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EUROPEAN UNION AS A SYSTEM OF COLLECTIVE REGIONAL SECURITY DURING THE ECONOMIC CRISIS. INFLUENCE OF AUSTERITY MEASURES ON THE DEFENCE SPENDING OF FRANCE, GERMANY, ITALY, SPAIN AND THE UNITED KINGDOM

Keywords:
collective security, defence budget, defence procurement, defence spending, economic crisis

Introduction – the European Union as a potential system of regional collective security

The idea of the systems of collective security as they are being understood nowadays has emerged after the end of the Second World War and was initially directly linked with the bipolar geopolitical order of the world during the Cold War. For the countries of Western Europe, which, starting from 1950 have played the role of the main force behind the development of the process of the European integration, such platform for collective defence has always been the North Atlantic Treaty Organization (NATO). Since its establishment in 1949, NATO remained not only the main oppositional formation towards the Warsaw Pact, but also the main guarantee of safety for the European countries. However, it may be argued that this situation has started to change during the 1990s, when the position of NATO as the sole system of collective security was put in jeopardy.

One of the reasons for this was the end of the Cold War, leading to the ultimate dissolution of the Warsaw Pact. With the Soviet Block collapsing, the main reason for NATO's existence disappeared, therefore leading to a need for a reform of

the organisation. This, in turn, caused tensions within its structure. At the same time, for the European countries the dissolution of the Soviet Union was equivalent to the ultimate disappearance of an imminent, pressing danger to their security, which has consequently decreased their dependence on the United States.

Another reason for the reform was the establishment of the European Union by the Amsterdam Treaty (1997). This act was accompanied by formation of the Common Foreign and Security Policy, including the European Security and Defence Policy (ESDP). Both policies are incorporated in the European Union Treaty. While the ESDP, later renamed the Common Security and Defence Policy, has always been plagued by certain fundamental flaws, it has become a potential foundation for an alternative system of collective security, independent from NATO, while not competing with it. Most importantly, however, such potential system could be a regional, European platform, rather than a global platform, which NATO offers.

This paper will argue that one of the basic requirements for a potential system of collective regional security for Europe to be effective is the ability of the participating states to provide sufficient defence capabilities to support it. Maintaining such capabilities can only be achieved if defence budgets are sufficient, especially in areas such as defence procurement process and defence research and development (R&D). The overall size of the military spending in the European Union appears adequate to support cooperation within the system of collective regional security, especially in terms of potential peacekeeping and peace enforcement missions in the areas closest to the borders of the EU. However, while the amount of funds being spent is sufficient, the effectiveness of spending is far from desired, due to Member States relying primarily on their individual procurement processes. Fragmentation of the procurement process results in duplication as well as limitation of the scale of the armament programmes. It also increases certain risks, such as failure of the programme or further increase of its costs, incurred by the Member States undertaking them. Such consequences resulting from current fragmentation of

the procurement process may, in the on-going global economic crisis which the governments of the EU countries are facing, lead to limiting of the defence budgets and therefore to limiting of the necessary defence capabilities.

The article consists of five major sections. First two of them form an introduction to the analysis, attempting to explain why a defence budget can easily become a target of austerity measures during an economic crisis, as well as providing the insight into the scope of the analysis of influence of the contemporary recession on defence spending in five out of 27 Member States of the EU. Third section of the article is constituted by the analysis of statistical data regarding defence investments made by France, Germany, Italy, Spain and the UK between years 2005 and 2010 in order to determine how the general tendencies in defence spending have been affected by the global economic crisis. Finally, the article concludes with discussion of risks and opportunities that may arise as a result of the economic crisis.

Defence budgets and austerity measures

Austerity measures are usually the first and at the same time the most common reaction of governments to an economic crisis. With spending in the public sector as a whole having suffered severe cuts over the last several years, the defence budgets are always the ones that may potentially take some of the biggest hits, both in terms of the face value of the cuts and in terms of the influence of such measures on functionality of the whole public sector. There are several potential as well as mutually supplementary explanations for this fact. The first is the size of the defence sector. Even within Europe, depending on the size of the country, its geopolitical position and its foreign policy goals, the size of defence sectors may vary. The number of employees working for the military, as the part of the armed forces and as the so-called civilian personnel, can range from just a few thousands (e.g. Estonia, employing 4241 people in 2010)[1], through well over a hundred thousand (e.g. Poland, employing

[1] http://www.eda.europa.eu/info-hub/defence-data-portal/Estonia/year/2010, 25.04.2013.

143 450 people in 2010)[2] up to a few hundred thousand (e.g. France, employing 300 100 people in 2010)[3]. Nevertheless, when compared with the size of the population of each country and the size of its total budget as well as the total value of its GDP, the number of people employed by the state in the defence sector appears to be formidable. The second explanation is the size of the defence budget. Like the size of defence sector itself, the size of the defence budget can vary, depending on the similar set of factors. The variation starts from a few hundred millions Euro (e.g. Estonia, spending 249 m in 2010)[4], through a few thousand millions Euro (e.g. Poland, spending 6 392 m 2010)[5] up to a few billions (e.g. the United Kingdom, spending 43 403 m in 2010)[6]. Defence expenditure throughout Europe ranges from 1% to over 2.5% of GDP, which strains the national budgets enough to justify introduction of some austerity measures. The third explanation is the technological advancement of various projects undertaken within the framework of the armaments procurement process. Contemporary equipment of the European armed forces remains among the most technologically advanced in the world. This makes any procurement programme undertaken by the European states expensive. Every stage of these programmes is expensive: the preparatory stage, the research and development stage, the introduction stage and the life cycle management stage. Therefore, it may appear reasonable to the state authorities to reduce participation in something that generates not only high, but also long-lasting costs.

Finally, the fourth one is the relatively low impact of austerity measures regarding defence expenditure on the public image of the government. While budgetary cuts are generally bound to cause negative reactions and unrest among the society, austerity measures aimed specifically at the defence budgets bear considerably lower risk of doing so. The explanation for such situation is two-fold. On

[2] http://www.eda.europa.eu/info-hub/defence-data-portal/Poland/year/2010, 25.04.2013.
[3] http://www.eda.europa.eu/info-hub/defence-data-portal/France/year/2010, 25.04.2013.
[4] http://www.eda.europa.eu/info-hub/defence-data-portal/Estonia/year/2010, 25.04.2013.
[5] http://www.eda.europa.eu/info-hub/defence-data-portal/Poland/year/2010, 25.04.2013.
[6] http://www.eda.europa.eu/info-hub/defence-data-portal/United%20Kingdom/year/2010, 25.04.2013.

the one hand, cuts to armaments spending are bound to affect a relatively small part of the society (i.e. suppliers, outside research, specialised engineers), especially in comparison with other areas targeted for budgetary cuts, such as social support, healthcare or education. On the other hand, saving funds through limiting of the spending on armed forces instead of other sectors, which possibly have much greater importance to an average citizen, can be perceived as a move that demonstrates politicians care for their electorate, therefore a move that is crucial from the point of view of the image building.

Scope of analysis

Out of the 27 Member States of the EU, 26 are also the Participating Member States of the European Defence Agency (EDA). Only Denmark opted out of the Common Foreign and Security Policy, and consequently, from being a party to the EDA. To present certain tendencies within the defence budgets of the EU countries and to analyse risks and opportunities coming from these tendencies, this paper has been narrowed down to five countries: Germany, France, Italy, Spain and the United Kingdom (UK). These states not only manage the largest and most technologically advanced standing armies within the EDA, but they are also the biggest spenders in terms of the defence procurement. In 2010, the total value of defence investments made by their governments was equivalent to around 98.69 % of the total value of investments made by all the Participating Member States of the EDA.

The time frame of the analysis covers the period from 2005 to 2010 for two major reasons. Firstly, after the European Defence Agency was established in 2004, it has begun to collect and organise data on defence expenditure throughout the EU, providing a comprehensive and consistent source of information on the economic aspects of the sphere of armed forces. Secondly, and more importantly, with the economic crisis beginning in 2007 and deepening in 2008, the analysis of the defence budgets starting with the year 2005 allows for a comparison of the pre-crisis and

crisis-time changes to the defence budgets of the countries under review.

Defence procurement and defence R&D expenditure of the European biggest spenders

In order to provide a comprehensive picture of the defence procurement expenditure and the R&D expenditure made by the five countries, five different categories of expenditure will be analysed:

- the total value of defence investment which consists of both the defence procurement expenditure and the defence R&D expenditure,
- the defence procurement expenditure,
- the defence R&D expenditure,
- the value of defence investment per soldier,
- the EU cooperative defence procurement expenditure crisis.

The above categories will permit analysing and comparing the overall tendencies in the defence investments in the five countries under review, address more specific issues, such as the investment in soldiers and look at the role of the EU armaments cooperation in defence investments during the economic crisis.

When it comes to the total value of investment made by the states in the sphere of defence equipment (see *Graph 1*), two groups can be distinguished. One comprises Italy, Spain and the UK. Their defence investments seem to be strongly affected by the economic crisis. The other group is constituted by France and Germany, whose defence investments seem to be much affected by the global economic situation. In Italy, the value of defence investment decreased only once, between 2008 and 2009. It increased again in 2010, but remained below the 2008 level. In Spain, the value of defence investment was increasing from 2005 until 2008, and started decreasing from 2009 onward, dropping in 2010 down to 1428 m Euro, a value drastically lower than 2357 m Euro invested in 2005. In the UK the decrease

was more dramatic, as the value of investment dropped by almost 2 000 million Euro between 2007 and 2008. The value of the decrease was also higher than the value of the increase that occurred between 2005 and 2007. What is more, the continuous decrease of the total defence investment value caused the UK to lose its position as the biggest defence procurement and defence R&D spender in the European Union in 2010, when that position was taken by France. That being said, the year 2010 saw a relatively large increase of defence investment in the UK in comparison with the previous year. In the second group, both France and Germany saw increases of their values of defence investment between years 2005 and 2010. However, it can be speculated that such increases were actually much slower than they could potentially be because of the dampening effect of the economic crisis.

The state of the total values of defence investment seems to be emulated in the area of the defence procurement expenditure (see *Graph 2*). This is not surprising, considering the fact that the defence procurement constitutes a major part of the total value of defence investment. The only major difference between the two is the fact that the drop in the value of defence procurement that occurred in the UK after 2007 was not as sharp as the drop in the total value of defence investment. Consequently, the UK managed to retain the position of the biggest spender in defence procurement throughout the entire reference period.

Differences between the two groups in the area of defence R&D expenditure (see *Graph 3*) are much less clear than in the two categories of spending discussed above. One can still observe the decrease in value of expenditure made by Italy from 2009 onwards, as well as by Spain and the United Kingdom from 2008 onwards, but at the same time the value of expenditure of France dropped from 2007 onwards, and despite an increase in 2009 it never reached the levels recorded in 2006. Moreover, it dropped again in 2010. The value of German defence R&D expenditure remained largely stagnant up until 2010, when it increased by almost 40%. The above fluctuation would suggest that while the defence procurement throughout the EU

was not as strongly affected by the economic crisis as it might have been expected, the process of research and development of new military technologies was hampered by the economic difficulties to a much greater extent. It would be alarming if this trend continued for the R&D is essential to the EU Member States if Europe is to ever reach technological self-sufficiency in matters of defence.

Analysis of the defence investment per soldier also yields interesting results (see *Graph 4*). Despite the overall drop in the total value of defence investment in Italy, Spain and the UK, the value of investment per soldier decreased only in Spain and the UK, while in Italy, that value stagnated. The latter is likely a result of a radical reduction of the number of military personnel carried out by the Italian government between 2006 and 2007, which saw the number of employees reduced from 307 000 to 195 268. In Spain the value of investment per soldier dropped in 2009, after a very sharp increase between 2006 and 2007, followed by a period of stagnation up until 2008. In the UK the decrease of the value of investment per soldier was the steepest of all countries concerned. Nevertheless, the British soldiers remained the best financed in the EU, and before the decrease started in 2007, the value of defence investment per soldier in the British army had been more than twice as high as in the French army. Moreover, the UK was slowly increasing the number of its military personnel between 2006 and 2009, and only decreasing it in 2010. The sharp increase of the value of defence investment per soldier in France in 2009 may have been motivated by a similar reduction in the military personnel as in Italy. Between 2008 and 2009 France reduced its number of military personnel from 347 200 to 249 300. In the same period Germany managed to slightly increase the value of defence investment per soldier, whilst keeping the number of its military personnel stable.

As far as the European collaborative defence procurement expenditure goes, the importance of the European armaments cooperation for the defence procurement in general seems to be increasing despite the economic crisis (see *Graph 5*). Among the five biggest spenders in the field of armaments, only Spain was steadily

decreasing its value of collaborative defence procurement expenditure from 2007 onwards, which falls in line with the overall decrease of the value of defence procurement expenditure made by the Spanish government. Among the four remaining states, Germany maintained its level of spending on the collaborative programmes, with the value of around 700 m Euro each year. In comparison to the pre-crisis period, France, Italy and the UK saw increases of their values of collaborative defence procurement expenditure at the end of 2010.

Risks that the influence of the economic crisis on the defence investment pose for the regional security of Europe

While the analysis of data on defence investments made by the biggest European spenders between 2005 and 2010 shows that the budgetary cuts were not as drastic as some may have expected, the current economic crisis undoubtedly had a direct and indirect impact on the levels of expenditure on procurement and defence R&D. The economic crisis has not yet ended, and it is unclear how long it will last or how severe it can still become. Therefore, a number of dangers continue to exist in relation to the defence procurement policies within the EU. Firstly, the risk of the EU falling further behind technologically in comparison with other political powers of the world, primarily the United States. Certain aspects of the armed forces of the European states are at this point already demonstrating certain shortcomings in terms of the development level of their equipment (i.e. Intelligence, Surveillance, Reconnaissance (ISR), air-to-air refuelling, smart munitions, strategic and tactical transport, medical support).[7] Moreover, the R&D was already facing numerous problems prior to the economic crisis, and some of these issues, such as the ineffective spending of defence funds by the EU Member States, are completely independent of the impact of the economic situation. With the R&D spending being hampered by the economic crisis even further, the European forces face the risk of

[7] „European Defence Capabilities: lessons from the past, signposts for the future", House of Lords European Union Committee, London 2012, point 117.

being unable to address growing disproportions between them and their NATO allies. If the EU as a potential system of collective regional security fails to compete with other international actors in defence technologies, this may lead to a dangerous decrease in defence capabilities of the whole region. Secondly, the risk of growing disproportions between the three largest armies of the European Union: British, French and German, and the remaining 24 armies. Increasing differences in capabilities between the leading three and the rest of the EU may ultimately result in putting more pressure on the governments of France, Germany and the UK to assume more responsibilities within the framework of NATO in comparison with their other European allies. This may cause distress not only within the structures of the EU, but also within the structures of the NATO, should any need for another joint military operation occur in the future. Such a gap between defence capabilities of various states is even more dangerous for the development of the EU as a system of collective regional security as the whole platform is at risk of becoming too dependent on armed forces of the three countries. With such dependency two major issues may emerge. One of them is the additional stress on the budgets and military structures of France, Germany and the UK, which are already reaching the limits of their capabilities. Overloading the capabilities of their armed forces may lead to a drastic decrease of their effectiveness, and therefore decrease of security of the whole region. The other issue is the problem of potentially unbalanced growth in the influence of all the participating Member States on the security system. Thirdly, the risk of deterioration of military capabilities of the EU may ultimately further decrease the ability of the European states to depend on their own armed forces and lead to relying on the United States to provide regional security. If this occurred, it could ultimately result in at least a partial shift towards the system of regional security for Europe that has been utilised during the Cold War, when the American army was the single main guarantor of security for Europe. Such a scenario stands in direct opposition to the concept of regional collective security for Europe, based on self-

sufficiency of the European armed forces. Fourthly, the risk of negative impact of budgetary cuts in defence procurement and defence R&D on the European economy. The domain that is potentially the most endangered here is the defence industry. In the EU as a whole, a large part of that sector remains fragmented, vulnerable and strongly dependant on the procurement made by the state of origin of each of the defence companies. Even large defence contractors, such as BAE Systems, EADS, Finmeccanica or Thales remained endangered by any possible cuts to the defence budgets. Fewer funds for the defence procurement would result in a lower value of potential contracts, which would translate into lower income of the defence companies. This, in turn, might lead to limiting of production and consequently to the limiting of employment. Retrenched workers from the sector would then seek access to welfare benefits in their Member States, straining their social security systems further. People employed within the defence industry are often highly skilled in narrow, specialist fields, which, if retrenched, would limit their employment prospects and make the retraining process difficult.

Opportunities resulting from the defence procurement and defence R&D in Europe being affected by the economic crisis

Here appear to be two major opportunities brought about by the impact of the economic crisis on the armaments procurement in Europe that may occur in the nearest future. One of them is directly related to certain potential developments in the defence industry, while the other is connected directly to the use of armed forces by the Member States of the EU.

It can be speculated, on the basis of the preceding analysis, that with the economic situation gradually worsening, the importance of the European armaments cooperation has been increasing, especially in France, Italy and the UK, as those states increased the values of their investments in collaborative defence procurement. Consequently, the creation of new international cooperation programmes, in which

various defence companies participate, can strengthen the ties between numerous representatives of the armament-producing sector. This, in turn, emphasizes and supports various initiatives being undertaken since the 1990s in order to increase chances of success of the attempts to support further consolidation of the European defence industry and the process of creation of the European common armaments market. Both the industrial consolidation and the common market should in turn contribute to the establishment of a vast, strong, effective and largely self-sufficient industry base for the military, an asset absolutely necessary for maintaining of any system of collective regional security. Growing importance of the collaborative armaments procurement programmes would also increase the level of interoperability of the units equipped with the most technologically advanced weaponry, therefore providing an extremely important support for strengthening of both the basic and the advanced forms of military cooperation between the Member States of the EU.

Due to the economic crisis, the EU states may also be forced to seek new ways to decrease costs of maintaining their defence capabilities. This represents a huge opportunity for the development of the EU as the platform for collective regional security, which should allow the Member States to pool their resources in order to ensure a more rational and efficient use of their armed forces.

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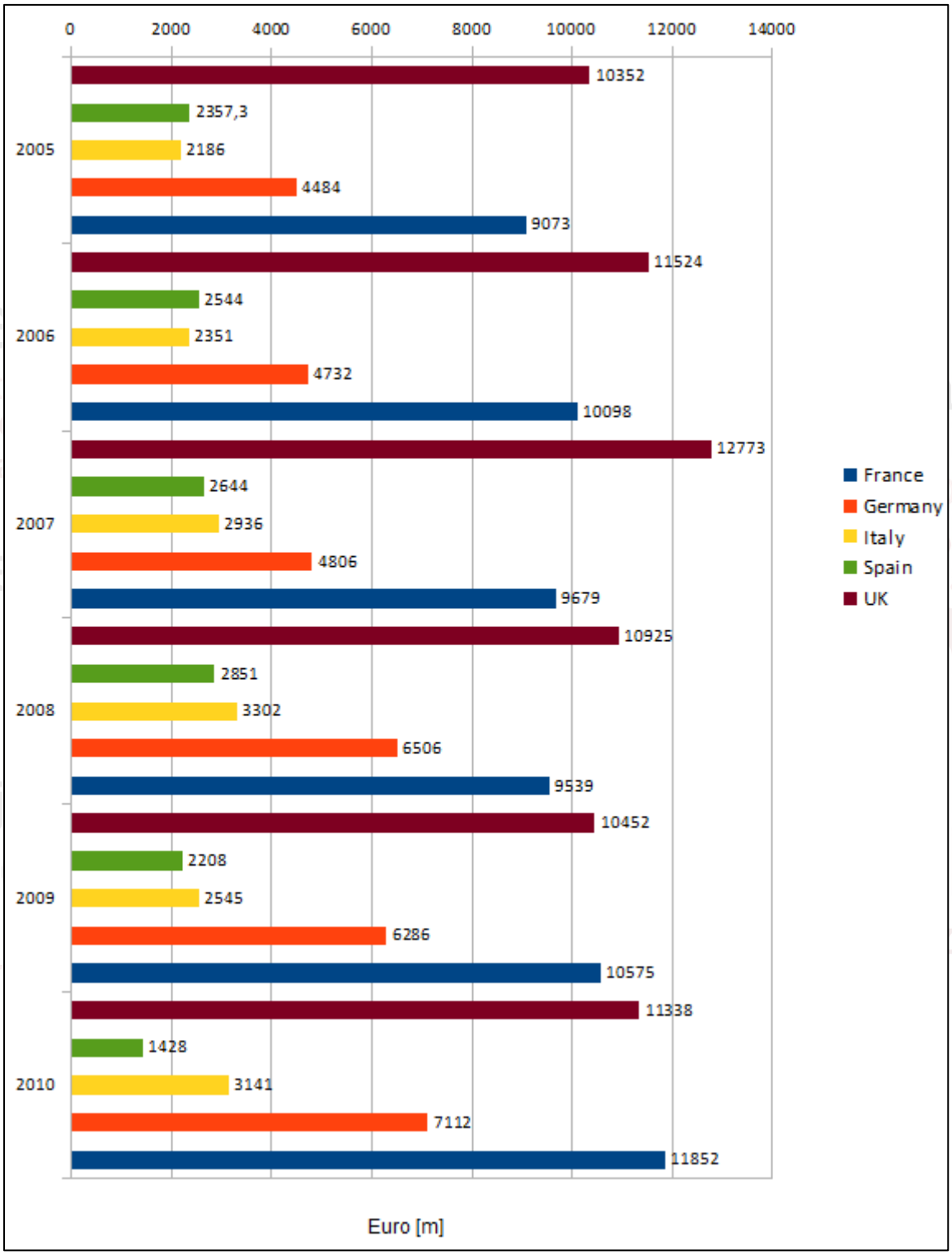
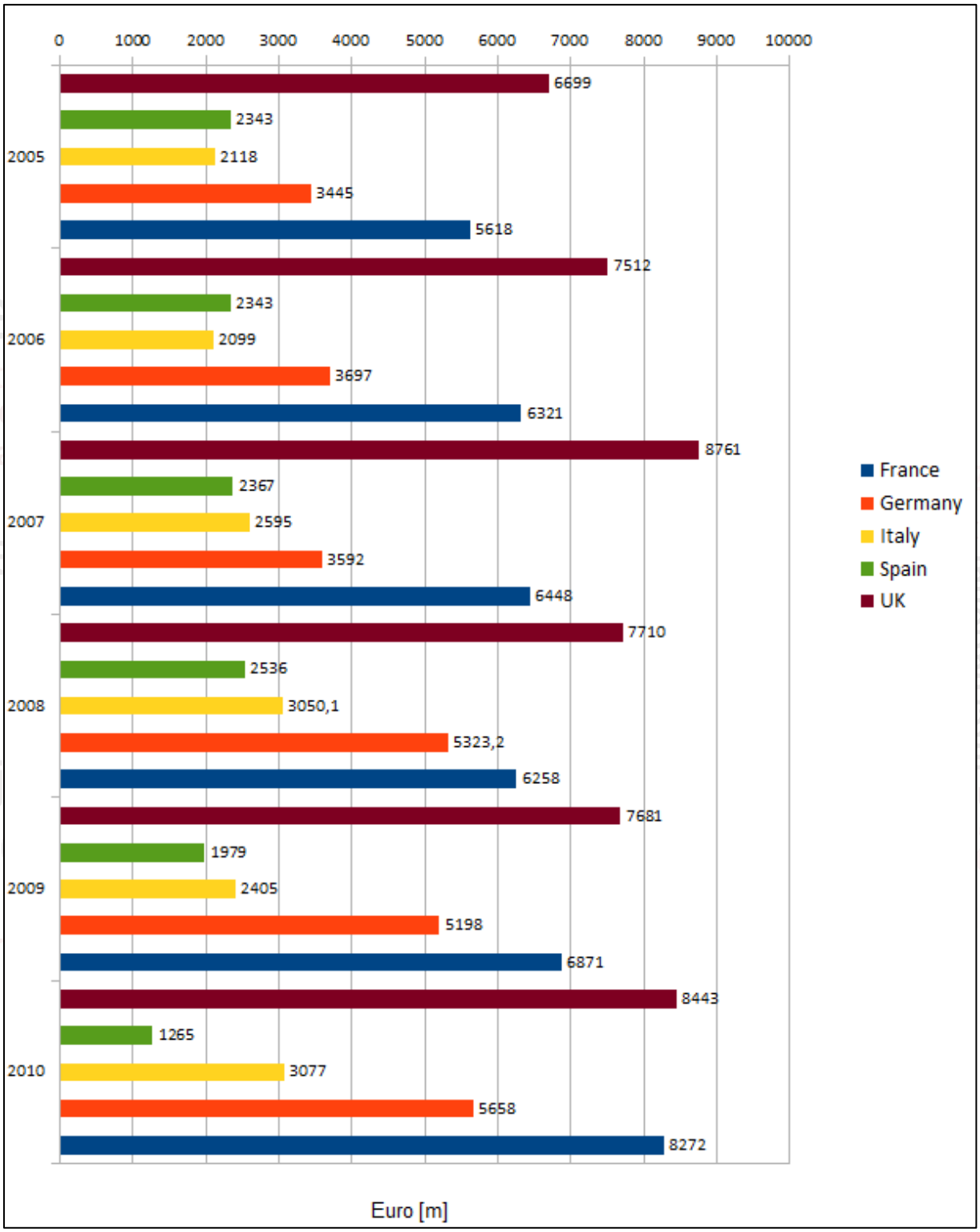
Graph 1. Defence investment



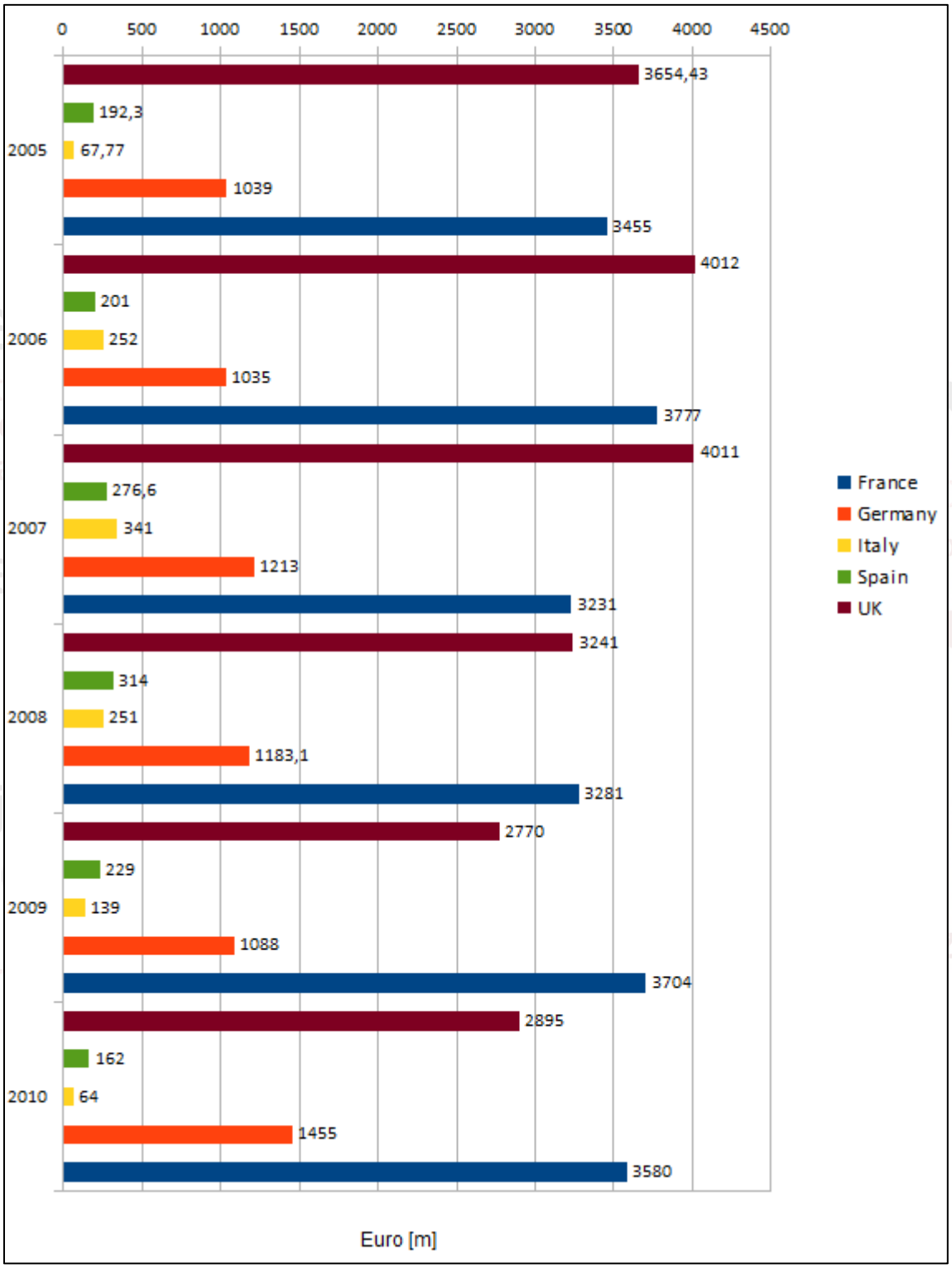
Source: Defence Data, European Defence Agency

Graph 2. Defence procurement expenditure



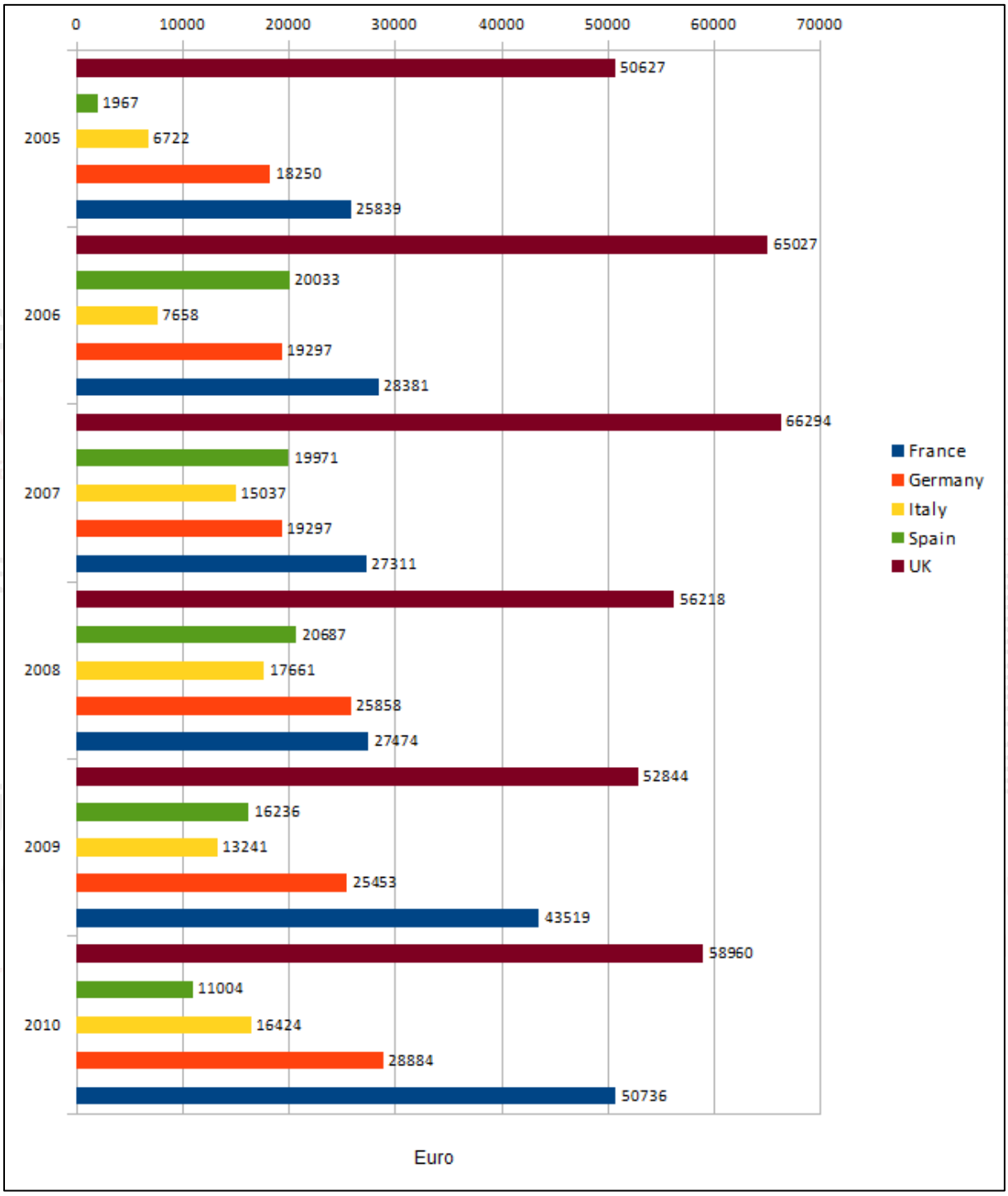
Source: Defence Data, European Defence Agency

Graph 3. Defence R&D expenditure



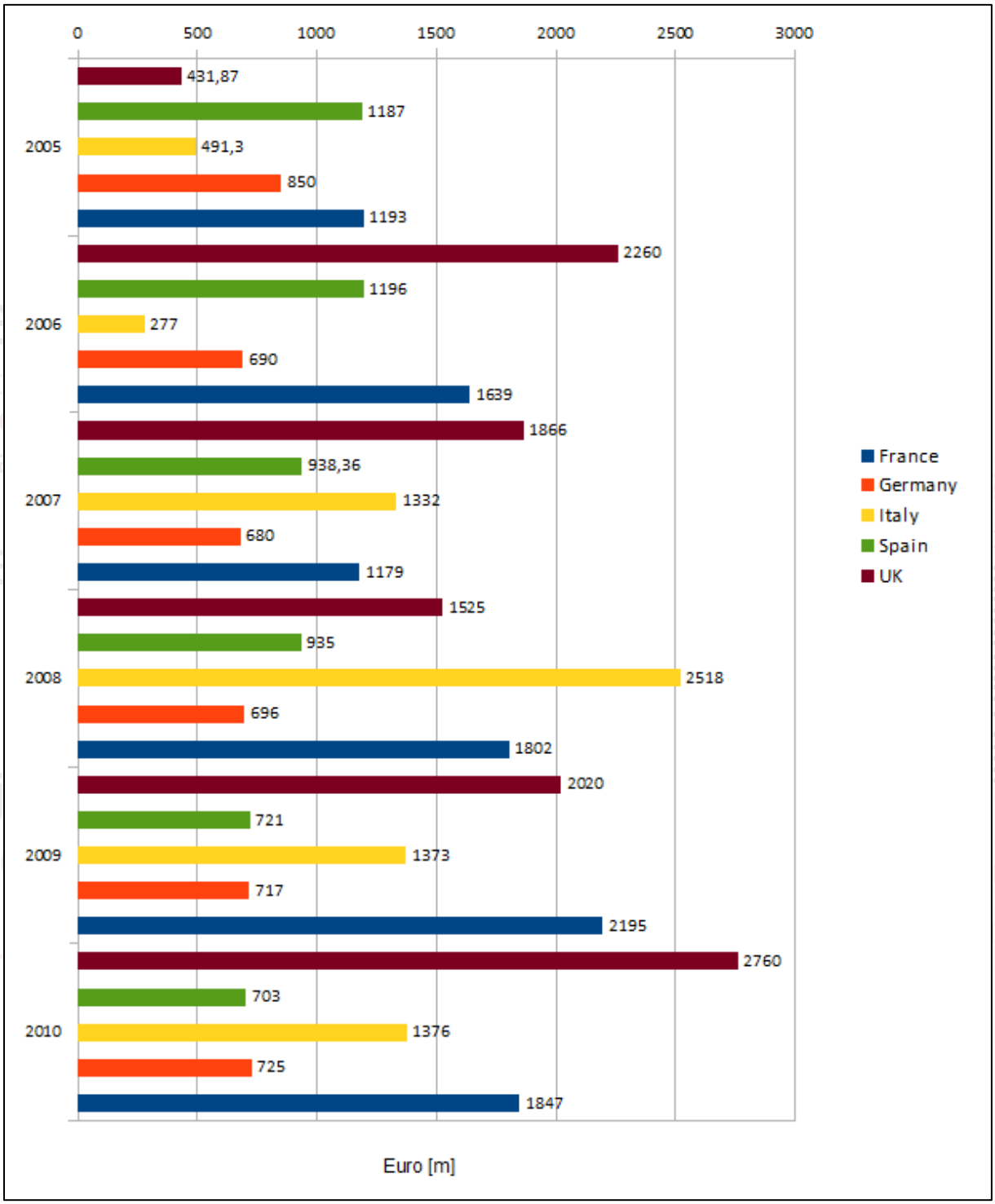
Source: Defence Data, European Defence Agency

Graph 4. Defence investment per soldier



Source: Defence Data, European Defence Agency

Graph 5. European collaborative defence procurement expenditure



Source: Defence Data, European Defence Agency

Abstract

The article entitled „European Union as a system of collective regional security during the economic crisis. Influence of austerity measures on the defence spending of France, Germany, Italy, Spain and the United Kingdom" seeks to analyse three different issues. The first is the general tendencies within the defence budgets of the biggest defence spenders in the European Union: France, Germany, Italy, Spain and the United Kingdom between 2005 and 2010. The second is the risks that result from potential influence of the economic crisis on armaments policies within the EU. The third is the opportunities that may emerge as a result of the defence procurement and defence R&D being impacted on by the negative global economic situation.

UNIA EUROPEJSKA JAKO KOLEKTYWNY SYSTEM BEZPIECZEŃSTWA REGIONALNEGO W CZASIE KRYZYSU EKONOMICZNEGO. WPŁYW OSZCZĘDNOŚCI NA WYDATKI ZBROJENIOWE FRANCJI, HISZPANII, NIEMIEC, WIELKIEJ BRYTANII I WŁOCH

Abstrakt

Artykuł zatytułowany „Unia Europejska jako kolektywny system bezpieczeństwa regionalnego w czasie kryzysu ekonomicznego. Wpływ oszczędności na wydatki zbrojeniowe Francji, Hiszpanii, Niemiec, Wielkiej Brytanii i Włoch" poświęcony jest analizie trzech zagadnień. Pierwszym z nich są ogólne tendencje występujące w ramach budżetów obronnych tych państw Unii Europejskiej, które przeznaczają największe fundusze na zbrojenia: Francji, Hiszpanii, Niemiec, Wielkiej Brytanii oraz Włoch. Drugim z zagadnień są zagrożenia, jakie niesie ze sobą potencjalny wpływ kryzysu ekonomicznego na polityki zbrojeniowe wewnątrz UE. Trzecim zagadnieniem z kolei są potencjalne szanse, jakie mogą powstać w rezultacie takiego wpływu.