Defense Retrenchment in Europe:
The Advantages of a Collaborative Response to Relative Decline and Economic Crisis

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List of Acronyms and Abbreviations

AIAD: Federazione Aziende Italiane per l’Aerospazio, la Difesa e la Sicurezza (Federation of Italian Companies for Aerospace, Defence and Security)

BDSV: Bundesverband der Deutschen Sicherheits- und Verteidigungsindustrie (Federal Association of the German Security and Defence Industry)

Bn: Billion(s)

DPG: Defence Policy Guidelines

EADS: European Aeronautic Defence and Space Company

EATC: European Air Transport Command

EATF: European Air Transport Fleet

EU: European Union

EU-15: European Union before May 1, 2004. Includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

EU-27: Full European Union. As of 2012, includes: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom.

EU-4: The states considered in this thesis: Britain, France, Germany, and Italy

EUR: euro (currency)

FACO: Final Assembly and Check-Out
FREMM: Franco-Italian multipurpose frigate (French: Frégate multi-mission; Italian: Fregata multi-missione)

GBP: pound sterling (currency)

GDP: Gross Domestic Product

JSF: Joint Strike Fighter

Mn: Million(s)

MoD: Ministry of Defense

NATO: North Atlantic Treaty Organization. As of 2012, includes: Albania, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Turkey, the United Kingdom, and the United States of America.

O&M: Operations and maintenance

OECD: Organization for Economic Cooperation and Development

R&D: Research and development

RUSI: Royal United Services Institute

SDSR: Strategic Defence and Security Review

SIPRI: Stockholm International Peace Research Institute

STOVL: Short Take-Off Vertical Landing

U.A.E.: United Arab Emirates

UAV: Unmanned Aerial Vehicle

USD: United States dollar (currency)
Introduction

Research Question

How are the leading European states responding to the pressures of the economic and financial crisis on their defense budgets? The pressures of the current European economic and financial crisis, which began in early 2008, have caused a majority of European governments to enact cuts in public expenditure in a variety of sectors, including the defense budget. These policies are having consequences on the size and capability of European armed forces, as well as on the size and viability of the European defense industry. The primary challenge European states are facing is how to balance Europe’s role in the international system with pressures to reduce defense expenditures.

The conventional view in international relations holds that retrenchment—systematic cuts in defense spending disengagement from costly foreign commitments—is a risky strategy and is thus undesirable. Yet this view appears to be inconsistent with current European realities, both in terms of data trends and expert opinion. It is the view of a number of experts in security studies that the only possible way to decrease European defense expenditures while maintaining the capabilities needed to preserve Europe’s role in the international system is that of extensive collaboration between countries at the bilateral and multilateral levels. Isolationism and fragmented policies carried out by individual nations are expected to hasten Europe’s decline as an international military and diplomatic agent.

In my analysis, which focuses on the case studies of Britain, France, Germany, and Italy, I show that these countries are indeed pursuing collaborative
retrenchment. This course of action can be observed in budgetary allocations, procurement programs, international agreements, and state-industry cooperation. I find that the data indicates consistency between what European states are nominally seeking to achieve—maintaining Europe’s international status and role in the world while reducing defense expenditures—and what the evidence appears to indicate—that European states consider collaborative retrenchment a viable strategy in the face of economic and financial crisis and relative decline.

**A Brief History of the European Economic and Financial Crisis**

The origins of the present economic and financial crisis in Europe can be traced to the subprime mortgage crisis that started in 2007 in the United States and successively escalated into a recession of global proportions as early as 2008. These economic woes began to affect Europe almost immediately due to the interconnectedness of the international economic and financial systems. The first repercussions involved a banking crisis deriving from the exposure of European banks to toxic U.S. financial assets and the expansion of housing market issues to several European countries. This had economic consequences in the form of national Gross Domestic Product (GDP) decline, as well as in the related strains on government finances and budgets that entailed. As the economy slumped, tax revenue decreased and demand for social spending grew, causing governments to accumulate increasingly larger budget deficits. Worsening the situation, some European governments intervened to bail out failing banks, further adding to government deficits in various states.
However, the core of the so-called European sovereign debt crisis began to engulf European Union member states only in 2010. As the economic and financial situations worsened—in some states more than in others—investors began to be less certain that the governments they were lending their funds to were reliable borrowers. The yields on government-issued bonds grew to high percentages, threatening both short- and long-term government solvency. European states, in particular those which shared the euro as a common currency, began to worry that the financial collapse of one country could lead to a domino effect detrimental to the stability of other states’ economies, finances and, ultimately, to the integrity of the euro and potentially even of the European Union (EU).

This contagion effect was not limited to states within the euro-area, however. It also influenced neighbors whose economies were deeply integrated in this system, such as that of the United Kingdom. In the euro-area, Italy joined Greece, Ireland, and Portugal in the group of ailing states, whereas France and Germany suffered but to a somewhat lesser degree. The situation became visibly critical to all in 2011, when bond yields reached their maximum levels and the aforementioned fears of European economic and financial disintegration also achieved their apex.

Throughout European countries, with few if any exceptions, governments began to implement severe austerity measures in an attempt to balance the national budget and ensure financial stability. Collective solutions were sought in Brussels by the EU with the assistance of the European Central Bank and the International Monetary Fund. By early 2012 the crisis was slowly receding, and although the

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1 For a more technical and in-depth overview of the origins of the European economic and financial crisis, see Henk Overbeek, “Sovereign Debt Crisis in Euroland: Root Causes and Implications for European Integration,” *The International Spectator: Italian Journal of International Affairs* 47, no. 1.
situation remained stable throughout the same year there was awareness in Europe that even if the starkest period may have had elapsed, it was still too early to say that the crisis had been resolved and overcome.

Between 2010 and 2012, harsh measures were imposed—sometimes from within, at times from outside as well—on government budgets to stem the increasingly threatening pressure of financial collapse, leading to extensive cuts in government spending in a number of areas, ranging from welfare, to education, and—even as European states were involved in operations in Afghanistan, Iraq, and a number of other locations worldwide—defense.²

This thesis has two primary objectives. The first is to understand the impact of the European economic and financial crisis³ on the defense budgets and policies of Europe’s four largest economic and military powers: Britain, France, Germany, and Italy (this group of states will be henceforth referred to as EU-4).¹ The second is to determine whether this impact has led these four states to adopt collaborative policies in addressing the crisis, or whether these states chose to pursue an independent way out. The analysis focuses on intergovernmental cooperation rather than cooperation through intergovernmental organizations.

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² Throughout this thesis, I will use the American spelling of the word defense. The British spelling, used extensively in Europe, will only appear in the titles of some institutions (i.e. the Ministry of Defence), publications (i.e. the Strategic Defence and Security Review), and printed quotes which use said spelling.

³ For the purposes of this thesis, and to simplify the need for terminology, henceforth instead of referring to the “European economic and financial crisis” (intended to encompass the events and period summarized in this section) I will use the term “Eurozone crisis.” It should be noted that this is not restricted to the countries whose currency is the euro; where there is the need to be specific, such as discussing the issues of euro-area, I shall note this.

⁴ Upon review of a large number of sources, it appears that the terms “United Kingdom” and “Britain” are used interchangeably, with the adjective used for both being “British.” This thesis will do the same, although it will use Britain as far as possible.
The Importance of Studying State Response to Crisis in the Defense Sector

An analysis of the effects of the Eurozone crisis on European defense spending fits in the context of four broader issues. First is that of relative decline, or the loss of power—in economic, military, and other terms—of certain states and regions as compared to other regions.\(^5\) The study of relative decline is necessarily a comparative study.\(^6\) Charts 0.1, 0.2, and 0.3 help frame the decline of European defense spending in a global context. Chart 0.1 shows how the European Union’s share of world GDP has declined since 1990, Chart 0.2 displays how the European share of global defense expenditure has decreased in the same period, while Chart 0.3 breaks down the data presented in Chart 0.2 by sub-region to add nuance.\(^7\)

\(^5\) Relative decline is a state’s decline in comparison to other states. The state may be undergoing growth, but it may be said to be in relative decline if it is growing more slowly than other states and thus either being caught up by them or losing ground to them. Absolute decline, on the other hand, is when a state’s power is decreasing in and of itself.

\(^6\) This thesis cannot discuss the rise of Europe’s potential competitors due to lack of space.

\(^7\) Latin America and Sub-Saharan Africa are not included in Charts 0.1, 0.2, and 0.3 as they do not cross the 5% threshold on the defense spending measure. I have attempted to keep groupings as consistent as possible; however, different sources use different groups and thus make this difficult in some cases.
It is evident from the charts presented above that Europe’s share of global GDP and defense spending has decreased since 1990, although the near-halving of the latter was mostly due to Eastern Europe’s share falling drastically after the end of the Cold War. This, in and of itself, poses a relevant question regarding the role of Europe in the world in the present and future. More interestingly, however, is Europe’s relative decline with the influence of the Eurozone crisis: European states are significantly weakened as their national economies and finances suffer. They

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8 This is truer for some countries than for others. For instance, Royal United Services Institute Director Michael Clarke asserted that “conditions in the world do not favor British influence,” whereas in 2009 Italy lost its place among the top ten countries in the world by defense expenditure after being overtaken by Brazil. At the same time, German power—at least in an economic sense—is increasing, especially compared to other European states. Michael Clarke, interview by author, August 7, 2012; and Paolo Quercia, “Il Perché Della Forza E Le Trasformazioni Del Sistema Internazionale. Dalla Soglia Di Gorizia Alla Difesa Di Kabul. E Dopo?,” in Quale Difesa Per La Repubblica? Sicurezza Nazionale, Costituzione, Scenari Internazionali Ed Industria per La Difesa, ed. Paolo Quercia (Fondazione Farefuturo - Strategitaly Srl, 2012), 29-30.
must therefore devise a way to address the impending crisis while as far as possible not jeopardizing their global stature.

This leads us to the second key issue: retrenchment. Retrenchment is a government policy which seeks to reduce costs and commitments in order to redress an imbalance between revenue and expenditure. It can be carried out in any sector of the government budget and can form a primary strategy for states faced with unsustainable outlays. States may, however, choose to preserve or increase their spending in certain areas, even in a crisis situation. This may be because of a different (Keynesian, for instance) view on crisis economics or because they may believe that preserving or increasing spending on a budget item will provide more benefits than costs. Determining what response a government chose in regards to budgetary problems, how this policy was implemented, and what outcomes it produced should form a core component of scholarly work on state behavior.

The third issue to consider is that crisis mitigation measures are often planned and implemented at a multinational level, due to the interconnected structure of the globalized modern world. This implies coordination and collaboration across different countries with potentially varying problems and interests which must be reconciled to devise a shared solution. Since retrenchment has been studied primarily at the national level, a modern and up-to-date analysis should encompass an understanding of retrenchment which considers the international and collaborative element. Needless to say, this factor becomes even more important in discussions of deeply integrated regions such as the European Union.
Finally, the fourth element which gives importance to the study of state response to economic and financial crisis—and by no means the least important one—is the importance of defense to the modern state and to the current international system. Far from becoming irrelevant even in a continent such as Europe that has seen peace flourish at unprecedented levels, national defense establishments—including the defense budget, armed forces, defense industry, and national defense and security policies\(^9\)—attract tens of billions of dollars\(^{10}\) and important portions of a country’s GDP. Furthermore, these establishments involve hundreds of thousands of people both directly and indirectly. In fact, one might say that every citizen of a state is affected by its defense policy choices, both in his or her contribution through taxes and in the benefit he or she receives from the output: personal and national safety.

Those most affected by variations in defense policy, however, will be the servicemen and women who serve in the armed forces; civil servants at the various ministries of defense; employees of defense firms; and the close families of all of these people. All of these groups often suffer adverse repercussions when defense budgets shrink and positions are lost among the services, the ministry, or the industry, while members of the armed forces are the most exposed in that they may be asked to risk body, limb, and mind for their country’s defense. Defense, then, is

\(^9\) There is an important distinction between “defense” and “security.” The former deals largely with the traditional concept of preserving national sovereignty and the national territory through the armed forces, which may be used to patrol territorial airspace and waters, protect the state’s borders, and even deal with threats on foreign territory if that is required. Security is a much broader concept, and in some ways subsumes defense. It also refers to intelligence operations, counterterrorism, energy security, civil security (i.e. dealing with crime and natural disasters), and diplomacy. This thesis focuses largely on defense per se, and I will avoid discussing security unless strictly necessary. Likewise, this work will not discuss military-status police, as these bodies are charged more with a civil security mission than a defense one.

\(^{10}\) All numerical budgetary analyses will be treated either in euros, pounds sterling, or U.S. dollars, depending on the country and the source in question. For simplicity, these will be abbreviated to EUR, GBP, and USD respectively. Billions will be abbreviated to “bn” and millions to “mn.”
no light matter, and should be evaluated for its direct and indirect effects on a state and its citizens, while recognizing that in both peace and war defense decisions taken in one country will inevitably affect those in others.

**Outline of the Content and Argument**

This thesis mostly covers the period between the beginning of the Eurozone crisis in 2008 to early 2013. It is structured across five chapters. It begins with a literature review on past scholarly work on the three areas most relevant to this analysis: power transition theory, retrenchment theory, and collective action theory. The first serves to introduce readers to the concept of relative decline as it has been elaborated in scholarship as well as to present what has for a long time been one of the main currents of international relations theory concerning state response to competition and decline. Next, a discussion of retrenchment theory provides an alternative perspective on what states can do to manage decline. The retrenchment section illustrates how this field has evolved from one which focused on domestic policy to one that encompasses international relations in a number of areas, such as defense. Lastly, the first chapter presents collective action theory and breaks down its principal components. In addition to this, it identifies how collective action theory can be applied to states just as it can be applied to individuals. For each of these three fields I also provide a critique of the works, highlighting where their shortcomings may be and which modifications may be needed to understand state response to economic and financial crisis in the defense sector.

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11 This thesis does not seek to create a period-by-period discussion of the Eurozone crisis and state response (i.e. to determine if there was more response during the more critical periods), but rather provides an aggregate analysis of state response to the Eurozone crisis in defense.
The second chapter describes the theory and methodology used to test my hypotheses. The first part of this chapter develops a model of collective action and state retrenchment. Based on retrenchment theory and collective action theory, I derive a framework whose goal is to explain the behavior of states acting together trying to secure the highest possible level of security with a limited level of expenditure. From this framework, I derive three hypotheses. The Null Hypothesis, based on power transition theory, predicts that EU-4 states will respond to relative decline by preserving or increasing their level of defense spending. Retrenchment theory informs Hypothesis 1, which predicts that EU-4 states will instead respond to the crisis by decreasing defense expenditure. Hypothesis 2 is derived from retrenchment theory and collective action theory as elaborated by my model, and predicts that EU-4 states will seek to undertake retrenchment measures in a collaborative way. The second chapter also describes the case study choice as well as the procedure and variables that will be used in testing the hypotheses.

The third and fourth chapters form the core of the analysis. The third chapter discusses the case studies of Britain and France and the fourth chapter discusses those of Germany and Italy. Each of these chapters begins by laying out the effects of the Eurozone crisis on the countries in question. It successively provides a historical overview of defense policy in the relevant countries before proceeding to analyze the defense policies of each country following the onset of the Eurozone crisis. This entails looking at government and armed forces planning, at defense industrial policy, and collaborative efforts promoted by each country. These chapters establish the consequences of the crisis on the defense establishment of
EU-4 states and identify the responses of these states. Each chapter offers a brief evaluation of the hypotheses based on the data presented.

The final substantive chapter of this thesis offers a unified comparison of several issues discussed in chapters three and four, with a focus on two elements that bridge the case study chapters: the role of domestic interest groups and other barriers to retrenchment and defense industry cooperation. This chapter consolidates the study’s central findings and offers a summary of evidence in support of and in opposition to my three hypotheses. It provides the final assessment of the discussion of the thesis as a whole. Lastly, the conclusion summarizes the arguments set forth in the thesis and suggests a number of potential research directions for future work.
Chapter 1. Literature Review

Overview

In order to understand the driving forces of British, French, German, and Italian policymaking in the defense sector, it is necessary to draw from three different areas of political science scholarship. The first of these, retrenchment theory, studies the strategies states adopt to prevent or slow down a decline in their power, whether relative or absolute. Analyzing retrenchment, a course of action which aims to reduce expenditures and commitments in order to rationalize a given state’s security establishment and strategy, is especially important in light of today’s growing budgetary pressures on many states, both in the West and in other parts of the world.

The second area is power transition theory, an extensive and important strand of realist political science. Power transition theory, motivated by a need to understand the causes of the great power wars and disputes that defined most of the 19th and 20th centuries, seeks to explain how shifts in states’ relative power can make war more or less likely.12 A system-level tool of analysis, this theory holds hegemony, hierarchies, and national interests as the central drivers of interstate politics, and remains fundamental in understanding relations between states.13

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12 Relative power describes the strength and resources of states as compared to those of other states. This differs from absolute power, which is a quantification of a state’s strength and resources purely within the context of that single state.
13 The “hegemon,” in political science, is broadly defined as the one state at the very top of the hierarchy in the international system. The hegemon is generally the state which shaped the existing hierarchy, its rules, and values; it is the maker and preserver of the status quo. Hegemonic powers will be the dominant powers economically, militarily, politically, and oftentimes culturally. For more details, see Ronald L. Tammen et al., Power Transitions: Strategies for the 21st Century (New York: Chatham House Publishers, 2000), 107.
The third field is collective action theory. Collective action theory provides models to understand the behavior of both individuals and states, and it is crucial in explaining the behavior of multiple actors engaged in the pursuit of (allegedly) common goals. As European defense has largely been a collective endeavor since the end of the Second World War, collective action theory offers a useful framework in assessing the degree and type of cooperation in present-day European defense. Furthermore, as this is a work on joint—and not individual—retrenchment, collective action theory will serve as the background tool to investigate this understudied area of retrenchment.

In this chapter, I begin by presenting perspectives on retrenchment by both its supporters and its critics. I then discuss the gaps found in retrenchment literature and their relevance to the subject of this thesis. Next, I will present a brief account of the development of power transition theory from its origins in the 1950s to its most recent elaborations. In particular, I relate this theory’s propositions to the current international and European systems, attempting to discern where the theory remains valid and where it may lack explanatory power. Finally, I proceed to discuss the segments of collective action theory relevant to my analysis of the collaborative aspects of European defense. In particular, I will focus on how the perception of security as a public or private good contributes to free riding or burden sharing behavior within the North Atlantic Treaty Organization (NATO) and European Union (EU) contexts.
Retrenchment Theory

Paul Pierson made a substantial contribution to understanding retrenchment in his analysis of the attempts by President Ronald Reagan (in the United States) and Prime Minister Margaret Thatcher (in Britain) to severely downsize the welfare state in their respective countries. Pierson lays the groundwork for future retrenchment scholarship by proposing three components that the study of retrenchment should possess. First, such research must examine both long-term and short-term spending cuts. Second, an analysis of retrenchment should observe both program structure and program spending. Third, the study must cover both systemic (nationwide and overarching) and programmatic (single-policy) retrenchment.\(^\text{14}\)

In addition to suggesting how retrenchment should be studied, Pierson also elaborates retrenchment as a policy option quite distinct from competing ones. Retrenchment policies, according to Pierson, are not just the diametric opposite of policies of state expansion. Retrenchment policies must take place in an environment significantly affected by past state expansion policies. This means that their aim is to withdraw (rather than add) benefits that the state provides. Hence, retrenchment policies are characterized by efforts to deflect blame rather than attempts to attract merit.\(^\text{15}\)

Pierson develops additional elements useful for analyzing retrenchment policies. The structure of institutions, existing policies, the strength of societal actors, and the vulnerability of individual government programs are all relevant variables in


\(^{15}\) Ibid., 1-2, 8.
assessing whether retrenchment can be successful or not. Governments also have several strategies at their disposal to reduce the political costs they incur by promoting retrenchment. Ultimately, although his work focuses on welfare rather than defense retrenchment, Pierson provides an effective framework for scholars who wish to study this policy in any sector.

Pierson’s work can be considered foundational for retrenchment theory. Paul MacDonald and Joseph Parent ambitiously extend the application of this scholarship to the areas of defense and international relations, defining retrenchment as “a policy of retracting grand strategic commitments in response to a decline in relative power” and entailing policy options such as “economizing expenditures, reducing risks, and shifting burdens.” These authors take a more actively pro-retrenchment approach than Pierson does, although the elements they analyze and their methodology are largely consistent with those laid out by Pierson.

After analyzing 18 cases of great power retrenchment from 1879 to 1992, MacDonald and Parent conclude that retrenchment is much more frequent and effective than its critics suggest. Furthermore, MacDonald and Parent find that the magnitude of decline influences both the extent and type of retrenchment states will select. The authors note that by achieving savings on defense expenditure, reducing risks by eliminating unnecessary and costly peripheral commitments, and sharing or shifting the burden of their defense with other states, states are able to slow down or arrest their decline, in some cases even positioning themselves for future return to

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16 Ibid., ch. 2, 6.
17 Ibid., 19-26.
the rank they had lost.\textsuperscript{19} These conclusions provide a strong case against retrenchment critics, whose arguments will be discussed later on in this section.

MacDonald and Parent’s focus on the effects of retrenchment on defense prove highly relevant to the work of this thesis. Having demonstrated that retrenchment is a serious policy option states will consider when faced with a situation of relative decline, it is possible to extend retrenchment theory to the modern cases of Western European states being subjected to intense economic pressures and losing ground to other competing states across the world, from Latin America to South and East Asia. Coupling Pierson’s in-depth framework with its application by MacDonald and Parent to international security research, I will be able to employ these foundations to the European case, while acknowledging their shortcomings where they exist and complementing them with a novel application. Before elaborating the gaps in retrenchment theory, however, I will briefly discuss other perspectives on retrenchment, including views both by its supporters and its critics.

While the term retrenchment itself is not used too widely in modern political science scholarship, a number of authors have produced valuable elaborations on the theme of state response to decline. As their titles suggest, both David Calleo’s \textit{Follies of Power: America’s Unipolar Fantasy} and Christopher Preble’s \textit{The Power Problem: How American Military Dominance Makes Us Less Safe, Less Prosperous, and Less Free} focus on hegemonic power as an issue for both the international system and the hegemon itself. Both of these scholars see American foreign policy as overly expansionary and ultimately counterproductive, both in purely economic terms and in the costs—

\textsuperscript{19} Ibid., 28-29.
diplomatic, human, and so forth—associated with current United States actions in the international system. These factors delegitimize the U.S. in the world while facilitating the U.S.’s relative decline by attrition and overstretch. Both Calleo and Preble support policies that would see the U.S. retrench in the form of withdrawing from some commitments at the global periphery and in eliminating superfluous military spending to focus on the regions and resources where American security may concretely be at stake. While the authors’ claims in favor of policies akin to retrenchment are not solely economic (as the view articulated by MacDonald and Parent would require) they do present this strategy as an optimal solution to an imbalance between a state’s policies and its resources, effectively bringing their work under the retrenchment umbrella.

If Calleo and Preble suggest that retrenchment is a policy option that can help resolve some of the issues great powers face, Robert Gilpin and Jeffrey Taliaferro contend that this strategy is both counterproductive and disliked by policymakers. Gilpin’s *War and Change in World Politics* is a comprehensive analysis on how the balance of the international system is a key factor in determining state policy, both domestically and internationally. One form through which this manifests itself is retrenchment policy. Gilpin—as well as MacDonald and Parent—considers disequilibrium between resources and commitments as the primary push factor for retrenchment and see domestic budget cuts as well as external balancing as means of retrenchment. However, Gilpin is strongly critical of retrenchment as a viable

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22 Ibid., 192-195.
strategy. For him, retrenchment is a policy that signals weakness and vulnerability to allies and adversaries alike. Hence, according to Gilpin, rather than allowing a state to moderate its decline, retrenchment instead increases external perception of the severity of that decline.23

Taliaferro takes a similar, perception-based stance on retrenchment, but focuses more on its improbability than on its alleged negative outcomes. The core of Taliaferro’s work is determining when and why great powers decide to intervene or remain involved in the global periphery. The model he proposes analyzes state leaders’ perception of gains or losses from involvement or noninvolvement in the periphery, and concludes that the desire for loss avoidance is a stronger driver of policy than that of gain accrual. One element in policymakers’ tendency to avoid losses is the perceived loss of state prestige and international standing that withdrawing or not intervening in a crisis situation on the periphery would entail.24 Therefore, according to Gilpin and Taliaferro, although retrenchment may be the favored policy option in purely economic terms, internal and external perceptions actually play a more significant role in shaping the policy choices of leaders who seek, first and foremost, to not have the image of their state’s power weakened in the minds of allies and adversaries. Ultimately then, state policies must be directed at enhancing a perception of state strength, even if retrenchment measures could do more to solidify that strength in concrete terms.

In recent years, a number of authors have sided with either MacDonald and Parent or with Gilpin and Taliaferro, complementing political science studies on

23 Ibid., 194.
retrenchment with their policy analysis work. The debate among these authors’ positions indicates that retrenchment is an issue discussed in the public domain by political scientists and public intellectuals alike. Fareed Zakaria and Christopher Layne have both written pieces supportive of an extensive scaling back and reconsideration of American military expenditures and foreign commitments. While Zakaria does not directly use the term “retrenchment” to frame his analysis, the policies he suggests to U.S. leaders in light of the rise of new powers are strongly reminiscent of those linked by MacDonald and Parent to retrenchment.\textsuperscript{25} Layne similarly argues that American resources and strategy are lagging behind existing policies, creating a disjuncture that is harmful to the country and which should be addressed by a concurrent reduction of excessive military expenditure and reprioritization of foreign engagements, the key tenets of security retrenchment.\textsuperscript{26} Zakaria and Layne ultimately envision the strategies they propose as a means of ensuring the stability of the international system and the position of the United States at its apex.

Conversely, Robert Kagan and Robert Kaplan raise extensive criticisms of any retrenchment strategy, using some of Gilpin’s and Taliaferro’s arguments while offering a number of their own. Kagan shares the idea that a strategy of retrenchment will have harmful effects on the perception of a state by its allies. At the same time, he adds that the presumed savings that would result from cutting military expenditure would be undone by the cuts’ wider economic effects, asserting that the benefits that the defense budget provides to industry and employment are


\textsuperscript{26} Christopher Layne, “Graceful Decline: The End of Pax Americana,” \textit{American Conservative} 9, no. 5 (May 2010).
superior to those of any decrease of the defense budget. Kaplan takes an approach more focused on relative power and power vacuum. American withdrawal from the periphery, he argues, would create regions of instability under no state’s control, thus creating what he sees as fertile ground for the expansion of terrorist groups and other non-state threats. Furthermore, Kaplan—though considering the United States to be strongly ahead of other great powers—notes that states like India and China are catching up, and that the U.S. cannot afford at this moment in time policies that could make its relative position weaker.

Based on the work of Gilpin, Taliaferro, Kagan, and Kaplan, it is possible to categorize critiques of retrenchment in the following groupings: those which criticize its direct effects on the national security and defense establishments; those which criticize it as a cause for loss of prestige and credibility; and those which argue that relative decline and existing threats must be met by increasing efforts and commitments rather than decreasing them. MacDonald and Parent address these criticisms in their work, sustaining that detractors of retrenchment overstate the importance of prestige and credibility costs and underplay how maintaining or extending current commitments can harm a declining state’s already delicate position.

Similarly, MacDonald and Parent rebut the arguments of those skeptics of retrenchment who question whether policymakers will actually choose retrenchment in the face of domestic interest groups and opposition. Through the quantitative and

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29 MacDonald and Parent, Graceful Decline, 13-16.
qualitative results they provide, MacDonald and Parent undermine this strand of retrenchment skepticism, emphasizing that defense and security retrenchment is a viable strategy that policymakers will indeed choose if the circumstances so dictate, and that domestic opposition need not be an insurmountable obstacle.\(^{30}\)

Having elaborated what key retrenchment theorists propose and how their work addresses criticisms of retrenchment, it is now important to determine whether any gaps exist in this area of political science. Firstly, it is important to distinguish Pierson’s retrenchment from that of MacDonald and Parent and other scholars for two principal reasons. Pierson studies the retrenchment of the welfare state while international relations scholars focus primarily on defense and security retrenchment. As discussed previously, these two areas of study share similarities in methodology and items of analysis, but must be distinguished as the first deals primarily with domestic politics and the second mostly with state power and the international system. Another difference is that Pierson discusses case studies of retrenchment undertaken as an ideological policy option by two conservative governments. Because in times of fiscal constraints ideology will matter less in determining spending policies—as states are forced to pursue austerity policies to preserve their interests and stability and do not have the choice to act ideologically—in this thesis I discuss the case of retrenchment as a policy deriving from the need to align national resources with national policy commitments.

Secondly, within the international relations discussion of retrenchment, the focus is largely on so-called “great powers”: those states which by virtue of their economic, military, and political resources rank among the five or so most powerful

\(^{30}\) Ibid., 16-18.
actors in the international system. In particular, recent emphasis (as can be seen in
Calleo, Preble, Kagan, and Kaplan) is on the hegemonic system. While Britain,
France, Germany, and Italy rank among the world’s ten largest economies and are in
similar positions in military expenditure, they are not the imperial great powers of
global scale that MacDonald and Parent study in their work. Rather, they are regional
powers with certain global ambitions, and it will be in part the goal of this study to
assess whether these types of states can fit in the existing great power retrenchment
framework or not.

In addition to this, whereas security risks for states used to come mostly
from other states—and even more so for competing great powers—in the modern
world threats to Western states are mostly asymmetrical in nature. There are no
traditional existential threats for Britain, France, Germany, and Italy, though the risks
posed by terrorism, international organized crime, and the displacement of migrant
populations to their territories worry policymakers in all of these countries.
Therefore, an analysis of retrenchment in the 21st century must account for the
differences between this historical period and that of the late 19th to late 20th
centuries, which is the era most studies of retrenchment analyze.

Thirdly, existing retrenchment scholarship focuses on individual states
attempting to manage their decline through this strategy. As the model proposes, this
implies a certain degree of cooperation with other states, but retrenchment has
remained so far a policy studied (and undertaken) solely at the state level. However,
this thesis looks to expand the analysis of retrenchment to include retrenchment as a
collaborative endeavor between multiple countries facing similar problems. Joint
managed decline is absent from current perspectives on retrenchment and this study of European defense post-crisis will seek to fill this gap.

Retrenchment offers ailing states the opportunity to remedy their problems. Great powers in the past have shown a willingness to take this route to address imbalances between their resources and policy commitments, and although this strategy remains widely criticized it maintains serious empirical and normative support. A study of retrenchment in Western European defense must take advantage of the valuable concepts and tools provided by previous scholars of retrenchment and at the same time determine how these might be expanded or modified to adapt to the relevant context. Yet what retrenchment theory suggests must be confronted with a competing analysis of international relations policymaking, power transition theory, and that is what the next section undertakes to accomplish.

**Power Transition Theory**

At the turn of the 21st century, Ronald Tammen et al. undertook to determine the situation of power transition theory, to assess how its understanding differed nearly half a century since its origin, and to propose directions for future study of this body of work. Power transition theory is, at its core, a theory aimed at understanding under what conditions the international system will be stable and when it will degenerate into conflict. It contends that the structure of the international system is hierarchical (with regional sub-hierarchies) and shaped by a

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31 The scholarly debate concerning retrenchment is active and current, as demonstrated by Brooks et al.’s recent article critiquing literature favorable to U.S. retrenchment. See Stephen G. Brooks, G. John Ikenberry, and William C. Wohlfforth, "Don’t Come Home, America," *International Security* 37, no. 3 (Winter 2012/13).
dominating power (or hegemon). The latter determines the rules and the structure of the international system. However, the hegemon will not always be able to retain supremacy, as it may decline and concurrently other powers may rise in the international system. As each state desires to remake the international system according to its own interests, once the power of the rising challenger and that of the hegemon begin to close, the stability of the system is questioned by the potential for conflict for leadership in the system. Power transition theory predicts that the likelihood for war between two states is increasingly likely as their power becomes more and more equal and as the challenging state becomes more and more dissatisfied with the existing system (this prediction is generalized to the whole system and does not only apply to the hegemon and its contenders). Thus the key elements of analysis for power transition theory are the structure of the international system and its hierarchy, the power of individual states, and whether they are satisfied or not with the current system and hierarchy.\textsuperscript{32}

Power transition theory's understanding of economic factors and regional dynamics has remained relatively constant over time. According to Tammen et al., “power transition theory recognizes no distinction between security and economics.”\textsuperscript{33} Further, the authors add that “security is the primary concern among opponents, while economics dominates relationships between allies.”\textsuperscript{34} These elaborations suggest that military and economic power are equally relevant aspects for analyzing and predicting interstate relations, making power transition theory a key

\textsuperscript{33} Ibid., 107.
\textsuperscript{34} Ibid., 112.
tool in a study of the confluence of economic and defense trends this thesis focuses on.

Likewise, the theory’s applicability to regional as well as global dynamics—a structure of “multiple hierarchies”—implies that developments in one part of the world have the ability to influence those in another, either by threat spillover, economic fluctuation, or patterns of alliances. Thus, while the center of this study is Western European defense policy, the context it must consider is a global one, in keeping with power transition theory’s tenets of international interconnectedness.

It is obligatory to note that power transition theory, at least in the eyes of its founder and a number of other scholars, contains some elements which make it incompatible with a possible application to the modern context of European defense. Jon DiCicco and Jack Levy break down what Organski laid out as the six “hard-core assumptions” of this theory. They are as follows:

HC1: States are the primary actors in international politics.

HC2: State leaders are rational in their foreign policy choices.

HC3: The international order is hierarchically organized under the leadership of a dominant power.

HC4: The rules governing the international political system are fundamentally similar to those governing domestic political systems.

HC5: Internal growth and development of states is the primary source of international change.

\[35\] Ibid., Ch. 3.
HC6: Alliance ties between states are relatively inflexible, and consequently alliances are not a primary means of enhancing national power.\textsuperscript{36}

While assumptions HC2 through HC5 are consistent with the present analysis, assumptions HC1 and HC6 call into question the applicability of power transition theory to a study of European defense in the 21\textsuperscript{st} century for two reasons. First, while state actors do remain the primary actors of international politics, non-state actors have acquired increasing significance in the last few decades, and all the more so in the field of security. Furthermore, the existence and relevance of supranational actors also complicates the relationship between HC1 and the present European situation. Second, if alliances are not a relevant factor in shifts in national power, then conventional views on external balancing do not hold, thereby undermining a significant policy option for defense retrenchment. The question of supranational actors applies to this concern as well.

To counter the first discrepancy suffice it to say that Tammen, together with a number of other modern power transition theory scholars, has acknowledged the increasing role of non-state actors in current analyses of power and security. According to this group of scholars, whereas threats to great powers used to be mostly symmetrical (both during the period during which power transition theory was developed and in the three centuries prior to that), in the 21\textsuperscript{st} century the absence of clear threats makes security and state policy more complex.\textsuperscript{37} This distinction is crucial in understanding the motivation for states to choose the security


\textsuperscript{37} Tammen et al., \textit{Power Transitions}, 5.
policies they do in the present day, and updates a component of power transition theory to align it to the modern international system.

In regard to the second incongruity, Woosang Kim has demonstrated that alliances play a part in the power transition framework and the occurrence of war. In a longitudinal study of state interaction, power shifts, and war between 1648 and 1815 that also challenges Organski’s statement that power transition theory is applicable only to the period following the Industrial revolution, Kim concludes that alliances can play a significant role in determining whether conflict occurs or not. This extends power transition theory to external and not just internal balancing, as had been previously believed. Finally, while scholarship of power transition theory lacks a discussion of supranational actors, it may be reasonable to say that these entities add to the necessity of understanding multiple complex levels of interactor relations, fitting coherently with Tammen et al.’s and Kim’s advancements of power transition theory.

In a broader study of the occurrence of war during power transitions, Kim and James Morrow inquire as to the factors leading to a state’s decline. Unsurprisingly, they list factors which are the target of retrenchment strategies: the financial burdens of foreign commitments, maintaining a large military establishment, servicing debts from previous wars, and a failure to dominate emerging economic sectors. Although debt repayment and stimulating critical economic sectors are not considered in the great majority of retrenchment policy

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options, MacDonald and Parent do acknowledge that funds saved with retrenchment policies could instead be spent on areas that are considered more imminently critical, such as fostering economic growth.\textsuperscript{41} According to Kim and Morrow, since the extent of decline affects the likelihood and timing of transitional conflict,\textsuperscript{42} it is therefore increasingly important for policymakers to keep these factors under control and address them, if necessary, through retrenchment.

Notwithstanding the similarities of some elements of power transition theory and retrenchment theory found in Kim and Morrow, mainstream power transition theory would predict that relative decline will not be met with strategic reconsiderations of the resource-commitment balance but will rather be addressed by attempts to increase state power (especially military) at the expense of other calculations. Replicating results by other scholars, Daniel Geller finds that the greater the difference in power between two states, the less likely they are to engage in conflict; the opposite also holds true.\textsuperscript{43} Thus, in order to avoid conflict and maintain supremacy, states which fear being overtaken by another state will be driven to take measures to increase their power rather than address the causes of this power’s decline.

We thus see the normative suggestions of retrenchment theory clash with the predictions of state behavior of power transition theory. For this reason, these two strands of political science research lead to two predictions of state behavior that are virtually the opposite: a reduction of spending and withdrawal of commitments to

\textsuperscript{41} Paul K. MacDonald and Joseph M. Parent, “The Wisdom of Retrenchment: America Must Cut Back to Move Forward,” \textit{Foreign Affairs} 90, no. 6 (November/December 2011).
\textsuperscript{42} Kim and Morrow, “When Do Power Shifts Lead to War?”
reduce or eliminate relative decline for the former, and an increase in spending and commitments to attempt to preserve the power differential for the latter. Having identified how a developed form of power transition theory can be applied to the present day—and the current European security situation in particular—it will now be of high importance to determine which theory best explains variations in the defense behavior of the countries studied within this thesis. Before proceeding to the theory, methodology, and case study evaluations of this thesis, however, there must be a discussion of collective action theory as an integral part of the current theoretical framework.

**Collective Action Theory**

Collective action theory explains how multiple, self-interested actors collaborate in the pursuit of public (non-excludable) goods. This is especially relevant for state behavior in multilateral settings, such as alliances and common security initiatives. An analysis of joint retrenchment must be able to explain the behavior of multiple actors if it wishes to address the existing gap within retrenchment theory, which so far has only looked at this strategy at the level of individual states. It is one of the objectives of this thesis to develop a theoretical construct which melds the predictive and analytical aspects of retrenchment and collective action theories in order to provide a framework that is valid for the case studies as well as generalizable outside of them.

The basic model of collective action theory was developed by Mancur Olson and successively refined or modified by a number of scholars, as presented by Luis Fernando Medina’s comprehensive study of public goods models. The underlying
phenomenon that these theorists sought to explain was the behavior of individual actors in a public goods situation, where: there is more than one agent; these agents must decide whether to commit to costly action; this action will increase the chance of achieving a given goal; this particular goal is desirable by all agents.\textsuperscript{44}

While each individual actor would benefit from the goal being achieved, any given actor would prefer not to commit to the costs necessary to obtain it and wait instead until it is provided by other actors through their efforts. This situation requires that the goal in question is a public good: one that is non-excludable and benefits all participants, regardless of their contributions. Olson’s model posits that it is necessary for organizations to provide positive incentives to cooperation (i.e. rewarding the individual actors who choose to take on the costs necessary to obtain the objective) or negative incentives to noncooperation (i.e. punishing individual actors who refuse to take on the costs necessary to obtain the objective), or organizations will find noncooperation the dominant strategy.\textsuperscript{45} However, successive elaborations question how much of an effect external organizations can have in making actors overcome the collective action dilemma, and propose that it may not be sufficient to have an external organization providing incentives for collective action to take place.\textsuperscript{46}

This leads to a further elaboration of the model, which rests on the assumption that collective action situations have multiple equilibria where there is either no cooperation, the initiation of cooperation, or complete cooperation. The

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{45} Ibid., 30-35.
\item \textsuperscript{46} Ibid., 40-43; 67-70.
\end{itemize}
\end{footnotesize}
sizes of these equilibrium sets vary, and it is the likelihood of various paths in shifts between these sets that determine whether and how collective action takes place.  

Joe Wakano et al. provide such a model, defining specific equilibria for cooperation and noncooperation (defection) and quantifying the specific payoffs for actors who choose either policy at various points within the model. The key notion is that as long as some actors are cooperating, defectors will obtain a share of the public good provided; on the other hand, cooperators will only obtain a share of the public good minus the costs they have incurred to provide it. The overall benefit to all actors will also depend on an output factor, or how strong the positive outcome of the collective contribution is. Thus, if the output factor is less than a critical number, defectors will benefit the most; if it is greater, cooperators will. This model effectively encapsulates actor behavior within an alliance, since: different members will contribute different amounts or resources to it (the cost to the individual actor); these contributions will produce varying degrees of positive outcomes (depending on the output factor); and, given the size of the output factor and the ratio of defectors to cooperators, alliance members will have different preferences and will favor cooperation to different degrees.

Although Wakano et al.’s model postdates some of the key discussions of collective action problems within NATO, it is certainly possible to see similarities between what these authors propose and what scholars like John Oneal, Paul Diehl, and Mark Elrod have found to be state behavior within the Atlantic alliance. Oneal and Diehl in particular determine that NATO has provided a relatively public

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47 Ibid., ch. 4.
good—common defense and especially deterrence—to all of its members, even though the majority was found to have been free-riding on the contributions of the alliance’s largest partners. This is consistent with Oneal and Diehl’s proposition that the more powerful a group member, the more disproportionate will be its contribution to the collectivity.\textsuperscript{49}

However, Oneal and Diehl also note trends which could lead to a more equitable distribution of the defense burden within NATO. The first of these is that greater interdependence leads to greater burden sharing, indicating that if NATO members—especially European ones—achieve increased integration, their contributions will be more evenly distributed, benefiting the collective. Second, the authors find that if the NATO mission were to change—such as from providing collective security to engaging in international intervention—then the type of good it provides would change as well, potentially incentivizing members to contribute more individually.\textsuperscript{50} It must be stated that NATO appears to have taken this direction in the last two decades, although evidence remains to suggest significant free riding behavior.\textsuperscript{51} Third, individual partners can benefit the alliance as a whole by seeking private benefits. Oneal and Diehl label this behavior “rational altruism” and define it as states indirectly contributing to the collective by expanding military spending for parochial interests.\textsuperscript{52} All of these propositions are relevant in light of the existing European common security and collective action dilemma, and will inform my discussion in the following chapters.

\textsuperscript{50} Ibid.
\textsuperscript{52} Oneal and Diehl, “The Theory of Collective Action and NATO Defense Burdens, 381.
Lastly, Oneal and Elrod present a historical overview of the United States’ attempts at pushing its European allies to contribute a fairer share to the NATO endeavor. The authors determine that American politicians always ended up favoring shouldering disproportionate costs for the sake of supporting the struggle against the Soviet Union. On the other hand, European NATO members chose to commit enough resources to defense to not justify a strong American backlash while keeping defense expenditures low enough to not suffer domestic political costs. Finally, Oneal and Elrod conclude that European states would only increase their contributions to the alliance at the moment that the public good provided by the United States fell below an acceptable threshold or when the perception of whether the good in question—deterrence (and hence more purely public) or territorial defense (of a more private nature)—shifted towards the latter.53

Altogether, the elaboration of a theoretical model of collective action theory and its indirect study in the NATO context provide important points from which to launch an analysis of the state of today’s collaboration in security among Western European states. The key findings of the above-mentioned authors are that the type of defense that states seek to provide ultimately determines what type of good the output will be and thus the degree to which states will be willing (or compelled) to collaborate. Similarly, it is crucial in a discussion of retrenchment to realize that it is not necessarily the size of defense investment that matters, but how effectively it is put to use. This is where Wakano et al.’s inclusion of the output factor in their collective action model is most pertinent. The effect of the multiple equilibria points

is also not to be discounted, since it indicates that a system must be analyzed in its entirety and in all potential outcomes and policy decisions.

The striking implication of these conclusions is that states could reduce their expenditures but, by sharing contributions and increasing the output factor, could actually maintain their security at or even above existing levels.\textsuperscript{54} This is no easy objective to accomplish, but if states do seek to maximize the effectiveness of their limited resources, they should then choose policies aimed in this direction. The following chapters conduct case studies of Britain, France, Germany, and Italy to ascertain whether they are responding to the pressures of the European economic and financial crisis in a way consistent with the optimal solution of Wakano et al.’s model or if each country will instead opt for a more shortsighted and limited response to the continent’s economic and security troubles.

\textsuperscript{54} Various examples of the application of Wakano et al.’s model to collective security will be presented in the following chapter.
Chapter 2. Theory and Methodology

Theory

Retrenchment theory and power transition theory offer contrasting predictions for state behavior in times of crisis. Retrenchment theory argues that the optimal strategy for states in relative decline is to reduce superfluous economic and strategic commitments in order to focus scarce national resources on issues which are crucial to the security and core interests of the state. By economizing, states will be able to overcome moments of crisis by slowing down or halting their decline, placing them in a favorable position to seek to rise again in the medium- and long-term. To the contrary, power transition theory posits that states facing relative decline should devote their efforts to strengthening their power and ensuring that all of their interests are achieved. This will discourage other rising powers from becoming too aggressive towards the declining state and will ideally maintain the latter’s advantage over the former.

Existing analyses of retrenchment have focused only on individual states and have overlooked the fact that it may be undertaken collaboratively if a set of allied states is facing a similar situation of decline. On the other hand, discussions of cooperation, alliances, and free riding are numerous in power transition theory scholarship, especially in regards to the North Atlantic Treaty Organization (NATO). However, these studies do not cover cases of states or groups of states in relative decline. Divorcing the findings of retrenchment and power transition theory studies from the normative and predictive nature of these two theories, scholarship in these two areas provides us with an extensive understanding of state behavior relative to
the policies most relevant to the current work: state response to relative decline and state collaboration in the security and defense sectors. By working this understanding into a model of state behavior elaborated by collective action theory, I provide a framework to analyze and explain state behavior in the circumstance of relative decline. I will now provide the elaboration of this model mathematically and graphically. Successively, I will provide several brief examples detailing how this model applies to this thesis. Finally, I will derive from my model and assumptions the hypotheses this work will test.

A Model of Collective Action and State Retrenchment

Wakano et al. propose a model of collective action which has the potential of accurately reflecting a scenario of retrenchment encompassing a number of allied states. In this formulation of Wakano et al.'s model, there is a public good—collective security—provided by the alliance. Some states in the partnership contribute a “fair share” to providing the public good, while other states either do not contribute or contribute much less than they should. The latter are labeled defectors (or free riders).

While at least some of the actors in a partnership are contributing, defectors will obtain a portion of the public good provided, whereas cooperators benefit a share of the public good provided minus the cost of their contribution. An output (or multiplication) factor also determines how much public good is provided. It

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55 Although the authors’ model treats a general collective action problem and is not directly developed with state behavior in mind, its components can easily be adapted to reflect this situation. Thus, in labeling variables, rather than “participants” and “investment” I will use “states” and “contributions” respectively, etc.

56 Examples of elements which can increase the output factor are interoperable equipment or policies such as pooling and sharing. For instance, fighter jets designed to land on both one’s own and an ally’s aircraft carriers would enable states to save money by contributing planes to operations without having to deploy aircraft carriers at the same time.
follows that defectors will benefit even if the output factor is less than some critical value, and that cooperators benefit only if it is greater.\footnote{Joe Y. Wakano, Martin A. Nowak, and Cristoph Hauert, “Spatial Dynamics of Ecological Public Goods,” \textit{Proceedings of the National Academy of Sciences} 106, no. 19 (May 2009).}

This model, albeit simple, permits the simulation of a number of different scenarios and equilibrium situations, in which states decide to contribute (or free-ride) and in which there is effective or ineffective collaboration. Examples of these cases will be presented shortly; first, however, I will present the mathematical basis of the model.

The public goods situation of Wakano et al.’s model of collective action has three independent variables: $N$, $C_i$, and $\alpha$.

$N$: total number of alliance partners

$C_i$: contribution of partner $i$ to collective security (cost of collective security to partner $i$)

$\alpha$: multiplication (output) factor of public good

The dependent variable, $b_i$, calculates the benefit each state receives from the partnership through the sum of each state’s contribution, multiplied by the output factor, divided by the number of states in the partnership, minus the contribution of the state in question.

$b_i$: benefit received by partner $i$

$$b_i = \frac{\alpha \sum_{i=1}^{N} C_i}{N} - C_i$$
In the general case of this model, we have additional calculations which specify how much contributors and free riders benefit.

\[ n_c: \text{number of countries contributing} \]
\[ N - n_c: \text{number of free riders} \]
\[ C: \text{cost of contribution to collective security} \]

Benefit to contributors = \( \frac{\alpha \times n_c \times C}{N} - C \)

Benefit to free riders = \( \frac{\alpha \times n_c \times C}{N} \)

The benefit to free riders is always positive.

The benefit to contributors is positive only when the number of contributors exceeds \( \frac{N}{\alpha} \).

A graphical representation of the general case can be seen in Image 2.1, where the payoff to defectors (\( b \)) is always positive and will be greater than the payoff to contributors (\( b - c \)) by \( C \), the cost of the contribution to collective security that the contributors make.
By way of an illustration of how this model applies to collective security, I will discuss three different hypothetical scenarios which exemplify different kinds of public goods situations. Each scenario simulates a simplified collective security partnership involving five countries: the United States, Britain, France, Germany, and Italy. Each state contributes a monetary amount to collective security and receives a security benefit (the public good) as a result. The output factor, arbitrarily

Note: The primer values for this graph are the following: \( \alpha = 2; C = 10; n = 5 \). These values are arbitrary and purely for demonstrative purposes.

The security benefit is calculated in terms of how much security a state receives in proportion to its contribution to the collective. Thus in Scenario 1 the United States has a negative security benefit, but this does not mean that US security is decreased by a situation in which it is the hegemon and contributes disproportionately to the public good. It means that, relative to their contribution, the US receive much less security than they are paying for. In the same scenario, on the other hand, the other four states receive much more security than their contributions would warrant. In Scenarios 2 and 3, where each state contributes the same amount, we can see that the security benefit for each state is proportional to its contribution.
defined for sake of example, indicates the extent of interstate cooperation and the efficiency of use of national and alliance resources.

Scenario 1: U.S. Hegemony

In the first scenario, *U.S. Hegemony*, the U.S. takes on the great majority of the defense burden while the other four states “free-ride” and contribute very little. These states do not completely free-ride as they still share a minimum commitment to remain in NATO, which would exclude them if they contributed less than this minimum threshold (set here at $1 for illustrative purposes) to the alliance. At the same time, due to minimal cooperation and low efficiency in the use of resources, the output factor is set to a low arbitrary value.

*Countries*: United States, Britain, France, Germany, Italy

*Contribution by state*:
- United States: $16
- Britain: $1
- France: $1
- Germany: $1
- Italy: $1

Let $\alpha = 2$.

Following the formulas presented above, we calculate the following security benefits for each individual state.

\[
\begin{align*}
b_{US} & = \frac{2 \times 20}{5} - 16 = -8 \\
b_{B,F,G,I} & = \frac{2 \times 20}{5} - 1 = 7
\end{align*}
\]
We see that the U.S. shoulders a disproportionate amount of the provision of collective security while the other states, which do contribute but would still be considered to be free-riding, obtain large benefits at a very low cost. In essence, in this scenario the U.S. subsidizes the security of its partners at a loss to itself.

**Scenario 2: U.S. Decline**

In the second scenario, *U.S. Decline*, the U.S.—whether due to budgetary or other concerns—significantly reduces its contributions to collective security. The other four states preserve their levels of contribution. Due to protracted minimal cooperation and scarce efficiency in the use of resources, the output factor remains fixed at a low value.

*Countries: United States, Britain, France, Germany, Italy*

*Contribution by state:*

- United States: $1
- Britain: $1
- France: $1
- Germany: $1
- Italy: $1

Let $\alpha = 2$.

Again, we calculate the following benefits for each individual state.

\[
\begin{align*}
    b_{US} & = \frac{2 \times 5}{5} - 1 = 1 \\
    b_{B,F,G,I} & = \frac{2 \times 5}{5} - 1 = 1
\end{align*}
\]

The U.S. no longer bears the majority of the costs of collective security, which is now equitably divided among all partners. At this point, Britain, France,
Germany, and Italy are no longer free-riding. At the same time, these four states (as well as the partnership as a whole) see their overall level of security greatly diminished. The U.S., however, sees a net gain in security benefit. From an economic standpoint, the model suggests that the U.S. has strong incentives to reduce its contribution.

*Scenario 3: Effective Cooperation*

In the third scenario, *Effective Cooperation*, all five states preserve the levels of contribution they had in the previous scenario, possibly due to continuous budgetary pressures which prevent greater expenditures. However, all states decide to engage in collective efforts to rationalize defense expenditure, reduce wasteful and redundant programs (such as through efforts of pooling and sharing and the development of niche capabilities), and promote greater coordination and efficiency in procurement and other areas. This significantly increases the output factor (it is raised fivefold for demonstrative purposes).

**Countries:** United States, Britain, France, Germany, Italy  
**Contribution by state:**  
United States: $1  
Britain: $1  
France: $1  
Germany: $1  
Italy: $1  

*Let $\alpha = 10$.*

This time, when we calculate the benefits for each individual state, the growth in the output factor outweighs the continued slump in monetary contributions, resulting in a net increase in each state’s security benefit.
In this final scenario, the costs of collective security are still divided equally among all partners. However, the way in which the funds are spent—with the increase in efficiency and cooperation—results in a noticeable increase in the overall quantity of the public good each state obtains.

These simple scenarios demonstrate the collective action theory model of state behavior. This rests on the notion that states have a credible commitment to their partnership and that the security benefits will be equitably apportioned. The credible commitment the actors have to their alliance in the scenarios is reflected in the case studies, as will be discussed later. The scenarios indicate that it is possible, at least theoretically, for states to decrease absolute and relative defense expenditure but, by changing the way in which that expenditure is used and by collaborating with other states, to preserve existing levels of security or to go as far as increasing them.

Therefore retrenchment theory would be correct in asserting that states can benefit from a reduction in their defense expenditures while not jeopardizing their overall security. This means that for the four major European powers affected by the Eurozone crisis the ideal response strategy to this situation would be to reduce defense expenditures as part of a broader economic policy, to intensify cooperation among themselves, to seek greater cooperation with other alliance partners, and to

\[
\begin{align*}
\text{bus} &= \frac{10 \times 5}{5} - 1 = 9 \\
\text{b}_{\text{B,F,G,I}} &= \frac{10 \times 5}{5} - 1 = 9
\end{align*}
\]
enhance the efficiency of the usage of scarce defense resources and capabilities. We can now derive the hypotheses this thesis undertakes to test.

Hypotheses

I base my hypotheses on the assumption that Britain, France, Germany, and Italy are rational state actors which seek to preserve their position, power, and security, and to at least minimize their comparative decline in the global hierarchy.59

Null Hypothesis (derived from power transition theory): Regardless of the severity of the Eurozone crisis, Britain, France, Germany, and Italy will increase or maintain their current levels of defense expenditure into the future years.

Hypothesis 1: The pressures of the Eurozone crisis are pushing Britain, France, Germany, and Italy to reduce their defense expenditure.

Hypothesis 2: The pressures of the crisis provide incentives for these states to undertake collaborative defense initiatives (both existing and new) with more commitment.

The theory developed so far presents a relationship between the condition (the Eurozone crisis), a mechanism (the model of state behavior and collective action theory), and the outcome (defense retrenchment in Britain, France, Germany, and Italy). The theory leads to the formation of a number of hypotheses aimed at

59 The regional (European) military power hierarchy is quite solidified and unlikely to change, although in terms of economic power all principal European states are declining relative to Germany. Regional power shifts are unlikely to have a significant effect on the defense policies of European states, which are more concerned of external dynamics.
determining the existence, magnitude, and type of this relationship. The next section will describe how the hypotheses will be evaluated and tested.

**Methodology**

This thesis seeks to examine the link between economic pressures and state response in the defense sector. To do this, it employs a case study methodology. A case study methodology allows for a more in-depth examination of the matter at hand, one that takes into account various levels of defense policy—international, domestic, industrial—which exhibit complicated interplays difficult to express or capture numerically. This section begins by describing the motives for the choice of Britain, France, Germany, and Italy as case studies. Next, it elaborates what procedure will be used within the case study discussions. Finally, it concludes by presenting the dependent and independent variables that will be used to test the hypotheses.

**Case Study Selection**

The cases considered will be those of Britain, France, Germany, and Italy (EU-4). First and foremost, before the Eurozone crisis these four states had the largest defense budgets in Europe and some of the largest in the world. In 2006, two years before the onset of the crisis in Europe, Britain, France, Germany, and Italy collectively accounted for over 73% of European Union (EU) defense spending and for 71% of defense spending in NATO Europe. The member of this group with the smallest defense budget, Italy, still spent approximately twice as much as the fifth country in Europe by military spending, Spain.
Table 2.1: EU, NATO, and Global Rankings of EU-4 Defense and Economic Power

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<tbody>
<tr>
<td>Britain</td>
<td>47,314 (1st)</td>
<td>59,086 (1st)</td>
<td>54,024 (5th)</td>
<td>853 (5th)</td>
<td>2,061,110 (6th)</td>
</tr>
<tr>
<td>France</td>
<td>43,457 (2nd)</td>
<td>55,682 (2nd)</td>
<td>61,058 (3rd)</td>
<td>1,717 (4th)</td>
<td>1,969,900 (7th)</td>
</tr>
<tr>
<td>Germany</td>
<td>30,365 (3rd)</td>
<td>38,092 (3rd)</td>
<td>42,835 (7th)</td>
<td>2,627 (3rd)</td>
<td>2,672,770 (5th)</td>
</tr>
<tr>
<td>Italy</td>
<td>26,631 (4th)</td>
<td>33,409 (4th)</td>
<td>37,981 (8th)</td>
<td>514 (10th)</td>
<td>1,731,870 (9th)</td>
</tr>
<tr>
<td>EU-4 aggregate</td>
<td>147,767</td>
<td>186,259</td>
<td>195,898</td>
<td>5,711</td>
<td>8,435,600</td>
</tr>
<tr>
<td>Total aggregate</td>
<td>201,000</td>
<td>261,743</td>
<td>1,381,740</td>
<td>24,036</td>
<td>61,705,216</td>
</tr>
<tr>
<td>EU-4 share of total</td>
<td>73.51%</td>
<td>71.16%</td>
<td>14.17%</td>
<td>23.76%</td>
<td>13.67%</td>
</tr>
</tbody>
</table>

Note: All data in millions. All data from 2006. Numbers from different sources may vary.

Sources: European Defence Agency Data; International Monetary Fund World Outlook Database; North Atlantic Treaty Organization Data; Stockholm International Peace Research Institute Arms Transfers Database; Stockholm International Peace Research Institute Military Expenditure Data.

Furthermore, Britain, France, Germany, and Italy ranked fifth, third, seventh, and eighth respectively in terms of global defense expenditure rankings in 2006.

Similarly, these four states had the largest Gross Domestic Products (GDP) in Europe and among the largest in the world. Another manifestation of the global importance of Britain, France, Germany, and Italy in the defense sector is that these four states were, respectively, sixth, fourth, third, and tenth in total international arms exports in the same year.\(^6\) Concurrently, at the industrial level, of the top ten international defense firms, four were European: the British BAE Systems (third), the joint German-French-Spanish European Aeronautic Defence and Space

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\(^6\) Although defense exports and rankings can fluctuate widely from year to year, EU-4 countries are ranked essentially identically even when considering a longer period, such as 2001-2006, in the aggregate.
Company (EADS, seventh), the Italian Finmeccanica (ninth), and the French Thales (tenth).  

These data, which will serve together with other indicators as benchmarks to analyze the change that has occurred since before the Eurozone crisis, indicate that Britain, France, Germany, and Italy were the four most powerful European countries, both in economic and in military terms. On a global scale, they also placed at the top of the power hierarchy. They certainly were relevant international actors, as further indicated by their significant contributions to NATO and EU missions outside of their own borders. Additionally, Britain, France, Germany, and Italy are committed without question to mutual defence through historic partnership in NATO. They share other interests, as indicated by their membership in the EU and attempts to develop the Common Foreign and Security Policy of the EU. Additional proof of commitment to mutual and equitable security benefits, at both the national and industrial levels, is provided by the increasing legal and planning integration of the EU defense procurement market.

Taken individually, each of these four states exhibits characteristics which make them salient for the present analysis. First, Britain is a highly significant international player, owing to its permanent seat on the United Nations Security Council and extensive colonial heritage. The fact that Britain is not in the Eurozone

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62 While these statistics and rankings are different nowadays, Britain, France, Germany, and Italy remain by and large powers at the level described so far. Specific changes and variations in the indicators discussed to this point will be elaborated in the following chapters.
adds another level of comparison with the other states. Britain’s importance for both European and global security makes it essential to understand the effects of the Eurozone crisis on this state’s defense policy and sector.

Second, France likewise sits at the apex of the global hierarchy. It shares with Britain a permanent position in the Security Council, a considerable nuclear arsenal with related delivery capabilities, and colonial ties with large parts of the world. France’s strategic aspirations must reckon with the present economic difficulties, raising the question of how the most powerful Europeanist state will respond to the current situation and what the implications of that will be for its continental allies.

Third, Germany is without question Europe’s prime economic power. However, it has not achieved a similar level of consideration in defense, as it chooses to devote to this item fewer funds than either Britain or France. Its leadership in European economic matters is difficult to dispute, yet it has been criticized for its lack of determination and lack of efforts to contribute to North Atlantic collective security as much as its economic stature would warrant. Whether the current scenario will prompt Germany to couple its virtuous economic guide with a more determined and collaborative defense and security policy remains to be investigated.

Finally, Italy is an active member of the international community, contributing extensively to international peacekeeping, humanitarian, and other missions across the globe despite having a military budget inferior to that of the other states in this quartet. Italy remains an important player in European economic

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and defense policy, with special relevance in the Mediterranean region. Its ability to manage a complicated economic situation with international aspirations and obligations will be a crucial matter of discussion.

These four countries were chosen for the specific reasons mentioned above. Although this thesis deals with the effects of the Eurozone crisis on defense spending and cooperation, I chose not to include the countries most affected by these crisis. This is due to several reasons. First, the international dimension of a state’s defense policy plays an important role in the present analysis. As retrenchment also involves the reconsideration of international commitments, the analysis would lose out if it included states which have no possibility of withdrawing from foreign commitments simply because they have none. In addition to this, some homogeneity in size, power, and resources is necessary to provide a successful analysis and comparison of the various countries considered. This is no longer possible when the analysis incorporates states whose populations, economies, and militaries differ widely. Finally, as the analysis will center on intergovernmental cooperation, by studying more powerful states it is possible to analyze the initiatives these states shape with each other as well as with smaller states. Small states, on the other hand, are constrained by their size in the collaboration they can try to foster, a factor which would therefore reduce the potential scope of the analysis.

Britain, France, Germany, and Italy already have a number of traits which make the discussion that will follow nuanced and representative of the issues European states are currently facing—first and foremost the need to reconcile defense and partnership obligations with severe economic pressures. Though they do have some differences, they share some core aspects which are essential in ensuring
that the case study analysis is capable of testing the hypotheses in an appropriate and
accurate manner.

The case studies themselves will be subdivided in two chapters. The first of
these will treat the cases of Britain and France, while the second will discuss the
cases of Germany and Italy. Britain and France have been grouped together because
they share a number of important traits, such as permanent seats at the Security
Council, nuclear weapons, and interventionist foreign policies. Britain and France are
global actors and important European players, especially in defense. Although the
two states are part of various partnerships and international organizations, they also
share some hesitation in fully engaging in various cooperative endeavors: Britain
remains strongly Eurosceptic, while France rejoined NATO as a fully integrated
member only in 2009. Questions remain on whether they can be a part of or lead a
concerted European effort in managing defense in an economic crisis environment.

Germany and Italy lack the global military relevance Britain and France
possess. Germany appears to lack international influence proportional to its
economic power, although it sought reform of the Security Council that would allow
it permanent representation in this organ, either through its own seat or by creating
an EU seat. Germany, though averse to military intervention as a matter of national
policy, is strongly Europeanist and committed to common defense under NATO.
Italy lacks Germany’s economic clout or the military power of Britain and France,
though as a founding member of both NATO and the EU’s precursor (the
European Coal and Steel Community) it has historically had an important role in

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67 Ina Rottscheidt, “German Hopes for UN Security Council Seat Dampened,” Deutsche Welle, August
20, 2004. See also Siobhán Dowling, “The World from Berlin: Germany Joins ‘Vehement Supporters
both continental and Atlantic policy. Italy has contributed extensively to international missions all across the globe and remains committed to multilateral approaches to defense and economic issues. Germany and Italy are not typical military powers in the way Britain and France are due to national policies and ambitions. However, they are at the core of the European defense and security establishment and will necessarily be involved if a significant collaborative effort to address the consequences of the current economic issues on defense is mounted.

These groupings serve to simplify the analysis and do not exclude comparisons made across the two pairings. They serve to juxtapose states with important likenesses in the discussion of the effects of the Eurozone crisis on defense spending and cooperation, although the differences that exist between these states (which have been noted above) will also be subject to thorough examination. Additionally, I also provide a discussion chapter which discusses factors which bridge the two case study groupings and which synthesizes the analysis made within these chapters.

Sources

In order to present a detailed and accurate representation of the economic, defense, and policy aspects of the case studies, I will draw from a wide range of sources. These include official government documents and publications and data provided by international organizations such as NATO, the European Central Bank, and the Organization for Economic Cooperation and Development. I will also rely extensively on reports and briefings by think tanks and similar institutions which specialize in defense and security policy. These include, but are not limited to, Chatham House, the International Institute for Strategic Studies, Istituto Affari
Internazionali (Institute for International Affairs), Royal United Services Institute, and Stiftung Wissenschaft und Politik (German Institute for International and Security Affairs). Additionally, I will utilize journal articles, such as those published by some of these centers or ones by Rivista Italiana Difesa (Italian Defense Review) or IHS Jane’s. Furthermore, I will make use of newspaper coverage of the issues in question in order to provide an up-to-date understanding as well as a sense of the public perception of these issues. Books by various individuals and organizations will also be used to provide information for the discussion.

Finally, to complement all of these sources, I will also use content of structured interviews I conducted between July 2012 and March 2013 with experts on European defense and security. These experts, who come from all of the countries considered in the case studies, include politicians, former members of the armed forces, defense ministry advisers, defense scholars, and journalists. Their views will offer perspectives which differ from those commonly found in materials available in print and on the Internet and provide important personal insight stemming from longtime experience in the practice and study of international defense and security matters.68

Procedure

The case study analyses will proceed according to the following structure. They will begin by providing an overview of the impact of the Eurozone crisis on

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68 The experts and analysts I interviewed are not representative of all political positions, institutions, branches of the armed forces, or independent perspectives on this issue. However, they offer significant insight on the matter and are all highly reputable and experienced sources to draw from on this topic. Additionally, I was not able to interview the same number of people across all four countries I treat. I tried to address this issue, but some persons I contacted did not reply to my requests or declined to be interviewed. Finally, although I planned to use the interviews more extensively in the case study chapters, they resulted more useful in helping me understand and frame the issue of defense spending in Europe before and after the Eurozone crisis. For a list of all interviewees, please see Appendix A.
the state in question. The analyses will then focus on defense in the state under observation for the years prior to the Eurozone crisis and for the period following their onset. This includes a discussion of defense budgets, programs, policy and strategy, the defense industry, and international cooperation and missions.

The next part will be centered on policy responses to the crisis in the defense sector, determining what steps each state has taken to address these pressures. It will attempt to delineate where there have been spending and capability reductions, where these have been preserved, and where there has been (or there are plans for) significant reform of the defense establishment. The state responses considered will include domestic as well as international and cooperative responses.

While these sections will incorporate both expository and analytical components, after the general situation has been presented the main discussion of the variables considered will take place. Based on the data, events, and policies which have been presented, I will provide the main comparison and examination of the patterns existing in the defense sector of the states being discussed. How differences in the included variables lead to variations in state behavior and response to the economic pressures will also be the subject of this part. This elaboration will serve to test this thesis’ hypotheses and to trace the effects of the crisis on European defense trends.

Several elements play an important role in testing the hypotheses. The severity of the crisis’ impact on each of the states considered is expected to produce a relationship where the more severe the impact, the greater the consequences for defense budgets and policies. Severity of impact, both at the financial (government ability to raise funds and finance debt through bonds) and economic (rate of GDP
growth or decline and unemployment increase or decrease) levels will be confronted
with national economic power to establish this relationship. Variations in two main
conditions will highlight additional questions. First, membership in the Eurozone
separates France, Germany, and Italy from Britain. This may be reflected in differing
consequences of the crisis, which allow comparisons both for countries subject to
similar monetary conditions (France, Germany, and Italy) and across countries with
different such conditions. Second, military strategic outlook differs—to varying
 extents—across all of the states considered. States will adjust their defense policies
and spending differently based on what their military ambitions are. Hence, although
the impact of the crisis on a given state is considered the main factor influencing
government responses, diverse strategic outlooks may produce dissimilar responses
throughout the four states. However, if the policy response is homogeneous—
cooperation would be one such case—this may be an indication that collective
retrenchment is taking place and that states are beginning to overlook parochial
interests in favor of communal approaches to relative decline. This is what this thesis
seeks to identify.

The differences presented will serve to determine whether the hypotheses are
correct or not. If there is indeed a relationship between the magnitude of the crisis
and state retrenchment (both at the national level and in terms of cooperation with
other states), then Hypotheses 1 and 2 will be considered correct. If that is not the
case, I will discuss why it may be so and what elements exist which create a weak or
inexistent connection between the effects of the Eurozone crisis and the responses
of Britain, France, Germany, and Italy in terms of defense budgets and defense
cooperation as predicted by these two hypotheses.
Key Variables

Since defense-economic questions must be analyzed at various levels, it is necessary to utilize a number of different variables to discuss the matter at hand thoroughly. Some of these may be more easily quantifiable than others, prompting the need for analysis of both more objective and more subjective data. Before discussing the following variables in a qualitative manner, I would like to make it clear that the labeling of these variables as independent and dependent is just for an intermediate stage of analysis. This first level seeks to determine the relationship between the strength of the impact of the crisis on defense spending and policy. I will then integrate the findings of this first level of analysis in the model presented above, to determine whether there is cooperation in the defense sector as part of a policy of joint retrenchment. Hypothesis 1 will be evaluated primarily at the first level of analysis, whereas Hypothesis 2 will be evaluated at the second level of analysis.

Independent Variables:

**Gross Domestic Product growth/decline**: the growth or decline in GDP will serve as an indicator of the magnitude of the impact of the Eurozone crisis on the states in question.

**Sovereign debt and borrowing rates**: this data provides information on a government’s indebtedness and the scale and nature of the crisis affecting the state in question.

**Unemployment**: this data also serves to determine the scale of the crisis in the given countries.
Major procurement programs: these programs indicate the existing burden of past procurement decisions (a high burden suggests reduced flexibility in present choices) as well as the capabilities states are trying to develop and the partners they are developing them with.

Dependent Variables:

National defense strategy: the stronger the crisis, the more withdrawal from non-essential commitments there will be. This variable also incorporates reforms of the defense establishment and industry and programs to focus resources on core interests.

Defense budget size and allocation: the stronger the effects of the crisis, the more severe the budget reductions will be.

Size and composition of armed forces, defense staff, and defense infrastructure: the stronger the effects of the crisis, the greater the cuts in the armed forces components (both in human and material terms) and other ministry of defense staff. At the same time, it is expected that with stronger effects there will be an increased tendency towards the rationalization of defense infrastructure.

International agreements: if states decide to undertake collective retrenchment through cooperation as a response to economic pressures, the strength of the crisis will determine the extent to which cooperation initiatives will be initiated and/or executed. Agreements treated include bilateral and multilateral treaties on defense cooperation, procurement programs, and defense exports.
Based on the theoretical framework developed in the first section of this chapter and the hypotheses derived from it, I will now work through the case studies of Britain and France first and Germany and Italy successively to present the central discussion of this thesis, before providing a final analysis and synthesis of the findings in the discussion chapter. These four states present a number of important traits to be analyzed in light of the Eurozone crisis and the relative state responses in the defense sector. The conclusions to which this analysis will arrive will serve to shed light on the important and intricate questions of whether retrenchment is currently taking place in Europe and, if so, if it is being undertaken collaboratively between states to achieve the optimal security outcome suggested by my theory.
Chapter 3. Case Studies of Britain and France

Overview

The years between 2008 and 2012 have provided a series of important events for Britain and France’s defense and security policies. During this period, the Eurozone crisis engulfed these two nations’ economies. France was drawn into this crisis as an integral actor while Britain, although not a member of the euro-area, continued to suffer from international and continental economic troubles. France undertook a significant reevaluation of its defense and security posture for the decades to come with the 2008 French *White Paper on Defence and National Security*, formulating an outlook still unaffected by the impending economic and financial problems to come. One year later, in 2009, France completed its reintegration in the North Atlantic Treaty Organization’s (NATO) integrated military command after it had left this body (but not NATO as a whole) in 1966. The British government published its own assessment of the nation’s armed forces and their strategic role in 2010. The *Strategic Defence and Security Review* arrived in the midst of the new coalition government’s attempts to reduce the government’s budget deficit, and the impacts of economic problems can be seen more clearly in this document than in the similar one published by France two years earlier.

Both countries implemented, or sought to implement, a variety of defense and security policies. These ranged from shifts to their strategy, international treaties, measures to strengthen their respective armed forces, and efforts to address issues specific to their national defense establishments and defense industrial bases. As a backdrop, both Britain and France continued to operate in NATO’s International
Security Assistance Force in Afghanistan. Britain remained committed to operations in the Iraq War until it withdrew all of its forces in May 2011.69 Britain and France also participated in NATO Operation Unified Protector in Libya in 2011, providing significant support for this war with aerial and naval assets.70

This chapter evaluates the severity of the effects of the Eurozone crisis on France and the United Kingdom. It consequently determines whether decisions taken by each of these two countries’ governments in the period between 2008 and 2012 in matters of defense policy amount to state retrenchment as a response to the crisis. This chapter also analyzes whether Britain and France undertook cooperation with other states as an additional measure to address the crisis’ effects on national defense. I begin by providing a series of economic indicators which are instrumental in determining the magnitude of the economic troubles in each of these two countries. Successively, I will offer a brief overview of British and French defense policy in the post-Second World War, post-Cold War, and post-September 11th worlds to provide a necessary background to frame more recent events in this area of state operations. Next, I will present and discuss Britain and France’s defense policies and decisions within the aforementioned timeframe. Finally, I will close with a discussion of the facts and events elaborated in this chapter, and of whether they provide evidence for the Null Hypothesis (defense expenditure will be constant or increase), Hypothesis 1 (retrenchment will take place), and Hypothesis 2 (states will increase collaboration in response to the crisis).

Britain, France, and the Eurozone Crisis

Real Gross Domestic Product (GDP) remains the most commonly used indicator to assess the size of a state’s economy and determine whether it is shrinking or expanding. Gross Domestic Product provides insight into determining the extent of an economic crisis by allowing one to determine if a country’s economic output is being diminished—and if so, by how much—by the negative circumstances.

Britain and France both experienced fluctuations in real GDP growth rates between 1998 and 2012. However, as Chart 3.1 shows, 2008 marked a clear break from the trend that had existed until 2007. Although data from the Organization for Economic Cooperation and Development (OECD) indicates that both British and French GDP growth had dipped close to zero a few times (and even to the negative range for France), the two countries’ GDP had maintained a largely positive trend.

Following 2008, the trend averaged strongly to the negative, with troughs touching negative two percent growth for the United Kingdom. France fared slightly better in the critical period of the fourth quarter of 2008 and first quarter of 2009. After a brief period of seeming recovery, in which growth was nonetheless inferior to the pre-crisis average, both countries’ economies suffered another dip between the fourth quarter of 2011 and the second quarter of 2012 (the United Kingdom had suffered an additional stint of negative growth in the fourth quarter of 2010).

Although by the third quarter of 2012 both the United Kingdom and France had returned to positive growth, the crisis was a significant factor in reducing and making more fluctuating the moderate growth these two countries had experienced in the decade prior to 2008. Britain and France’s trends tracked the broader

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71 The ten years prior to the crisis are shown to provide a benchmark of economic trends with which to compare the effects of the economic downturn.
Eurozone and full European Union (EU-27) growth rates, indicating that the effects they experienced may not have been significantly different from the wider average.\(^72\)

Likewise, government consolidated gross debt as a percentage of GDP (also known as the debt-to-GDP ratio) affords insight into how heavily indebted the national government is. A government must issue debt if it runs a budget deficit. In economic situations such as those of a crisis where there may be less total revenue (from the lost output) and potentially more outlays (in the form of unemployment

\(^72\) EU-27 and euro-area time series are displayed as provided by the data’s source. It should be noted that the euro began to be used in financial markets in 1999 and that it officially entered circulation in 2002. Furthermore, the membership list of these areas changed within the time period considered in the graphs presented in Chapters 3 and 4, though for coherence with sources and homogeneity across charts I will maintain constant group membership.
benefits or other social safety net measures) its deficit may increase, leading to an increase in total debt over GDP and in an increase of the accumulation rate thereof.

Eurostat data indicates that both France and the United Kingdom exhibited an overall trend of absolute increase, although that increase took place mostly after 2007 as the total debt-to-GDP ratio had been stable and even decreasing between 1998 and 2007. This can be seen in Chart 3.2.

Corroborating this information, Chart 3.3 shows that a trend in improving budget deficits as percentage of GDP which began in 2003 ended abruptly in 2007. Budget deficits then started worsening in 2008, and reached unsustainably high rates in 2009 and 2010, before beginning a seeming recovery. While French budget deficits
remained largely on par with those of the EU-27 and the Eurozone, British deficits plunged again at much worse levels than those of the others.

In Chart 3.4, we examine the percentage change in debt-to-GDP from the previous year. Here, there is an evident spike in the growth rate of debt as a percentage of GDP beginning in 2007 and climaxing in 2009, with growth rates compared to the previous year of just below 30% for the United Kingdom and over 16% for France. Although the growth rate then decreased significantly in both 2010 and 2011, this remains a clear indicator that the Eurozone crisis brought a noticeable increase in the speed at which government debt accumulated. Although France and the United Kingdom had important differences in national debt ratios as compared to the EU-27 and Euro area averages—both having lower debt ratios—the crisis
narrowed the gap to the point where the difference can be measured in a few percentage points. In terms of debt-to-GDP ratio change over previous years, Chart 3.4 highlights the United Kingdom’s more rapid increase in debt accumulation over France, the EU-27, and the Eurozone. France, on the other hand, follows the area averages more closely.\(^\text{73}\)

![Chart 3.4: Debt-to-GDP Change from Previous Year 1999-2011](chart)

Related to the debt-to-GDP ratio is the yield rate of government-issued bonds. These bonds are the debt governments issue to cover their budget deficits. In situations of economic crisis—whether national or international—lenders may have less confidence of a state’s solvency, and therefore require it to pay out higher

\(^\text{73}\) Britain’s increase in budget deficits was also caused by British government bailouts of the banks threatened with collapse. For more details, see Henk Overbeek, “Sovereign Debt Crisis in Euroland: Root Causes and Implications for European Integration,” *The International Spectator: Italian Journal of International Affairs* 47, no. 1.
interests on its bonds for them to be willing to offer the required funds. Hence, the extent of a crisis can be indicated by yield (or interest) rates on sovereign bonds.

As long-term solvency is a lender’s significant concern, the yield of ten-year bonds is an indicator of how much risk a given state’s debt has according to market evaluations. Using OECD statistics, it is possible to trace the progress of France and the United Kingdom’s long-term borrowing costs. As presented in Chart 3.5, there existed a general downwards trends for ten-year borrowing rates for France, the United Kingdom, and the Eurozone countries. France followed the Eurozone average very closely, while the United Kingdom faced generally higher costs. The downward trend ceased in 2005 and was reversed in 2006.

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74 I choose to display two charts with different time scales for detail of analysis reasons. The chart displaying ten-year bond yields between 1998 and 2006 uses annual intervals in order to display the relevant broader trends without entering the quarterly or monthly levels, which would prove unhelpful in understanding the general pre-crisis pattern. From 2006 to 2012 I use quarterly intervals in order to more accurately show the within-year variations in bond yields at various points in the Eurozone crisis. Variations significant to this analysis occur within this time frame, justifying a closer look at government borrowing rates.

75 In this case, data was not available for EU-27 long-term bond yields in the databases of the European Central Bank, Eurostat, and the OECD.
Evidenced in Chart 3.6, the rise in borrowing costs which begins in 2006 had a first apex in mid-2007. After a brief decrease, another spike occurred in mid-2008 in which France and the Euro area surpassed the previous high. At this point, France and the Eurozone’s rates separated. France’s began a generally downwards trend achieving a low in the fourth quarter of 2012. Britain’s followed a similar, but more marked, decreasing pattern. On the other hand, the Eurozone’s yield rates will remain above France’s and the United Kingdom’s for all of the 2009 to 2012 period, achieving a constant high throughout most of 2011. Then, they too will reduce significantly.
The final statistic used to analyze the effects of the Eurozone crisis on France and the United Kingdom is unemployment. These data reflect more closely how economic downturn affects working-age citizens as active members of an economy.  

At the same time—as visible in Chart 3.7—Eurostat unemployment statistics for all citizens aged 15 to 64 indicate the strong effects of the crisis on unemployment in France, the United Kingdom, the EU-27, and the Eurozone. The United Kingdom began in the first quarter of 2005 with less than half the unemployment rate of France, the EU-27, and the Euro area. By the third quarter of 2012, though it had more than halved the gap with France and somewhat caught up

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76 Only partial data is available for before 2005, which constrains us to analyzing the period between 2005 and 2012.
with EU-27 and Eurozone averages. Several trends can be identified within this period.

First, between the first quarter of 2005 and the second quarter of 2008, the French, EU-27, and Eurozone unemployment rates exhibited strong decreases. Conversely, in the same period British unemployment was increasing. This explains a significant portion of the closing gap between British unemployment and that of the three other entities considered. Second, following the onset of the Eurozone crisis in late 2008, the unemployment growth rates for each country considered increased importantly. However, the biggest change takes place with the growth rates of the two regions. These values reflect the changes in unemployment between the third quarter of 2008 and the third quarter of 2012, yet they mask the third important trend of the timeframe. This third tendency is for mostly constant unemployment growth rates between the first quarter of 2010 and the end of 2012. In fact, after six quarters of speedy climb—the third quarter of 2008 to the last quarter of 2009—the unemployment rates plateaued until the end of 2012.

The French, EU-27, and Eurozone unemployment rates displayed much more variability than the United Kingdom’s, however. Notably, there are two spikes; a smaller one in the first quarter of 2011 and a more significant one year later in the first quarter of 2012.

Altogether, the Eurozone crisis caused a net increase in the percentage of unemployed citizens in France, Britain, the EU-27, and the Eurozone. Furthermore, it caused several fluctuations in the most affected area, the euro-area.
As there is no predetermined scale on which to measure the severity of a crisis, it is difficult to ascertain effectively how strong the effects of an economic or financial crisis were on a country or region. However, by using benchmarks of non-crisis periods, one can determine how much the crisis breaks with previous economic patterns. In the case of Britain and France (and the EU-27 and the euro-area), there is a highly evident shift in trends that occurs in all of the above economic indicators starting in 2007 and 2008. GDP growth stumbles and becomes negative more consistently. Government deficits and debt-to-GDP ratios increase at much higher rates than previously. Bond yields climb, complicating the financial position of states. Finally, unemployment growth becomes more marked, translating macroeconomic trends to realities for millions of individuals.
Across these data, Britain and France outperform each other in various indicators, suggesting that elements of their respective economies were more vulnerable to some of the Eurozone crisis’s characteristics. Britain, however, does appear to perform significantly worse in the various measures of government budget deficit and overall indebtedness during the period of the Eurozone crisis. This leads us to predict that Britain will engage in more retrenchment and cooperation initiatives than France. Although neither Britain nor France reached the critical situations of some other EU-27 members, the second and third continental economies were visibly affected by the crisis, a crisis from which they have not yet recovered. As a consequence, their national governments enacted measures to address the Eurozone crisis’s effects. The next section analyzes whether these measures involved the defense sector as well.

Reconsidering Global Ambition: French and British Defense and the Eurozone Crisis

Britain and France share a set of strategic ambitions, although the way they have sought to achieve them differs radically. Both states have foreign territories and military bases at several locations in the Atlantic, Africa, and the Middle East, among others. Both Britain and France invest significant amounts—at least by European standards—in their armed forces, and are continental leaders by a margin in virtually every military capability. Nonetheless, starting in the mid-1950s, they each took widely different approaches to their strategic ambition.

Following the Suez fiasco of 1956 and the Algerian War which concluded in 1961, France—under the returned leader President Charles de Gaulle—chose to
pursue a defense policy of independence and sovereignty. France distanced itself from NATO in 1966, remaining a member of the Atlantic Alliance but leaving the integrated military command and most participative activities. Through its recently-acquired nuclear arsenal, France could thus operate “between” the two superpowers of the Cold War. Its defense policy, which remained largely consistent throughout the rest of the Cold War, was impacted by the collapse of the Soviet Union. The 1991 Gulf War made French leadership aware of the inadequacy of the country’s armed forces for projection, which led to an effort to modernize all services. The 1990s saw a French drive to develop European military capabilities, while the 2000s—following the September 11th, 2001 terrorist attacks and successive intervention in Afghanistan—caused an increased focus in multilateralism and foreign antiterrorism operations.\(^{77}\)

Britain followed an almost opposite trajectory. The lesson taken from the Suez Crisis was that in the new international system, one had to side with the United States in order to be a relevant player. This was the beginning of Britain’s strongly Atlanticist dimension, which led it to align its interests with those of the U.S. with a focus on the interoperability of the two nations’ armed forces.\(^{78}\) Between 1957 and the end of the Cold War, Britain carried out four defense reviews, each of which was arguably influenced by budgetary concerns. Additionally, these reviews promoted different schemes for the British armed forces, all of which contributed to a certain


overall instability in planning and posture.\textsuperscript{79} The end of the Soviet threat, as for
France, brought about a new era for British defense: in addition to attempting to
reap the “peace dividend” by reducing defense expenditure, Britain also concentrated
on efforts to maximize capabilities for the available means through modernizing and
making existing forces more deployable.\textsuperscript{80} In over five decades of shifting defense
programming, the one element that has never wavered has been commitment to
NATO and to a strong partnership with the U.S., as also demonstrated by its
participation in the Iraq War of 2003. Historically, a much colder and more detached
relationship exists between Britain and the European Union.

A First Look: Defense Budgets

As previously stated, the British and French defense budgets are the largest
in Europe and among the largest in the world. Observing data provided by the
Stockholm International Peace Research Institute\textsuperscript{81} there is an enormous, nearly
sixfold gap in absolute value (in 2010 U.S. dollars) between the British and French
defense budgets and the averages for the EU-27 and NATO Europe. This gap is
evident in Chart 3.8. While France spent an average of USD 59.62 billion (bn) and
the United Kingdom USD 51.06bn per year in defense from 1998 to 2008, the EU-

\textsuperscript{79} United Kingdom, House of Commons, \textit{A Brief Guide to Previous British Defence Reviews}, by Claire
\textsuperscript{80} Ibid., 8-12.
\textsuperscript{81} The Stockholm International Peace Research Institute (SIPRI) database was chosen to provide
constant data for the time period covered. SIPRI is internationally acknowledged as a reliable source
and evaluates yearly national defense expenditures with an accepted methodology. Further, its
definition of defense expenditure is sufficiently similar to that of NATO, which on the other hand
lacks constant values in a common currency for all relevant countries for the necessary time period.
For more information, see \textit{The SIPRI definition of military expenditure} on the SIPRI website.
27 and NATO Europe averages for the same period were USD 10.30bn and USD 11.07bn, respectively.\(^{82}\)

In terms of defense spending as a percentage of GDP, presented in Chart 3.9, the difference is less striking. Nonetheless, between 1998 and 2008 France and the United Kingdom maintain between three-quarters and one percentage point more defense expenditure than the EU-27 and NATO Europe ratios. In both measures, NATO Europe states report more defense expenditures than EU-27

\(^{82}\) European Union and NATO Europe memberships do not completely overlap. NATO Europe has 26 members, of which five are not members of the EU: Albania, Croatia, Iceland, Norway, and Turkey. EU members which are not NATO members are: Austria, Cyprus, Finland, Ireland, Malta, and Sweden. States which are members of both organizations are: Belgium, Bulgaria, the Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and the United Kingdom.
80 states. There is no large difference in trends, however: absolute defense outlays are constant for the EU-27 and NATO Europe, while for both regions these outlays are decreasing as a percentage of GDP. This would indicate that absolute outlays are being kept relatively constant while GDP is growing.

From the data currently available it is not possible to infer strongly whether the Eurozone crisis has had strong effects on defense expenditures, especially for Britain and France. It must firstly be said that the decrease in French defense spending between 2009 and 2010 is attributable to an accounting change rather than to post-crisis measures.\(^{83}\) Taking note of this fact, there is no longer a dramatic

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\(^{83}\) Beginning on January 1\(^{st}\), 2009, as mandated in the *White Paper on Defence and National Security* of June 2008, the Gendarmerie Nationale (French police with military status) was removed from the authority of the Ministry of Defense and attached to the Ministry of the Interior. This involved a division of the
decrease in French expenditure, whereas British expenditures decline moderately in the same period. An interpretation of the data could suggest that the crisis led to the end of the increasing expenditure trend noticed until 2008, causing instead constant or decreasing budgets from 2008 to 2011. However, a similar peak followed by a plateau took place for France in 2004, and since that cannot be attributed to a broad economic crisis, it would be inaccurate to assert this conclusion outright. Similarly, the cessation of growth—and ensuing decline—of French and British defense spending to GDP ratios between 2009 and 2010 are not articulated over enough years to be able to draw firm conclusions.

The EU-27 and NATO Europe regions show similar patterns. A large number of countries experiencing comparable trends over the same period of time lends more support to the notion that post-2008 decline in both of these measures was caused by the Eurozone crisis, yet it is still not enough to achieve certainty. Thus, where quantitative measures indicate an effect, we turn to qualitative analysis to determine whether this was truly the consequences of the Eurozone crisis influencing defense expenditure in Britain and France.

A Closer Examination: National Defense in the Aftermath of the Eurozone Crisis

Strategic Planning

France and Britain entered the economic crisis with two different situations in terms of defense planning. France had conducted a thorough and comprehensive review of its defense posture—including its defense industrial policy and defense cooperation goals—culminating in the 2008 White Paper on Defence and National multi-billion-euro Gendarmerie budget between the two ministries, thereby causing a significant decrease in the Ministry of Defense’s budget. The decision was taken because of EU regulations on military-status police, and is outside of the scope of this thesis. For more information, see “La Nouvelle Architecture De La Sécurité Nationale,” La Vie Publique, July 15, 2009.
Security. It was therefore hit by the crisis after having carefully set its defense strategy for the coming decade under completely different economic assumptions. To the contrary, Britain had conducted its last exhaustive defense review in 1998, meaning that its defense policy was not the consequence of recent scrutiny and deliberation.

The *White Paper*, which was requested by President Nicolas Sarkozy in July 2007 and published in June 2008—several months before the Eurozone crisis began to worry European governments—laid out important ambitions for French defense policy, both in scope and in financial means. It determined that France’s economic commitment to defense had to be coherent with the document’s assessment of security threats and interests: for Paris, it was defense needs which dictated expenditure and not the reverse.\(^8^4\) To accomplish this, the defense budget would track inflation and remain constant until 2012. Starting in that year, it would be increased by one percent annually in addition to the inflation adjustment necessary.\(^8^5\) Concurrently, the rationalization and modernization of the French armed forces would proceed along predetermined personnel and procurement lines.

Various sources indicate that French defense expenditure has so far remained consistent with the levels set out in the *White Paper*, excluding alterations even in light of a worsening economic situation. It seems that at least until 2011 (the last year for which complete data is available) France shielded defense expenditure—and in particular key areas such as nuclear deterrence, intelligence, reconnaissance, and surveillance—from any change driven by the crisis.\(^8^6\) Similarly, an independent analysis found that France has “ring-fence[d] defense expenditures from wider


\(^{8^5}\) Ibid., 278.

austerity measures,” and even forecasts that French defense expenditure will begin to increase in 2014 in the absence of further shocks to the French economy. Yet additional observations suggest that, due to a EUR 3.6bn structural deficit in the defense budget between 2008 and 2013 and to mounting economic pressure, Paris will have to change course and implement more significant defense cuts. Benoît Gomis, researcher in international security at Chatham House, suggested that this option was more probable. An update to the 2008 White Paper is due to be published in early 2013, and given the relative absence of cuts so far the revision would likely include provisions to decrease the defense budget. Predictions for what the 2013 White Paper might entail include two scenarios: the first would favor spending for a high-technology military, sacrificing overall force numbers; the second would prioritize national territorial protection, requiring more personnel but less advanced means. President François Hollande—who succeeded Sarkozy in May 2012—reaffirmed that the White Paper should assess threats and strategic choices first, and costs only successively. The most important aspect of the 2013 White Paper however lies in the composition of the drafting commission: for the first time in a national defense review, foreign representatives have an official and not just consultative position on the panel preparing the document. Thus, in addition to all of

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88 Gautier, La Défense De La France, 435-437.
89 The Military Balance (2012), 78.
90 Benoît Gomis, telephone interview by author, October 8, 2012.
92 Merchet, “Livre Blanc : Pas Avant La Fin Février.”
the French members of the commission, the British ambassador to France and a senior German diplomat represent their two countries in the discussion and planning involved in drafting the 2013 *White Paper*.\(^{93}\)

Hence, at least on the level of strategic planning, France seems to have largely isolated its defense from the effects of the Eurozone crisis. It adopted a set of plans in 2008 and, regardless of the change in economic scenario, chose stability and continuity over responding to an issue immediately as it arose. To the contrary, the British government’s main evaluation of national defense, titled *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review* (*Strategic Defence and Security Review*, or SDSR), was conducted and published in the midst of the crisis, between May and October 2010. Rather than being a stand-alone review of defense for Britain, however, it came as part of a series of actions the recently elected Conservative-led coalition government took to curb the effects of the crisis on the country, most notably on its government budget deficit—the largest in peacetime British history.\(^{94}\)

The SDSR united what many experts saw was a long-overdue revision, a terrible economic and financial situation, and the new government’s haste to begin to address the problems the country was facing. This resulted in a document that was widely condemned as rushed and contradictory.\(^{95}\) The SDSR devised a new posture for Britain’s armed forces while concurrently determining that conspicuous...

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\(^{93}\) Benoît Gomis, telephone interview by author.

\(^{94}\) *The Military Balance* (2012), 84.

\(^{95}\) This perspective is shared, among others, by Sir Lawrence Freedman, Professor of War Studies at King’s College London; Professor Trevor Taylor, Professorial Research Fellow and Head of the Defence, Industries and Society program at the Royal United Services Institute (RUSI); an analyst at the International Institute for Strategic Studies; RUSI Director General Michael Clarke; and a veteran British defense correspondent. See also Henrik Heidenkamp, John Louth, and Trevor Taylor, *The Defence Industrial Ecosystem. Delivering Security in an Uncertain World*, report (London: Royal United Services Institute, 2011), 1.
personnel cuts were required to reduce costs to the Ministry of Defense. Capabilities and acquisition programmes were negatively affected as well. Both of these will be discussed in later sections of this chapter.

An important finding of the SDSR was that previous governments had committed to defense programs for GBP 38bn between 2010 and 2020 for which there were no allocated funds. This was a primary element that the review targeted. At the same time, the government also released a Comprehensive Spending Review addressing all areas of government spending; this document targeted the Ministry of Defense for a total of eight percent cuts in real terms to the defense budget leading up to 2014. Although these cuts are being enacted with some measure of success, the Ministry of Defense had to increase personnel reductions in order to meet the target for 2011, and it remains to be seen how the additional mandated budget decrease will be achieved in the coming years. Following 2014 there is also no guarantee that defense spending may be adjusted upwards. The current government has made a commitment to this aim, but the 2015 elections and an additional planned Comprehensive Spending Review may bring changes to the situation.

It is apparent that both in rhetoric and in practice the British government responded to the effects of the crisis on its economy through considerable cuts in the defense budget. The mandates of the SDSR are affecting a broad range of

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97 Ibid., 16.
101 Ibid., 87.
102 Defense budget cuts do not appear as considerable as those affecting other departments, which are suffering reductions of up to 20% of their funds. See “The UK’s Defence Dilemma,” *BBC News,* October 19, 2010
Ministry of Defense activities and capabilities, and they will do so for years to come.
As part of the analysis of the effects of French and British policies on defense capabilities, in the short run as well as in the long run, we now continue to a discussion on the size and composition of the two countries’ armed forces prior to and following the crisis.

Effects on Personnel and Equipment

Both the White Paper and SDSR incorporated measures for important reductions to overall personnel in the respective Ministry of Defense (MoD) budget. These provisions extended across all three services and to the civilian staff of the ministries as well. The logic, for both Britain and France, was articulated over three arguments. First, personnel costs being the largest part of the MoD budget, significant sums were envisioned to be saved by bringing down the total number of effectives and civil servants. Second, these reductions would enable a rationalization of the base, logistics, and support structure, permitting additional savings across a number of other budget categories. Third, the reorganization of the armed forces would mean that more resources—in equipment, training, living standards, and so forth—would be available per soldier (this requires a greater cut in personnel than the parallel cut in the budget). Ultimately, the ideal outcome is a personnel structure which is less burdensome but, in its military portion, better equipped to participate in multinational operations outside of the country’s borders.

For France, personnel cuts planned by the White Paper began taking place in 2009 with the objective that they would be completed by 2015. These cuts were seen to be the measure that would complete the trend towards the complete

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103 Gautier, La Défense De La France, 432; The French White Paper on Defence and National Security, 212-213; and Securing Britain in an Age of Uncertainty, 31-33.
professionalization of the armed forces.\textsuperscript{104} The size of the French armed forces between 1990 and 2015 can be seen in Table 3.1. At a first glance, it appears that only minor adjustments will take place. The data in the table, however, do not tell the whole story. These represent the officers, non-commission officers (sous-officiers), other enlisted ranks, and volunteers of each armed force; they reflect neither the civilian staff of each service nor the military and civilian staff of the MoD administration. The cuts directed in the White Paper required the armed forces to shed 46,500 units and the MoD to reduce its staff by 7,500, including both civilian and military personnel.\textsuperscript{105} As the 2009 to 2015 cuts presented below do not amount to the full number of armed forces cuts, lacking other information one must presume that a majority of the 46,500 reduction will come from armed forces civilian staff.\textsuperscript{106}

\textit{Table 3.1: French Ministry of Defense Military Effectives Reduction, 1990-2015}

<table>
<thead>
<tr>
<th>Year</th>
<th>Army (Armée de Terre)</th>
<th>Air Force (Armée de l’Air)</th>
<th>Navy (Marine Nationale)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>288,553</td>
<td>93,118</td>
<td>65,294</td>
<td>446,965</td>
</tr>
<tr>
<td>2000</td>
<td>169,342</td>
<td>66,473</td>
<td>49,491</td>
<td>285,306</td>
</tr>
<tr>
<td>2009</td>
<td>132,375</td>
<td>57,212</td>
<td>41,615</td>
<td>231,202</td>
</tr>
<tr>
<td>2015</td>
<td>131,000</td>
<td>50,000</td>
<td>44,000</td>
<td>225,000</td>
</tr>
</tbody>
</table>

Note: Numbers do not include the general MoD civilian staff, for which the relevant information could not be found.

Source: Gautier, \textit{La Défense De La France}, ch. 8.

\textsuperscript{104} The process of eliminating mandatory military service in France began in 1996 and was reportedly completed with overwhelming success in 2001. However, other measures had to be taken to stabilize the new force structure, meaning that transition adjustments lasted until 2005, with the final consolidation to take place between 2005 and 2020. Mandatory conscription, however, is "suspended" and not "abolished." For more information, see Gautier, \textit{La Défense De La France}, 54, 323, 450-451.

\textsuperscript{105} The French White Paper on Defence and National Security, 279.

\textsuperscript{106} The analysis for France does not include the Gendarmerie, military-status police which is outside the scope of this work.
Concurrently with personnel cuts, the White Paper establishes that there will be a reduction in military equipment (see Table 3.2). Most is due to take place in the army, followed by the air force, and with the navy actually increasing some of its capabilities. The latter element is consistent with the navy being the only service to see a modest increase in effectives.

Table 3.2: French Equipment Changes by Armed Force Services, 2008/2009-2015

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Army (Armée de Terre)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main battle tanks</td>
<td>400</td>
<td>250</td>
</tr>
<tr>
<td>Infantry fighting vehicles</td>
<td>1100</td>
<td>650</td>
</tr>
<tr>
<td>Helicopters</td>
<td>420</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td>(288 combat, 132 support)</td>
<td>(80 combat, 130 support)</td>
</tr>
<tr>
<td><strong>Air Force (Armée de l’Air)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combat aircraft</td>
<td>320</td>
<td>260-270</td>
</tr>
<tr>
<td>Other aircraft (refueling and transport)</td>
<td>115</td>
<td>Approximately 88</td>
</tr>
<tr>
<td><strong>Navy (Marine Nationale)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ballistic missile submarines (nuclear)</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Attack submarines (nuclear)</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Aircraft carrier and carrier group</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>First-rank frigates</td>
<td>18</td>
<td>18*</td>
</tr>
<tr>
<td>Force projection and command vessels</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Naval aviation (combat aircraft)</td>
<td>90</td>
<td>30-40</td>
</tr>
</tbody>
</table>

* Note: although the number is to be kept constant, some older frigates will be taken out of service to be replaced with newer ships.

Note: These numbers do not include every vehicle in service with the French armed forces but only the ones relevant to France’s international strategic posture.


Post-crisis British personnel cuts are scheduled to be carried out through the decade following the 2010 SDSR. The first round of measures—with a 2015
horizon—was supplemented by additional reductions after the so-called Three Month Review of July 2011. These additional cuts were particularly severe for the army and MoD civilian staff (see Table 3.3). From the data available, one can determine the large reduction in the size of the army immediately following the end of the Cold War in 1990. This decrease becomes much less marked as British ground troops are deployed to Afghanistan and Iraq in the first decade of the 2000s; the other services suffer much more significant cuts during this period. Following withdrawal from Iraq in May 2011 and awaiting withdrawal from Afghanistan in 2014, British land forces will suffer reductions in the order of about 20%. The navy and air force will lose 13 to 14% of their effectives. Finally, the MoD will shrink by over 37% in staff terms. A portion of the army’s losses should theoretically be compensated by the improvement of the Territorial Army and army reserve structure, though former military officials stated that this was highly unrealistic for funding, planning, and reserve training reasons.\footnote{Hopkins, Nick. “Military Chiefs Call for Reversal of Defence Cuts.” The Guardian, January 6, 2013.}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|}
\hline
Year & Army & Royal Air & Royal Navy & MoD Civ. Staff & Total (military) \\
\hline
1990 & 155,500 & 91,450 & 64,650 & n/a & 311,600 \\
2000 & 113,950 & 54,740 & 45,770 & n/a & 214,460 \\
2010 & 102,000 & 38,000 & 35,000 & 85,000 & 175,000 \\
2015 & 95,000 & 33,000 & 30,000 & 60,000 & 158,000 \\
2020 & 82,000 & 31,500 & 29,000 & 53,000 & 142,500 \\
\hline
\end{tabular}
\caption{British Armed Forces and Ministry of Defense Personnel Measures, 1990-2020}
\end{table}

n/a: Not available

Equipment measures were also significant, with large cuts to the army’s heavy equipment and the decommissioning and withdrawal from service of many ships and aircraft. The British government’s line of thinking was centered around achieving savings by withdrawing older materiel, which requires more expensive upkeep and operating costs and which was evaluated to be unnecessary. The cuts, which began to be carried out rapidly, were showing their effects as early as 2012 (see Table 3.4).

\[\text{The Military Balance (2012), 85.}\]
Table 3.4: British Equipment Changes by Armed Force Services, 2008/2009-2011/2012

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Army</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main battle tanks</td>
<td>386</td>
<td>227</td>
</tr>
<tr>
<td>Infantry fighting vehicles</td>
<td>575</td>
<td>526</td>
</tr>
<tr>
<td>Helicopters*</td>
<td>299</td>
<td>312</td>
</tr>
<tr>
<td>(67 combat, 232 support)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Air Force</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combat aircraft</td>
<td>328</td>
<td>220</td>
</tr>
<tr>
<td>Other aircraft (refueling and transport)</td>
<td>91</td>
<td>76</td>
</tr>
<tr>
<td><strong>Navy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ballistic missile submarines (nuclear)</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Attack submarines (nuclear)</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Aircraft carrier and carrier group</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>First-rank frigates and destroyers**</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>Force projection and command vessels</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Naval aviation (combat aircraft)</td>
<td>13</td>
<td>0</td>
</tr>
</tbody>
</table>

*Note: Army, Royal Air Force, and Royal Navy helicopters are placed under the separate authority of the Joint Helicopter Command, formed in 1999.

**Note: While Britain’s surface navy largely consists of two types of ships, destroyers (mainly anti-aircraft) and frigates (mainly anti-submarine), the French fleet uses what it labels as frigates for all missions that would be the domain of either British type. For this reason, I consider French and British surface vessels of these types within the same category.

Note: These numbers do not include every vehicle in service with the British armed forces but only the ones relevant to Britain’s international strategic posture.


The Impact of the White Paper and SDSR on Acquisition and the Defense Industry

Firms in the defense industry are unlike others in that they do not operate on a true open market. This is due to the fact that their customers, sponsors, and regulators are the same entity: national governments.¹⁰⁹ This means that a country’s defense industrial policy—together with its procurement programs—has a great

¹⁰⁹ Heidenkamp et al., The Defence Industrial Ecosystem, 15.
impact on the industry’s success and viability, especially since expertise in various technological areas must be preserved and renewed: the loss of this expertise would virtually erase all industrial capabilities in the affected sector. This motivates an analysis of Ministry of Defense acquisition programs and the industry’s situation in the same section.

Powerful and wealthy states such as Britain and France conduct significant procurement programs to supply their armed forces with modern equipment. At the same time, they fund research and development (R&D) efforts to maintain a technological edge against adversaries. Britain and France constitute 39% of defense budgets, 47% of capital expense, and 71% of R&D in the European Union, while France singlehandedly makes up between 25 and 30% of the industrial and technological base of the EU defense industry.\footnote{Gautier, La Défense De La France, 484.} In the late 2000s, French industry employed 150,000 to 200,000 people in the defense sector (down from between 250,000 to 300,000 in 1990), producing an annual turnover of about EUR 15bn (down from approximately EUR 19bn in 1990), of which EUR 5bn are due to exports.\footnote{Ibid., 475, 476.} The British defense industry provides work for around 300,000 people and contributes to slightly over one percent of national economic output.\footnote{Securing Britain in an Age of Uncertainty, 31.\footnote{Heidenkamp et al., The Defence Industrial Ecosystem, 6.}}

Economic and employment motives are not the only drivers of governments’ focus on defense industrial policy. Two more elements add to the importance of this area. The first is the strategic importance that a defense industrial base has for a country and its armed forces. Such a base assures an important degree of sovereignty, security of supply, and—ideally—a well-equipped and well-supported
military.\textsuperscript{114} Second, a strong defense industry is also an important foreign policy tool which helps countries establish strategic relationships with partners all over the globe through international acquisition agreements.\textsuperscript{115}

Thus, from whom a government chooses to purchase the equipment of its armed forces is a matter of high strategic relevance. In this area, France and Britain differ for historical reasons. The French defense industry was traditionally government-owned and even today the French government controls important quotas of shares in the country’s defense companies. Consequently, ever since the Cold War, the French state has always been a strong supporter of its industry, from purchases to exports.\textsuperscript{116} Britain’s defense industry is for the most part privatized, although the government maintains enough shares in the main firms (such as BAE Systems) to have veto power in key decisions.\textsuperscript{117} Surprisingly for a sector where national security and protectionism are the norm, the British government follows a policy according to which “any [defense] firm adding significant value in the UK [will] be treated as ‘British’.”\textsuperscript{118}

Therefore, it does not come as a surprise that the British government opted to favor an “off-the-shelf”\textsuperscript{119} procurement policy in the SDSR.\textsuperscript{120, 121} It is generally

\textsuperscript{114} Although traditionally defense firms limited their contribution to weapons production, today the defense industrial sector actively participates in equipment maintenance and support of the armed forces, both in domestic bases and in theaters of operation.\textsuperscript{115} Heidenkamp et al., \textit{The Defence Industrial Ecosystem}, 8.
\textsuperscript{116} Gautier, \textit{La Défense De La France}, 476-477.
\textsuperscript{118} Heidenkamp et al., \textit{The Defence Industrial Ecosystem}, 6.
\textsuperscript{119} Off-the-shelf procurement entails purchasing equipment that has already been develop and is in operation, usually from another country. It can be contrasted with procurement in which a state commissions the development, testing, and manufacturing of a completely new piece of equipment. Off-the-shelf procurement is generally thought to be more cost-effective and timely, since it consists of tested, in-service equipment rather than on a development program which might cause delays and increases in costs if obstacles are encountered. However, this may not always be the case, as some of the costs of equipment produced nationally can be recouped from tax revenue on the financial flows
estimated—the MoD no longer releases the data—that Britain imports in the range of ten percent of its equipment needs. The British MoD has not planned many acquisition programs following the SDSR, so it is too early to say how the new emphasis on off-the-shelf equipment is being implemented. Of the nine equipment projects costing more than GBP 1bn underway in 2012, two could be considered off-the-shelf acquisitions, three collaborative development programs in partnership with other European countries, and three purely national programs; one program does not fit adequately in any of these categories. All of these programs had been commissioned before 2010.

The British MoD also placed emphasis on reforming its own procurement process as a way to address the problem of program mismanagement. This effort was aimed at internal procedures as well as in the way the industry contract recipients would run the programs. This would involve more severe industry oversight by MoD officials. Rationalizing British procurement did not preclude the British government from making a series of costly decision turnarounds between 2010 and deriving from the project. For a more extensive analysis, see Trevor Taylor and John Louth, The Destinations of the Defence Pound, issue brief (London: Royal United Services Institute, 2012).

Notwithstanding this choice, for a power like Britain such a policy cannot provide a number of key systems such as nuclear submarines and aircraft carriers. These systems have considerable strategic and sovereignty value, require a greatly advanced technological base, and entail many characteristics governments wish to keep secret.

Off-the-shelf: Lynx Wildcat helicopter (GBP 1,689 million [mn]) and Voyager Future Strategic Tanker Aircraft (GBP 11,917mn). Collaborative (European): Meteor missile (GBP 1,305mn); A400M transport aircraft (GBP 3,231mn); and Eurofighter Typhoon and upgrades (GBP 20,627mn). National: Queen Elizabeth-class aircraft carriers (GBP 5,900mn); Type 45 destroyers (GBP 6,464mn); and Astute-class nuclear attack submarines (GBP 6,677mn). In this case I consider off-the-shelf programs ones that do not entail a national industry developing the equipment from blueprint to completion. For this reason, I choose not to place the Future Joint Combat Aircraft/Joint Strike Fighter (GBP 2,448 mn) under any category, since it is partially collaborative (Britain and a number of other partners contribute funds to U.S. development of the aircraft) and partially off-the-shelf, since the program is not actually being managed by Britain itself. For a complete list of projects, see The Military Balance (2012), 85.

2012. The Cameron government’s backtracking of its original decision to change variant for the combat jets that would be flown from the new aircraft carriers caused the wasting of time and money and struck observers as an indication of the government’s indecision (and possibly incompetence) over important strategic decisions.\textsuperscript{125}

Finally, while the MoD attempted to renegotiate or rescind up to 900 equipment contracts to achieve additional cost-cutting, it also made defense export promotion a larger part of its foreign and defense policies.\textsuperscript{126} Increasing foreign customers for British defense firms means reducing their dependence on the British government for their business as well as decreasing equipment cost for the MoD through the creation of economies of scale (this applies to other countries and not just to Britain). An example of this would be Prime Minister Cameron’s October 2011 visit to the United Arab Emirates and his strong advocacy of the Eurofighter Typhoon for the Gulf state’s air force.\textsuperscript{127} If the deal were to take place, the U.A.E. would follow Saudi Arabia and Oman in purchasing the airplane.

France did not wait for the crisis to strike to make defense exports a core mission of both its Ministry of Defense and foreign policy. This can be explained in part by the closer link the French government has with its industry, which has caused a longstanding policy of support for defense exports as part of the defense industrial

\textsuperscript{125} The British government had originally chosen the Short Take-Off Vertical Landing (STOVL) F-35B variant for its new aircraft carriers. It then decided to opt for the cheaper carrier-capable F-35C variant, though this required fitting launch catapults and arrestor hooks on the aircraft carriers. Once the project to do this encountered technical difficulties and high costs, the government returned to the STOVL F-35B variant. See “Britain and the Joint Strike Fighter. Back to Plan B,” The Economist, March 10, 2012.

\textsuperscript{126} Anderson, Major Defence Markets, 14-15.

\textsuperscript{127} Jean-Dominique Merchet, “L’Eurofighter Aux Emirats : Cachoteries Anglaises... (actualisé),” Marianne, November 16, 2011.
strategy. First, the Directorate-General for Armament (Direction générale de l’armement), one of the MoD’s three branches, is responsible for export promotion as one of its core activities. This has established an effective system, which takes advantage of French diplomats and foreign visits by the president to promote French defense products (something Britain appears to be trying to imitate, citing the French model as an example in a 2009 review of acquisition procedures). Notable achievements for French exports include a 2011 contract to supply Russia with four amphibious assault ships and a sale of 126 Rafale multirole combat jets to India, the latter agreement worth over ten billion euros. Additionally, the White Paper advanced the importance of exports a step further by decreeing that all future equipment development programs should be preceded by an analysis of their export potential.

Furthermore, France has engaged in new acquisition programs since the beginning of the Eurozone crisis. In what analysts view as a policy directed at maintaining French employment and French manufacturing skills in the defense sector, the MoD postponed the upgrade of its older combat jet fleet and of refueling aircraft procurement to provide funding for additional purchases of modern multirole jets. An order for 135 French-made tactical unmanned aerial vehicles (UAVs) supplemented investment for the air force, the army obtained additional

128 The French defense industry reportedly went so far as designing equipment specifically for export purposes in some instances. For more information, see Norman Friedman, “Cooperazione Transoceanica Nel Settore Difesa,” Rivista Italiana Difesa, March 2001, 67.
129 Gautier, La Défense De La France, 479; The Military Balance (2012), 78.
131 The Military Balance (2012), 78.
light armored vehicles, and funding for a third nuclear attack submarine went to benefit the navy.\textsuperscript{134} Other extant procurement programs, including missile, naval, and aircraft development and acquisitions, appear to be proceeding with no significant changes to their plans.

\textit{Crisis and Cooperation}

A common element of French and British defense and defense industrial policy is their programmatic commitment to cooperative procurement projects. If off-the-shelf acquisition spares a country the development costs, cooperative procurement allows it to share them in a predetermined manner with others. Today, few states can hope to design and build a modern, major piece of equipment entirely on their own. This is achievable for the United States and, since recently, China; even Russia has teamed up with India for its most ambitious systems and European defense leaders such as France and Britain have looked to working in partnerships for all but the most crucial equipment, as mentioned above.\textsuperscript{135}

Hence, defense policy is articulated in one more axis in international relations, that of collaborative procurement. This has been a strategy of choice for both Britain and France since the Cold War, as the Franco-German Transall transport aircraft of the 1960s and the British-German-Italian Tornado fighter-bomber of the 1970s indicate. Yet in this field too France appears to have been more proactive than Britain, developing the concept of a “Europe of defense”\textsuperscript{136} and focusing time and resources into building a coherent framework for European

\textsuperscript{134} Anderson, \textit{Major Defence Markets}, 23.
\textsuperscript{135} Even then, there have been some reports suggesting at least exploratory discussions regarding joint aircraft carrier and nuclear submarine projects, although these have led nowhere so far. See Jean-Pierre Husson, “La Difesa Della Francia,” \textit{Rivista Italiana Difesa}, January 2006, 37.
\textsuperscript{136} The term used by the French Government is “\textit{Europe de la défense},” which cannot be properly translated into English. See Gautier, \textit{La Défense De La France}, ch. 3.
operational and industrial cooperation. For instance, France has developed and built two classes of frigates with Italy and is part of a consortium of numerous states which are jointly producing a new strategic transport aircraft for their militaries. Although Britain is part of the latter, it ended its membership in the Horizon frigate program due to intense disagreements with the other two partners. To the contrary, it is part of the British, German, Italian, and Spanish Eurofighter venture.

France can boast a high number of relatively successful defense projects with multiple European partners, though its drive to cooperation certainly does not stop there. Observing the trend towards multilateralism in international military operations, which arguably began with the 1991 Gulf War and became an inescapable trend in the 1990s and 2000s, France realized that aspirations of total independence equal a condemnation to strategic insignificance. It consequently pursues policies of interdependence and collaboration for Europe, but always with the notion that France must fulfill its role as a leader in European defense policy. On the part of the French government, the most remarkable acknowledgment of the need for broad collaboration was France’s return to full NATO membership in 2009 under President Sarkozy. In another gesture of rapprochement with the United States—by moving to support it where it is most active, in the Persian Gulf—France opened a joint-service military base in Abu Dhabi, with a strategic eye to Iran and the vital Straits of Hormuz. Once again, France moved to carry out its strategy and

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interests without the need for the Eurozone crisis as a driving force but simply carrying out what has been a part of national policy for at least two decades.

As mentioned earlier, NATO has been central to Britain’s foreign and defense policy since 1956. Today, Britain complements that by seeking to engage with a number of different partners. Although Britain has been skeptical—if not hostile—to extending the EU’s mission to defense, it has opted to participate in common equipment programs, especially in the aeronautical and missile sector (see above). Britain is also considering expanding its military presence in the Gulf, which entails both aligning itself with the U.S. and France in light of mounting tensions with Iran and establishing profitable export relationships with local states looking to equip themselves with—British-built—modern technology.

Though France and Britain share the belief that an effective modern power of their stature must be active in foreign and defense policy as part of a broader coalition, what comes as the most important shift for both countries is the realization that each must collaborate closely with the other to achieve its goals. France expressed this in the White Paper, stating that “together with the other European nuclear power, the United Kingdom, France notes that there is no situation in which the vital interests of one may be threatened without the interests of the other being threatened also.” In a similar manner, the British government determined in the SDSR that

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140 Securing Britain in an Age of Uncertainty, 59.
141 Gautier, La Defense De La France, 100, 104-106.
[w]e will also intensify our security and defence relationship with France. The UK and France are active members of NATO, the EU and the UN Security Council, are Nuclear Weapon States, and have similar national security interests. Our Armed Forces are of comparable size and capability and it is clear that France will remain one of the UK’s main strategic partners. We already draw operational and financial benefit from close cooperation between our forces and defence communities and we will strengthen the relationship at all levels, and where possible, develop future military capabilities in complementary, cost-efficient ways.\textsuperscript{144}

This shared outlook led to the November 2010 Lancaster House treaty. This agreement was praised by NATO officials while drawing mixed responses from the EU and U.S. EU defense experts cited economic and financial pressures as a driver of the treaty, describing France and Britain’s wishes to prevent duplicating programs to preserve their resources and global position. As an impetus for the treaty, economic considerations seem to have had more of an impact on Britain, together with a perceived need to find a reliable European ally to fill the gap left by the U.S. in its “pivot” to Asia. France was moved more by concerns on preserving and enhancing capabilities and on reviving stale European military cooperation with a like-minded and similar partner.\textsuperscript{145}

This treaty sets forth collaboration in aircraft carriers, drones, satellite communications submarines, and transport aircraft for front-line military capabilities

\textsuperscript{144} Securing Britain in an Age of Uncertainty, 60.
\textsuperscript{145} Gomis, Franco-British Defence and Security Treaties, 4-15.
and the sharing of nuclear safety testing facilities and data for other common needs. France and Britain envisage cooperating with regards to these capabilities at both the operational level (through the pooling and sharing of equipment) and at the procurement level (through mutualized R&D investment and coordinated acquisition programs).\textsuperscript{146}

Yet there remain a number of reservations about the future of the Lancaster House treaty. First, notwithstanding their similarities, France and Britain differ in several key elements. These are mostly related to the structure of the national defense industry and the way the respective governments articulate policy towards this base (as detailed above). This incongruence could jeopardize collaborative efforts at procurement. Second, other European states—in particular Germany and some of its defense firms—may feel excluded because of the treaty. While this may spur these states to increase their defense efforts in order to become more like France and Britain and become a part of the agreement, this situation may also have the opposite effect of alienating valid regional allies and industrial players. Third and final, it remains to be seen if operational pooling and sharing will become a reality once it is required to move from a concept on paper to a practice in peacetime or in case of war. This concern is legitimized by reports that Britain demanded such high contributions from France to share its refueling aircraft that France refused to use the more modern British planes, favoring older—but cheaper—French tankers instead.\textsuperscript{147} Altogether, there are mixed signals regarding the implementation of the

\begin{footnotesize}
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\item[Ibid, 16-17.]
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Lancaster House treaty. This makes it difficult to judge the outcome accurately at present.

**Discussion**

The Eurozone crisis caused the French and British economic and financial situations to deteriorate, prompting the two governments to implement anti-crisis measures. The French government and Ministry of Defense could work on a solid, recently updated base of information and line of thinking to determine whether the path to be maintained would be that set out in the *White Paper* or if any adjustments were required. However, this meant that a large amount of planning and preparation would have to be reversed if such adjustments were to be confirmed, resulting in a destabilizing policy shift and in uncertainty over the future. For Britain’s government and Ministry of Defense, on the other hand, the crisis offered the opportunity to conduct a long-awaited defense review. The drawback, however, was that it would be a completely reactive measure, undertaken under time and fiscal constraints which made the review less systematic than it should have been.

France chose a policy of stability, not reacting immediately to the economic pressures but instead implementing the short-term force revisions put forth by the *White Paper* and choosing to undertake a second review once the crisis worsened and protracted itself. Through its decrease in personnel and moderate reduction in equipment, France sought to achieve a sustainable balance for the defense budget and to shift funds from personnel to investment. The cuts, rather than removing resources from the Ministry of Defense, were used to shift resources within its own budget to areas considered critical for the future. They are coherent with the French
government’s belief that defense policy should be based on geopolitical and defense strategy rather than on economic concerns. However, they also reflect the realization that, with limited defense funds and defense budget growth, it is the responsibility of the MoD to structure its finances and plans in a realistic manner. Thus, although the economic crisis did affect defense—mostly by causing a second strategic revision just four years after the previous one—it did not cause strong and direct retrenchment in this sector.

Crucially, the 2013 *White Paper* sets itself aside from all other reviews of a similar type prepared by European governments to this date. Rather than limiting the drafting commission to French nationals, the current working group also includes senior representatives of Britain and Germany. This indicates the continental partners France considers to be most important for its defense and security policies. More importantly, this represents the first step any European country has taken to address the fundamental question of collaborative retrenchment: sharing national plans with allies, obtaining their feedback, and ensuring that there is cooperation in the drawdown of resources from defense. While we are still distant from a reality in which all European states communicate and consult with each other during their defense reviews—to avoid cutting the same capability too much, for instance—France once again sets the standard for European defense collaboration and offers a model which might be replicated in other states in the coming future.

The reverse was true for Britain, as the coalition government’s focus on the national economic and financial situation set the agenda for the policies of other departments. The SDSR discovered that the British Ministry of Defense had—in a
“conspiracy of optimism”⁴⁸—committed to many more programs than it could fund. As austerity measures encompassed the defense establishment, with important if unpleasant consequences for thousands of servicemen and women and civilian personnel, it is therefore right to say that the British government chose retrenchment as the priority of the situation. The quasi-immediate response of the British government—together with the magnitude of this response—supports the prediction that the worse government deficit situation in Britain led to greater retrenchment there than in France.

In the realm of defense acquisition, France continued its policy of arms export promotion with vigor. Britain sought to develop a capacity for export promotion similar to France’s, as can be seen by the increasing government activism in promoting British defense industry products abroad. Domestically, the British government reviewed a large list of programs and began negotiations with defense industrial firms to revise or cancel those which did not appear to be necessary to the new strategic and financial outlook of the British armed forces.

Since the beginning of the crisis, France has been coherent to its established policies in terms of defense spending. British defense has been significantly more strained due to a stronger approach taken by the country’s government. France is showing the first symptoms of defense retrenchment, while Britain is in the midst of serious measures to that intent. In the British case a pre-existing trend of armed forces personnel and equipment reduction was complemented by a further decrease that can be fully explained as a post-crisis response. It is likely that a similar scenario

⁴⁸ The term seems to have been first coined by a group of analysts of the Royal United Services Institute in a 2007 paper by the same name, though it has by now entered political, academic, and media discourse in the United Kingdom.
will repeat in France following the publication and implementation of its 2013 *White Paper*. In neither country has there been an increase in the defense budget, and while France is only going to start retrenchment measures in 2013, it is fair to say that that both countries have responded to the Eurozone crisis by decreasing defense expenditures. For each of these two cases then, the evidence certainly contradicts the Null Hypothesis. At the same time, the projected decrease for France and the actual decline of defense outlays in Britain lend consistent support to Hypothesis 1. Additionally, the magnitude of retrenchment in each case also corroborates my model, since Britain—which was impacted more than France especially in the areas of government budget deficits and national debt—ultimately decreased defense spending more than France did.

Regarding international cooperation, France executed significant measures in external balancing—principally, its return to full integration in NATO—that cannot be understood as a response to the crisis, as they had been planned before its onset and were never justified in that manner. Longstanding export policy motivations and a desire to adopt a wary posture towards Iran motivated France’s reach to the Gulf. Britain followed France to the Arab peninsula and, with some delay, attempted to exploit Middle Eastern states with their wealth and security concerns to shore up its domestic defense industry and obtain some export contracts. This can be understood as a strategy to reduce the effects of the economic crisis on the armed forces and the defense industry through collaboration with external actors. The inclusion of foreign representatives in the drafting process of the 2013 French *White Paper* supports the view that the Eurozone crisis led to an increased desire for coordination in European states. The change from the 2008 review is significant, since at the time foreign
representatives had been kept informed throughout the revision process though they were not given an official role in it.

The Franco-British Lancaster House treaty provides a prime example of a move motivated by economic concerns aimed at preserving capabilities in times of crisis. It is an ambitious agreement though it is still too early to determine conclusively if both states followed it—and are following it—with the dedication such a situation would require. Lastly, although there have been indications that Britain and France desired to foster interoperability between certain elements of their armed forces, this direction was not expanded to a substantial extent. Altogether the first signals are mixed, though the intent for both states confirms the behavior Hypothesis 2 predicts. In some areas of defense collaboration, such as that of defense export promotion, French increases were more marginal than those of Britain. In others, both states equally attempted to mitigate the effects of the Eurozone crisis through extending cooperation with old and new partnerships. As with the preceding analysis, these outcomes are also supportive of my model.

After examining the first two case studies, one can begin to see backing for the theory laid out in the previous chapter. However, the analysis so far is incomplete and requires a look at two additional case studies to determine whether such support is also present in the German and Italian situations before passing to the final analytical chapter to draw the necessary conclusions.
Chapter 4. Case Studies of Germany and Italy

Overview

To most observers, the economic trajectories of Germany and Italy in the years between 2008 and 2012 display an almost diametric difference. While Germany, the economic powerhouse of the European continent, proceeded through the Eurozone crisis in an enviable—if not completely unaffected—manner, Italy suffered the full extent of the adverse period. Conversely, in the military domain the two countries do not appear all that different, at least not to the extent one might imagine by basing their assumptions on economic strength. Germany and Italy’s defense and security policies and establishments developed in important ways following the onset of the Eurozone crisis, showing continuity with prior behavior in certain regards but breaking from previous paradigms in others. Like France and Britain, Germany and Italy continued operations in Afghanistan. Only Italy, however, joined the international coalition that intervened in Libya in 2011. One might argue that the biggest operation conducted by Berlin in this period was not fought on distant battlefields but in Europe itself, as Germany took the lead in managing the explosive euro-area sovereign debt crisis.

The purpose of this chapter is, much like the previous one for France and Britain, to assess the impact of the Eurozone crisis on Germany and Italy and to analyze how both countries responded to this upset in the area of defense policy. The chapter, in testing the hypotheses, examines defense budgets, international cooperation, and the other relevant factors previously described. It follows a structure essentially identical to that of Chapter 3: it begins with an economic
overlook of Germany and Italy in the Eurozone crisis, followed by elaborations of past and present German and Italian defense policies and a final analysis of the facts presented.

**Germany, Italy, and the Eurozone Crisis**

Data from the Organization for Economic Cooperation and Development (OECD) presented in Chart 4.1 shows that Germany and Italy closed the 20th century with Gross Domestic Product (GDP) growth, transitioning from negative to positive during 1998 and then remaining solidly positive in 1999 and 2000. GDP growth then entered a phase of relative stagnation for the four years between 2001 and 2004, staying positive on average but occasionally dipping below zero. Another spurt of significantly higher growth took place during the period from the beginning of 2005 to the end of 2007.

Between the fourth quarter of 2007 and the fourth quarter of 2009, Germany and Italy experienced a dramatic decline of GDP growth, sinking to approximately negative four percent in the first quarter of 2009. Germany and Italy recovered positive GDP growth until the third quarter of 2011, when their respective economies suffered another dip, which was brief and moderate for Germany but much deeper and more protracted for Italy.

At the end of 2012, Germany was maintaining minor positive GDP growth, while Italy was struggling to return to positive growth after over one year of GDP contraction. The onset of the crisis is evident in the remarkable decrease in GDP

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149 The economic indicators used in this chapter are identical to those used in the previous case study chapter. For this reason, I will avoid repeating a description of each indicator and proceed directly to the analysis for the two relevant countries. Please refer to Chapter 3 for this information.
growth it caused to both countries, although its effects over the longer period differ in that Germany was able to recover and return to consistent positive growth while Italy continued to struggle due to a second dip three years after the main one.

Observing Eurostat data presented in Chart 4.2, one can notice several patterns in the relationship of Germany and Italy’s government consolidated gross debt as a percentage of GDP. The first key element is the very large difference between the Italian debt-to-GDP ratio and that of Germany and the full European Union (EU-27) and Eurozone averages. Italy’s debt ratio is higher than that of the other groupings and that of Germany by about 40 percentage points. Notwithstanding the highlighted difference in magnitude, Italy’s debt-to-GDP ratio moves similarly to those of the EU-27 and Eurozone averages, with nearly a decade
of moderate decrease followed by a few years of rapid increase. Germany, on the other hand, displays an initial debt-to-GDP ratio lower than that of the others. However, it follows a different pattern, beginning to increase in 2001, overtaking the EU-27 average shortly thereafter, and nearly reaching the Eurozone average between 2005 and 2007. After a brief period of decline, Germany’s debt-to-GDP ratio aligns with the EU-27 average in a phase of noticeable increase between 2008 and 2011.

Chart 4.3 displays government deficits and surpluses as percentage of GDP. This data shows that the improving trajectory of government deficits between 2005 and 2007—which follows several years of increasing deficits—was cut short by the Eurozone crisis, which caused the deficits of Germany, Italy, and the EU-27 and Eurozone averages to descend once more to (and even past) the levels they had been
between 2003 and 2005. Examining the percentage change of debt-to-GDP accumulation in Chart 4.4, one can see how Germany’s trends differ from those of Italy and the EU-27 and Eurozone averages. In these indicators too it appears that Germany weathered the crisis better than other European Union and Eurozone member states, including Italy.
Proceeding to OECD data for ten-year bond yields, we can observe in Chart 4.5 that between 1998 and 2007 the yield trends for Germany, Italy, and the Eurozone average were very closely aligned, though Germany always had slightly lower and Italy slightly higher yields. While the latter trait was maintained following 2007, the yields diverged significantly, with German borrowing rates decreasing, Italian borrowing costs first decreasing and then increasing rapidly, and Eurozone yields presenting a pattern similar to Italy’s but less marked in their increase.
Chart 4.6 examines the crisis period more closely; here too the divergence beginning in early 2008 can be noticed. What is most relevant, however, is that following a brief spike in yields for Germany, Italy, and the Eurozone average in quarters two and three of 2008, the bond rates resume a negative trend until quarter three of 2010, when the sovereign debt crisis began to take a strong hold of Greece, Ireland, Italy, Spain, and Portugal.

This led to the most critical period of the Eurozone crisis, during which the so-called “spread”$^{150}$ reached worryingly high levels, indicating a loss of confidence of borrowers (the so-called “markets”) with regards to debt issued by these states. The loss of confidence in turn caused borrowers to require higher payoffs to buy

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$^{150}$ The “spread” is the yield differential between the bonds of two issuers. Within the euro-area, German bond yields are treated as the positive benchmark for their stability and lack of risk.
bonds, leading to a situation threatening national default if states were no longer able to raise enough money on the sovereign debt market or if they faced such high costs on their bonds that they might not have been able to pay borrowers back.

In order to reassure investors, European institutions—most notably the European Central Bank—attempted to devise measures to strengthen the credibility and financial capability of affected states, while national governments were asked to intervene with structural reforms across the government budget and national economy. This lasted throughout all of 2011. While each country’s situation varies in some aspects, the end of the gravest phase for Italy came about in November 2011, when Prime Minister Silvio Berlusconi resigned and was replaced by Mario Monti, who appointed a government of “technocrats” to address the existing situation.151 Over the next year, Prime Minister Monti worked to advance national policies of austerity seeking to stabilize the Italian financial situation, as well as cooperating with EU bodies and other member states to resolve the euro-area sovereign debt crisis. This combination of interventions by various key national and international players led to a stabilization of the situation and the decrease in Italian government bond yields witnessed between the fourth quarter of 2011 and the end of the time series in the fourth quarter of 2012.

Germany also presents a striking trend with regard to unemployment statistics, visible in Chart 4.7. Analyzing Eurostat data for unemployment in Germany, Italy, the EU-27, and the Eurozone there is an astounding difference between the unemployment rate in Germany and that in the other areas considered. Germany begins the time series in the first quarter of 2005 with the highest unemployment percentage by a margin of almost two percentage points, yet between then and the third quarter of 2012 it more than halved its rate. Italy and the EU-27 and Eurozone averages also had a decreasing pattern until the third quarter of 2008, when the trend was reversed and their unemployment rates increased importantly, overtaking Germany’s by over four percentage points by the end of 2012.

At the same time the unemployment of Italy, the EU-27, and the Eurozone began to rise, Germany’s decrease was arrested. Germany’s unemployment rate also
begins to rise, but soon stops and plateaus for all of 2009 before resuming its decrease, which will only be interrupted by minor, short spikes. Conversely, Italian, EU-27 and Eurozone unemployment does not cease to increase in a somewhat regular pattern of sharp, significant spikes followed by troughs and then additional spikes. There were four evident spikes (all of which are higher than the preceding one with the exception of the third) between the third quarter of 2008 and the third quarter of 2012. The data seems to indicate that unemployment for Italy, the EU-27, and at the end of 2012 the euro-area was headed to one of the regular troughs.

![Chart 4.7: Percentage Unemployed, Ages 18-64 2005-2012](chart)

Source: Eurostat Database

Italy’s unemployment rate, with a brief exception in mid-2012, has always been lower than that of the EU-27 and Eurozone averages, although the gap between them closed importantly over the course of the time series under
consideration. This, together with other elements discussed previously, indicates that the impact of the Eurozone crisis was particularly harsh on the country. To the contrary, Germany—despite seeing an increase in its debt-to-GDP ratio and being affected by the Eurozone crisis in several other indicators—under many measures has reached the present day with a better situation than it had prior to the upset.

While Germany cannot consider itself clear of the Eurozone crisis and possible lingering effects or relapses (this is true for the European Union as a whole, too), there is little doubt that Germany has weathered the five tormented years between 2008 and 2012 in an enviable manner. If anything, it has emerged as the virtually undisputed economic power in Europe, relying on its “virtuous” economic strength to set EU-wide policy from a position of advantage.

On the other hand, the data presented so far—corroborated by qualitative evaluations of the impact of the Eurozone crisis on Italy—consistently support the fact that Italy has suffered in virtually all economic and financial measures a blow that has left it economically adrift. It required a change of government and significant measures from both within and without to stabilize a situation that appeared to some irreversibly dire for a long period of time. Although the worst outcomes appear to have been staved off, Italy’s economic situation remains stagnant as of the end of 2012, leaving little reason for optimism.

This presents us with an interesting pair of case studies. Following the theory elaborated in Chapter 2, Germany—which though part of a European bloc facing relative decline vis-à-vis other rising powers has strengthened its position compared to other regional players—might be expected to retrench less than the other

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152 See Erik Jones, “Italy and the Euro in the Global Economic Crisis,” *The International Spectator* 44, no. 4 (2009); and Jones, “Italy’s Sovereign Debt Crisis.”
European states considered, or even to not retrench at all. Furthermore, Germany may not be greatly inclined towards increased cooperation, given that it might have to do so with ailing states which might require more from Germany than they would contribute to it. Italy, as a state extensively affected by the Eurozone crisis, leads us to anticipate the opposite scenario: it is more likely that Italy will adopt retrenchment in its defense budget as part of its response to the crisis, together with seeking allies it could rely on to maintain certain capabilities and achieve efficiency savings.

Germany and Italy: Two Sides of the Same Coin?

For Germany and Italy, current foreign, defense, and security policies can be traced back to the Europe which was created after the end of the Second World War. Both Germany and Italy originate in their modern form as defeated states with the burden of a disastrous global conflict to haunt their politics and, especially for Germany, national consciousness. Nonetheless, for various reasons, these two states evolved differently during the Cold War and in the two decades that have followed the collapse of the Soviet Union.\(^{153}\)

After the Second World War, West Germany—the Federal Republic of Germany—was completely demilitarized.\(^{154}\) For a decade, West Germany existed under the security authority of Britain, France, and the United States without any armed forces, until in 1955 the bloc logic of the Cold War pushed the Western allies

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\(^{153}\) A few more words will be spent in this section for Germany and Italy as compared to Britain and France. Britain and France have had a more consistent military outlook following 1945, and one could argue that they have maintained the same paradigm of defense policy while only bringing some changes to it at critical junctures. Germany and Italy, on the other hand, have undergone paradigm shifts in international relations and defense policy which justify a deeper analysis of the trajectory they have taken to reach their current form.

\(^{154}\) This overview of German defense and security policy after the Second World War focuses on West Germany, as that is the state that today’s Germany essentially descends from.
to integrate West Germany into the North Atlantic Treaty Organization (NATO) and to establish the Bundeswehr, West Germany’s armed forces. The Bundeswehr was founded as an entity based on the principle of conscription dedicated to national territorial defense. Arguably, it remained such until the Defence Policy Guidelines and suspension of conscription of 2011 set the objective of transforming the Bundeswehr into a fully professional, projectable force.

During the postwar years, West Germany took part in the process of European integration to regain an international standing in the new international system. As such, participation in the European Economic Community, European Community, and NATO were primary elements of German foreign and defense policy. Nonetheless, internationalism was always balanced by a deep awareness of the legacy of the Second World War, which constrained politicians and defense officials in the role they sought to give the armed forces. Reluctance to use military tools outside of the German borders—even after the international shifts and German reunification in the 1990s—persisted while all of Germany’s allies turned to force projection as the answer to the security problems of the post-1989 world.

Only with involvement in Afghanistan there came a definitive shift in paradigm, which led Germany to its present position of greater participation, not without constraints, in international missions.

Italy, not being the subject of as much animosity and distrust as Germany, was able to participate in NATO from the start, and made the Atlantic Alliance—

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156 Chappell, Germany, Poland and the Common Security and Defence Policy, 50-59.
157 Ibid., 103.
together with integration in the European Coal and Steel Community and other EU precursors—the framework through which it could compensate for losing power and stature after the Second World War.\textsuperscript{159} While Italy maintained an approach focused on territorial defense similar to Germany’s, beginning in the 1980s it started to engage in an increasing number of international peacemaking missions. This was the prelude to what would become a trademark of Italy’s foreign policy: since 1945, Italy has taken part in over 125 international missions with a military component, more than 100 of which have occurred after 1989, and 31 of which were ongoing as of 2009.\textsuperscript{160, 161}

Italy’s self-image as a “global peacekeeper” was firmly incorporated in its identity following the collapse of the Soviet Union.\textsuperscript{162} In the 1990s, Italy developed a more independent foreign policy outside of the previously binding NATO dynamic; concurrently, it aimed to strengthen the European Union’s foreign and security policy authority to develop the EU as an actor in these fields.\textsuperscript{163} The current shape of Italian defense policy is derived from the 1991 and 2000 New Defense Models (Nuovo Modello Difesa), the first of which established that defense entailed guaranteeing security and economic interests wherever they might have been


threatened—thus breaking with the territorial defense mentality—and the second of which suspended conscription and made the Italian armed forces a fully professional and intervention-oriented arm of Italian foreign and security policy.¹⁶⁴

Defense Budgets: The Numbers

Germany and Italy’s defense budgets are, respectively, the third and fourth by volume in Europe. By Stockholm International Peace Research Institute (SIPRI) figures measured in 2010 U.S. dollars, they are between three-and-a-half and four-and-a-half times greater than the average EU-27 and NATO Europe defense budget, as can be seen in Chart 4.8. Between 1998 and 2008, the German defense budget averaged USD 45.41 billion (bn). In the same period, Italy’s average yearly defense budget stood at USD 38.78bn. In contrast, EU-27 and NATO Europe states spent on average USD 10.21bn and USD 11.07bn respectively between 1998 and 2008.

¹⁶⁴ Paolicelli and Vignarca, *Il Caro Armato*, 6, 9
With regard to defense spending as percentage of GDP—visible in Chart 4.9—Germany and Italy find themselves on the opposite sides of the EU-27 and NATO Europe averages. Italy remains slightly above the averages for these two areas while Germany travels moderately below for all of the time period.
Unlike with the previous case studies, there is a somewhat more marked effect in the period of the Eurozone crisis for German and Italian defense budgets. The German budget reached a peak in 2009 and then began to descend, while the Italian budget had begun to diminish in a more significant way as early as 2008. A similar argument may be made by looking at the defense budget as percentage of GDP: following the beginning of the crisis in 2008, the Italian defense budget and GDP ratio stopped increasing, plateaued, and then started to descend; for Germany, there was a short-lived increase which rapidly plateaus in 2009 and 2010.

While we can be slightly more confident in identifying a pattern of defense expenditure decrease following the onset of the Eurozone crisis, as with Britain and France these two charts do not provide sufficient information on which to base adequate conclusions. We therefore proceed to a qualitative discussion of the effects
of the Eurozone crisis on defense spending and cooperation in Germany and Italy in order to seek evidence which may lend more validity to the observations made so far.

To Defend or to Economize? The Eurozone Crisis and Government Priorities

Neither in Germany nor in Italy did the governments or ministries of defense (MoD) conduct reviews as detailed and comprehensive as the British Strategic Defence and Security Review or the French White Paper on Defence and National Security around the time of the Eurozone crisis. For this reason, we must rely on a panoply of less descriptive official and unofficial sources to analyze the events and changes taking place. This may, in certain instances, prevent a discussion of some details which were readily available for Britain and France, though it will not prejudice the scope and reliability of the analysis.165

Reforming Defense Policy

An analysis of German defense in the context of the Eurozone crisis must begin from the Defence Policy Guidelines (DPG) issued by the German Ministry of Defense in May 2011 as part of an adjustment in defense policy and the MoD’s response to government budget issues.166 The DPG focus largely on an aspect of German defense policy its allies have severely criticized on multiple occasions; namely, the fact that Germany does not contribute to NATO common security

165 The discussion for Italy does not include the Carabinieri, Italy’s military-status police. Although the Carabinieri are a branch of the armed forces and receive funding from the Italian Ministry of Defense, like the Gendarmerie in France they have a role centered on civil security rather than defense, and thus fall outside the scope of this thesis.
166 The DPG, last updated in 2003, is a relatively short document providing the direction for national defense strategy; unlike a White Paper, its provisions do not encompass other relevant ministries (such as those of the interior, finance, foreign affairs, etc.). However, in the case of Germany, they form the core of “political guidance of defense matters.” Though some experts find that a new White Paper is required, no further review is planned until September 2013, when a new government is to be elected. The DPG will, however, be supplemented by the Armed Forces Concept (Konzeption der Bundeswehr), which is currently under completion. Senior German Researcher, telephone interview by author, January 17, 2013.
proportionately to its wealth and status.\textsuperscript{167} As such, the DPG’s assertion that Germany’s future contribution to collective security—through its commitment to the NATO and EU defense frameworks—will be aligned with “Germany’s role and economic power in the international community”\textsuperscript{168} has led experts to acknowledge an important shift with potentially important outcomes in the future.\textsuperscript{169}

Lauded as Berlin’s change of course may be, it risks stumbling upon an important contradiction. Though the guidelines set a policy which, on paper, would address the issues where Germany’s defense policy is considered to be lacking, its implementation may face the obstacle of overriding government priorities in other policy areas, primarily fiscal consolidation. This possible incongruence is evident in the following passage from the DPG.

Defence expenditure must be in keeping with the mission of the Bundeswehr and with all other government commitments. The Bundeswehr must be provided with appropriate financial means for armed forces that are operationally ready and capable of meeting our Alliance commitments and that reflect Germany’s position in the world. At the same time the defence

\textsuperscript{167} Critical views of the role of Germany in common defense differ among experts. While Professor Sir Lawrence Freedman believes that Germany has military capabilities for deployment but does not want to employ them, Lord Roger Liddle—House of Lords Labour Party spokesperson for Foreign and Commonwealth Office (Europe)—asserts that the German military are seen as “boy scouts” by the British armed forces. A senior German researcher rebutted these criticisms stating that Germany’s defense policy is highly committed to common defense and differs from that of its allies not in whether Germany participates or not in multinational missions—it consistently does—but in how it participates. Lawrence Freedman, interview by author, July 18, 2012; Roger Liddle, interview by author, July 19, 2012; and Senior German Researcher, telephone interview by author. See also Ulrike Demmer and Cristoph Schult, “Unreliable Partners?: Germany’s Reputation in NATO Has Hit Rock Bottom,” Der Spiegel, March 17, 2012.


budget also contributes to the national task of consolidating the federal budget, thus reducing the debt burden of future generations.170

It is unclear, then, whether it will be the “mission of the Bundeswehr” or “the national task of consolidating the federal budget” that will determine the defense budget. The three primary ambitions of the Bundeswehr, as set by the DPG, are developing the capacity of commanding or serving as framework nation for an international mission, providing a full spectrum of military capabilities, and developing a 10,000-soldier sustainable projection force.171 It must be noted that the latter is a reduced ambition easily attributable to the economic downturn, since Germany had originally planned to be capable of deploying 14,000 soldiers contemporaneously.172 These abilities require significant outlays not only in their preparation but also in their maintenance and, eventually, actuation. Thus, the implementation of the DPG—which include a thorough framework on how and in what sectors Germany can cooperate with its European allies to achieve a more effective and efficient defense—hinge on the government’s willingness to commit substantial funds to the MoD in the coming years.

While Germany sought to revise certain key elements in its defense posture through the MoD document detailed above, in Italy the interim Monti government chose to intervene legislatively.173 Taking account of a growing trend of defense

170 Defence Policy Guidelines, 9.
171 Ibid., 10.
173 The device utilized was a legislative decree (legge delega), through which the parliament gives the government the authority to legislate in a prescribed area without having to recur to parliamentary approval beyond the initial one. This law, n. 244/12 of December 31, 2012, will give the new government elected in the late February 2013 elections the power to carry out the measures included therein.
budget imbalances in the recent years, the Italian MoD and government became profoundly aware of the risk the armed forces were facing. While effective armed forces will dedicate 50% of their budget to personnel, 25% to operations and maintenance (O&M), and 25% to investment, the Italian armed forces in 2012 budgeted approximately 70% of their budget to personnel, 12% to O&M, and 18% to investment.\(^{174,175}\)

According to former Italian Chief of the Defense Staff (*Capo di Stato Maggiore della Difesa*) and retired air force general Vincenzo Camporini, today’s Italian defense is “at the limit of sustainability,” owing to the costs inherent to the professionalization of the armed forces initiated in 1997 and to the absence of comprehensive financial measures dedicated to addressing this situation.\(^{176}\) This has caused a number of important issues, most notably the impossibility to ensure adequate training levels for all soldiers and the maintenance in operational condition of a large number of vehicles of all services.\(^{177}\)


\(^{175}\) The 2005 to 2009 averages for the personnel-O&M-investment breakdowns for Britain (39%-37%-24%), France (56%-26%-18%), and Germany (55%-20%-25%) do deviate from the optimal parameters but not as significantly as Italy’s. For the purposes of these statistics, infrastructure and equipment expenditures data have been grouped together under the category of investment. See North Atlantic Treaty Organization, “Financial and Economic Data Relating to NATO Defence,” news release, April 13, 2012.

\(^{176}\) Vincenzo Camporini, e-mail interview by author, January 8, 2013.

\(^{177}\) Among the problems noted by a variety of sources is the reduced number of training for all three services: in 2008, the army conducted 2,880 of 7,500 predicted field exercises; the air force flew 30,000 out of 90,000 scheduled training hours; and the navy conducted 29,800 training navigation hours out of 45,000. All three services must also cease to maintain important percentages of vehicles to be able to preserve others in operating conditions. This severely impacts the operational readiness and capability levels of units. In this situation, only units destined to be deployed abroad receive adequate funding, training, and maintenance to the detriment of other forces. Gen. Camporini, e-mail interview by author; see also Andrea Nativi, “Bilancio Difesa 2006 & Programmazione Quindicennale,” *Rivista Italiana Difesa*, January 2006, 26; and Quercia, “I Perché Della Forza E Le Trasformazioni Del Sistema Internazionale,” in *Quale Difesa Per La Repubblica?*, 37-38.
Due to funding constraints, the MoD was already unable to dedicate more funds to the defense budget to address this imbalance. The situation deteriorated when the government’s austerity measures imposed budget cuts for EUR 1.45bn in 2012, EUR 606 million (mn) in 2013, and EUR 786mn in 2014. The total baseline budget for 2012—including the aforementioned cuts—was EUR 13.55bn.\(^\text{178}\) Aware of the critical situation Italian defense versed it at that time, the Italian government—through the leadership of Italian Minister of Defense Giampaolo Di Paola, an admiral in the Italian navy and former Chief of the Defense Staff—drafted and then passed a piece of legislation to address the financial balance of the national defense mechanism. The *Legislative Decree for the Revision of the National Military Instrument and Norms on the Same Matter* (Legge-Delega Al Governo per La Revisione Dello Strumento Militare Nazionale E Norme Sulla Medesima Materia) provided direction for the creation of

\[\ldots\] an effective and sustainable national defense system, based on programmatic stability of financial resources and greater flexibility in reshaping expenditures, such that ensures the necessary readiness levels and the full integrability of military resources within the international context, in view of a common European defense policy and for the purpose of carrying on the institutional mandate of the Armed Forces \[\ldots\] \(^\text{179}\)

\(^{178}\) Nativi, “Difesa 2012. La Riforma, Ora!”.

The tension of balancing the “tasks of the armed forces” with the “programmatic stability of financial resources” presents a paradox analogous to that found in the DPG. Unlike the DPG, however, the Delegating Law is a structural rather than strategic reform of the armed forces, and does not set the objectives of national defense policy. The latter, whose broad outline is elaborated in a previous section, relies on extensive participation in international missions to assert Italy as a “first-rank” power.\textsuperscript{180} Scholars of Italian foreign policy question whether this may need to be revised due specifically to the fact that Italy’s present international commitment levels may be unsustainable,\textsuperscript{181} though based on statements by Minister of Defense Di Paola, there appears to be no indication of an intention to perform a revision of Italy’s strategic goals in the near future.\textsuperscript{182}

Reviewing regular analyses on the Italian defense budget, it appears that the budget was in an untenable position already before the onset of the financial crisis, as highlighted most evidently by the imbalance between different sections.\textsuperscript{183} The Eurozone crisis, with its extensive effect on the Italian political, financial, and economic situation, ended up delivering the final amount of pressure that caused a reaction at the head of the MoD and government, resulting in cuts to the defense budget as part of national stabilization measures contemporaneously with internal reforms for structural consolidation. Germany, on the other hand, shifted to a

\textsuperscript{181} Giacomello and Verbeek, “Conclusion,” in \textit{Italy’s Foreign Policy in the Twenty-first Century}, 225.
\textsuperscript{183} This is evident in the analysis presented in the yearly assessment of the Italian defense budget presented by the \textit{Rivista Italiana Difesa}. See for instance articles by Nativi in this publication dated January 2005, January 2006, January 2008, January 2010, January 2011, and January 2012 (2007 and 2009 editions were not available).
strategic posture more in line with its economic power, while at the same time implicitly acknowledging the weakness of that power and the need for careful budgetary measures to make its armed forces compatible with broader—and prioritized—nation-wide cuts to government expenditure.

Resizing the Armed Forces

A significant factor in influencing the future of the German armed forces took place in 2010, when the effects of the Eurozone crisis were in full swing following the 2009 crash highlighted in numerous of the above graphs. This compelled the Ministry of Finance to intervene in the defense budget—among others—by asking the MoD to devise a plan to reduce expenditures by EUR 8.3bn by 2016 (out of a total defense budget of EUR 31.6bn in 2011).\textsuperscript{184, 185} It is unclear whether the total budget must be decreased by this sum or if only aggregate savings amounting to this total must be achieved during this period.

The approach chosen by Minister of Defense Karl-Theodor zu Guttenberg combined a number of measures. First, Germany would completely professionalize its armed forces—one of the last Western European countries to do so—by mid-2011, putting an end to mandatory military service and focusing all financial resources on full-time enlisted servicemen and women (this was projected to save about EUR 1.5bn within the 2016 timeframe).\textsuperscript{186} The decision to suspend conscription took place between 2010 and 2011 and can thus be attributed at least in part to the effects of the Eurozone crisis.

\textsuperscript{184} Formuszewicz and Terlikowski, Willing and (Un)able, 6.
Second, the size of the Bundeswehr was to be reduced by a conspicuous amount, from about 220,000 units in all services to 170,000 professionals. Since reducing force size requires making civilian and military staff redundant, such a policy entails financial support and incentive measures. This choice may actually risk increasing the defense costs over its course. In the German case, Minister of Defense Thomas de Maizière (who replaced zu Guttenberg in early 2011) announced that extra costs inherent in reducing the armed forces and MoD staff would be drawn from the German general budget, thus sparing the MoD those additional outlays. These two measures would mean that nearly half of the EUR 8.3bn cut would come from the personnel budget.

Third, the MoD would renegotiate a large number of procurement contracts with the national industry, reducing the short-to-medium term burden of acquisition and eliminating materiel considered superfluous for the new armed forces. While the industry was not enthusiastic at the prospect of losing important contracts, the MoD framed the issue in light of long-term interests. It argued that savings from reduced orders today would leave it funds to spend on projects in the future, whereas if the defense industry decided to seek the fulfillment of all existing contracts those would be carried out but would erase the possibility of finding funds for the future.

Finally, the Bundeswehr would restructure its territorial organization, closing 90 bases and halving the size of 90 others to form larger military centers to create efficiencies and economies of scale. Regional and local interests in Germany did not

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187 Minister zu Guttenberg resigned from his position after he was found guilty of having plagiarized portions of his doctoral dissertation. He was replaced by Minister de Maizière in March 2011.
189 Ibid., 79-80.
190 Senior German Researcher, telephone interview by author; and Henrik Heidenkamp, interview by author, July 18, 2012.
make this an easy or unopposed decision, although there was much less resistance than might have been expected based on experience from other such decisions implemented in other countries.\textsuperscript{191}

Altogether, there will be cuts of approximately one-fourth of the defense budget and of the total number of servicemen and women, while civilian MoD staff will decrease by almost 30%. Change in personnel can be seen in Table 4.1 and procurement project cuts are visible in Table 4.2.

\textit{Table 4.1: German Armed Forces and Ministry of Defense Effectives Reductions, 1990-2018}\textsuperscript{192}

<table>
<thead>
<tr>
<th>Year</th>
<th>Army (Heer)</th>
<th>Air Force (Luftwaffe)</th>
<th>Navy (Marine)</th>
<th>Joint Support Service (Streitkräftebasis)*</th>
<th>MoD Civ. Staff</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>340,700</td>
<td>106,000</td>
<td>36,000</td>
<td>n/a</td>
<td>n/a</td>
<td>482,700</td>
</tr>
<tr>
<td>2000</td>
<td>221,000</td>
<td>73,300</td>
<td>26,600</td>
<td>n/a</td>
<td>n/a</td>
<td>321,000</td>
</tr>
<tr>
<td>2011</td>
<td>80,000</td>
<td>38,000</td>
<td>17,000</td>
<td>63,000</td>
<td>75,000</td>
<td>198,000**</td>
</tr>
<tr>
<td>2016-2018</td>
<td>61,000</td>
<td>23,000</td>
<td>13,800</td>
<td>38,700</td>
<td>55,000</td>
<td>170,000***</td>
</tr>
</tbody>
</table>

n/a: Not available

*Note: The Joint Support Services is an interforce branch of the Bundeswehr responsible for logistics and operations for the other three services. It was created in late 2000.

**Note: This figure does not include reserve forces.

***Note: The total is greater than the sum of the individual armed forces since data for each service does not include units in training, education, or other organizational tasks.

Note: The table excludes the Central Medical Services (Zentraler Sanitätsdienst) as its effectives are already included in the totals for each individual service.


\textsuperscript{192} Personnel reductions are planned to be articulated over six to eight years. \textit{The Military Balance} (2012), 80.


\begin{table}[h]
\centering
\caption{Planned Cuts in German Procurement Programs}
\begin{tabular}{|l|c|c|}
\hline
Program & Initial Order Size & Revised Order Size \\
\hline
Puma infantry fighting vehicles & 405 & 350 \\
NH90 light transport helicopters & 122 & 80 \\
Tiger combat support helicopters & 80 & 40 \\
Eurofighter Typhoon multirole combat aircraft & 177 & 140 \\
A400M transport aircraft & 60 & 40 \\
Multirole combat ships & 8 & 6 \\
\hline
\end{tabular}
\end{table}

Source: Royal United Services Institute elaboration of German Federal Ministry of Defence Data.

Much like the other defense reviews examined thus far, the Italian \textit{Legislative Decree for the Revision of the National Military Instrument} seeks to implement important cuts in civilian and military MoD personnel. Italy’s personnel reductions are due to be completed in 2024. This transition is predicted to take Italy’s armed forces from the current, unrealistic Model 190,000 (Modello 190,000) to a future force of 150,000 units total.\footnote{One should note that Model 190,000 is already not being implemented comprehensively, as Italy in 2012 had just over 180,000 members of the armed forces.} In parallel, MoD civil servants will be cut down from the current 30,000 to 20,000. The reform will also address rank imbalances, as the armed forces are currently excessively top-heavy with more officers than enlisted men and with a disproportionate number of high-ranking officers. Generals and colonels are in line to face notable reductions, with the former reduced from 425 to 310 and the latter from about 2,000 to 1566 within six years.\footnote{Di Paola, Difesa: La Revisione Dello Strumento Militare. “Non E’ Nuovo Modello,” ForzeArmate.Org, November 6, 2012.}\footnote{Legge 31 Dicembre 2012, N. 244, Art. 3, § 1(a), Art. 3, § 1(b), Art. 3, § 2(a).}\footnote{“Di Paola, Difesa: La Revisione Dello Strumento Militare. “Non E’ Nuovo Modello,” ForzeArmate.Org, November 6, 2012.}\footnote{Nativi, “Difesa 2012. La Riforma, Ora!” and Legge 31 Dicembre 2012, N. 244.}\footnote{As a parameter of comparison, Italy currently has 425 generals for 178,000 enlisted soldiers (1:419), while the United States has 900 generals for a total of 1,408,000 units (1:1,564). See Fabio Tonacci, “Un Esercito Di Ufficiali E Poca Truppa Mandorle E Champagne per L’Ammiraglio,” La Repubblica, November 8, 2012.}
To complement personnel measures, the MoD will also have to rationalize its “operational, logistical, formative, and territorial” structures by 30% in no more than six years.\(^{198}\) Furthermore, the MoD planned to sell unneeded assets, such as buildings and terrain, to increase the funds at its disposal. In the past, projects to rationalize the base structure met with intense parliamentary and local opposition and were never carried out fully, while the effort to sell assets never took off. Minister Di Paola is hopeful that all actors will see the necessity of performing these operations.\(^{199}\) Whether the situation will change will remain to be seen.

Finally, the MoD—in some cases due to strong public pressure—decided to review certain acquisition projects. This is most evident in the heated debate that surrounded Italy’s participation in the Joint Strike Fighter (also known as JSF or F-35) project. After the public and media publicized the JSF program as a scandalous prioritization of weapons of war over civilian expenditure in times of economic difficulty, the number of fighters to be procured dropped from 131 to 90.

Additional plans to revise procurement programs and existing equipment downwards were not included in the \textit{Legislative Decree}, though hearings by Minister Di Paola at the Defense Committees of the Chamber of Deputies and at the Senate provide an outline of what the MoD’s intentions are. Table 4.3 presents the personnel changes taking place in the Italian armed forces and MoD civilian staff, while prospected equipment measures can be seen in Table 4.4.

\(^{198}\) \textit{Legge 31 Dicembre 2012, N. 244}, Art. 2, § 1(b).

\(^{199}\) Nativi, “Gianpaolo Di Paola: Come Cambierà La Difesa.”
### Table 4.3: Italian Armed Forces and Ministry of Defense Personnel Measures, 1990-2024

<table>
<thead>
<tr>
<th>Year</th>
<th>Army (Esercito Italiano)</th>
<th>Air Force (Aeronautica Militare)</th>
<th>Navy (Marina Militare)</th>
<th>MoD Civ. Staff</th>
<th>Total (military)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>265,000</td>
<td>73,000</td>
<td>52,000</td>
<td>n/a</td>
<td>390,000</td>
</tr>
<tr>
<td>2000</td>
<td>169,617</td>
<td>60,000</td>
<td>40,000</td>
<td>41,462</td>
<td>269,617</td>
</tr>
<tr>
<td>2010</td>
<td>108,355</td>
<td>43,503</td>
<td>33,641</td>
<td>32,859</td>
<td>185,500</td>
</tr>
<tr>
<td>2024</td>
<td>87,615*</td>
<td>35,175*</td>
<td>27,210*</td>
<td>20,000</td>
<td>150,000</td>
</tr>
</tbody>
</table>

*n/a: Not available

*Note: As there is no estimate available for the numerical composition of the army, air force, and navy in 2024, these numbers are merely projections based on the 2010 ratios of each service within the armed forces as a whole.

Sources: Legge 31 Dicembre 2012, N. 244; The Military Balance (1990); Rivista Italiana Difesa (2000, 2010).

### Table 4.4: General Italian Equipment Changes by Armed Force Services, 2012-2024

#### Army (Esercito Italiano)
- Reduce maneuver brigades from 11 to 9
- Reduce heavy vehicles such as main battle tanks and armored vehicles
- Reduce support units such as logistical vehicles and artillery units
- Reduce number of combat helicopters

#### Air Force (Aeronautica Militare)
- Reduce air defense line to 92 Eurofighter Typhoons
- Retire in-service ground attack line (*linea aerotattica*), which means all 55 Tornados, 72 AMX Ghibli, and 16 AV-8B Harrier (143 total)
- Replace retired ground attack aircraft with 90 Joint Strike Fighters within the next 15 years; 30 JSFs will be Short Takeoff Vertical Landing variant (15 for air force and 15 for navy but with some interforce sharing) to replace navy carrier-based Harriers
- Preserve “enabling” forces such as reconnaissance drones, signals intelligence aircraft, tanker aircraft, and satellite component
- Preserve transport aircraft fleet; consider the opportunity of renewing it in the medium term by replacing existing C-130Js with A400Ms
- Address problem of reduced support helicopter availability due to increased mission wear

#### Navy (Marina Militare)
- Reduce number of units in high seas and coastal fleets
- Reduce number of minesweepers
- Reduce number of submarines

Source: Defense News; Fondazione Farefuturo; The Military Balance (2012).
The German and Italian Defense Industry and the Eurozone Crisis

Germany, counting on a historic defense industrial base specialized in advanced technologies and complex weapons systems, has ascended to the position of third global arms exporter by value, surpassed only by the U.S. and Russia. Italy also has a defense industry capable of exporting to markets all across the world, although the absolute value of exports is lower than Germany’s.

In both countries, the defense industries are structured around several prime contractors and a host of smaller suppliers. The German defense industry employs approximately 80,000 workers (down from about 280,000 20 years ago) directly and an additional 10,000 through subcontractors.200, 201 Yet, although Germany provides 11% of global arms exports, arms export licenses constitute only 0.6% of German exports by value.202 While precise and up-to-date numbers for Italian defense industry employees are not available (it employed 83,000 personnel in 1983, or 1.3% of Italian industry employees),203 it is possible to form an estimate by summing the employees of Italy’s four most significant prime defense contractors. These are Avio (4,500), Fincantieri (8,400), Finmeccanica (43,000), and Iveco’s (25,000) Defence Vehicles sub-brand.204 All are dual-capacity firms—meaning they produce both military and non-military use products—so the total number of employees will not all be on the defense side. Nonetheless, close to 91,000 people work in the main

201 Sophie C. Brune et al., Restructuring Europe’s Armed Forces in Times of Austerity: The United Kingdom, France, Germany and Poland, working paper, FG3-WP No. 8 (Berlin: Stiftung Wissenschaft Und Politik, November 2010), 10.
Italian firms operating in defense and security, without counting all those employed by smaller companies.

Although on the one hand Italian and German defense firms receive government support in export promotion, on the other hand some find that they are disadvantaged on the export market in the face of competitors from other European countries—primarily Britain and France—due to domestic regulations on export licenses for armaments. German firms face strict criteria for obtaining export licenses and are lobbying the government to reform at least the requirements that concern other EU or NATO states.\(^{205}\) As about three-quarters of German exports went to this region in 2009 and 2010, easing export certification would substantially help the German defense industry remain active, effective, and unencumbered on this market.\(^{206}\)

Such reform, however, would constitute only one aspect of a broader governmental policy dedicated to supporting “a healthy domestic defence industrial base, which is able to sustain core defence industrial capabilities, for the national defence effort.”\(^{207}\) The central tenet of commercial viability of the domestic defense industry hinges on government promotion of exports across the world. Starting in 2011, German Chancellor Angela Merkel has become a leading supporter of German defense firms, using diplomatic trips abroad to build ties with other countries which might result in business opportunities for German arms manufacturers. Principal clients are Middle Eastern countries such as Algeria (armored vehicles and frigates), Egypt (submarines), Qatar (armored vehicles), Saudi Arabia (tanks and armored

\(^{205}\) Heidenkamp, “German Defence Exports in Perspective,” 41.
\(^{206}\) Heidenkamp, “Germany’s Defence Industrial Policy Dilemma.”
\(^{207}\) Ibid.
vehicles), and the United Arab Emirates (training equipment and munitions).\(^{208}\) Russia also appears to be seeking to purchase German-made armored vehicles, while Israel has been a longtime destination for German submarines, though often at rates subsidized by the German government.\(^{209, 210}\) It must be noted that weapons exports to authoritarian regimes have received significant backlash from the German public, which may make problematic an open policy of exports and hamper some of the government’s plans.\(^{211}\)

Chancellor Merkel does not view a policy of export promotion just as a means to support the domestic defense industry, but also as a way of conducting foreign policy. In a speech in mid-2011, the German Chancellor argued that if Germany is hesitant to commit to international military operations, “it is generally not enough to send other countries and organizations words of encouragement. We must also provide the necessary means to those nations that are prepared to get involved. I’ll say it clearly: This includes arms exports.” She continued: “we should try to go a step further. If we in NATO agree that the organization is not capable of solving all conflicts and that emerging, newly industrialized countries and regional organizations should take on more responsibility, then we in NATO also need to take steps toward a common policy when it comes to arms exports.”\(^{212}\) On another occasion, this time in late 2012, she remarked that “I am convinced that it is in our

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\(^{211}\) Heidenkamp, “German Defence Exports in Perspective,” 42.

interest to enable partners to effectively participate in upholding or re-establishing security and peace in their regions.\textsuperscript{213}

In fact, this might be a form of dually advantageous retrenchment: Germany would not only benefit from the weapon sales to foreign countries, but it would also gain in that it would no longer have to bear the costs of out-of-area military missions. Germany would escape the risk of being caught in draining operations and would avoid the domestic backlash they might entail. Altogether, the German government’s shift in favor of revisiting export restrictions, promoting sales to certain states, and empowering these states to provide their own security without need for direct Western assistance seems caused at least in part by the economic difficulties that have followed 2008, and would indicate a clear, calculated, broad-ranging realist response to the Eurozone crisis in the defense industry and security policy areas.

In 1997, some analysts labeled Italian arms export regulations as “punitive” to the national industry.\textsuperscript{214} As of 2011, in the face of EU attempts to reform the regulations and practice of transfers of military technology, specialist publications sustained that the Italian defense industry had been abandoned by the government, which had left it to operate in a regulatory environment that penalized it compared to competitors from other countries. European Union directives aimed at harmonizing the European defense market were not integrated in the national legal framework until May 2012, causing Italy to be the only major EU member state to miss the first directive implementation deadline and coming close to missing the

\textsuperscript{213} Von Hammerstein et al., “German Weapons for the World.”

second.215 This led to EU sanctions, a loss of credibility, and the disadvantage of Italian weapons manufacturers vis-à-vis those of other member states.216

As Italy is now in line with the EU directives, and observing the rise in total exports in 2011 following a slump in 2010, the Italian defense industry may have reasons to be slightly more optimistic. 2011 data indicates that Italy’s weapons exports were largely constituted by large-sum licenses (1.5% of licenses contributed to 73.8% of total value) and that, in a manner opposite Germany’s, most of Italian exports went to non-EU and non-NATO countries (NATO and EU licenses contributed to 29% of exports). Importantly, exports to “new” (non-European) markets grew from nearly EUR 300mn in 2010 to over EUR 700mn in 2011. The Middle East, North Africa, and Asia account for a majority of this sum.217

At the same time, Italian firms are increasingly active in the relatively untapped U.S. domestic market. The U.S. government has traditionally awarded very few defense contracts to foreign companies—98% of contracts go to domestic firms, as compared to 60% in Italy and 56% in Germany.218 Though this is in part obviously due to the difference in size and capacity of their respective defense industries, it still indicates a significant degree of protectionism. Therefore, European companies wishing to bid for Pentagon contracts must generally operate on U.S. soil

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215 European Commission directives 2009/43/EC (on transfers of defense-related products in the European Community) and 2009/81/EC (on defense and sensitive security procurement) had the objective of furthering the integration of the European defense market and industry. These areas, excluded from existing free trade norms, still operated largely on protectionist principles, which is what the European Commission desired to address.

216 Two previous attempts to incorporate the directives in national law had failed for unrelated political reasons. See “Export Difesa: Un Passo Avanti (europeo) E Due Indietro (italiani),” Rivista Italiana Difesa, December 2011, 25.


through partnerships with American firms or by buying American companies through which to seek contracts.\textsuperscript{219} 

This has spurred many European defense firms to seek footholds in the U.S. Although the undisputed leader is the British BAE Systems—the only foreign company among the Pentagon’s top five suppliers—Italian companies have increasingly sought to enter the American market by acquiring American firms. An example is the acquisition of various shipyards by shipbuilders Fincantieri, though the prime case is Finmeccanica’s acquisition of DRS Technologies for USD 5.2bn in 2008, the largest foreign purchase of an American defense company.\textsuperscript{220} Both Finmeccanica and Fincantieri have obtained important contracts in the U.S. through their subsidiaries. Italian growth on the U.S. defense market may have been aided by the appointment of Finmeccanica vice-president Giovanni Castellaneta as Italian ambassador to the United States between 2005 and 2009, a clear indication of the Italian government’s support for the national defense industry.\textsuperscript{221}

Although this is not strictly indicative of any trend or response related to the Eurozone crisis—the largest Italian acquisitions of U.S. firms occurred before or in the early stages of the crisis—it does show a clear export-oriented mindset which aims at penetrating in diverse markets to ensure industrial sustainability even in a context where national defense expenditure may be decreasing.

\textsuperscript{219} The U.S. government also has extensive regulations on the relationship between U.S. subsidiaries and foreign parent companies, effectively creating a barrier between different branches of the same company. Experts regard this as highly inefficient and denounce excessive American restrictions to competition in the domestic defense market. For more information, see O’Donnell, \textit{A Transatlantic Defence Market}.

\textsuperscript{220} Andrea Nativi, “Finmeccanica Cresce Negli USA Con DRS,” \textit{Rivista Italiana Difesa}, July 2008, 79. Fincantieri has also expanded in the United Arab Emirates, where is formed the joint venture Etihad Ship Building in 2011; see Fincantieri, \textit{Annual Report 2011}.

\textsuperscript{221} Paolicelli and Vignarca, \textit{Il Caro Armato}, 73.
In the Italian case this might be even more important, since governmental support of the defense industry has not come just through the defense budget itself. In fact, both the Ministry of Economic Development (Ministero dello Sviluppo Economico) and the Ministry of Education, Universities, and Research (Ministero dell’Istruzione, dell’Università e della Ricerca) have dedicated part of their budgets to MoD procurement and development programs, mostly industrial for the former and research-related for the latter. The former’s role has been instrumental in some Italian procurement programs, contributing an average of nearly EUR 1.4bn per year between 2005 and 2008. These have mostly benefited large multinational projects such as the British, German, Italian, and Spanish Eurofighter Typhoon and the Franco-Italian FREMM-class frigates, which received EUR 1.39bn and EUR 510mn respectively between 2009 and 2010.222

Yet the Italian government’s response to the Eurozone crisis has dented the budgets of both of these ministries, resulting in decreased funding for all programs previously covered. Cuts to the Ministry of Education, Universities, and Research may be especially detrimental to Italy’s space program, which draws important funding from this source.223 The MoD’s dependence on external contributions to supporting some of its most important programs indicates the imbalance between the resources dedicated to it and those it requires to develop crucial capabilities. Regardless of this fact, the Italian armed forces are engaged in tight cooperation with the national defense industry. They seek to achieve greater efficiency in the procurement process to ensure that the procedures and realization of programs are

222 Ibid., 40, 44.
coherent with the financial situation and with the requirements of the armed forces.\textsuperscript{224}

\textit{Friends with Benefits: The Advantages of Defense Cooperation}

Germany and Italy have taken advantage of collaborative procurement projects numerous times before. Both have operated the multirole Tornado jet for the past four decades after having developed it together with Britain. Presently, their main air defense capacity is provided by the Eurofighter Typhoon, another airplane developed by a consortium of these three countries (and Spain). Both projects have been managed collaboratively by the NATO Eurofighter and Tornado Management Agency. Aside from ones they have been involved in together, Germany and Italy have built on cooperation in other instances as well; additional examples of cooperation in the aircraft sector are the AMX Ghibli, which was developed and produced in the 1980s by Italy and Brazil for their air forces, and the Franco-German Transall transport aircraft mentioned in Chapter 3.

As discussed in the previous chapter, Italy has developed multirole frigates with France twice since 1994. Currently, it has planned to build ten Multirole Frigates (FREMM, \textit{Fregata Multi-Missione} or \textit{Frigate Multi-Mission}) which, together with France’s order of 17 ships, would constitute the first instance in which a multinational shipbuilding project has achieved the numbers and organization to make possible significant economies of scale and efficiency savings.\textsuperscript{225, 226} Also in the

\textsuperscript{224} Claudio Graziano, “Intervento Del Capo Di Stato Maggiore Dell'Esercito” (address, 4\textsuperscript{\textdegree} Commissione Difesa Del Senato - Audizione, Ai Sensi Dell’articolo 47 Del Regolamento, in Relazione All’esame Del Disegno Di Legge N. 3271 Concernente La Legge-delega per La Revisione Della Struttura Militare, Senato Della Repubblica, Rome, May 22, 2012).

\textsuperscript{225} Nativi, “Bilancio Difesa 2006 & Programmazione Quindicennale,” 36.

\textsuperscript{226} There were rumors in 2011 that Italy might not build all ten planned FREMM units due to financial issues. No substantial evidence indicates plans or discussions to this intent, however. See
naval sector, Italy has traditionally procured submarines from Germany, though the two countries reached agreements that entail the production of several units in Italy. This goes to benefit German firms and Italian shipbuilding technology and expertise, but it also allows Italy to avoid development costs for these ships and reduces the per-unit cost for both countries purchasing them, since greater production numbers cause unit prices to decrease.

As mentioned previously, Italy is also involved in the collaborative JSF program with eight other countries. The JSF program is led by the U.S., though Italy ranks as second-level participant, contributing about 4%. The Netherlands is in a similar situation, while Britain is the only first-level participant, covering a 10% share. Australia, Canada, Denmark, Norway, and Turkey all contribute around 1%. In this framework Britain has the ability to influence airplane specifications, Italy and the Netherlands have some capacity for input, while all other participants have no say on program development. This has been a long-term commitment, as Italy began negotiations to participate in 1996 and finally confirmed its stake in 2002. Among the principal advantages Italy has managed to obtain from this program is the creation of a JSF Final Assembly and Check-Out (FACO) facility in Italy, which will be the only production line located outside of the U.S.; the FACO site will also be responsible for maintenance and upgrades for all European JSFs over their life.

229 Ibid., 124.
spans. Forty Italian companies will take part in assembling and supporting the
JSF program for an estimated total of at least 10,000 workers.²³⁰

The Italian government has invested almost EUR 800mn in developing the
FACO facility for the benefit of the Italian industry, and has negotiated that 75% of
its total program investment—forecast at EUR 14bn—will go to Italian firms. This
reduces the overall program costs importantly, though the long term cost-benefit
calculation remains uncertain.²³¹ Furthermore, this project is not exempt from
criticism. First, many of the 10,000 employees of the FACO site will not be coming
from jobs created, but will go to balance the decrease in Eurofighter workforce that
will take place as production slows down.²³² Second, favoring an American program
and plane inherently favors the competitors of European defense firms, thereby
weakening the possibility of a stronger European defense industry.²³³

In addition to this, Italy has shown other contradictions in its cooperation
policy. While it is a strongly Europeanist country in its defense procurement—about
45% of its acquisition is done with other European states, clearly outranking Britain’s
29%, France’s 22%, and Germany’s 13%²³⁴—it is absent from the A400M transport
aircraft project. Italy had been a partner until 2002, when it chose to withdraw for
requirement divergences.²³⁵ Germany, on the other hand, has remained in the
A400M program, although the government has had to intervene several times to
provide extra funds for project contractor Airbus due to cost and time overruns

²³⁰ Ibid., 126.
²³² Paolicelli and Vignarca, Il Caro Armato, 61-62.
²³⁴ Ibid., 56-57.
²³⁵ Matarazzo, “In Search of the North Star,” in Italy’s Foreign Policy in the Twenty-first Century, 63.
which were threatening the program.\textsuperscript{236} However, the Netherlands are contributing to Germany’s A400M purchase with the expectation that the capability will be shared once it is acquired.\textsuperscript{237}

Sharing tactical and strategic transport capabilities is part of the European Air Transport Command (established in 2010) and European Air Transport Fleet (formed in 2011) programs, both of which bring together numerous European countries to coordinate airlift means, which are something that EU states notoriously lack. Germany is a member of both organizations, while Italy participates only in the latter. The European Air Transport Command played an important role in the 2011 Libyan operation and was being utilized effectively during the French operation in Mali in early 2013.\textsuperscript{238, 239}

Germany is promoting additional pooling and sharing initiatives within various frameworks. First, since November 2010 it has promoted a pooling and sharing initiative with Sweden, which aims to “preserve and enhance national operational capabilities with improved effect, sustainability, interoperability and cost efficiency as a result,” with the hopes that “[i]t could even make possible a broadening of military capabilities.”\textsuperscript{240} Second, Germany achieved a bilateral arrangement with Italy in November 2011. This agreement appears to be a response to the Lancaster House treaty and focuses on joint development of unmanned aerial

\textsuperscript{239} “EATC’s Contribution to Operation Serval,” European Air Transport Command, January 21, 2013.
\textsuperscript{240} Germany and Sweden, \textit{Pooling and Sharing, German-Swedish Initiative. Food for Thought} (November 2010).
vehicles (UAVs). Commenting on the agreement, Italian Minister of Defense Di Paola remarked that Italy and Germany were countries with important similarities in defense, and that developing capabilities jointly would be essential to their defense policies. Minister Di Paola added that larger pan-European initiatives may not be desirable, although he kept the agreement open to other interested participants.

Third is a February 2012 broad intergovernmental accord by Germany and France on a number of key projects. This agreement incorporates guidelines on strengthening European defense cooperation through existing institutions and programs, such as the European Defence Agency and the Ghent Initiative. It also emphasizes the importance of bilateral collaboration, especially in the areas of interoperability, equipment harmonization, and joint development of new technologies. Fourth, Germany seeks to establish a joint European maritime patrol aircraft pool. This would allow each member—even those which gave up their maritime patrol capacity, like the Netherlands—to preserve national security in cooperation with allies.

In addition to the aforementioned agreement between Italy and Germany, the Italian ministries of defense and of foreign affairs have worked on numerous fronts throughout late 2011 and all of 2012 to strengthen various European defense networks. The first accomplishment of the Italian initiative was the November 2011 agreement with France, Germany, Poland, and Spain to expand the existing Weimar Triangle—consisting of the first three states—to incorporate Italy and Spain as well.

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This framework agreement, labeled “Weimar Plus,” seeks to increase the scope of European foreign and defense policy and promote cooperation among the five main continental European powers and five of the six principal defense actors in the European Union. Alessandro Marrone, researcher in the Security and Defense Program at the Istituto Affari Internazionali (Institute for International Affairs), described the Weimar Plus agreement as ambitious and a potential political driver for further collaboration.\textsuperscript{245} The absence of Britain, the missing power of the European top six, may be attributable to Weimar Plus’ emphasis on expanding the role of the European Union in foreign and defense policy, something Britain has been reluctant—if not hostile—about.

Italy participated in the working group consisting of the foreign ministers of 11 European Union member states\textsuperscript{246} that drafted the Report on the Future of Europe (released in September 2012), an aspirational paper laying out the way ahead to address a number of the European Union’s most significant issues, from reforming the Economic and Monetary Union to strengthening the European Union in the areas of defense and security.\textsuperscript{247} Germany participated as well; German Federal Minister of Foreign Affairs Guido Westerwelle served as one of the leaders of the group. In addition to this, in 2012 the Italian Minister of Foreign Affairs Giulio Terzi di Sant’Agata and Minister of Defense Di Paola—as part of their “activist” approach


\textsuperscript{246} These are: Austria, Belgium, Denmark, France, Italy, Germany, Luxembourg, the Netherlands, Poland, Portugal, and Spain.

to defense cooperation—launched the “European Global Strategy” process involving the input of national defense ministries, key international relations think tanks, and the European Parliament. The main promoters of the “European Global Strategy” are Italy, Poland, Spain, and Sweden. These states seek to produce a concrete framework for European defense and foreign policy to deal with the consequences of the Eurozone crisis but also to provide a long-term prospect of European policymaking in these areas. The consultation process is still ongoing in the various fora.

Italy has also deepened its military relationship with Israel. Italian and Israeli ministers of defense and high-ranking officers met in several summits over the course of 2012. These were accompanied by three military exercises involving air, land, and naval forces. Italy and Israel have also signed important defense contracts for several billion dollars. There exist indications that the armed forces of both countries are extending their ties in order to learn from each other’s’ experiences to increase the efficacy of training and operations.

Discussion

Although the Eurozone crisis impacted both Germany and Italy and both of these countries’ governments implemented fiscal stabilization measures, the magnitude of the effects varied drastically between the two. Germany did not enter a critical phase, and it largely maintained political, economic, and financial stability. Italy, on the other hand, required a change of government and drastic measures to

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248 Alessandro Marrone, telephone interview by author.

avoid witnessing an economic and financial collapse even more catastrophic than the one that occurred.

Regardless, in defense Germany and Italy could be considered two sides of the same coin. This coin, European defense and security ambition in force projection and market integration, is marked by governments with the tendency to decrease defense budgets even in times of relative economic prosperity. Once the Eurozone crisis began, this trend was amplified. Nonetheless, what the Eurozone crisis achieved was that it made both the German and Italian governments aware of certain inconsistencies in their defense planning, which led Germany to develop new Defence Policy Guidelines and Italy to issue the Legislative Decree for the Revision of the National Military Instrument. The third and fourth European powers initiated a series of programs aimed at making their armed forces more capable and financially sustainable, acknowledging the difficult need of balancing ambitions with necessities.

Germany and Italy chose to reduce the number of armed forces effectives, MoD civil servants, in-service equipment, and procurement programs following evaluations of the post-crisis situation, suggesting that the Eurozone crisis was indeed an important element in causing defense retrenchment. At the same time, the respective governments undertook export promotion measures to solidify the defense industrial base by providing it an alternative to national funding. Italian companies—confusing national regulations notwithstanding—were already directed at seeking exports as constant policy and not just one to be implemented in crisis. Germany, on the other hand, increased its governmental support for the defense industry abroad, coupling this approach with a pragmatic stance on using arms
exports as a foreign policy tool to reduce the number of areas where Germany might be asked to intervene.

Italy has earned a high reputation for its military capability, being able to maintain about 12,000 troops on international missions as compared to a maximum of 8,000 for Germany—with a budget much inferior to that of Berlin’s MoD. Yet it too had to withdraw its soldiers from foreign theaters following 2008 to decrease the substantial burden international missions had on the defense budget. Observing these behaviors by Germany and Italy, one finds clear evidence for a rejection of the Null Hypothesis (that crisis causes states to maintain or increase defense outlays) and substantial backing for important state retrenchment in defense expenditure, armed forces size and composition, and even foreign policy, indicating support for Hypothesis 1—that states in time of crisis will choose to reduce defense expenditures and undertake a number of other efficiency-building measures. Documents discussing governmental plans to improve the efficiency of the armed forces and rationalizing the national defense structure also back Hypothesis 1.

Similarly, Germany and Italy build on existing international cooperation frameworks to develop a policy response capable of uniting many states against the effects of the Eurozone crisis on defense spending. As with Britain and France, insufficient time has elapsed to be able to judge whether such collaborative measures will be adequately followed and effectively implemented. At the same time though, the increased efforts to establishing cooperation systems go to show that there is a

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251 Bundesministerium Der Verteidigung, Defence Policy Guidelines, 11.
growing desire on the part of European states to combine military and industrial resources in order to approach defense more effectively in a crisis environment.

The numerous bilateral initiatives, ranging from the establishment of active air transport coordination groups to letters of intent which prospect greater collaboration in defense industrial development, force interoperability, and equipment harmonization reveal an extensive attempt to begin to do things differently. Government officials of both states, notably in the foreign affairs and defense ministries, have been active proponents of greater European collaboration through various frameworks bringing together the most important continental states in the area of defense. It should also be noted that although many of these initiatives take place at the intergovernmental and multilateral level, their ultimate goal is to align European states on a number of defense issues to develop and strengthen EU defense policy and capabilities from the bottom up. These measures do not necessarily involve actual operation or procurement collaboration but serve mainly to reaffirm the states’ commitments to common security and defense cooperation. As such, they can be seen as the foundations on which future and more functional collaboration can be established.

Altogether, Germany and Italy bridged previous gaps of trust and will to commit to joint initiatives which would benefit not only the various ministries of defense’s bottom lines but also their capacity to field an effective defense and security mechanism for their country, both domestically and internationally. Furthermore, these two states expanded a number of multilateral frameworks in order to develop European defense cooperation with an eye for long-term outcomes. This evidence and explanation suggests that Hypothesis 2—that the Eurozone crisis
compelled states to seek greater cooperation in defense—is substantiated in the second case study as well.

Germany and Italy face similar issues: they are not considered first-rank powers, they bear the costs of recent professionalization, and are marked by defense policies which couple strong European and Atlanticist traditions with a legacy of opposition to militarism. However, what they seem to have in common with powers Britain and France is that they are also responding to the Eurozone crisis’ effects on defense in a way coherent with the model proposed in Chapter 2, lending consistent support to the theory and hypotheses developed in this thesis.
Chapter 5. Discussion

Overview

In this chapter I seek to extend the discussion to a number of factors which bridge all four countries and thus the case study groupings. The analysis will benefit from considering these additional factors in unity. The two principal issues that will be discussed in this chapter entail the nature of defense programs and policies as an obstacle to retrenchment and defense-sector cooperation. Following this, I will close the qualitative portion of this thesis with a final analysis and synthesis of the evidence presented in Chapters 3 and 4 in order to draw conclusive evaluations of the theory, case studies, and hypotheses.

The Trappings of Defense: “Sticky” Planning, Policy Options, and Domestic Retrenchment

The charts and information discussed in the two previous case study chapters describe defense planning across Britain, France, Germany, and Italy as an unequivocally long-term issue. This is due to the conspicuous size of defense budgets, the vast numbers of personnel employed by these countries’ respective ministries of defense, and the deep ramifications defense policy choices have on national security, the national defense industry, and international cooperation. In this sense, modifying significant elements of a nation’s defense policy and establishment present a challenge similar to that required to steer one of the massive battleships of yore: breaking the momentum and directing an enormous apparatus away from its current path is by no means a simple task. In modern defense planning, this difficulty
is due primarily to factors of vested interests, procurement program “stickiness,” the
difficulty of carrying out personnel reductions, and international commitment ties.

First, the vested interests present in defense are numerous and powerful. Each service in a given country is in competition for limited resources. Within services themselves, and this is highly evident in the British case with the regimental system, each unit battles to avoid being the one chosen for cuts. Outside of the armed forces politicians fiercely oppose the closure of bases located in their constituencies. A similar issue arises when politicians defend industrial programs taking place in their constituency in order to avoid job loss and the related electoral repercussions. At the same time, the defense industry will lobby the government to promote its interest.

Second, the medium and large defense procurement programs—which can last decades especially for projects such as combat jets, nuclear submarines, and aircraft carriers—pose a serious obstacle to defense budget reductions or recalibrations. These are “sticky” programs which may already have sunk costs in the billions, may be far from completion, and may entail tens of thousands of jobs and long-term contracts worth equal amounts in future equipment upgrades and maintenance.

Two examples can be drawn from Britain. The first is its Queen Elizabeth-class aircraft carrier program, projected to cost GBP 5.9 billion (bn) to build. Although it

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253 The British Army is structured around the so-called regimental system. Regiments form the key unit of this service and many are bodies dating back as several centuries. Each regiment maintains unique traditions and a distinctive culture. When the British government decided to reduce the size of the army a heated debate arose within the army and even in Parliament on which regiments would “get the axe.” The issue was intensely political, as each regiment maintained a web of political supporters and nationality questions regarding English, Scottish, Welsh, and Ghurka regiments arose, significantly complicating the decision for policymakers. See Thomas Harding, “Army at War over Axing of Battalions,” The Telegraph, July 2, 2012; and Nick Hopkins, “Army Cuts Revealed in Leak,” The Guardian, July 3, 2012.
was considering canceling this program as part of its 2010 *Strategic Defense and Security Review*, the British government decided to carry it to completion as it would have cost it nearly as much to not build the ships due to sunk costs and contractual penalties.\(^{254}\)

The second is the Nimrod MRA4 maritime reconnaissance aircraft, which the British government decided to abandon even though it had already spent GBP 3.6bn developing it. This happened because this program was seriously behind schedule and considered unnecessary for future defense needs, rendering unjustified any future spending on this project regardless of the initial sum committed.\(^{255}\)

Aside from these instances, the savings a government can obtain by cutting large defense programs may not always be significant, since there will either be reluctance to modify “flagship” projects or the cost-benefit analysis may not be positive given what has already been invested. Furthermore, in a time when many of the largest programs undertaken by Britain, France, Germany, and Italy are multinational, withdrawing from them would cause important backlash from a country’s principal allies, potentially jeopardizing future collaboration. Considering all of this, the possibility of immediate savings through program cuts may not be as simple as one might envision.

This relates directly to the third issue: although defense programs may be difficult to amend, personnel numbers—the other most significant line item for any ministry of defense (MoD)—may be equally difficult to reduce. Members of the armed forces and defense ministries’ civilian staff are, after all, government employees, and as such enjoy a number of protections. Although this is most evident

\(^{254}\) Guy Anderson, telephone interview by author, August 2, 2012.

in Italy, where firing or making redundant MoD employees is virtually impossible and personnel reductions thus have to happen “naturally” over a ten-year time span, even countries which implemented incentive schemes (together with more forceful measures) to reduce MoD effectives must phase their defense personnel down in periods which range between seven years (France and Germany) and ten years (Britain).

Fourth and final, international commitments—primarily missions abroad taking place in international frameworks—take a toll on every country’s defense budget. These cannot always be abandoned speedily due to the logic of alliances and the fixed timetables that may exist for international missions. France’s decision to withdraw from Afghanistan a year ahead of schedule (in 2013 rather than in 2014) upset other members of the North Atlantic Treaty Organization (NATO), who were disappointed at France’s choice and feared it could threaten achieving the mission’s objectives.

Each of these elements has the possibility of making defense retrenchment an arduous task. In light of this, the evidence presented in Chapters 3 and 4 gains all the more weight. None of the four countries observed increased defense spending, as the Null Hypothesis predict. In fact, even France and Germany—which for historical (France) and economic (Germany) reasons should be the least likely to do so—will decrease their defense expenditures due to the Eurozone crisis. While the former has always upheld the primacy of security over financial considerations, it is likely to revise its defense budget downwards as of 2013. Germany, which suffered

256 Michele Nones, telephone interview by author, December 18, 2012.
minimally—at least by comparison—from the Eurozone crisis, also joined the group of states curtailing their defense expenditures. The Null Hypothesis therefore finds no support in any of the cases considered, including those which may have been more likely to substantiate it.

The discussion so far provides clear evidence in favor of Hypothesis 1: that the Eurozone crisis has led Britain, France, Germany, and Italy to reduce their defense budgets. Within each of these cases, policymakers for the most part surmounted the obstacles discussed above, and decisions to reduce the number of forces and civilian employees, cut procurement programs, close bases, and withdraw from foreign commitments began to be carried out as early as 2010. These government and MoD decisions were not unhindered, and some caused powerful debates to take place among those affected and among the general public. Nonetheless, from official government documents in each of these countries (including what are the forecast provisions of France’s 2013 White Paper review) there was a clear will to reduce defense expenditure and to carry out important reforms on a number of areas (visible in Table 5.1) as a response to the financial pressures the Eurozone crisis had brought to bear on the national financial and economic situation.
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<thead>
<tr>
<th>Country</th>
<th>Hypothesis Evidence</th>
<th>Program Revisions</th>
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<tbody>
<tr>
<td>Britain</td>
<td>Reduce size of each service by 2020</td>
<td>Reduce defense budget by 8% by 2014, Negotiate/rescind up to 900 contracts;</td>
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<td></td>
<td>Cut over one-third of staff between 2010 and 2020</td>
<td>eliminate Nimrod program; sell some of purchased Eurofighter Typhoons</td>
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<td></td>
<td>Reductions in heavy equipment across all three services</td>
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<td></td>
<td>Closure of numerous bases; MoD rationalization in</td>
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<td></td>
<td>procurement and other functions</td>
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<td></td>
<td>Budget cuts</td>
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<tr>
<td></td>
<td>Program revisions</td>
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<tr>
<td>France</td>
<td>Finalize professionalization by reducing size of each</td>
<td>Most programs continued as planned;</td>
</tr>
<tr>
<td></td>
<td>service by 2015 (pre-crisis)</td>
<td>some upgrade programs delayed for lack of funds</td>
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<tr>
<td></td>
<td>Reduce MoD staff by 7,500 between 2008 and 2015 (pre-</td>
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<td></td>
<td>crisis)</td>
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<td></td>
<td>Reduce stocks of old equipment and systems (pre-crisis)</td>
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<td></td>
<td>Extensive consolidation of base structure (pre-crisis)</td>
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<td></td>
<td>Defense budget maintained roughly as planned in 2008;</td>
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<td></td>
<td>expected cuts starting in 2013</td>
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<td></td>
<td>Important cuts in at least six key programs; negotiations</td>
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<td></td>
<td>with industry to achieve order reductions</td>
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<tr>
<td>Germany</td>
<td>Conscription suspended; size of armed forces to be</td>
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<tr>
<td></td>
<td>reduced from 222,000 to 185,000 by 2018</td>
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<tr>
<td></td>
<td>Reduce staff by over one-fourth between 2011 and 2018</td>
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<td></td>
<td>Reduce equipment in line with personnel cuts</td>
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<td></td>
<td>Restructuring of MoD organization; base rationalization</td>
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<tr>
<td></td>
<td>Cut EUR 8.3bn by 2016</td>
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<tr>
<td>Italy</td>
<td>Abandon Model 190,000 and achieve Model 150,000 by 2024;</td>
<td>Cuts to MoD budget starting in 2012 and to supplementary funds from other</td>
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<td></td>
<td>improve officer-subordinate ratio</td>
<td>ministries</td>
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<tr>
<td></td>
<td>Cut staff by a third between 2012 and 2018</td>
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<td></td>
<td>Withdraw stocks of old equipment; reduce land, air, and</td>
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<td></td>
<td>naval units</td>
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<td></td>
<td>Achieve adequate personnel-O&amp;M-investment balance in</td>
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<td></td>
<td>budget; close unneeded bases and sell unneeded assets</td>
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<tr>
<td></td>
<td>Cuts to MoD budget starting in 2012 and to supplementary</td>
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<tr>
<td></td>
<td>funds from other ministries</td>
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<tr>
<td></td>
<td>Reduce number of Joint Strike Fighters (JSF) from 131 to</td>
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</tr>
<tr>
<td></td>
<td>90; potential cut to FREMM program</td>
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Multiple Levels of Cooperation: The Industry Driving Factor

If most of the defense cooperation discussed so far has been the work of governments, it is also important to note the role of the defense industry itself in encouraging international collaboration in this sector. Although different companies may be in competition with one another, they also have a significant interest in fostering ties which facilitate a certain degree of complementarity and mutual benefit.

Following the end of the Cold War, the shrinking of defense budgets and programs led the European defense market to consolidate at the national level. However, most experts and analysts deem the current level of European defense industry consolidation to be insufficient and have emphasized this as a primary objective for the European defense industry to ensure its continued survival and success. This issue varies across industry branch, and although it is recognized that some degree of competition is desirable in having multiple bids and incentives for excellence, the degree to which this exists in Europe may be more harmful than positive, especially since European governments will favor the projects developed in or which bring jobs and other advantages to their country.

258 Sophie C. Brune et al., Restructuring Europe’s Armed Forces in Times of Austerity: The United Kingdom, France, Germany and Poland, working paper, FG3-WP No. 8 (Berlin: Stiftung Wissenschaft Und Politik, November 2010), 10.
260 Currently, the European defense market is smaller than that of the U.S. Yet there are many more companies operating within it providing similar products in competition with one another. A notable example is that of the combat jet sector, where three separate aircraft were developed in Europe since the 1980s for a comparatively small number of orders (again, in relation to the U.S. market). These aircraft are now competing for export bids against one another in what could be seen as a fratricidal struggle between European manufacturers. On consolidation, see Bastian Giegerich, “Budget Crunch: Implications for European Defence,” Survival 52, no. 4 (2010); on European defense export competition, see Jean-Dominique Merchet, “L’Eurofighter Aux Émirats : Cachoteries Anglaises... (actualisé),” Marianne, November 16, 2011; Jean-Dominique Merchet, “Rafale : Le Brésil Préfèrerait Le F-18 (actualisé-2),” Marianne, February 8, 2011; and Jean-Dominique Merchet, “En Suisse, Les Militaires Considèrent Que Le Gripen Est Incapable De Remplir Les Missions Prévues,” Marianne, February 12, 2012.
To this end, the most interesting development has been the prospect of a merger between BAE Systems (BAE) and the European Aeronautic Defence and Space Company (EADS). The reason for the merger was the desire by BAE and EADS to address what each saw as a weakness in its activity focus, as highlighted by the Eurozone crisis: it would have combined EADS’s strength in the civilian aerospace sector (together with significant defense activities) with BAE’s strong focus on defense.\(^{261}\) \(^{262}\) News of merger plans emerged in September 2012. This caused extensive talks among the companies’ executives, but also among representatives of Britain, France, and Germany, the three countries with the greatest stake in the companies. However, due to regulatory and timing issues and uncertainties on part of the involved governments on the validity of the deal, BAE and EADS announced that the merger would not be carried out.

The German government was especially reluctant to give its approval, fearing that the new company would have chosen to close some facilities in Germany, leading to considerable job loss. The British government was largely favorable to the deal (notwithstanding certain conditions on corporate structure and management). The stance of the French government was unclear, although it appears that it had

\(^{261}\) In 2011, EADS’s revenue was USD 68.3bn, of which USD 16.4bn (24%) came from defense activities; for BAE Systems, the sums were USD 30.7bn in revenue and USD 29.2bn (95%) in defense revenue. This discussion does not include BAE Systems Inc., BAE’s U.S. subsidiary, as there is insufficient information on how the merger would have affected it. See “The SIPRI Top 100 Arms-producing and Military Services Companies in the World excluding China, 2011,” Stockholm International Peace Research Institute.

\(^{262}\) EADS’s civilian aircraft business was languishing when the Eurozone crisis began, while BAE business was the object of concern starting in 2011 with fears that U.S. defense budget cuts could threaten the company’s revenue. Such a deal would thus have significantly increased the new entity’s ability to withstand difficult economic conditions in one or the other of its business areas, effectively isolating the core of the European defense industry from most external shocks. This also hinges on the defense market being countercyclical, meaning that it generally performs better when other sectors of the economy perform worse. For more information, see Loren Thompson, “Five Reasons The Defense Industry Is Still A Better Investment Than Other Sectors,” *Forbes*, September 10, 2012. See also Jean-Dominique Merchet, “Fusion EADS/BAE. Dans La Corbeille De La Mariée...,” *Marianne*, October 4, 2012.
set a number of conditions which, if fulfilled, would have assured its support.263 Ultimately, although there is the possibility that BAE and EADS will attempt a merger again in the future, government obstructionism has stifled a development which would have brought a significant change to the European defense industry.

A parallel initiative was engagement between the Federation of Italian Companies for Aerospace, Defence and Security (Federazione Aziende Italiane per l’Aerospazio, la Difesa e la Sicurezza, or AIAD) and the Federal Association of the German Security and Defence Industry (Bundesverband der Deutschen Sicherheits- und Verteidigungsindustrie, or BDSV) for industrial cooperation between the affiliates of the two groups.264 While this would not entail consolidation per se, it would promote greater cooperation and coordination in research and product development across the German and Italian defense industries. It was under the leadership of these two organizations that the German-Italian intergovernmental agreement for defense industry collaboration discussed in Chapter 4 took place in 2011.265

As such, it was a case of the relevant private sector actors taking the initiative to compensate for absent government will to carry forward programs in defense industry cooperation. Once the AIAD and BDSV had laid the framework, however, the German and Italian governments were eager to formalize such partnership. The AIAD, BDSV, and national governments may also have been driven by the concern that Britain and France would leave Germany and Italy behind through the Lancaster

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264 It should be noted that defense industry associations and defense industry firms have different objectives and incentives than governments (i.e. maximizing revenue versus providing security). However, even though they act for different motives, at times the action chosen is the same for both parties and in these cases their decisions can align.

House treaty, and thus signaled their intent to remain high-level players and potential partners in wider European defense cooperation.

This indicates that governments do not have to be the exclusive drivers of international defense cooperation. A lot of responsibility lies on defense firms to cooperate in ways that are advantageous to their business and which provide states with the products they seek, benefiting all those involved. The BAE-EADS case highlights that governments do still maintain a strong authority on what defense firms can and cannot do; as discussed in Chapter 3, the defense industry is atypical as governments are its customers, sponsors, and regulators. It is unlikely that in the future defense firms will be left free to act without the current constraints, as companies in other sectors might be able to. However, that is not an obstacle to their being proactive in working with each other and with governments to achieve optimal outcomes across national divides, as the AIAD-BDSV case and ensuing German-Italian agreement indicate.

**Governments, the Defense Industry, and Collaborative Retrenchment**

Britain and France set the tone of what collaborative defense programs could amount to with the 2010 Lancaster House treaty. Although this was a bilateral treaty, it shows that it may be possible to encourage other countries to enhance their defense by excluding them and therefore making them seek to become players capable of joining such frameworks. This is apparent in the Lancaster House treaty potentially incentivizing the German-Italian agreement, indicating that cooperation does not have to progress exclusively through multilateral agreements but that it can also be driven by clusters of cooperation and what could be called an example effect.
Bilateral agreements leave countries more freedom to work together in a much more tailored way; they allow states to pick partners with similar interests and capabilities, increasing the likelihood that the partnership will function from the start. Based on the evidence presented in Chapters 3 and 4, this appears to be the path Britain, France, Germany, and Italy have taken. They have increased cooperation not only with each other but also with a set of other states, both in Europe and outside of it. At the same time, they have extended their participation in several multilateral initiatives, although these have largely taken the form of collaborative procurement programs\textsuperscript{266} or attempts to increase intra-European pooling and sharing partnerships such as the Ghent Initiative, the European Air Transport Command (EATC), and the European Air Transport Fleet (EATF).

In all countries discussed, this has been complemented by strong defense export promotion by the national governments. This policy has been adopted both to sustain the domestic industry in light of decreasing defense budgets and government procurement and to create lasting ties with partner countries in a number of sensitive areas in the world. On other occasions, it has been the defense industry that led governments to form agreements, highlighting that an analysis of defense cooperation should not limit itself to the state level but must necessarily consider the defense industrial element as well.

In terms of fostering interoperability and greater compatibility between each country’s respective armed forces we see fewer developments than might be

\textsuperscript{266} Although the majority of current collaborative procurement programs began before the Eurozone crisis, they remain an established and valid framework for European states to take advantage of in defense planning in times of economic downturn. Within the limits of current budgetary constraints, Britain, France, Germany, and Italy nonetheless appear to be seeking similar projects in a number of areas, aware of the fact that this is the most effective way for them to preserve or develop capabilities they are not singlehandedly capable of affording.
expected. Although the British government decided to fit its aircraft carriers under construction with launch catapults and arrestor cables, the plan was canceled as the cost of this modification rose. This will exclude the possibility of non-Short Take-Off Vertical Landing jets belonging to allied countries (such as France) from conducting operations from the British carriers.\textsuperscript{267} Disagreements between Britain and France led to the failure of talks regarding French use of British tanker aircraft. Similarly, until today even weapons systems jointly developed by various states cannot be used but by the armed forces that have purchased the equipment. For example, even though the British, German, Italian, and Spanish air forces fly the Eurofighter Typhoon, Italian pilots are generally not able to fly the German version and Spanish mechanics are not able to repair the Britain’s Eurofighters due to differences in specifications for each national model.\textsuperscript{268} This leads to increased maintenance costs (since each country needs specific spare parts) and to operational disadvantages, since there is much less interoperability than what would be possible. The JSF (to be operated by Britain and Italy, among others) would overcome this issue, since the aircraft and its spare parts are virtually identical across all national versions.

As visible in Table 5.2, Britain, France, Germany, and Italy have all undertaken important measures in terms of promoting defense collaboration following the Eurozone crisis. These have focused on the areas detailed above, with greater success in some than in others.

\textsuperscript{267} Operation of British, Italian, or U.S. STOVL aircraft from each other’s carriers remains possible, at least at the hypothetical level.

**Table 5.2: Evidence for Hypothesis 2 in Britain, France, Germany, and Italy**

<table>
<thead>
<tr>
<th>Country</th>
<th>Establish defense cooperation with other states</th>
<th>Promote collaborative procurement</th>
<th>Promote interoperability</th>
<th>Export promotion</th>
<th>Industry-level cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Britain</td>
<td>Strengthening defense relations with Gulf states; party to Lancaster House treaty with France</td>
<td>Participates in Eurofighter Typhoon, A400M, and other European collaborative programs; first level partner of JSF program with U.S.</td>
<td>Failure to have aircraft carriers interoperable with allies; disagreement with France on tanker aircraft sharing</td>
<td>Growing, post-crisis support for defense exports by government partially based on French model</td>
<td>BAE actively sought merger with EADS; government largely supportive of BAE-EADS merger; industry expanded in U.S. to take advantage of market</td>
</tr>
<tr>
<td>France</td>
<td>Set up military base in Abu Dhabi; party to Lancaster House treaty with Britain; attempting to establish stronger collaboration with Germany; nominated foreign experts to sit on 2013 White Paper commission</td>
<td>Not part of European combat aircraft programs; participates in A400M, FREMM, and other European projects</td>
<td>Attempted to share British tanker aircraft but deal failed due to cost reasons; member of EATC and EATF</td>
<td>Historically strong; export-focused industry; continued government dedication to marketing French armaments abroad</td>
<td>EADS (partially French-owned) engaged BAE to consolidate firms; French government conditionally supportive</td>
</tr>
<tr>
<td>Germany</td>
<td>Promotes defense exports to Persian Gulf states to strengthen them as independent actors; attempting to establish stronger cooperation frameworks with France, Italy, Netherlands, Poland, and Sweden, among others</td>
<td>Participates in Eurofighter Typhoon, A400M, and other European programs; partners with Italy on submarine construction</td>
<td>Participate in EATC and EATF pooling and sharing initiatives; sharing new transport aircraft with the Netherlands</td>
<td>Third global export of armaments; increasing post-crisis government support both through intergovernmental agreements and domestic regulation reform</td>
<td>EADS (partially German-owned) sought to merge with BAE; German government main obstacle to deal; AIAD-BDSV agreement led to greater intergovernmental cooperation</td>
</tr>
<tr>
<td>Italy</td>
<td>Extending collaboration with Germany; developing ties with Israel in defense industry and planning</td>
<td>Participates in Eurofighter Typhoon, FREMM, and other European programs; second level partner of JSF program with U.S.; partners with Germany on submarine construction</td>
<td>Developing close working relationship with Israel; partner of EATF initiative</td>
<td>Strong focus towards markets outside of EU and NATO; some precedents of government support, but seemingly little throughout crisis; problem with harmonization of</td>
<td>AIAD-BDSV engagement spearheaded German-Italian cooperation; defense industry collaboration with Israeli firms; industry expansion in U.S. to take advantage of market (pre-crisis)</td>
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<td></td>
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<td>domestic regulations with EU ones; secured good deal for industry with JSF facility in Italy</td>
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Following Hypothesis 2, in response to the Eurozone crisis Britain, France, Germany, and Italy were expected to increase defense cooperation with partner states along various dimensions, ranging from promoting collaborative procurement to establishing greater operational ties. Hypothesis 2 receives support in all of the cases considered. Hence, even though state response to the Eurozone crisis in the defense sector was fragmented—each state responded individually—within this fragmentation, states consistently sought collaboration with each other to address the issues that arose during this period.

Every indicator, with the exception of interoperability promotion, supports Hypothesis 2. A possible explanation may be that these four countries, though eager to establish strong industrial and defense ties with other partners, may still be reluctant to expend resources and sacrifice some sovereignty in order to achieve higher compatibility between their armed forces and those of their allies. The German government was driven by similar protectionist concerns in its objections to the BAE-EADS merger. This indicates that although defense sector cooperation expanded in numerous areas in Europe following the onset of the Eurozone crisis, there remain issues in which different countries are loathe to engage.

Hence, even though the overall evidence presented offers less support to Hypothesis 2 than to Hypothesis 1, it is still possible to conclude that the model of collective action in defense is substantiated by what occurred in the evaluated case studies. Altogether, there is sufficient backing for the model as a whole, which suggests that states responding to budgetary pressures that choose to reduce their defense budgets—in other words, to retrench—will attempt to do so in collaboration with other states in order to compensate for the loss in capability the cuts may entail.
States (and the defense industry) will seek to extend existing ties or to develop novel ones with old and new partners alike, ultimately emphasizing the critical driving role an economic crisis might have on state behavior in defense policy and the potential of cooperation in addressing this pressure in an optimal way.
Conclusion

Evaluating the Model of Collective Action and State Retrenchment

Power transition theory, retrenchment theory, and collective action theory provide an extensive explanatory and predictive framework for state behavior. Each was developed in a particular domain: the first is international relations, the second is domestic politics, and the third is organizational planning. The predictions of power transition theory are contrary to those of retrenchment theory: the former argues that states will respond to relative decline by committing more resources to slow down their decline, while the latter posits that states should instead seek to overcome decline by conserving resources and expending them only where truly necessary. Similarly, retrenchment theory, originally employed for analysis at the level of single states, differs from collective action theory in that the latter seeks to understand the strategies of multiple actors, be they individuals or states.

Therefore, by coupling retrenchment theory and collective action theory, it becomes possible to create a model that analyzes both what states do domestically and how these decisions relate to the choices of other states. The model I develop does just this. It creates a framework in which an interconnected group of actors—in this case, states—in a multinational alliance can contribute varying amounts to obtain a common good, such as security. Depending on each state’s contribution and a fixed output factor—a figure which determines how efficiently the contributed resources are utilized—each state will receive a different benefit from this common good. The model hinges on the notion that it is possible for states in an alliance to decrease their individual contributions to the common good, but by increasing the
output factor through collaboration and internal efficiency measures they are actually capable of maintaining the common good provided at equal if not potentially higher levels.

In the introduction, I describe the current state of relative decline of Britain, France, Germany, and Italy (EU-4). I also provide a discussion of the origins and development of the Eurozone crisis as an issue EU-4 states must resolve both at the individual level and at the collective level. The two case study chapters and the discussion chapter then evaluate how well EU-4 state response to the Eurozone crisis in the defense sector corresponded to what my model posits. Altogether, although EU-4 states differ significantly from each other in history, defense culture, economic and military power, and modern defense policy (the differences are more evident across than within the Britain-France and Germany-Italy groupings), they have each taken similar paths in response to the Eurozone crisis. Although each country differs in the timing and magnitude of the defense budgetary policies it adopted, there nonetheless remains a common thread of decreasing defense expenditure, reducing the size of the armed forces, reorganizing various components of the defense establishment, and working with the defense industry to improve procurement effectiveness.

The Eurozone crisis struck Britain’s government deficits particularly hard, increasing national debt importantly over a brief period of time. Concurrently, the British Ministry of Defense (MoD) discovered that previous administrations had committed to programs for which there was not enough funding in the budget. As part of its general government reorganization, the British government thus ordered a wide-ranging defense review. Even though this document—and subsequent ones—
was not exempt from strong criticism, the MoD proceeded to implement the revision on force numbers and equipment stocks. At the same time, the British government engaged in support of the defense industry’s exports abroad. The key event, however, was the 2010 Lancaster House treaty with France, which set a framework for extensive cooperation in different areas, a measure aimed at strengthening a partnership that will be critical for Britain not just in terms of capability but also in terms of defense’s financial sustainability.

By contrast, although France did suffer from the effects of the Eurozone crisis, it escaped the negative peaks which impacted Britain. This permitted the French government to opt for a policy of continuity in defense planning and spending, maintaining the direction set with the last (pre-crisis) review of 2008. As the Eurozone crisis engulfed the European Union (EU) though, the French government also chose to revise key national budgetary items to improve national finances. Another review is currently being formulated which is expected to take France on a course closer to that of its European peers, namely to decrease the defense budget and take additional personnel and equipment measures. France performed a policy of external balancing in collaboration with other states and in promoting defense exports, at times in continuity with its traditional policies and at times setting a new course. As for Britain, the Lancaster House treaty set a benchmark in defense sector cooperation, establishing a trajectory that—if followed consistently—would significantly benefit both parties in the current and future European economic situation.

Germany sets itself apart from the other three countries considered by being the one state which navigated the worse phases of the Eurozone crisis with minimal
impact on a series of key indicators. Germany too chose to retrench, yet it did so while trying to align its defense policy to the standards its allies expected of it. Germany placed more emphasis on being able to participate on foreign military interventions, although it did so paradoxically arguing that this objective and consolidating national finances would both have priority in defense planning.\(^{269}\) It remains to be seen what line Germany will tread in this regard. The German government was decidedly activist in promoting defense exports, also framing such a policy with notions of international security cooperation. In addition to this, it argued in favor of expanding existing European pooling and sharing initiatives and developed a number of bilateral partnerships with other European states.

Finally, Italy was the most negatively affected country of the quartet, reaching a crisis point unlike that of any other. Italy thus found itself on the verge of disastrous outcomes both in its economy and finances and in its defense, where an outdated model had caused deep structural problems which threatened the viability of its armed forces and defense policies. The Italian government included defense budget cuts in its broader austerity policies while at the same time pressing forward guidelines on how Italian defense should be reformed to make it sustainable and effective in the future. The Italian government spent considerable effort in promoting numerous bilateral and multilateral collaboration initiatives to strengthen EU foreign and defense policy capabilities as well as to strengthen ties with other regional partners. That this took place during and following the most critical phase of the sovereign debt crisis lends additional support to the notion that greater cooperation was seen as a key strategy in defense retrenchment.

\(^{269}\) This aspiration by Germany remains a policy statement and has not yet been implemented.
Again, even considering all of the differences which existed between EU-4 states before the onset of the Eurozone crisis, most notably the different strategic postures of the various countries and the fact that Britain is not a member of the euro currency area, these four states responded to the Eurozone crisis in a manner consistent to what my model suggests. Although defense expenditure declined—or is projected to decline—in each state, Britain, France, Germany, and Italy each sought to remedy the consequent potential loss in means and capabilities by working with each other and with other partners to offset individual losses of power. There was a focus on cooperative programs, some degree of pooling and sharing, extensive export promotion, and the formation of defense and security ties to complement where states were being forced to sacrifice capabilities. Furthermore, there was an important internal reorganization of the defense establishment to make it more efficient.

This evidence supports the idea that reduced defense expenditures and capabilities can be offset by increasing an output factor to continue providing the common good at levels acceptable to all, considering both costs and benefits. It is a sensible strategy for EU-4 states to take to address their relative decline in the international system. Although it is far too early to determine whether this effort is successful or not, it is fair to say that the coherence of the theoretical model with the evidence discussed indicates that there is at least some possibility that the strategy of collaborative retrenchment will be successful.²⁷⁰

²⁷⁰The future of the current collaboration initiatives also depends on political changes taking place in Europe. Italy held elections for a new government in late February 2013, and the results have produced a complicated situation with much uncertainty on what party will lead the country. Germany will likewise have elections in September 2013, and changes in government or in the balance of political forces may result in different defense policies. Lastly, Britain seems to keep moving away from the European Union, especially after Prime Minister David Cameron’s January 23, 2013 “The
Future Directions of Study

Due to the number of countries and issues covered by this thesis, it was necessary for me to limit my analysis to the intergovernmental aspect of collaborative defense retrenchment. There are a number of intergovernmental organizations which are necessarily also involved in this process. These include, among others, the European Union, European Defence Agency (EDA) and the North Atlantic Treaty Organization (NATO). They play an important role in European defense planning and coordination. However, as I did not have the opportunity to cover them to the extent that would have been necessary, I included them in the discussion only when absolutely essential.

In the interviews I conducted, defense experts and analysts discussed varying perspectives on how the future of the EDA, EU, and NATO will be critical to Europe’s position in the future international system. The role of the U.S. in European defense is a further question deeply connected to this issue. Additional research should discuss the relationship of intergovernmental organizations and defense retrenchment, including whether these organizations are complementary, whether they are redundant and exclude each other, and relatedly what the American strategy for Europe will be.

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271 Future of the European Union and the United Kingdom’s Role Within It” speech. British elections in 2015 may be crucial in determining the future of the EU-Britain relationship. France is largely exempt from these worries as it held presidential elections in May 2012.

272 The discussion of future American engagement in European affairs hinges above all on its “pivot” eastwards towards Asia and the Pacific Ocean and what this will mean for Europe.
A further direction for future research would be in part economic and in part related to defense output in states impacted by the Eurozone crisis. I mentioned in Chapter 5 how defense planning may be complicated by large, long-term, “sticky” procurement programs. An additional issue raised by some interviewees was that these large programs also crowd out smaller projects, committing numerous resources to developing a capability that may not be the most necessary at a given point.\footnote{Lawrence Freedman, interview by author, July 18, 2012; John Louth, interview by author, July 29, 2012; Vincenzo Camporini, e-mail interview by author, January 8, 2013; Guy Anderson, telephone interview by author, August 2, 2012.} If urgency requires a different program to be established, the funds consumed by the larger program would make it difficult for this to take place, complicating defense planning and decision-making. At the same time, large programs and complicated weapons systems grant states authority and leverage within alliances and coalitions, meaning that large programs and their products also serve a role in alliance politics besides their principal one in operations.\footnote{Vincenzo Camporini, e-mail interview by author.} As experts are divided on this question as well, elucidation may assist policymakers in their work.

Related to this point is the debate concerning the future of European defense capabilities. When planning budget cuts, officials often had to address the dilemma of intervening on the spectrum or on the depth of the national armed forces. In other words, given the impossibility of committing to every single desired or necessary capability, defense planners must choose to fund either armed forces with less capabilities in more areas (more spectrum, less depth), or with more capabilities in less areas (less spectrum, more depth).\footnote{Senior German Researcher, telephone interview by author.} Paraphrasing General Vincenzo
Camporini, as no European country can have all the defense capabilities it requires, cooperation becomes essential. Some have called on each country to specialize in one given capability, with international missions structured so that each state would contribute its specialty in a complementary manner. However, this raises questions of sovereignty and dependence on other states, meaning that in the present it remains an option few states—especially leading ones—are willing to entertain.

Considerations on national specialization and the spectrum-depth balance lead directly to the critical discussion of what future European capabilities will be. Given the present cuts to personnel and equipment numbers and budgets, interventions such as the Gulf War of 1991, Operation Enduring Freedom in Afghanistan in 2001, and the Iraq War of 2003 may become virtually impossible for European states. At the very least, European defense may suffer capability loss in the medium term; Professor Trevor Taylor, head of the Defence, Industries, and Society program at the Royal United Services Institute, stated as much saying that the “United Kingdom will not have a coherent defense until 2020.” The situation may not be too different for France, Germany, and Italy, depending on how long the Eurozone crisis persists, what additional measures will be taken regarding the defense budget, and how effectively current revision plans will be implemented.

The key capabilities most analyses focus on is projection and so-called deployability—what fraction of the armed forces can be employed in foreign missions, for how long, how far, and for what type of operations. Whereas international clout does not solely come in the form of military power, this element

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276 Vincenzo Camporini, e-mail interview by author.
278 Trevor Taylor, interview by author, July 26, 2012.
has been a policy tool used often by Western states to conduct security-related missions abroad. If Europe—following the defense cuts in its four most prominent states—will no longer be able to make a significant contribution to international peace and security through its armed forces, it may have to either reevaluate its role in the world or seek alternative methods to carry out its foreign policy. Consequently, future research on European global military influence and the effectiveness of its remaining capabilities must be coupled with analyses of what might constitute substitute policies. An example would be to see how non-military foreign development aid has been impacted by the Eurozone crisis and whether European states may be trying to concentrate their resources on shaping the international environment through this tool rather than through armed intervention.

Similarly, this thesis did not cover the role of military-status police in defense and in international missions. France and Italy both have a sizeable military-status police force—the Gendarmerie and the Carabinieri. It would be interesting and certainly relevant to incorporate these forces in future scholarly work on the effects of the Eurozone crisis on European defense budgets and policy.

Lastly, on the industrial side, the development of the European defense industry will be a crucial factor that will relate to budgets, authority, and capabilities in the years to come. Important questions, such as whether the industry will consolidate further, whether it will be able to preserve all of its technological know-how, and whether it will grow to operate in other regions of the world (or alternatively shrink to irrelevance with the rise of Chinese, Indian, and Russian competitors) should be answered in future attempts to address the issues inherent in European defense following the Eurozone crisis.
Final Considerations

Research in the aforementioned areas should develop a tailored theoretical framework to the questions it will address. The current thesis has expanded an understanding of retrenchment and collective action theory in an international framework through a regional lens. It has elaborated a model which finds corroboration in evidence from the relevant case studies. It found that the leading four European states, in all their differences, responded to the Eurozone crisis and their relative decline not by increasing defense spending but by actually curtailing it while seeking opportunities for collaboration with each other and with other states across the world.

One of the principal challenges that the Eurozone crisis and the current international security situation presented to Britain, France, Germany, and Italy was planning for uncertainty with scarce resources.279 Instability at Europe’s frontiers, highlighted by the Arab Spring, and political turmoil in Russia and other former Soviet states is a constant reminder that Europeans still live in a part of the world where the unexpected occurs more often than planners would like and where defense and security remain key policy areas for states. On a more global scale, the growing power of Brazil, China, and India—among others—reiterates the notion that we no longer live in an era dominated economically and militarily by the Old Continent (or by the United States).

In dealing with this uncertainty, with the changing international system, and with critical events such as the Eurozone crisis, European states cannot act alone to

279 Senior German Researcher, telephone interview by author.
achieve defense and security. Taking a road of assumed independence may appear to be the easiest choice, but it can also be the one with the worse outcomes. What this thesis has shown is that states can reconcile national aspirations and sovereignty and achieving savings by cutting their defense budgets with collaborative measures that exploit comparative advantages and the efficiencies derived from expanding scale in order to provide the desired security benefit for both themselves and their partners. Cooperation may not be easy to establish and maintain, and interstate trust remains a matter of debate for international relations scholars. Nonetheless, by joining their efforts and acknowledging mutual interests, even in dire economic and financial times, states can retrench knowing that they will not be sacrificing their power and capabilities in an absolute way. In fact, if states do it properly, they will find out that, ultimately, cooperation pays.
Appendix A: List of Interviewees


Professor Sir Lawrence Freedman. Professor of War Studies and Vice-Principal; King’s College London, London, United Kingdom. July 18, 2012.


Professor Michael Clarke. Director General; Royal United Services Institute, London, United Kingdom. August 7, 2012.

Professor Michele Nones. *Area Director, Security and Defense Program (Direttore d’area, Programma sicurezza e difesa)*; Istituto Affari Internazionali, Rome, Italy. December 18, 2012.


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