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The Implications of Military Spending Cuts for NATO's Largest Members

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INTRODUCTION

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There have long been debates about the sustainability of the transatlantic alliance and accusations amongst allies of unequal contributions to burden-sharing. But since countries on both sides of the Atlantic have begun introducing new – and often major – military spending cuts in response to the economic crisis, concerns about the future of transatlantic defense cooperation have become more pronounced.

A growing number of senior officials are now publicly questioning the future of NATO. In June 2011, in the midst of NATO's operation in Libya, Robert Gates, then US Defense Secretary, stated that Europe faced the prospect of "collective military irrelevance" and that unless the continent stemmed the deterioration of its armed forces, NATO faced a "dim, if not dismal future".¹ Ivo Daalder, the US Permanent Representative to NATO, and James Stavridis, NATO's Supreme Allied Commander Europe, have argued that "if defense spending continues to decline, NATO may not be able to replicate its success in Libya in another decade".² The alliance's Secretary General, Anders Fogh

Rasmussen, has warned that "if European defense spending cuts continue, Europe's ability to be a stabilizing force even in its neighborhood will rapidly disappear".³ While Norwegian Defense Minister Espen Barth Eide has claimed that "exercises have shown that NATO's ability to conduct conventional military operations has markedly declined. [...] Not only is NATO's ability to defend its member states questionable, it might actually deteriorate further as financial pressures in Europe and the US force cuts in military spending".⁴

In order to explore the validity of these claims, this report outlines trends in military spending across the EU since the onset of the economic crisis. It then analyzes the fallout of the downturn for the armed forces of NATO's largest defense spenders – France, Germany, the United Kingdom and the United States.

As all the articles in the report highlight, the economic crisis is having a significant – and detrimental – impact on allied armed forces. Christian Mölling observes that the

¹ Robert Gates, speech on 'The Future of NATO', Brussels, 10 June 2011.

² Ivo Daalder and James Stavridis, 'NATO's Victory in Libya', *Foreign Affairs* 91: 2, 2012.

³ Anders Fogh Rasmussen, 'The Atlantic Alliance in Austere Times', *Foreign Affairs* 90: 4, 2011.

⁴ George Perkovich, Malcolm Chalmers, Steven Pifer, Paul Schulte and Jaclyn Tandler, 'Looking beyond the Chicago Summit', *The Carnegie Papers*, April 2012.

majority of middle-sized EU countries have introduced military spending cuts of 10 to 15 percent on average. And several of the smaller EU member states have reduced their defense spending by more than 20 percent, leading to the loss of entire military capabilities. According to Andrew Dorman, although the United Kingdom has officially cut its defense budget by 7.5 percent over four years, in reality the reduction is nearly 25 percent. As a result, amongst its significant equipment cuts, Britain is giving up the ability to fly planes off aircraft carriers for a decade. As discussed by Bastian Giegerich, the German government is planning numerous cuts within its military arsenal. These include reselling 13 A400M transport aircraft, even though Germany is likely to have to pay significant indemnities to its partners in the A400M program. France is the only big European country which has so far largely shielded its defense budget from the financial crisis. But as Camille Grand explains, significant military spending cuts are expected in the aftermath of the 2012 presidential and legislative elections. While Adam Grissom's article suggests that on current trends the US federal debt-to-GDP ratio will grow to an unsupportable 187 percent by 2035. This could force a reduction in American defense spending to 2.8 percent of GDP over the coming decade.

The various articles highlight at least some positive developments in the midst of the economic downturn. As Mölling points out, Poland and Sweden have actually

increased their defense budgets since the onset of the crisis. According to Dorman, Britain's withdrawal from Iraq and Afghanistan will at least allow its armed forces to restore their initial response capability to global crises. Giegerich explains how Germany is taking advantage of its spending cuts to reform its military into a smaller but more capable all-volunteer force. As Grand highlights, France has so far avoided cancelling any large acquisitions programs. Grissom suggests, however, that the ongoing modifications of America's military posture in Europe could improve the alignment of US and European armed forces.

Nevertheless, the articles stress that current military spending trends are reducing the ability of most NATO allies to contribute to international security. Mölling argues that the smaller European countries will increasingly struggle to deploy troops in NATO operations. Dorman highlights that the largest military deployment Britain will be able to sustain will be one-third smaller than the force it deployed to Iraq in 2003. Giegerich explains that in order to maintain the broadest spectrum of military capabilities possible, Germany is scaling back its ability to sustain simultaneous and long-term operations. According to Grand, the French Army, Navy and Air Force are warning that they are already so stretched they will not be able to meet their operational commitments if significant spending cuts are introduced. Moreover Grissom suggests that America's fiscal constraints might force it at least to review

some of its overseas commitments.

Several of the authors stress the need for Europeans to strengthen the level of cooperation amongst their armed forces in order to limit the impact of the ongoing spending cuts – even though it might affect their sovereignty. However, as Mölling highlights, although governments have rhetorically embraced the need for closer military cooperation within NATO, the EU and at a bilateral level, in practice they have been scaling back their armed forces with little consultation with their allies. And as Dorman explains, Britain recently reversed its decision to redesign one of its future aircraft carriers, putting into question one of the key tenets of closer Franco-British defense efforts as agreed in 2010. According to Grand, unless Europeans change their ways, they will – as Gates has predicted – become increasingly militarily irrelevant. In addition, if the predictions in Grissom’s article regarding the size of America’s looming federal debt materialize, the transatlantic security landscape could look very different two decades from now.

I. TRENDS WITHIN THE EUROPEAN UNION

Christian Mölling, Research Associate, International Security Division, Stiftung Wissenschaft und Politik⁵

In the summer of 2011, Robert Gates, then US Defense Secretary, stated that the large amount of money spent on defense by European countries, “if allocated wisely and strategically, could buy a significant amount of usable military capability. Instead, the results are significantly less than the sum of the parts”.⁶ And indeed, as European countries respond to the financial crisis, they have continued to cling to national prerogatives. Instead of coordinating their military spending cuts within NATO and the EU, governments have sidelined both organizations and scaled back their armed forces with scant regard for their allies. By proving Gates right, however, Europeans are undermining their ability to contribute to international security and creating significant political strains for the transatlantic alliance.

⁵ This article builds on a report by Christian Mölling and Sophie-Charlotte Brune, entitled ‘The Impact of the Financial Crisis on European Defence’, Subcommittee on Security and Defence, European Parliament, April 2011.

⁶ Robert Gates, speech on ‘The future of NATO’, Brussels, 10 June 2011.

The impact of military spending cuts on European armed forces

The economic crisis has had a stronger impact on some European defense budgets than others. Some countries have been less affected by the economic turmoil, and have therefore faced less pressure to reduce public spending. And amongst those states which have been forced to reign in public expenditure, some have attempted to shield their defense budget more than their neighbors.

The largest budget cuts have been introduced in the smaller EU member states, with rates above 20 percent. Latvia notably reduced military spending by 21 percent in 2009. Lithuania cut 36 percent in 2010. The majority of middle-sized countries have implemented military spending cuts of 10 to 15 percent, on average. For example, the Czech Republic and Ireland reduced their defense budget by 10 percent in 2011 and 2010 respectively. Portugal cut 11 percent in 2010. Greek military spending dropped by 18 percent in 2010 and a further 19 percent in 2011. Romania introduced cuts of 13 percent in

2010. Larger EU countries like Germany and the United Kingdom have limited their cuts to about 8 percent to be introduced between 2011 and 2015. Some states, such as Finland and Denmark, have recorded steady military spending through the crisis, while Poland and Sweden have actually increased their defense budgets.

As part of their efforts to save money, governments have been letting go of significant numbers of military personnel. Together, European states have discharged 160,000 soldiers between 2009 and 2011. The United Kingdom, one of Europe's most important contributors of deployable troops, has been amongst those making significant personnel cuts. While France, another key contributor of European combat forces, is also expected to scale back its military personnel after the 2012 elections. Despite the cuts, personnel costs still account for more than 50 percent of the defense budget in many European countries. As many of these troops are not deployable, this is a poor use of resources – particularly at a time of fiscal austerity. But contractual obligations are set to limit the scope for governments to secure savings in this area in the short and medium term.

Defense capabilities in numerous European countries have been significantly affected by the economic crisis. Initially many governments attempting to secure savings sought to eliminate some of their outdated military equipment which had been conceived in the Cold War. France, Germany, Italy, the Netherlands and the

United Kingdom notably envisaged scaling back major procurement and modernization programs, such as the F-35 Joint Strike Fighter aircraft, the A400M military transport plane, NH90 helicopters and Typhoon fighter jets. However, many of these decisions were revisited when governments realized the large financial penalties which canceling programs would entail. As a result, many of the cuts which have been introduced have not been driven solely by operational needs.

Nearly all governments are delaying the acquisition of some equipment. Denmark has notably postponed the decision on how to replace its F-16 fighter aircraft. Many countries are scaling down their orders. Most large countries and several medium sized ones are retiring platforms early – including Austria, France, Germany, the Netherlands, Portugal and the United Kingdom. And several are trying to re-sell their assets to other countries. Germany and Italy for example plan to re-sell the last tranche of the Eurofighter jet. However, with so many countries trying to sell equipment at the same time, a spiral of downward bidding has beset international markets. The largest equipment cuts have taken place in small and medium-size EU states, some of which have canceled entire military capabilities. For example, the Netherlands and Denmark are eliminating their main battle tanks. Denmark is also getting rid of its submarines and land based air defenses.

Many countries, in particular those with large defense industries, have tried to mitigate the impact of their budget cuts on their suppliers. In several cases, governments have preferred to keep building equipment and then export or mothball it rather than trigger job losses within their industrial base. But European defense companies have still been affected by the economic downturn. And with most European countries introducing large cuts to their military research and development budgets, the long term global competitiveness of the European defense industry is also being undermined.

Looking ahead: The political challenges for transatlantic defense cooperation

For the last two decades, European countries have committed to project military force – both in order to ensure their security, and to assist in crisis management abroad. This objective was notably endorsed once more in NATO's 2010 Strategic Concept. As a result, since the 1990s, Europeans have been reforming their armed forces from large immobile defensive militaries into deployable units which can be sustained in distant theatres. However, many states have been slow to introduce all the necessary military reforms and buy the equipment required for operations far away. And as they introduce new spending cuts, they further risk

undermining their ability to conduct military operations

The economic crisis risks exacerbating the 'modernization', 'participation' and 'legitimacy' gaps which exist in the transatlantic alliance. Even before the economic downturn there was a discrepancy between the speed at which the US and Europeans modernized their military capabilities and introduced new technologies – leading many to suggest that NATO was already a multi-tier alliance. As a result of the current spending cuts, this gap is set to widen. The US will continue its frequent technological upgrades, but the larger European states will modernize their military platforms at a slower pace than originally planned. Furthermore, several of the smaller countries will completely suspend the modernization of some of their weapons.

For many years, some European allies have only been able to afford modest contributions to NATO missions – even though they supported the deployments politically. The Libya operation was the most recent illustration of this trend. As a result of the economic crisis, this 'participation' imbalance risks becoming more pronounced. Several European countries have already started withdrawing their troops from multinational operations in order to save money. And as the armed forces of smaller European states become increasingly insignificant, there will be growing pressure on the larger countries – in particular France, Germany and the

United Kingdom – to compensate for the shortcomings. At a time when large NATO allies are also trying to scale back the size of their armed forces, such a trend risks further eroding the concept of NATO solidarity. It is also likely to weaken the ability of smaller countries to influence political decisions within the transatlantic alliance.

Finally, over the years, some European publics have become increasingly skeptical of the merit of expeditionary operations. At a time of significant financial hardship, some may raise difficult questions about the legitimacy of such militaries, and others might even begin to question the merit of having armed forces at all.

It will not be feasible for most NATO allies to increase their military spending in the years to come. But as Robert Gates stressed, allies can use their limited financial resources much more efficiently. Europeans could secure significant savings if they increased the level of cooperation amongst their armed forces and dismantled many of the remaining barriers in the European defense market. For now, politicians remain averse to collaborative efforts which might compromise their country's sovereignty. They are also wary of introducing reforms to their defense industries which would lead to job losses and harm vested interests. However,

governments must put aside these concerns, and they must do so now. The decisions taken in the next three to five years will determine the military capabilities Europe has at its disposal in two decades. And unless European politicians overhaul the way they spend their defense budgets, NATO's level of ambition will quickly lose any semblance of relevance.

II. THE UNITED KINGDOM

Andrew Dorman, Professor of International Security, King's College London and Associate Fellow, Chatham House⁷

In 2010, as part of major public spending cuts introduced in response to the economic crisis, the United Kingdom's new coalition government announced a 7.5 percent cut in real terms to the defense budget over four years.⁸ But in reality defense spending has dropped by nearly 25 percent. This is due to two reasons. First, under the previous government, the Ministry of Defence assumed – without consulting other government departments – that the replacement of Britain's nuclear submarines would be provided by the Treasury. On assuming power the new coalition government decided to return to normal practice and expect that the £15-20 billion required would come from the Ministry of Defence.⁹ Second, the previous Labor government had significantly over-committed the defense budget. The exact

numbers are subject to debate, but £38 billion of unfunded liabilities over the next decade is often quoted. The coalition decided that the Ministry of Defence needed to balance its budget and that over-commitments would be funded from within existing resources.

The impact of the defense cuts on the armed forces

When introducing the defense cuts, the coalition looked to two time-frames. An initial short term time-frame focused on supporting the NATO operation in Afghanistan pending the drawdown in 2014. The longer term view looked at 'rebuilding' Britain's defense capabilities post-Afghanistan and economic austerity with a focus on 2020 – with an assumption that the country would not engage in military operations in the meantime except in an emergency. This allowed the government to justify significant cuts to the armed forces with plans to reconstitute some capabilities by 2020. It also explained the apparent land focus in defense capabilities. The cuts can be summarized as follows:

⁷The analysis, opinions and conclusions expressed or implied in this paper are those of the authors and do not necessarily represent the views of the Joint Services Command and Staff College, the United Kingdom's Ministry of Defence or any other government agency.

⁸UK Treasury, 'Spending Review 2010', 2010, p.13; UK Government, 'A Strong Britain in an Age of Uncertainty: The National Security Strategy', 2010.

⁹See UK Ministry of Defense and Foreign & Commonwealth Office, 'The Future of the United Kingdom's Nuclear Deterrent', 2006.

Maritime

A gap was created in Britain's fixed wing carrier capability. The Harrier jet force was taken out of service. The government also decided to buy the variant of the Joint Strike Fighter aircraft (JSF) which is suitable to 'cats and traps' (catapults and arrestor gear), instead of the F-35B variant initially planned which is the short take-off and vertical landing version (STOVL). The aircraft were supposed to enter service from 2020 onward, but the majority of them would be acquired between 2025 and 2030.¹⁰ The future carrier capability was reduced to one carrier, with the other either sold, held in reserve, or used as a replacement for the helicopter carrier, HMS Ocean, which is due to leave service before the end of the decade. However, these decisions have since changed. In May 2012, the Secretary of State for Defence, Philip Hammond, announced that the UK would revert to acquiring the F-35B variant thus allowing the Navy to meet the 2020 timescale for an operational capability.

The Navy's surface fleet has been further reduced from 22 to 19 destroyers and frigates – raising questions as to the ability of sustaining existing commitments. The amphibious capability has also been marginally reduced. One of the new Bay-class LPD(A)s has been sold to Australia

¹⁰ See UK National Audit Office, 'Ministry of Defence: Carrier Strike', 2011.

(three remain in service). One of the two LPDs has been placed in reserve. In addition, the Navy will now only be able to deploy an amphibious force built around a Royal Marine Commando (battalion equivalent) rather than a full brigade.

The entry into service of the new Astute class nuclear submarines (SSNs), which will replace the Trafalgar class, has been slowed in order to bring them into alignment with the construction of the four new nuclear-powered ballistic missile submarines. As a result, there is now concern that the Navy will have insufficient SSNs to cover its operational commitments in the latter half of this decade as the Trafalgar class retires before their replacements enter service.¹¹

Problems with the development of the Nimrod MRA4 aircraft led to them being scrapped, leaving Britain without a maritime patrol aircraft capability. A replacement might be introduced in the future. In the meantime the Royal Air Force has sought to retain expertise by deploying crews to various allies.

Land

Despite the current commitment to Afghanistan, Army manpower is being significantly reduced. The regular Army is set to fall from 104,000 to 90,000 by 2015,

¹¹ UK National Audit Office, 'Ministry of Defence: The Major Projects Report 2011', 2011.

and 82-84,000 by 2020.¹² By way of compensation, the Territorial Army will increase to 36-38,000, giving a combined strength of 120,000. Over the 2010-20 timeframe, the Army is also scheduled to withdraw its peacetime garrison from Germany (made up of approximately 20,000 personnel and their families), with half of the troops scheduled to return to the UK by 2015.

The Army will also have reductions in terms of equipment, particularly in Challenger main battle tanks (118 to go) and AS90 self-propelled guns removed from the frontline. It also looks like there will be no funding for a new family of armored vehicles (FRES), an acquisition the Army had been exploring for a decade.¹³ As a result, the Army is now looking to retain vehicles acquired specifically for operations in Afghanistan and Iraq as surrogates.

Air

A number of platforms are being reduced, both to make savings and to free up bases for the Army units returning from Germany. The Tornado F3 and Harriers have been taken out of service, reducing the types of fast jets in the Air Force from four to two. The Tornado GR4 force has also been reduced with two squadrons axed. And the

build-up of Eurofighter Typhoons has been further delayed by the diversion of aircraft to Saudi Arabia. The numbers of Eurofighters and JSFs which are expected to make up the Air Force's fast jet fleet in the future have also been drastically reduced. The 1998 plan to acquire 232 Eurofighters (already reduced from 250-260) has now fallen to an order for 160. This includes some 53 Eurofighter Tranche 1s which are scheduled to leave service between 2015 and 2018, resulting in a fleet of only some 107 Tranche 2 and 3 until 2030. The order of JSFs, which originally envisaged 150 aircraft for the Navy and Air Force, has been cut to 138. In addition, people are now speaking of scaling back the order further to between 50-60 aircraft in order to provide sufficient aircraft for a single carrier air wing of 36 aircraft.

Instead of 25 – as originally planned – there will be 22 A400M transport aircraft to progressively replace the current fleet of C-130s and C-130Ks. The C-17 fleet will continue to grow with the acquisition of an eighth aircraft, and possibly one or two more in order to facilitate the drawdown from Afghanistan. The reductions are of particular concern to the Special Forces which use the C-130s and the future of air support to the Special Forces community remains unclear.

The support helicopter force is also set for cuts. It will receive 14 new Chinooks as initially planned, but only after the Afghanistan drawn down. The Chinooks will serve as replacements for 28 Merlin

¹² Liam Fox, 'Defense Transformation', House of Commons Parliamentary Debates, 18 July 2011, col.644.

¹³ See UK National Audit Office, 'The Cost-effective Delivery of an Armoured Vehicle Capability', 2011.

HC3/3As which are currently in service with the Royal Air Force but which will soon be used by the Navy's Commando force as replacements for their Sea King HC4s. The number of Air Force Pumas being upgraded has been reduced from 28 to 24 and there are rumors that they might be retired.

The Air Force's intelligence and surveillance capabilities are also being scaled back. The Labor government had already decided that the Nimrod R1 SIGINT would leave service in 2011 before their replacement by three C-135 Rivet Joints in 2014. The R1s were kept in service a little longer to support operations over Libya, but they have since been retired. Royal Air Force crews are now flying US Air Force Rivet Joint aircraft while they wait for their own aircraft to arrive. The defense review also announced that the new Sentinel R1 force would be taken out of service once the Afghanistan operation was complete. The Air Force has been trying to reverse this decision, but so far without success. It remains unclear whether this airborne ground surveillance capability will be lost.

Political implications of the defense cuts

The reductions in the armed forces will have a significant impact on Britain's ability to project and sustain military power. The Ministry of Defence's new planning assumptions have lowered the level of

ambition for the armed forces to either conducting simultaneously one enduring stabilization operation of up to 6,500 personnel and two non-enduring operations of up to 2,000 and 1,000 personnel; or three non-enduring operations; or for a limited time, one major operation of around 30,000 (which would represent two-thirds of the force deployed to Iraq in 2003).¹⁴ In addition, the Army's increasing dependence on reserves risks lengthening the response time for large operations.

Britain's withdrawal from Iraq and Afghanistan will allow the UK to restore its initial response capability. The Army has already restored its ability to globally deploy a battle group at short notice, and the Navy can once more do the same with a Royal Marine Commando group. Moreover, the operational enhancements to the Special Forces remain largely unaltered.

As a result, Britain can continue to undertake independent operations as it did in Sierra Leone in 2000 or commit to multinational operations such as the recent deployment to Libya. But unless the UK has airfields within range, it will not be able to engage in operations against a sophisticated opponent until the new carriers enter service accompanied by aircraft with air defense capability.

¹⁴ 'UK Government, 'A Strong Britain in an Age of Uncertainty: The National Security Strategy', 2010, p.19.

As a result of its defense cuts, Britain's presence around the globe will diminish and, increasingly, the country will have to work with partners and focus on providing niche capabilities – notwithstanding the risks involved in collaborative efforts. The United Kingdom is likely to remain reliable as an ally, but on a smaller scale than in the past, and it will be less capable of sustaining enduring operations.

III. GERMANY

Bastian Giegerich, Senior Researcher, Bundeswehr Institute of Social Sciences and Consulting Senior Fellow for European Security, International Institute for Strategic Studies

Germany's current defense spending and military reforms are being driven by a broader government effort to consolidate the federal budget and the decision to build a smaller, more capable all-volunteer force. So far defense expenditure cuts have been modest compared to other European NATO members. But they are likely to accelerate in the period 2014 – 2016. In terms of military reforms, the government has decided to maintain the broadest spectrum of military capabilities possible, while accepting a reduced ability to sustain troops for long deployments abroad.

Current defense spending trends

When measured as a percentage of GDP, Germany spends significantly less on defense than France and the United Kingdom, around 1.4 percent. However, during the initial years of the financial crisis, Germany responded in a somewhat similar fashion to the other big military players in Europe, attempting to protect defense spending against the fallout of budgetary

austerity.¹⁵ From 2008, the last pre-financial-crisis year, to 2010, European members of NATO cut on average 7.4 percent of their military spending.¹⁶ Yet during that time, Germany's defense budget grew by 1.4 percent in real terms.¹⁷

In 2009, Germany introduced legislation – the so-called debt-brake – that will limit the federal government to an annual budget deficit of 0.35 percent of GDP from 2016 onwards. In 2010, with government debt having grown from 66 percent in 2008 to 84 percent as a percentage of GDP, Chancellor Angela Merkel's Cabinet decided to cut €8.3 billion from the defense budget between 2011 and 2014 as part of a broader effort to consolidate the budget. (The Cabinet has since extended the period during which defense savings should be made to 2015.) It was

¹⁵ 'Background paper on SIPRI military expenditure data, 2011', SIPRI, 2012, p. 3.

¹⁶ Figures based on constant 2010 exchange rates and prices.

¹⁷ IISS, *The Military Balance 2012* (Routledge, 2012), p. 74. If the comparison is extended to 2006, Germany's defense budget had grown by 6.6 percent in 2010, whereas the overall cut of European NATO members over the same period was -7 percent. See Bastian Giegerich and Alexander Nicoll, 'The Struggle for Value in European Defence', *Survival* 54: 1, 2012, p. 56.

agreed that almost half of the cost reductions would come from spending on personnel. In addition, the size of the German armed forces, the *Bundeswehr*, would shrink significantly.

It has since emerged that the restructuring of the German armed forces will cost money before it saves it. Therefore the defense cuts implemented have been more modest than suggested in 2010. In 2011, the Minister of Defense, Thomas de Maizière, announced that his ministry will receive up to €1 billion per year in additional funding from the general budget to help with the costs of downsizing, and in particular reducing the number of civilian staff. The 2012 defense budget has been set at €31.87 billion, up from €31.55 billion in 2011. And spending on personnel (including pensions) amounts to 49.9 percent of the 2012 budget, down from 52.5 percent in 2011. Meanwhile, spending on defense investment (equipment procurement plus research and development) increased slightly to 20.1 percent in 2012 from 19.7 percent in 2011.¹⁸

The five year planning cycle for the federal budget gives an indication of the medium term outlook for defense spending. According to the initial budget parameters for the period up to 2016, the defense budget is set to rise to €32.43 billion in 2013. This amounts to an increase of 1.8 percent compared to the 2012 budget. Cuts in

¹⁸ 'Bundesministerium der Verteidigung', 2012.

absolute terms are scheduled to begin in 2014, with the budget for 2015 and 2016 currently fixed at €31.5 billion in both years.¹⁹

Implications for Germany's military capabilities and its level of ambition

The restructuring of the armed forces, as agreed in 2011, is expected to take six to eight years. A central element of this process is to move to a smaller, all-volunteer posture. When the reforms were announced, the armed forces had approximately 220,000 troops, including 188,000 professional soldiers. Mandatory conscription was suspended as of 1 July 2011. And the new posture foresees a force of 185,000 troops made up of 170,000 professional soldiers and 5,000 to 15,000 short term (up to 23 months) volunteers. In addition, the number of civilian staff is set to decline from 75,000 to 55,000.²⁰

In terms of military capabilities, a guiding principle of the reform process is to prioritize

¹⁹ 'Bundesfinanzministerium, 2012: Eckwertebeschluss der Bundesregierung zum Regierungsentwurf des Bundeshaushalts 2013 und zum Finanzplan 2012 bis 2016 sowie zum Wirtschaftsplan des Sondervermögens „Energie- und Klimafonds“', p. 27.

²⁰ Thomas de Maizière, 'Neuausrichtung der Bundeswehr, Rede des Bundesministers der Verteidigung', Berlin, 18 May 2011; 'Bundesministerium der Verteidigung', Berlin, 27 May 2011.

breadth over depth. Germany will try to maintain as broad a spectrum of capabilities as possible while scaling back its ability to sustain simultaneous and long-term operations. This decision was driven on the one hand by the assumption that the security environment will remain highly uncertain, underpinning the need for a flexible and adaptable posture. On the other hand, the German authorities assessed that a country of Germany's size and economic weight has to maintain a broad spectrum of capabilities to exert political influence, including in NATO. The Ministry of Defense expects that the most likely tasks for the *Bundeswehr* will be in international crisis management. But it has defined high intensity combat as the benchmark for operational readiness. And Germany intends to have the ability to act as a framework nation for multinational deployments.

The 2011 reforms also define a new level of ambition. Previously, the German armed forces were supposed to be able to sustain up to 14,000 troops in international crisis management operations.²¹ In reality, it proved difficult for Germany to sustain more than 8,000 troops on operations with short term peaks of around 10,000. The smaller all-volunteer force the Cabinet is currently building aims to sustain 10,000 troops on operations. If this goal is reached, it will be an improvement, even if officially the previous level of ambition will have

²¹ 'Bundesministerium der Verteidigung', 2006, p. 67.

been reduced. In the new Army structure, infantry combat capabilities will be strengthened while command and support elements will be scaled back. Germany will have eight brigades (down from 11), six of which will be able to replace each other on operations. The brigades will each have at least two infantry battalions with combat capability.²²

The government is also planning a variety of equipment cuts – several of which attempt to reduce redundancies in Germany's military arsenal. Main battle tank holdings (Leopard 2) are to be reduced from 350 to 225. The number of Transall C-160 transport planes will be cut from 80 to 60. Scheduled cuts within the Tornado fighter jet fleet, from 185 to 85 planes, are to be accelerated. The government has also indicated that it will cancel its order of tranche 3B Eurofighter jets (37 aircraft), which would leave Germany with a total of 140 Eurofighters in its inventory.

The German authorities also want to reduce the order of Puma armored vehicles from 410 to 350. The *Bundeswehr* is likely to receive only 40, instead of 80, Tiger attack helicopters and 80, instead of 122, NH90 transport helicopters. Orders for the drone Global Hawk will be reduced from six to four. Germany will buy 53 Airbus A400M transport planes, but is looking to resell 13 of them. Such a sale could generate up to

²² 'The New Model Bundeswehr', in Griephan 'Executive summary', April 2012, p. 1.

€1.1 billion in savings – not counting operating costs. Although the government estimates that it might have to pay indemnities of up to €150 million to its partners in the A400M program. In any case, Germany will receive the 13 planes which it would like to sell between 2018 and 2020, so there will be no budgetary impact before 2018.²³

The government is expected to make further decisions regarding military acquisitions later this year. Defense Minister de Maizière has indicated that he would like to renegotiate existing contracts to bring them in line with the current budgetary constraints and future operational needs. He has given industry a choice: suppliers can insist on existing contracts being honored in full, in which case the government's defense investment budget will be incapable of making further orders in the foreseeable future. Or industry can agree to renegotiating contracts, which will lead to some cancellations and reduced orders, but which would allow the Ministry of Defense to invest in future military capabilities and their necessary research and development.

²³ 'A 400M: The German deal', in Griephan 'Executive summary', December 2011, pp. 2-4.

IV. FRANCE

Camille Grand, Director, Fondation pour la Recherche Stratégique

In recent years, French defense spending has fared well in comparison to most European countries. France has been able to maintain a rather ambitious defense agenda, preserving its independent nuclear deterrent, professionalizing its armed forces and modernizing its military capabilities while deploying its forces in a variety of conflicts. But because of the financial crisis and France's growing fiscal strains, it is widely assumed that significant military spending cuts will be introduced in the aftermath of the 2012 presidential and legislative elections.

Weathering the storm

Over the last decade, military spending has grown significantly in several parts of the world – China has introduced a 170 percent increase, the Russian defense budget has grown by 79 percent and US military spending has gone up by 59 percent.²⁴ In contrast, France – like many European countries – has reduced the amount it spends on defense as a share of

²⁴ Constant 2010 US dollar prices. All figures extracted from the 2012 SIPRI Military Expenditure Database or from the French Ministry of Defense.

GDP. In 1988, France spent 3.6 percent of GDP on its armed forces. By 2012 it devoted closer to 2 percent, including pensions (1.6 percent pensions excluded). And while French military expenditure used to make up 14 percent of the national budget in the 1980s, nowadays it represents less than 10 percent.²⁵

Nevertheless, with a budget of €40 billion (pensions included), France has continued to devote significant resources to its defense. Spending between €48 billion and €55 billion a year, the country has continuously ranked in the world top five spenders and in the European top two, with the United Kingdom. SIPRI 2012 figures even note a roughly unaffected defense budget in real terms from 2002 to 2011 (-0.6 percent).

During this period with fairly broad bipartisan political support, French governments have been restructuring the armed forces. Since the professionalization of the military began in 1995, there have been several waves of troop reductions, leading to a fall of military personnel of more than 50 percent in 15 years. Today, the armed forces account for 220,000 men

²⁵ For an excellent review of long term trends, see Martial Foucault, 'Les budgets de défense en France, entre déni et déclin', Focus stratégique n°36, IFRI, April 2012.

and women. The Navy has 39,400 people in uniform, the Air Force has 51,500 and the Army – which is set to become the smallest it has been since the modern age – has 107,000.²⁶ All three services insist they cannot reduce much further without revising the current level of ambition for operational commitments.

In the last 15 years, the French authorities have also been renewing key military platforms for all three services. Leclerc battle tanks, ACV armored combat vehicles, Tiger attack helicopters, Horizon frigates, Rafale combat aircrafts and the Charles-de-Gaulle aircraft carrier have entered service. France has also commissioned the A400M transport aircraft, FREMM frigates, Barracuda-class nuclear submarines and NH90 helicopters. In addition, the government has overseen a major modernization of France's nuclear force, made up of four Triomphant-class nuclear powered ballistic missile submarines, M-51 submarine-launched ballistic missiles, and ASMP-A airborne missiles.

France has also been contributing to a variety of military operations. In 2011 alone, French forces were deployed in three demanding missions in Afghanistan, Libya and Côte d'Ivoire. They were also participating in a number of additional EU, NATO, UN and national operations – including in the Baltic States, Chad, the

²⁶ The figures are for military personnel. Civilian employees increase the figures by approximately 23 percent.

Indian Ocean, Kosovo and Lebanon. These various deployments have led to significant costs (more than €1 billion in the extra budgetary operations budget in 2011).²⁷ They have also put significant pressure on troops and equipment.

So far France's defense budget has been much less affected by the economic crisis than Britain's or Italy's. Out of the €185.9 billion the French government had planned to devote to the armed forces between 2009 and 2014, less than 3 percent reductions have been introduced so far. And the cuts which Paris introduced in 2011 and 2012 amount to only around 1 percent of the defense budget – in 2011, the government cut €222 million from a planned budget of €31.1 billion. In 2012, it eliminated €335 million out of the €31.7 billion initially earmarked. Although these various cuts have led to some delays in procurement programs, the French military has so far not had to cancel any large acquisitions – in contrast to many of its European neighbors.

There is a general recognition in France that the country's fiscal imbalances will force the new president and government to introduce drastic public spending cuts across the board. As a result, even though

²⁷ In France's budgetary regulations, the external operations budget ("*Budget OPEX*") is calculated separately from the defense budget in order to distinguish the 'normal' budget from 'exceptional' spending associated with operations. (In recent years, the OPEX budget has ranged from around €700 million to €1 billion.)

the withdrawal of French combat forces from Afghanistan will lead to some savings in defense spending, it will become increasingly difficult for Paris to meet the 2013-2017 budgetary increases envisaged in France's 2008 defense strategy (the *Livre blanc*).

Looking forward: *Que faire?*

As is often the case in French politics, defense and security issues played almost no role in the 2012 elections. Much of the decisions of newly elected President François Hollande regarding military spending remain to be defined. But there is a strong bipartisan consensus in France on defense matters. So it is likely that there will be limited differences between the spending cuts Hollande will adopt and those which former President Nicolas Sarkozy would have introduced if he had won a second term.

In the best case scenario, Hollande will implement the idea he promoted during his electoral campaign, introducing similar spending cuts across all government departments, without focusing disproportionately on defense. It is unlikely that the new President and his government will scale back military spending by 15 percent or more as we have seen recently in some other European countries – even if the financial crisis deepened significantly. Even at times of economic turmoil, previous

French Presidents have wanted the country to maintain some core defense capabilities. In addition, France still purchases most of its military equipment from domestic suppliers. The weight of defense industrial lobbies and the desire to protect jobs would act as further breaks to drastic military spending cuts.

Most likely, the new government will introduce a series of incremental defense cuts with no strategic vision. Over the coming years, military spending could fall short of existing targets by about 10 percent annually. This approach would be similar to the spending reductions introduced between 1993 and 2002 under the governments of neo-gaullists Edouard Balladur, Alain Juppé and socialist Lionel Jospin. This policy led to a progressive contraction of 18 percent of the defense budget during the 1990s and the operational readiness of key capabilities was severely undermined. In light of the existing strains within France's armed forces today, even budget cuts below 10 percent will require France to revise its level of ambition.

Although it is impossible to predict the extent to which France might have to scale back its defense posture until a strategic review has taken place, it is possible to outline several potential negative fallouts of reduced French military spending:

- A declining willingness to intervene in demanding operations abroad: Almost none of France's military

deployments in recent years have been 'wars of choice'. Nevertheless a growing number of analysts in the country argue that the withdrawal of Afghanistan will mark the end of an 'age of intervention'.

- A tighter geographical focus: The 2008 *Livre blanc* emphasized the strategic importance of Asia. But if the new government introduced significant spending cuts, it could be tempted to scale back France's focus to Europe's near abroad – the Balkans, the Mediterranean and Sub-Saharan Africa.
- The prioritization of strategic assets: France might choose to preserve the key military capabilities designed to insure its independence (such as nuclear deterrence, intelligence and command structures) at the expense of addressing the shortfalls in conventional capabilities identified in Afghanistan and Libya.
- Debilitating cuts in the size of the French armed forces: The Army, Navy and Air Force are already warning of military overstretch. If the number of people in uniform was scaled back further, it would no longer be possible to maintain the existing planning assumptions of troops available for deployment.
- A free-rider behavior within NATO: Like most other Europeans, France risks relying increasingly on the US to address global crises.

- Abandoning the cause of EU defense cooperation: France would no longer be in a position to sustain its long standing efforts to turn the EU into a leading player in global security with autonomous military capabilities.

Conclusion

In the years to come, France will try to preserve its first league status in military affairs including through enhanced defense cooperation with its European partners. In a welcome shift, French defense circles now largely recognize that defense collaboration should play an increasingly important role in the future. Whether it is done within NATO under the label of 'smart defense', within the EU under the banner of 'pooling and sharing', or on a bilateral basis, many in France now believe that well organized cooperative efforts can deliver military capabilities which would otherwise be difficult to afford. They also accept that it is worth committing to such initiatives even if they constrain France's sovereignty. As a result, in 2010, Paris signed several treaties with London to enhance their bilateral defense efforts. France also recently agreed to pool and share air-to-air refueling aircrafts with Germany and the Netherlands.

Even with the growing interest in pragmatic and budgetary driven defense collaboration, France – and Europe more

broadly – risks becoming increasingly strategically irrelevant if significant new cuts are introduced.²⁸ And this new balance of power could be tested by others sooner than France and its European neighbors might expect. If Paris is to mitigate this trend towards strategic irrelevance, the new French President will need to show extensive political will.

The strong team assembled around the new defense minister, Jean-Yves Le Drian, which includes Jean-Claude Mallet as a special adviser,²⁹ is a reassuring sign. But the first test will be the revision of the *Livre blanc*. The idea of holding a strategic defense review was put forward by François Hollande in the run up to the presidential election. It will allow the country to have the serious debate about defense that it did not have during the electoral campaign. But it remains to be seen whether the review will be driven by a realistic assessment of the unstable security environment or by immediate budgetary constraints.

²⁸ On this point see Camille Grand, 'La France et l'Europe face au risque de déclassé stratégique', *Le Monde*, 4 April 2012.

²⁹ Jean-Claude Mallet has been Undersecretary for policy at the Ministry of Defense, Secrétaire Général of the Défense Nationale and Chairman of the 2008 White Paper Commission.

V. THE UNITED STATES

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The United States is entering a period of grand strategic adjustment. With the wars in Iraq and Afghanistan winding down, and the national debt spiraling upward, the country is contemplating deep defense spending cuts for the first time in more than twenty years.³⁰ This paper considers the potential implications of those cuts for the US military commitment in Europe.

Recent US defense budget reductions

In round terms, the total US defense budget peaked in 2011 at slightly more than \$700 billion.³¹ About \$550 billion of that amount was included in the “base” Department of Defense budget and the remainder covered military operations overseas.³² The

2012 base budget was essentially flat at a nominal \$553 billion.³³ President Barack Obama’s proposed base defense budget for 2013 is a nominal \$525 billion, though the actual budget of the Department of Defense for next year may differ substantially as a result of congressional action and/or a new budget deal after the November elections.

The out-years will see further reductions. The 2011 Budget Control Act, passed last August after President Obama and congressional Republicans failed to agree to a “grand bargain” on fiscal policy, sets new decade-long caps on all categories of discretionary spending, including defense.³⁴ The technical details of the cap structure are complicated, but the upshot is that the nominal base defense budget will be capped at \$546 billion in 2013 and rise slowly over the remainder of the decade at roughly the projected rate of inflation. The Act also stipulates “sequestration” of another \$55 billion per year of defense cuts between 2013 and

³⁰This paper draws heavily on the work of the RAND New American Grand Strategy project team, various drafts from the RAND Grand Strategy Working Paper series as cited, and insights from the Grand Strategy Advisory Board.

³¹ Nominal dollars. US Department of Defense, ‘United States Department of Defense fiscal year 2012 budget request’, Washington D.C., 2011, 1-1.

³² The remainder of this paper focuses on the base budget, as this is where peacetime presence is funded.

³³ US Department of Defense, ‘Fiscal year 2013 budget request’, Washington D.C., 2012

³⁴By convention the US government has long divided discretionary spending into “defense” and “non-defense” categories.

2023.³⁵ There is great uncertainty, however, about whether these new caps will be implemented. If sequestration does occur then the net reduction of defense budget authority from 2012 to 2013, including both the original Budget Control Act caps and sequestration, would amount to \$65 billion, or roughly 12 percent of the nominal 2012 base budget.³⁶

Implications for America's military posture

Overseas presence emerges as a major issue whenever US defense budgets are in decline. The United States currently stations 160,000 personnel at 50 major bases in 30 countries around the world.³⁷ Just over half of those personnel and facilities are

³⁵The sequestration provisions were to be triggered if a special joint select committee on deficit reduction failed to identify another \$1.2 trillion in savings before the end of November 2011. The committee failed.

³⁶For further details on the US defense budget reductions, see Stephan Seabrook, 'Federal spending, national priorities, and grand strategy', RAND Grand Strategy Working Paper 3 (forthcoming). This summary draws heavily on Seabrook's work.

³⁷This does not include active contingencies and related facilities. Most personnel stationed overseas in peacetime are concentrated in five key allies: Germany (62,500 personnel), Japan (40,000), South Korea (32,000), the United Kingdom (8,300) and Italy (8,500). See Office of the Deputy Under Secretary of Defense, 'Department of Defense base structure report: Fiscal year 2011 baseline', 2010.

located in Europe.³⁸ In recent months the Obama Administration has announced a number of important adjustments to this posture, justified by budget reductions and a strategic "pivot" toward East Asia. In Europe these adjustments include the withdrawal of an Army corps headquarters, two Army brigade combat teams, and an Air Force fighter squadron from Germany. These unit withdrawals will involve approximately 11,000 personnel, bringing the US permanent military presence in Europe down to just under 70,000.³⁹

Base closings are sure to follow in Europe. Many policymakers imply that maintaining such a large presence incurs substantial costs to American taxpayers. This is a myth perpetuated by two errors, one analytical and one empirical. The analytical error is the conflation of *force* planning with *posture* planning. Force planning – the determination of how many units of what types should be retained in the force structure – is separate from deciding where

³⁸ This includes 88,000 personnel and 25 major bases in Belgium, Germany, Greece, Italy, the Netherlands, Norway, Portugal, Spain, Turkey and the United Kingdom. Major combat units stationed in Europe include a corps headquarters, four brigade combat teams, three fighter wings, an air mobility wing, an aerial refueling wing, an Army special forces group and an Air Force special operations group.

³⁹The Department of Defense has announced that the units will be the V Corps Headquarters, 170th Infantry Brigade, 172nd Separate Infantry Brigade, and 81st Tactical Fighter Squadron. The 603rd Air Control Squadron will also be withdrawn from Italy.

those units should be stationed. When the two are conflated the apparent cost of overseas presence is vastly overstated, because units are very expensive and bases are comparatively inexpensive to maintain.⁴⁰

The empirical error is one of scale. According to recent RAND analysis, the total US Air Force presence in Europe costs the American taxpayer approximately \$1.7 billion per year.⁴¹ Recent analysis by the Congressional Budget Office arrived at a similar estimate for the Army presence.⁴² Given the predominance of Army and Air Force facilities in the US' overall military presence in Europe, the total American commitment to the continent therefore represents something under 1 percent of the defense budget. Indeed in the near- to mid-term it would likely cost more to withdraw forces from Europe than to leave them in place.

In grand strategic terms, then, the cost of the American role in Europe is negligible and the announced cuts to the defense budget ought to have little or no direct

bearing on the American military commitment in Europe. Even if sequestration is implemented the American presence in Europe will still account for less than 1 percent of the residual defense budget. The grand strategic benefits that accrue to the United States from this presence unquestionably outweigh these paltry costs.

In military operational terms, the major disadvantage of the recently announced withdrawals is that they will reduce opportunities for US and European ground units to exercise together, with potential implications for interoperability.⁴³ However, the brigades being withdrawn are 'heavy' mechanized units without natural counterparts in contemporary European armies, while those being retained are motorized and airborne units that fit Europe's growing emphasis on medium-scale rapid intervention forces.⁴⁴ Coupled with the new American commitment of a US-based brigade to the NATO Response Force and a growing partnership among allied special operations forces (signified by the NATO Special Operations Headquarters),

⁴⁰ A well known example is the New York Times interactive budget tool, published online on 2 January 2012, indicating that reducing overseas presence by 50,000 forces would save \$69.5 billion. All of these savings would accrue to reducing the size of the armed forces by that increment, not rebasing them.

⁴¹ See Patrick Mills et al., 'Cost of Commitment', RAND Grand Strategy Working Paper 4 (forthcoming).

⁴² Congressional Budget Office, 'Options for Changing the Army's Overseas Basing', May 2004.

⁴³ This will be true even if a greater number of stateside units deploy temporarily to Europe for exercises. The operational tempo of permanently stationed units simply cannot be matched by rotational forces at anything like financial parity.

⁴⁴ The brigade combat teams being withdrawn (actually disbanded) are the 170th Infantry Brigade and 172nd Separate Infantry Brigade. The units being retained are the 2nd Cavalry Regiment and the 173rd Airborne Brigade.

there is a strong case to be made that the capabilities of US and European ground forces will actually be more effectively aligned as a result of these adjustments. In the near-term, then, the net effect of defense budget cuts on the American military role in Europe is likely to be minimal.

The bigger picture is less reassuring

That said, the defense budget cuts embodied in the Budget Control Act are merely the opening stages of a much more fundamental process of adjusting American grand strategy to new fiscal constraints. The combination of long-term structural deficits, the “great recession,” Bush era tax cuts, healthcare cost increases, and baby boomer demographic trends has created a medium-term fiscal challenge of truly astounding scale. In 2012 the federal deficit is projected to exceed \$1.2 trillion, or 7.6 percent of Gross Domestic Product (GDP), putting the total accumulated federal debt near 80 percent of GDP.⁴⁵ Over the longer run, the Alternative Fiscal Scenario developed by the Congressional Budget Office (which encapsulates what many in Washington expect to be the politically feasible set of fiscal and tax policies), estimates that the debt-to-GDP ratio will balloon to an

⁴⁵ Congressional Budget Office, ‘The Budget and Economic Outlook: Fiscal Years 2012 to 2022’, 31 January 2012.

unsupportable 187 percent by 2035.⁴⁶ Somewhere between these two points the United States will reach a threshold beyond which it is unable to continue increasing its debt-to-GDP ratio.

Fiscal economists Alan Auerbach and William Gale have calculated the adjustment required to stabilize the long-term debt-to-GDP ratio. Widely considered the best estimate of the “fiscal gap,” their middle-range estimates hover around 6 percent of GDP.⁴⁷ This means that in order to stabilize the amount of federal debt in relation to GDP it would be necessary to impose an immediate and permanent reduction in spending (or increase in revenue, or both in combination) equivalent to 6 percent of GDP, which is roughly the size of total annual defense and non-defense discretionary spending combined.⁴⁸ In plain terms, American grand strategy is fundamentally misaligned with the nation’s financial means.

What does this portend for defense budgets? That national conversation is only

⁴⁶ The drivers are primarily Medicare and Medicaid, which would top 14.8 percent of GDP by 2021 and 18.3 percent by 2035.

⁴⁷ Alan Auerbach and William Gale, ‘The Federal Budget Outlook: No News is Bad News,’ 10 April 2012, p. 3. The estimates in this paper vary between about 3 percent and 10 percent, with 6 percent representing a midpoint policy and economic future.

⁴⁸ According to Seabrook’s calculations, under the Budget Control Act, total discretionary outlays (defense and non-defense) will average 6.5 percent of GDP from 2011-2021.

just beginning. The fiscal gap will need to be closed in the relatively near future by some combination of changes in four areas: defense spending, non-defense discretionary spending, mandatory spending, and/or tax revenues. Under current budget plans, defense spending will average 3.4 percent of GDP over the next decade. Non-defense discretionary spending will average 3.1 percent of GDP while entitlements will average approximately 13 percent of GDP. Clearly a fiscal gap equivalent to 6 percent of GDP cannot be closed by modestly trimming any, or even all, of these categories of spending. Major reductions will be required to many programs associated with key national priorities even if tax revenues increase substantially.

The relative allocation of burden amongst these priorities will represent a shift in US grand strategy. Just which direction it will take, and its ultimate implications for America's role in the world, will be determined by the national debate that is just getting started. While the ultimate result cannot be forecast at this point, two rough scenarios provide some sense of the spectrum. If, for example, tax increases are off the table and the fiscal gap is closed by equal reductions to each of the three major categories of spending (that is, a 2 percent of GDP equivalent cut in defense, non-defense discretionary, and entitlements) then defense budgets would average approximately 1.4 percent of GDP over the coming decade. This would imply a fundamental retrenchment in the

American role in the world, likely including the renegotiation of its security commitments in East Asia, the Middle East and Europe. If, instead, tax revenues are increased by the equivalent of 2 percent of GDP and the remaining burden is allocated *proportionally* (rather than equally) across the three spending categories, then defense spending would average about 2.8 percent of GDP over the coming decade. While still a major reduction in defense spending, judicious strategy might maintain most of America's overseas commitments under that scenario.

Goodbye to all that?

For those interested in understanding the likely long-term trajectory of the American security role in Europe, the most important indicators are not to be found in the current defense budget projections, foreign policy statements, or parsing of the word "pivot." The American military commitment to Europe is sufficiently cost-effective that withdrawal from Europe would make sense only in the context of a much more fundamental decision to cease being a global power altogether.⁴⁹ The leading indicators of that decision will, in turn, be found in the domestic policy

⁴⁹ This is particularly true for Europe because American security commitments in the Middle East are directly supported by its presence in Europe.

domains including, for example, whether the Bush-era tax cuts are allowed to expire, whether entitlement cuts become politically thinkable, whether the growth in healthcare costs is moderated, and whether the United States can bring down its borrowing before interest rates rise from their current unsustainable lows. These will be the fundamental grand strategic decisions in coming years. The defense budget is subsidiary to these grand questions, and the presence in Europe is all but tertiary.