not forget our own history.

The contraction of European influence in the 20th century was driven as much by the economic exhaustion of European nations over two World Wars as it was by political enlightenment in support of decolonisation.

As a result of the First World War in the 1920s and 30s, Britain's national debt was regularly over 150% of GDP.

After World War Two, it peaked at around 250% of GDP.

As examples of the effect, economic considerations underpinned both the British withdrawal from Palestine in 1948, and the abandonment of the Suez campaign in 1956.

It wasn't until the 1970s that the debt position recovered to under 50% of GDP – a quarter of a century after the end of the War.

Britain's so-called 'East of Suez' moment in 1967 when the Wilson Government announced a major withdrawal of UK forces from South East Asia, was a response to the decline in the country's relative economic strength.

Equally, the Cold War was won because the Soviet Union collapsed under the weight of an economic system that could not sustain the myth of communism's superiority – nor sustain the military forces required to hold it together.

During the early 1980s for instance, the Soviet Union was spending around 20% of GDP on Defence - roughly 4 times the level of the US and wholly unsustainable in the long-term.

The lessons of history are clear.

Relative economic power is the wellspring of strategic strength.

And conversely, economic weakness debilitates every arm of government.

Structural economic weakness, if not dealt with, will bring an unavoidable reduction in our ability to shape the world.

## **Economic weakness is a national security liability**

Let's relate these lessons to our situation today.

Speaking at Chatham House last week, Niall Ferguson said:

'fiscal and monetary stimulus, no matter how much it may take and how many times you read aloud the collected works of John Maynard Keynes, sooner or later brings a hangover.'

It has fallen to this Coalition Government to nurse Britain through the hangover of the decade of financial mismanagement that put us where we are today.

When, as Chancellor, Gordon Brown abandoned sticking to the previous Conservative Government's strict spending policies, Britain's national debt began an inexorable rise.

Despite the benign economic environment of most of the last decade, from 2002-2007 under Labour, UK national debt as a percentage of GDP increased not decreased - from around 31% to around 37%.

On the back of the financial crisis it has ballooned to around 60% of GDP.

The Coalition Government inherited from Labour a record peacetime annual deficit equal of over 11% of GDP – in 2009/10 alone that meant a spend of over £150bn more than the Government brought in in income.

Until the structural deficit is eliminated, Britain's national debt will only continue to grow.

Even with the Coalition's aggressive action, the Office for Budget Responsibility forecasts public sector net debt to peak at over 70% of GDP in 2014/15.

It currently stands at over £900bn - equivalent to almost a quarter of a century of spending on Defence at the level of this year's budget.

By 2015 it is likely to reach well over 1.3 trillion pounds.

The interest, just the interest, paid out last year alone was £43bn – greater than the annual budgets of the MoD, FCO and DfID combined.

£43bn pounds a year of taxpayers' money that could pay for a tax cut to each taxpayer of almost £1,500 a year.

Or it could pay for a million teachers or over a million nurses.

In Defence - a dozen Queen Elizabeth Aircraft Carriers or 33 Astute Class submarines.

And the bad news is, next year the interest payments will be £50bn.

This is all while we are tackling the deficit and before we even begin reducing the national debt.

So let me boil down this barrage of statistics to my central point.

The Chancellor doesn't just sit on the National Security Council to tell us how much everything costs, he does so because this Government recognises what the last did not – that our national security is linked to the health of our economy.

Creating military power on the back of borrowing at times of extreme or existential threat, such as during the World War Two, is understandable and reasonable.

But if you continue to do so as a matter of routine, as Labour did over the last decade, you set off a ticking fiscal time bomb that if not defused will inevitably result in strategic shrinkage.

I didn't come into politics to cut the defence budget, but neither did I come into politics to be fiscally irresponsible – because the consequences of that are written deep in the historical record.

To be a hawk on defence, you need to be a hawk on the deficit and the national debt too.

### **The defence deficit**

Defence spending represents the fourth largest chunk of public expenditure, so the MoD must play its part in addressing the current economic challenges.

In the MOD we face a particularly tough job.

The Defence budget was perhaps the worst inheritance of all – before the SDSR the forward defence programme was overextended to the tune of £38bn over the next decade.

That was spending on all the equipment, programmes and all other variables previously planned over and above a budget rising at the rate of inflation.

Everyone knew the Defence Budget was running hot and that addressing this would have been required regardless of fiscal tightening.

This is one of the reasons why, in relation to the vast majority of government departments, the MOD is contributing less to deficit reduction.

And this is also why the transformation of Defence will have to take place over a longer-term period too.

This cannot be done overnight – with sunk costs, kit in build, contractual liabilities and other inherited committed spend, room for manoeuvre in the short-term is limited.

So it's a process charting a course for the recovery of Defence capability and the sustainability of its funding.

The Strategic Defence and Security Review has set the right direction – and I will return to this and Future Force 2020 in a moment – but staying the course will require sustaining the strict cost-control regime I have put in place at the MOD.

This will inevitably require that tough decisions are taken on a regular basis to keep the budget on track.

Following the SDSR we made it clear that there would be a series of complicated second order consequences including the basing and reserves reviews, as well as the emerging work from the Defence Reform Unit.

Having completed the current planning round, we have started the next Planning Round to take forward the work needed to balance defence priorities and the budget over the long-term.

The Department has recently initiated a three month exercise as part of that work to ensure we match our assumptions with our spending settlement.

This allows us to draw all this work together to inform the next planning round and to avoid the mistakes of the previous government in building up to an unsustainable Defence programme

We have made it clear that while the SDSR had made substantial inroads into the £38bn funding deficit, there is still more to be done.

Given the mess we inherited putting Defence on a sure footing, with a predictable budget, was always going to take time, but we believe it is better to be thorough than quick

The Prime Minister has set out his personal view, with which I strongly agree, that achieving our vision for the future structure of our Armed Forces will require year-on-year real growth in the Defence Budget after 2015.

As we approach the next General Election, and as we prepare for the next Defence Review in 2015, a commitment to meet Future Force 2020 will be a key signifier for those political parties dedicated to the vision of a Britain active on the world stage and protected at home.

## **Building for the future**

As the National Security Strategy clearly sets out – our national interest requires our continued full and active engagement in world affairs

Our trade and economic relationships are global.

A threat that appears in one part of the world can swiftly be felt at home.

In order to protect our interests at home, we must project our influence abroad.

Coming together as they did, the National Security Strategy, the Strategic Defence and Security Review and the Comprehensive Spending Review, set us on a course to maintain our strategic reach, renew military capability on a sustainable basis, and address the structural weakness of the economy.

In the MOD it was not only a budgetary deficit that we inherited.

It was also a capability deficit.

We had failed properly to adapt to meet future challenges.

We had scores of tanks on the German plains, but insufficient cyber capability.

We were committed to an expeditionary policy, but increasingly dependent on ageing strategic airlift.

So we have embarked on a long-term programme of renewal and revitalisation in Defence that maintains our strategic reach.

In doing so we have rejected alternative postures quite strongly advocated by some.

One was that we should invest in what you might call 'Fortress Britain', withdrawing back closer to home and investing in the appropriate assets in that direction.

Under such a posture there would be no requirement for expeditionary capabilities on our current scale, for example.

There were others who said to go exactly the other way, and that we should have a highly committed posture and just assume that the conflicts of the future would be like the one we currently face in Afghanistan.

Under such a posture there would be no requirement for widespread maritime capabilities, for example.



Something that is difficult is to quantify but undoubtedly real is Britain's invisible export of security and stability carried out by our Armed Forces, including the Royal Navy.

Clearing mines in the Arabian Gulf, anti-piracy actions in the Gulf of Aden, protecting our own sea lanes – all contribute to international stability and the free movement of goods upon which our prosperity relies.

So neither a fortress nor a committed posture would have met the requirement in the National Security Strategy for continued engagement in a world where threats are evolving and unpredictable.

The adaptable posture we have embraced gives us the best capability to respond with agility to changing threats in an uncertain world.

This means keeping our forces ready to react swiftly to those things we cannot easily predict.

It means upgrading strategic lift capability.

It means investment in Special Forces.

It means being efficient, cutting down on duplication and numbers of equipment types to shorten the tail.

And it means investing in areas of capability that suit the future character of warfare – such as cyber, intelligence and unmanned technology.

It also means investing in activities, such as conflict prevention and aid, that prevent the development of threats 'upstream', before they require a more demanding military response.

But in doing so we are not ignoring conventional military power required for flexible, multi-rolled, deployable forces.

By 2020, The RAF will be built around hi-tech multi-role combat aircraft Typhoon and the Joint Strike Fighter, surveillance and intelligence platforms such as Airseeker, and a new fleet of strategic and tactical transport aircraft including A400M and Voyager.

The Royal Navy will have new aircraft carriers with the JSF carrier-variant, a high readiness amphibious capability, a new fleet of Type 45 destroyers and Astute class submarines – and ready at that point to accept the new Global Combat Ship.

The Army, based on Multi-Role Brigades, will be powerful, flexible, fully equipped for the land environment and able to operate across the spectrum of conflict.

We will remain one of the few countries who can deploy and sustain a brigade sized force plus its air and maritime enablers, capable of both intervention and stabilisation operations almost anywhere in the world.

And we will remain a nuclear power, maintaining a minimum credible nuclear deterrent.

I am absolutely clear, as I said in the House of Commons yesterday, that a minimum nuclear deterrent based on the Trident missile delivery system and continuous at sea deterrence is right for the UK.

We still have the fourth largest defence budget in the world and will continue to meet the NATO target of spending 2% of GDP on Defence over the spending review period.

## Conclusion

Of course, pursuing the necessary long-term strategy set out in the SDSR is not the only mark of renewal in Defence over the last year.

For years successive Defence Secretaries have failed, often through no fault of their own, to get a grip on the equipment programme and failed to hold the department and industry to account for delays and poor cost-estimation

The drivers of structural financial instability and the institutional lack of accountability, from ministers down, must be tackled if we are to avoid history repeating itself.

That is why the work of Lord Levene and his Defence Reform Unit to reform the operating model of Defence is so important along side the work of the Chief of Defence Materiel, Bernard Gray, to set the forward equipment programme on a sustainable basis.

We are also acting to redraw and rejuvenate the relationship with industry to ensure the tax payer gets the best deal from the investment in Defence.

These are all measures in support of the long-term transformation of Defence and the vision set out in the SDSR.

Labour's Defence Green Paper published just months before the election admitted with what I have to say is spectacular understatement that:

'the forward defence programme faces challenging financial pressures'

It said in particular that the MOD:

'cannot proceed with all the activities and programmes we currently aspire to, while simultaneously supporting our current operations and investing in the new capabilities we need. We will need to make tough decisions'.

Well, we have made those tough decisions, and I stand by them.

I believe in setting your strategic direction and sticking to your plan unless the facts change.

Since we completed the SDSR, the financial position of the country has not changed nor substantially have the nature of the threats we face.

Let us be honest about this.

Those who are arguing for a fundamental reassessment of the SDSR are really arguing for increased defence spending.

But they fail to spell out the inevitable result - more borrowing, more tax rises, or more cuts elsewhere.

The bottom line is that a strong economy is a national security requirement and an affordable Defence programme is the only responsible way to support our Armed Forces in the long term.

There are no easy answers.

There are no silver bullets.

There are only tough decisions, hard work and perseverance.

To pretend otherwise is to fail in our duty to our country and its people.