



European defence spending 2015: The force awakens

by Zoe Stanley-Lockman and Katharina Wolf

Amid macroeconomic crises and ensuing budgetary declines, the common refrain for European defence has been not to spend ‘more’, but to spend ‘more wisely’. But the resurgence of threats on the European continent – be they to territorial integrity or political solidarity – has been accompanied by a recognition that the mantra of ‘doing more with less’ no longer applies. New intelligence officers are being hired, surveillance equipment upgraded and planned cuts of the armed forces discarded. With its immediate security environment in turmoil, now that Europe is beginning to spend ‘more’, will money be spent ‘more wisely’?

As the repercussions of the deteriorating security situation in neighbouring regions are felt back home in the EU, there are signs that Europeans are adjusting their strategic calculations. According to the International Institute for Strategic Studies’ (IISS) annual assessment of global military capabilities and defence economics, the free fall of military outlays, which has characterised Europe’s spending priorities during most of the post-Cold war period, is finally slowing down.

Data provided by the IISS’ *Military Balance 2016* shows that EU member states spent a total amount of €203.143 billion on defence in 2015.

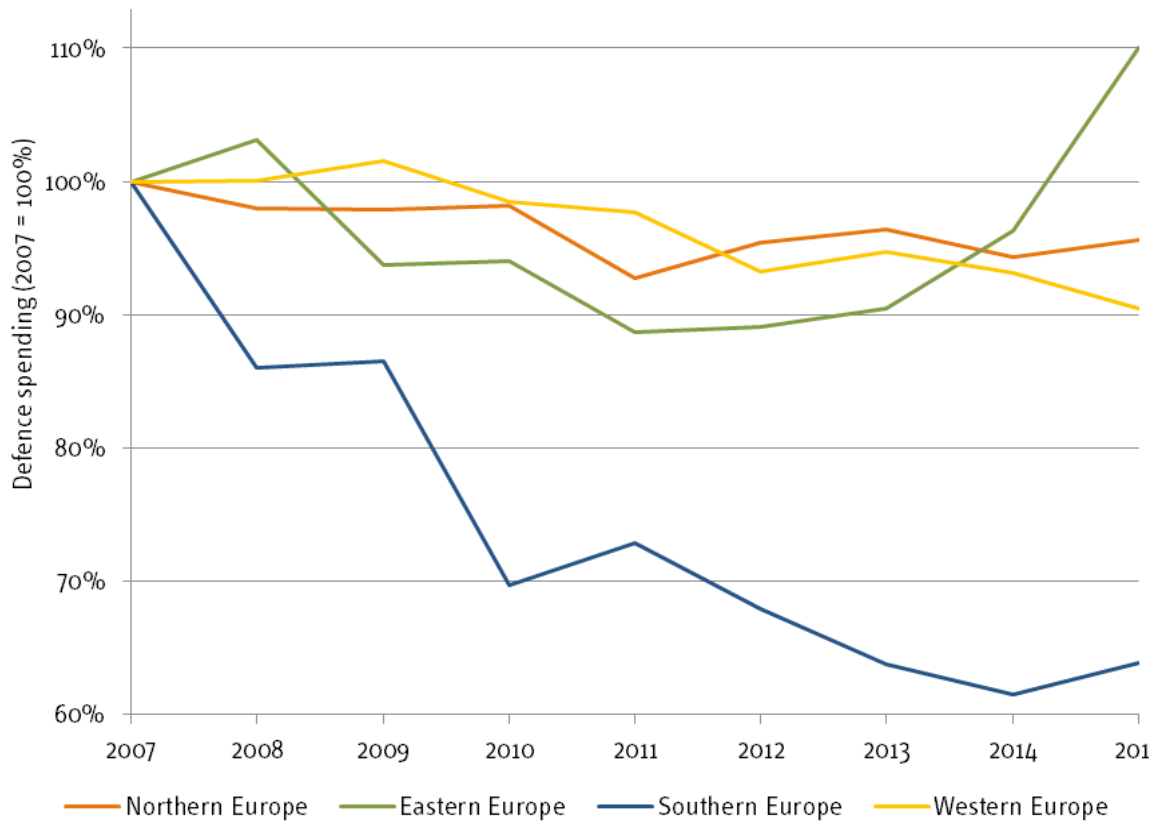
Although spending still fell at an annual rate of 0.4% compared to the previous year’s outlays, the decreases are slowing and on target to begin growing again. 2015’s reductions contrast sharply to the plummeting in expenditure seen at the height of the financial crisis when budgets were trimmed at annual rates of 4%-6%.

Notwithstanding signs that the free fall of European defence budgets has bottomed out, Europe’s 2015 defence spending corresponds to a mere 85.5% of pre-financial crisis levels (2007) and thus the lowest military outlays in almost a decade. While Europe was struggling with the financial crisis, other regions ramped up their defence spending. In 2012, Asia overtook Europe to become the world’s second biggest regional defence spender after North America and, in 2015, outspent Europe by 36.4%.

Elsewhere, troubled Middle Eastern and North African countries are slowly drawing level with Europe, too. And while Russia’s declining economy might prevent it from maintaining its massive defence investments in the long run, last year again saw Moscow devoting a substantive share of its resources to the military: 4.2% of GDP was allocated to defence in 2015, an increase by 9% in real terms compared to 2014.



Comparative regional defence spending in the EU (2007-2015, 2007 = 100%)



Northern Europe: Denmark, Estonia, Finland, Latvia, Lithuania, Sweden
 Eastern Europe: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia
 Southern Europe: Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, Spain
 Western Europe: Austria, Belgium, France, Germany, Ireland, Luxembourg, Netherlands, UK

Data source: *IISS Military Balance 2009-2016*

Fall and bounce

The picture in Europe, however, is more complex than a general slowdown of cuts to defence budgets. Whereas the multiplication of security threats in Europe's east and south seems to have alarmed some EU countries, others appear less worried. Russia's continued presence and disruptive activities in Ukraine have raised concerns in many eastern European countries which, in response, have increased defence budgets by roughly 22% over the last three years. This upward trend is to a large extent driven by Poland, which increased spending from 1.7% of GDP in 2013 to 2.1% in 2015. Slovakia and Romania followed suit, though starting from much lower baseline levels.

For governments in Europe's south, the dissolution of Libya, the civil war in Syria and the resulting refugee crisis are beginning to affect security investments despite the ongoing austerity measures in place. Yet, the renewed focus on the military is only starting to set in now and increases in

spending – approximately 4% compared to the previous year – are much smaller when compared to eastern Europe. What is more, the brutal cuts to defence budgets made during the financial crisis mean that the effective reinforcement of the defence sector may be a long way off – and may still be vulnerable to financial constraints.

As for Europe's northern member states, growing discomfort with Russia's military build-up is becoming increasingly visible in changing budget calculations. Yet, increases in defence budgets are proceeding at a much slower pace and totalled a 1.4% increase on average in 2015 compared to the previous year. Yet, with the exception of Latvia and Lithuania, northern Europeans' defence budgets also never fell more than 10% on average compared to 2007 outlays. That said, 2015 saw Vilnius raising its military expenditure to higher than pre-crisis levels and Riga is to follow suit in 2016.

Finally, and in contrast to trends apparent in most of Europe, the defence budgets of western



European states did not display a change in strategic calculations in 2015. Instead, budgets sunk again by 2.9% in real terms and for the second year in a row. Austria, Belgium, Germany, Luxembourg and the UK all carried out (minor) cuts to their defence budgets in 2015. After the dramatic experience of two terrorist attacks on its soil, France discarded planned cuts and increased spending again. Likewise, the Netherlands channelled extra funding to the country's defence budget, which rose by 2.5% in real terms compared to 2014. Moreover, Austria, Belgium, Germany and the UK have all announced increases to spending in 2016. Ultimately, western European states still account for roughly 69% of Europe's total defence spending – a figure which has risen in relative terms since 2007 (from 65%).

Quality v quantity

The better known part of the 'defence investment pledge', the defence spending levels that NATO allies have pledged to reach by 2024, is spending 2% of GDP on defence. However, the pledge also includes other ways to assess how the money is actually spent. The question is now whether spending more is a replacement for or a complement to spending better. The former means ignoring efficiency gains and continuing to prioritise sovereignty over capabilities, whereas the latter would take the form of increased cooperation and collaboration.

While states are engaged in both industrial and operational cooperation, the reality is that defence remains first and foremost a national prerogative. Based on recently published data from NATO, national defence spending trends show that the 22 EU member states that are also NATO members (EU-NATO 22) are slowly moving towards meeting their pledge of spending 20% on equipment. At the same time, concurrent increases in personnel costs and reductions in workforce sizes (both civilian and military) continue to result in relative imbalances between personnel and the other components of defence spending: equipment, infrastructure, and 'other' (operations and support, maintenance and programme-unspecific R&D).

In addition to the much-touted 2% of GDP spent on defence, NATO allies have also pledged to spend 20% of defence expenditures on procurement and programme-specific R&D by 2024. (This benchmark is shared with the European Defence Agency, although it should be noted that the two organisations count R&D investments differently.) In 2015, only five of the 22 EU-NATO countries met that requirement. However,

of the remaining 17 EU-NATO member states, 15 either halted or reversed this trend between 2014-2015 (up from seven between 2013-2014). That said, these figures should be taken with a pinch of salt, given that equipment expenditures differ year-on-year and between countries. Some procurement costs may also be spread over the system's lifecycle (through the likes of private finance initiatives), whereas other costs are covered up front, resulting in significant spikes in annual equipment expenditures.

Across the pond

The worsening security situation in Europe's neighbourhood has not only impacted European budgets, but has also changed the calculus on the other side of the Atlantic. The US has recently signalled to its allies and adversaries alike a desire to reinforce its presence on European soil.

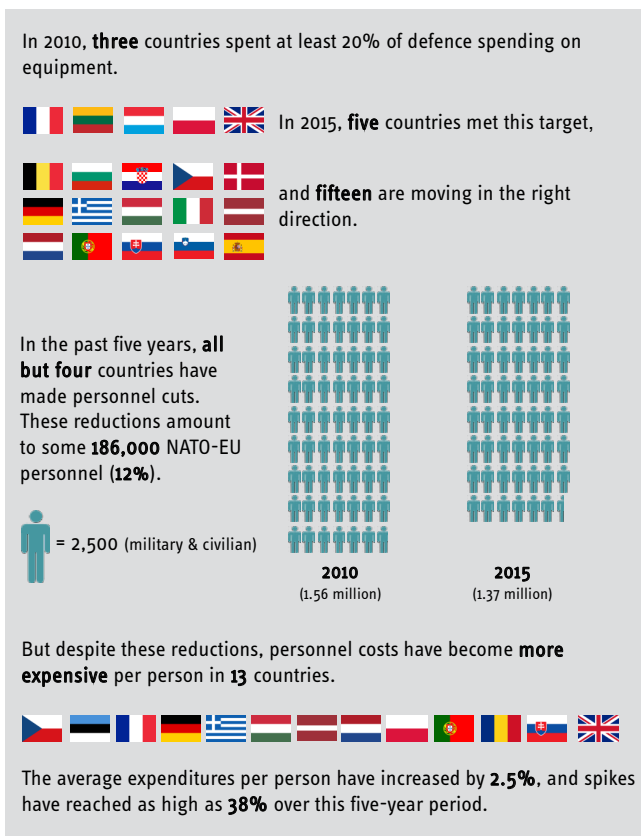
In the recently announced fiscal year 2017 (FY2017) defence budget request in the US, the Obama administration has requested \$3.4 billion (€3.1 billion) for the European Reassurance Initiative, launched in response to Russian aggression in Ukraine. Although this is a mere drop in the ocean of the \$582.7 billion budget request, it is significant that current budget for the initiative has quadrupled.

Furthermore, in its most recent strategic document, the US European Command explicitly named the deterrence of Russian aggression as its top priority. Through the NATO alliance structure, the US has also shown its dedication to Europe by conducting the largest military exercise and sending the largest number of ammunition shipments since 2005.

NATO data also shows that personnel costs continue to account for the largest share of defence expenditure. The EU-NATO 22 spend, on average, more than 60% on personnel (including pensions for all except Bulgaria). In general, recruiting and maintaining personnel has become more expensive in recent years, especially as private sector jobs offer increasingly attractive salaries and benefits relative to public sector positions.

In efforts to reduce redundancies and budget deficits, many countries are actively implementing policies to have smaller armed forces. Only four countries have more military personnel now than they did five years ago. The UK is the only

EU-NATO 22: five years ago and today



Data source: NATO Public Diplomacy Division

country that implemented cuts while increasing personnel expenditures over the past year, which can be understood in light of the plan to reduce the Ministry of Defence (MoD) workforce by 30% by 2020. Intermediary hikes in personnel expenditures could be the result of incentivising retirement through, for example, early payouts of pensions. Ultimately though, moving towards more reservist-based forces intends to reduce personnel expenditures as total defence spending gets closer to 1.95% of GDP. On the other end of the spectrum, the French decision to annul previously announced personnel cuts will likely result in longer-term personnel expenditure hikes.

Beyond the numbers

In addition to the defence investment pledge, NATO also uses nine classified output measures with deployment and sustainability guidelines for personnel and equipment alike. These classified measures, which rank the allies against one another to assess progress leading up to 2024, offer a more qualitative approach to combat readiness. These output measures balance between the wide-ranging capability levels across the alliance. For example, contributing airframes or vessels would obviously cost more than deploying an equal number of land forces. By incorporating

land, aerial and maritime force components, NATO also attempts to ensure that the effectiveness of defence spending spans across the different services and values all allies' contributions on a more level playing field.

Whether money is spent on the right programmes (e.g. filling gaps in adequate numbers and avoiding duplication) is a more complicated question addressed primarily by transnational cooperation, but political statements also offer guidance on the effectiveness of spending. For example, the proposed €130 billion increase in German defence spending over the next 15 years will focus on much-needed equipment modernisation for items ranging from fighter jets and helicopters to tanks and night-vision goggles.

At the same time, Germany is also involved in more bi- and mini-lateral cooperation schemes than any other European nation. More granular assessments of development, modernisation and cooperation are ultimately the best indicators of the quality of defence spending. This said, emphasising the broad strokes is a helpful way to see that priorities are coherent and connected across the alliance (and the Union). And even if the defence investment pledge remains contested by some, the broader political message will not fall on deaf ears.

2015 will likely be recognised as a turning point for European defence: the bottoming out of defence spending in reaction to the manifold challenges threatening Europe's security signals the continent's re-awakened interest in the matter. Ending longstanding budget cuts, however, can only be the first act of Europe's return to bolstered defences upon which others must build.

The impact of the rising security threats is only now beginning to affect Europeans' hard power toolbox. And as the European defence apparatus continues to take shape in the years to come, the more decisive question on which much of Europe's security will ultimately depend is whether Europeans succeed in making quality and quantity count equally in their spending.

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