

Defense Budgeting Issues for Parliamentarians

South Caucasus & Baltic Parliamentarians' Conference

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The Essential Questions

- How much for defense?
- How to allocate the defense budget?

The *Logic* of the National Security Planning Process and Defense Budgeting

- National interests
- Threats to national interests
- National security strategy - a menu of instruments of power
- National military strategy
- Planned military force structure
- “Required” defense resources

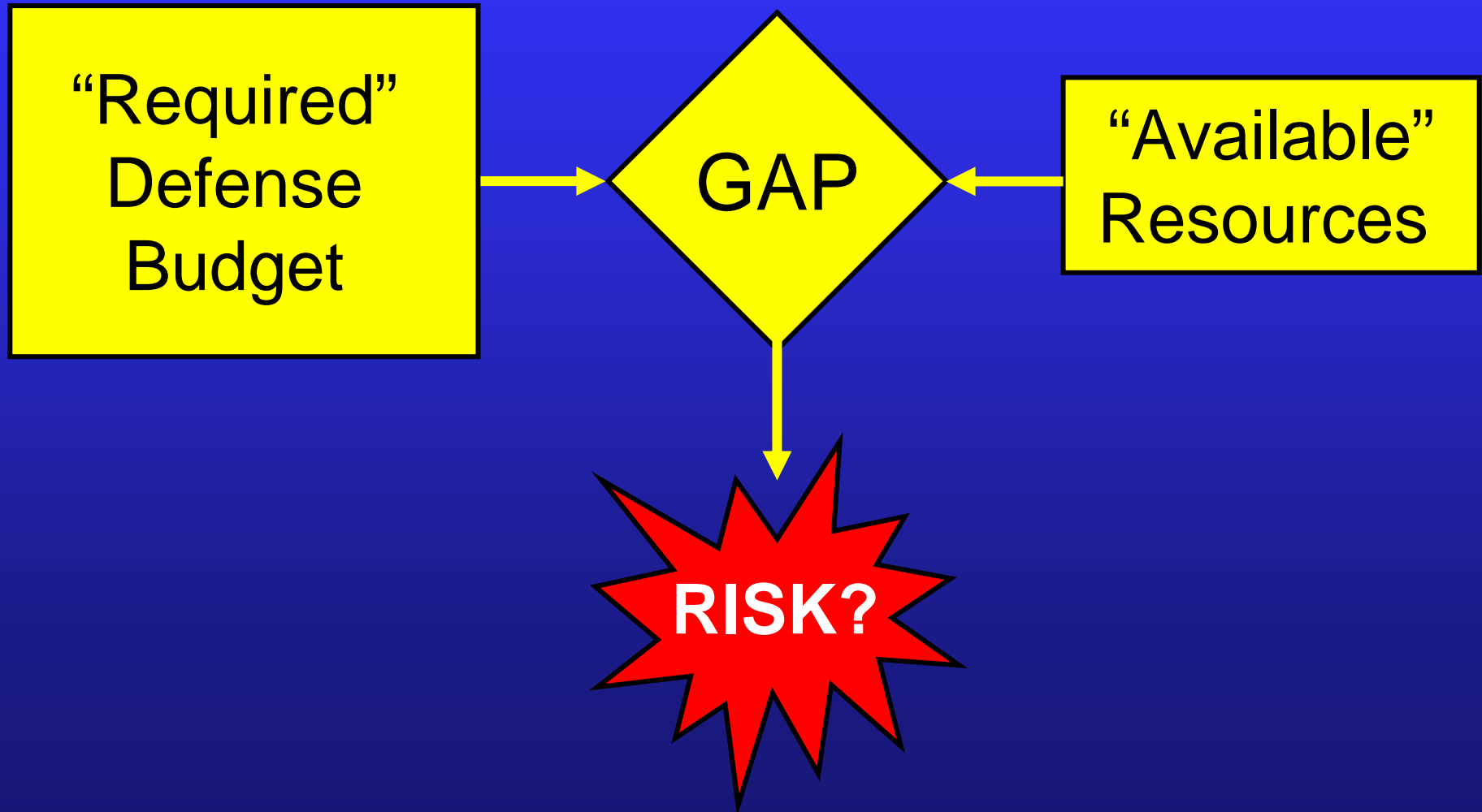
Resource Availability

- Economic capacity
- Economic performance
- State of the public accounts
- Competing public demands
- Competing security demands
- “Available” resources for defense

The National Defense Funding Dilemma

- *Strategy first* – pay what is “required” ?
- *Budget first* – pay what is “available” ?

The Inevitable Mismatch



Filling the Gap

- Pretend it doesn't exist
- Revisit national security strategy
- Revisit national military strategy
- Revisit required force structure
- Revisit resources available
- Efficiency improvements
- Transformation

Defense Budget Comparisons (2004)

| Country | GDP (US b\$) | Defense Budget (US b\$) | % of GDP |
|---------|-----------------|-------------------------------|-------------|
| USA | 11,700 | 455.0 | 3.9 |
| Japan | 4,660 | 45.1 | 1.0 |
| Germany | 2,670 | 37.7 | 1.4 |
| UK | 2,130 | 49.6 | 2.3 |
| France | 2,000 | 51.6 | 2.6 |
| Italy | 1,660 | 30.5 | 1.8 |
| China | 1,680 | 62.5 | 3.7 |
| Russia | 1,400 | 61.9 | 4.4 |

Source: IISS, *Strategic Balance 2005-2006*

Defense Budget Comparisons (2004)

| Country | GDP (US b\$) | Defense Budget (US b\$) | % of GDP |
|-------------|-----------------|-------------------------------|-------------|
| Canada | 980 | 11.4 | 1.2 |
| South Korea | 605 | 14.6 | 2.8 |
| Ukraine | 264 | 5.5 | 2.1 |
| Turkey | 240 | 11.7 | 4.9 |
| Kazakhstan | 98 | 1.5 | 1.5 |
| Lithuania | 22 | 0.3 | 1.4 |
| Georgia | 14 | 0.4 | 2.9 |
| North Korea | 22 | 5.5 | 25.0 |

Source: IISS, *Strategic Balance 2005-2006*

Force Structure Budgeting

Inputs



Organization



Outputs

Input Budgeting

- Personnel
- Operations and maintenance
- Investment
 - Procurement
 - Research and development

Defense Input Budget Shares (%)

2004 (estimates)

| Country | Personnel | Operations And Maintenance | Investment |
|-----------|-----------|----------------------------------|------------|
| USA | 34.8 | 39.0 | 26.2 |
| UK | 39.4 | 36.2 | 24.4 |
| Germany | 59.3 | 22.1 | 18.6 |
| Italy | 75.7 | 12.6 | 11.7 |
| Turkey | 47.4 | 13.3 | 39.3 |
| Norway | 40.3 | 29.7 | 30.0 |
| Belgium | 73.8 | 18.1 | 8.1 |
| Czech Rep | 51.1 | 27.7 | 22.2 |

Source: NATO, *Information for the Press*, 9 June 2005

Defense Input Budget Shares (%)

2004 (estimates)

| Country | Personnel | Operations And Maintenance | Investment |
|----------|-----------|----------------------------------|------------|
| Canada | 41.9 | 37.4 | 20.7 |
| France | 57.5 | 16.0 | 26.5 |
| Hungary | 49.4 | 31.7 | 18.9 |
| Latvia | 46.7 | 32.9 | 20.4 |
| Romania | 51.7 | 25.9 | 22.4 |
| Russia | 44.9 | 31.9 | 23.2 |
| Slovenia | 56.7 | 20.1 | 23.2 |
| Spain | 53.9 | 21.0 | 25.1 |

Source: NATO, *Information for the Press*, 9 June 2005

Personnel Costs

2004

| Country | Budget (US b\$) | Active Personnel (000) | Per capita Cost (US \$) |
|-----------|--------------------|------------------------------|-------------------------------|
| USA | 455.0 | 1474 | 308,684 |
| UK | 49.6 | 206 | 240,777 |
| Germany | 37.7 | 285 | 132,280 |
| Italy | 30.5 | 192 | 158,854 |
| Turkey | 10.1 | 515 | 19,611 |
| Norway | 4.4 | 26 | 169,231 |
| Belgium | 3.9 | 37 | 105,405 |
| Czech Rep | 2.0 | 22 | 90,909 |

Source: IISS, *Strategic Balance 2005-2006*

Personnel Costs

2004

| Country | Budget (US b\$) | Active Personnel (000) | Per capita Cost (US \$) |
|------------|--------------------|------------------------------|-------------------------------|
| Russia | 61.9 | 1,037 | 59,691 |
| China | 62.5 | 2,255 | 27,716 |
| Kazakhstan | 1.7 | 66 | 25,836 |
| Ukraine | 5.5 | 295 | 18,612 |
| Slovakia | 0.7 | 20 | 34,653 |
| Sweden | 5.3 | 28 | 192,029 |
| Lithuania | 0.3 | 10 | 29,703 |
| Georgia | 0.4 | 16 | 23,952 |

Source: IISS, *Strategic Balance 2005-2006*

Organization Based Budgeting

- Army
- Navy
- Air Force
- Other

Organization Based Budgeting - US Budget Shares (%)

| | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 |
|-----------|------|------|------|------|------|------|------|
| Army | 28.6 | 28.1 | 27.7 | 29.0 | 29.6 | 29.9 | 32.2 |
| Navy | 37.0 | 38.2 | 35.5 | 36.2 | 36.3 | 36.1 | 34.3 |
| Air Force | 34.4 | 33.8 | 36.8 | 34.8 | 34.1 | 34.0 | 33.5 |

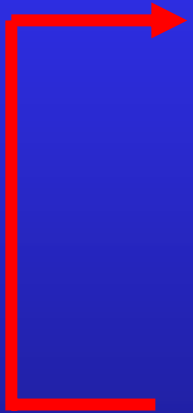
Source: US DoD, *National Defense Budget Estimates For FY 2002, FY2006*

Output (Program) Budgeting

- Strategic forces
- General purpose forces
- Command and control
- Mobility forces
- Reserve forces
- Research & development
- Supply and maintenance
- Training, medical
- Administration

The Defense Planning Challenge

- Sluggish, even declining budgets
- Rising personnel and new equipment costs
- Crowding out of equipment procurement
- Pressure to retain older, obsolete equipment
- Rising O&M costs
- Rising share of budgets for O&M



Relentless reduction in military capability

Efficiency Improvements

- Rationalize military manpower
- Rationalize infrastructure
- Outsource support functions

Transformation

- Emphasis on lighter, more deployable, more precise, more lethal forces
- Exploit IT, especially C2 for networking forces
- Transform defense management
- Challenge of transforming while maintaining current readiness, operations and modernization
- Increased short and medium term costs for longer-term capability gains

Budgeting For Transformation

- Special operations forces
- Expeditionary forces
- Major warfighting forces
- Stabilization and reconstruction forces
- Nuclear and missile defense forces
- C4ISR
- Mobility forces
- Research & development
- Supply and maintenance
- Personnel, training and medical

The *Reality* of the National Security Planning Process and Defense Budgeting

- Inertia – marginal changes to budgets
- Equity – army, navy, air force
- Focus on inputs rather than outputs
- Manpower bias – promotion, command
- Industrial influence – domestic and foreign, corruption
- Poor project management – cost overruns, late delivery times, performance shortfalls