



# Funding Defence

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## Government's Necessary Priority

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*'There are always voices that say "don't ask difficult questions". But it is essential.'*

*David Cameron, 23 January 2013*

*'... further defence cuts are not possible while meeting stated security objectives ... I shall go into the spending review fighting the case for the defence budget on the basis that we have made very large cuts to defence.'*

*Philip Hammond, 2 March 2013*

## EXECUTIVE SUMMARY

The funding of Defence, particularly in a period of austerity, is a challenge for any Government. It is understandable that politicians would wish to prioritise Health and Education, while bearing down on Welfare. But for Defence the issue is what minimum outlay is necessary both to deter hostile acts and also to contribute to the international security order?

The United States, for decades the free world's military leader and policeman, has devoted huge sums (up to 5% of GDP) to the task, but this is reducing.

European nations have sheltered under the US blanket for many years. At the height of the Cold War, the US was contributing around 50% of the total NATO budget while some nations were barely spending 2% of GDP on defence. Today, the equation is even more unbalanced with the Europeans contributing just 25%. It remains to be seen how long the US will tolerate this situation; the signs are that it will not be much longer. Still worse, Sequestration would have a major impact both on US military capability and hence on any remaining appetite for picking up the European defence bill.

Unless Europe wishes to bow out of collective defence altogether, nations will have to provide forces sufficient to justify the US' continuing commitment to Europe.

In the case of the United Kingdom, the calculation must also cater for independent responsibilities, for residual national responsibilities and treaties. In addition, our Special Relationship, which has given the UK priceless benefits since the end of the Second World War must also be factored in. This relationship is now in danger with the continuous draw-down of our armed forces.

This is the context for what might be termed 'necessary' defence, the foundation for our Special Relationship and our continued membership of the UN Security Council and NATO.

National Security is the "first duty of Government" politicians tell us. Certainly, spending on Defence is unlike that for other departments. It is of course the essential guarantor of a nation's freedom; failure to provide adequate defence can result in catastrophe. Moreover, whereas the needs of other departments are decided by elected politicians with home grown policies, defence needs are dictated by external events. Budgets cannot determine threat levels; it is the other way around.

We have a poor record of forecasting events and threats; nearly all conflicts are surprises. The SDSR of 2010 not only failed to predict the Arab Spring but it put the cart before the horse, 'applying funding related to budgetary priorities, not threats.

Defence needs steady and predictable funding. Lead times for major systems are up to 20 years. Today's equipment was ordered 20 or more years ago and, in turn, our successors will fight with what we provide today. Short term savings could have a profound effect on the nation's security in 2030.

Defence is an excellent economic stimulus. Recent studies have shown that a £100m investment in the defence industry would generate an increase of gross domestic output of £227M, together with tax returns of as much as a £33m. Some 726 jobs could be generated within Defence within a total of 1885 jobs generated overall.

The personnel of the armed forces are unlike any other Government employees; they are recruited with the possibility of laying down their lives for the country. They have provided fine service despite 20 years of redundancies - more than any other Government department. Such loyalty and service cannot be assumed for ever; it has also to be earned by the Government through a long term commitment to the careers and well-being of the personnel of the armed forces.

Politicians and commentators do recognise the deterioration in world security. From the competition for raw materials, food and water to nuclear proliferation and state and religion-inspired terrorism, the range of threats and dangers is if anything increasing said the Foreign Secretary recently.

And at the end of January, welcoming Australia's new seat on the UN Security Council, he described 2013 as a year which may bear witness to a

*'perfect storm of crises converging on the Middle East.'*

This multiplicity of threats is on the rise but our ability to predict where and when they will materialise is fallible.

Meanwhile NATO Europe, already weak, is further disarming. America, already reducing its defence expenditure, with more to come under Sequestration, is turning towards the Pacific (60% of its military capability), so a perfect storm is indeed on the horizon.

The Defence Secretary has rightly warned of the danger of further cuts to the armed forces. This concern is to be welcomed but the facts are that, despite effective niche capabilities, Britain is already giving up the ability to participate in prolonged combat operations save on a small scale, and only one at a time. The risks in so doing are high. Implicit in this assumption is that nothing much will happen to threaten our security, that we can rely on the Americans, and that the rest of the world is disarming and becoming more peaceful. That hardly describes the world in 2013 and beyond.

We submit that special considerations apply when calculating expenditure for 'necessary' defence, and that the solution to the challenge of how much to spend on Defence lies in a clear and honest view of our ambitions and obligations for today and the future. There is no formula for this calculation; what can be said with some authority is that in the Cold War our contribution to collective security was recognised by our allies as convincing and sufficient to justify our influential position in international institutions, and that it ensured that the Special Relationship with America was strong. It was also sufficient, just, to enable us to meet our residual bi-lateral and historic treaties.

Since that time, we have steadily reduced our defence capabilities with today's force levels at the lowest since the 1920s. This has been done whilst engaging in 8 wars in 20 years.

We have chosen to take this risk because of choices made to pour money into Welfare, Education and Health, and latterly because of the financial deficit.

The task facing the Government is massive. Yet it has to recognise that the basis for its risk-taking strategy for Defence - that America would always provide for our security - is now uncertain; the world has changed.

Against this background, it should be obvious that we are underfunding Defence. The extra funding necessary for adequate defence is relatively small compared with total government expenditure and GDP. At present Britain spends around 2% of GDP on core defence. The precise increase for 'necessary' long-term defence requires expert strategic study and debate,

but on the post-war historical evidence it is probably of the order of only a further 1% of GDP. In the circumstances described here, this cannot be unaffordable; it is a matter of political priority and choice. It could not be spent immediately; military investments have long lead times. But planning must start now.

The present risks to our security will not be immediately reduced. Nevertheless, potential enemies will note the change of resolve inherent in such a step and this is likely to be cautionary; moreover, this must surely be a better position to press European allies for greater commitment to collective defence.

Finally, if we are to have any future influence with America in shaping strategies and policies that affect our security and prosperity, this above all other actions will be the most convincing that we could take.

If further cuts are imposed on defence in the upcoming Budget, not only will we put at risk the security of future generations and our influence in the world; but the incoherence of a defence policy - with a commitment to massive expenditures in the nuclear and carrier programmes, crucial capability gaps, and with force levels in a majority of fields at token level - will be exposed for all to see.

*'I shall go into the spending review fighting the case for the defence budget on the basis that we have made very large cuts to defence... We can't go on doing that, with further reductions, without having significant impact on military capability.'*

It appears, after all, that Philip Hammond has concerns which are not so different from ours<sup>1</sup>.

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<sup>1</sup> Defence Secretary, Philip Hammond, quoted in Daily Telegraph 2 March 2013.

# THE FUNDING OF DEFENCE

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## A NECESSARY PRIORITY

The funding of defence, particularly in a period of austerity, is a challenge for any Government. It is understandable that politicians would wish to spend a minimum on defence and increase spending on health and education, while at the same time wishing to reduce dependency on welfare through policies which encouraged jobs and employment. The decision to be made for defence therefore is what minimum outlay is necessary both to deter acts which might imperil the nation, and also be sufficient to continue to play an appropriate part in the international security order?<sup>2</sup>

There is no set formula. Some Governments, such as those in Ireland and Iceland, have chosen to place national security essentially in the hands of larger allied nations whilst contributing only token forces to the UN. On the other hand, Sweden, outside the NATO Alliance for largely historical reasons, chose to devote significant money to its own national defence whilst also contributing to UN peacekeeping operations.

The United States, for decades the free world's military leader and policeman, has devoted huge sums, up to 5% of GDP, to the task.

European nations have sheltered under this US blanket for many years. At the height of the Cold War, when the US was contributing around 50% of the total NATO budget, some nations were barely spending 2% of GDP on defence. Today, the equation is even more unbalanced with the Europeans contributing just 25% of the NATO budget. It remains to be seen how long the US will tolerate this situation; the signs are that it will not be much longer. Indeed, the very recent announcement from Washington on 'Sequestration' could have a major impact both on US military capability and on any remaining American appetite for picking up the European defence bill.

In this light, European defence spending should lie somewhere between the Irish solution - which for NATO nations is clearly untenable - and a force structure which the United States would judge to be a sufficient contribution to collective security, enough to justify its continued commitment to Europe.

In the case of the United Kingdom, another factor must be added; it is the so called 'Special Relationship' which has enabled a unique level of Political, Intelligence, Military and Diplomatic dialogue and interaction to occur, and which has given the UK priceless benefits since the end of the Second World War. To this the UK must add the calculation of what extra might be needed to cater for existing bi-lateral arrangements and treaties, and the defence of vital purely British interests, e.g. the Falklands, Gibraltar, etc.

This is the context for what might be termed 'necessary' defence which would provide a platform for the level and type of capability adequate for national purposes while at the same time providing a serious contribution to underwrite our Special Relationship with the US and our continuing membership of major institutions such as NATO and the UN Security Council.

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<sup>2</sup> Several earlier UKNDA reports are quoted in this paper. All can be accessed via UKNDA's website [www.UKNDA.org](http://www.UKNDA.org)

Against this background, to which we will return, we can examine the features of defence funding which distinguish it from other funding priorities.

## **WHY DEFENCE IS DIFFERENT**

### **The Essential Guarantor of National Life**

The first and most important distinguishing characteristic of defence expenditure is that without 'necessary' defence nothing else in national life can be sustained. It is thus the essential insurance premium which must be paid if continued independence and prosperity are to be preserved. To provide less than this carries risks which a responsible government could not ignore. The problem with Defence is that of sufficiency. Too much, and valuable resources will have been employed unnecessarily; too little, and the state and many of its people will perish<sup>3</sup>. The calculation of risk is not a simple exercise but, in the light of history, erring on the side of caution must surely be responsible and prudent.

'Necessary' defence, by definition, offers the highest cost/benefit ratio of all forms of public expenditure. The most desirable Health, Education and Welfare services which, unlike Defence, have seen massive funding increases for over 10 years, do not affect the freedom of the nation. Choices are made by elected politicians and it is possible modestly to restrict these services without running risks to national security. The dangers we face today arise from multiple threats, rather than a single major one, but this does not negate this simple truth.

The cost of fighting a war is far higher than deterring one, and the cost of losing one higher still. In the 1920s and '30s defence spending was so low that not only did our weakness and perceived lack of resolve fail to deter but arguably encouraged aggression on the continent of Europe. WW2, when it came, bankrupted Britain, the result of perhaps the falsest economy in British history. The same principle applies to deterring smaller scale conflicts which directly and indirectly affect our national prosperity and way of life; the consequences of misjudgement here will outweigh by far the cost of providing sound defence.

Britain is still the sixth largest economy in the world, near the top of the second division below the superpowers. Despite the severe economic conditions, our GDP today is only 3% less than at the onset of the crisis five years ago. Hence, Britain can well afford to protect its interests permanently. The cost of adequate defence represents a fraction of the value of assets protected. With the decline in North Sea oil and gas production, Britain will be importing at least half of its oil and perhaps (depending on the success of 'fracking' gas in Britain) 80% of its gas requirements by 2020, mainly from insecure and sometimes hostile overseas countries. This alone justifies a growing defence provision, for example to protect the contested hydrocarbon-rich Falkland Islands, the only British controlled overseas reserves we possess.

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<sup>3</sup> That is why in the last two years of the life and death struggle of WW2 Britain was spending 50% of GDP on the war effort. Not to have done so could have been fatal.

## The Influence of External Events

A fundamental distinguishing characteristic of defence is that the need for it is not within government control. Defence needs are dictated by *external* threats. Freedom, peace and prosperity all depend on forestalling the hostile actions of others. Budgets cannot determine threat levels; it is the other way round. The threats today are many and increasing. Further, nearly all wars come as surprises. The last eight wars in which Britain has been engaged, from the Falklands in 1982 to Mali in 2013 were all unexpected only a few weeks beforehand. Prudence therefore dictates a level of expenditure which caters for the unexpected.

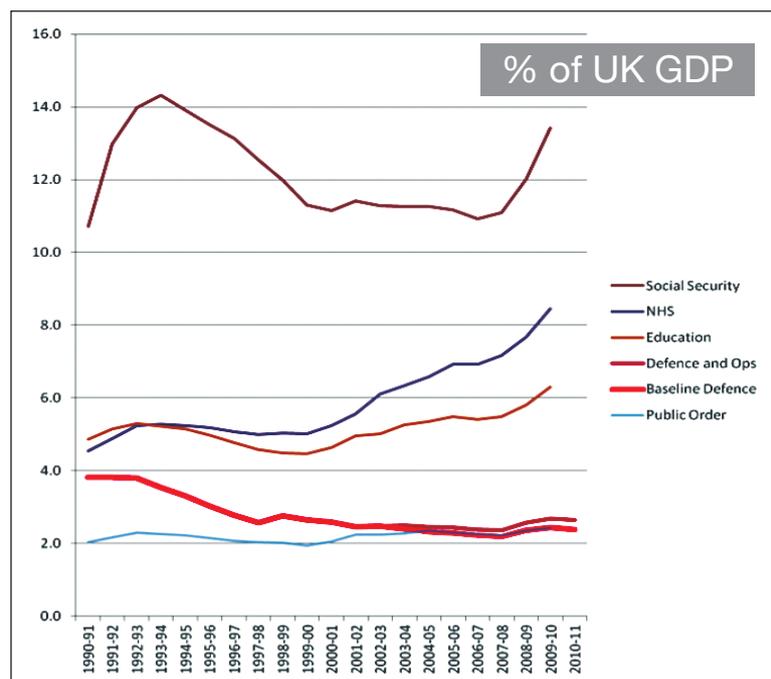
The National Security Council's assessment of threats, on which the budget-driven 2010 Security Review was based, showed the fallibility of human prediction. They suggested that the nation would still be fully prepared for all contingencies and emergencies. - The Arab Spring was neither forecast nor discussed. Mali was not on the radar either.

In contrast, Education and Health funding are determined by the priorities of the elected government. Choices are made which are not influenced by external factors to any serious degree. Welfare, which is the subject of considerable debate at present and which has seen astronomical growth in the last 10 years, is a matter of choice which has nothing to do with the activities of other nations or external circumstances. All are entirely within the control of the Government – even if, as practised, one might be forgiven for finding that hard to believe.

In contrast, we cannot expect to forecast with any reliability the international events and threats which will emerge in the future. As Enoch Powell observed – *'History is littered with the wars everyone knew would never happen.'*

## The Process of Budgeting

The UKNDA paper "A National Debate on Defence" of September last year explained why Defence expenditure is not the cause of the financial deficit. The graph below is clear on that point.



We do not suggest that a nation's economic circumstances should not be a factor in evaluating necessary defence; but the long recognised and approved approach to determining defence requirements involves a foreign policy led review of our strategic ambitions and obligations. It is then for the Cabinet, the Ministry of Defence and the National Security Council, independently advised, to consider the major potential risks and threats to Britain's security over the next 20 years and Britain's resultant strategic needs.<sup>4</sup> Only at this stage can they realistically consider what is specifically required from the Armed Services as opposed to the other levers of power- soft power for example. And when these two processes are complete the Government can address the costs to determine at what level to fund 'necessary' defence.

The Treasury has enough difficulty forecasting the economy, for which one would imagine it has some expertise. It has no defence expertise and hence should have no part in either the assessment of risks and threats, nor what capabilities the Armed Forces need for 'necessary' defence. Its role should be to ensure money allocated is spent wisely.

This is the very opposite of what has happened under successive governments. The funds allocated to core defence were over 4% of GDP in 1987/88, falling to under 3% in 1997/98 and to barely 2% today, with yet further damaging cuts in prospect. No serious military or political commentator believes that the 2010 rushed Strategic Defence and Security Review was other than budget driven. It was required to meet the 20th October deadline set by the Treasury for the completion of the 'Comprehensive Spending Review' (CSR). This, in effect, allowed the Treasury and the Cabinet Office, rather than the Ministry of Defence and Chiefs of Staff, to determine defence needs. It contrasts unfavourably with the 12-month 1997/98 Strategic Defence Review conducted by the Labour Government, which although not subsequently funded by the Treasury under Gordon Brown, had at least the merit of being both strategic and objective.

### **A Sound Economy Requires Sound Defence**

The government has argued that defence depends on a sound economy, and in the long term that is true. But equally, a sound economy depends absolutely on sound defence in the short and long term. The uninterrupted continuation of trade, energy supplies, access to raw materials, food even, international stability and a rules-based world order, all depend on sound defence. Thus a sound economy and sound defence are mutually interdependent.

Moreover, we return to the point made above; the current financial deficit has not been caused by defence spending, and neither will further defence cuts cure the problem.

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<sup>4</sup> These insights are set out in Professor Gwythian Prins' seminal study '*The British Way of Strategy Making – Lessons for Our Times*', an October 2011 'Occasional Paper' for RUSI and the University of Birmingham.

## The Collective Security Equation

We have long recognised that our security is bound up in the collective arrangements for security into which we have entered. For over sixty years we have depended on two key overlapping arrangements, the 'Special Relationship' with America and the NATO treaty. For this long period we have been America's most trusted and dependable ally, and our NATO contribution is second only to America's. This relationship is now in peril because of the underfunding of the Armed Services. We are losing the respect of US military and political leaders. This is an uncomfortable truth. Yet, as Professor Colin Gray has argued<sup>5</sup> :

*'The US is a hugely net positive security provider for Britain. The US alliance/connection – in all dimensions - is by far the best deal the British people can hope for. There are no good or even adequate alternatives (neither British isolation, nor Europe). The US alliance is mandatory, it is not discretionary.'*

We would also do well to heed the wise words of Sir Max Hastings in his 11th July 2011 seminal lecture to the Centre for Policy Studies on *'Defending the Essential Relationship – Britain and the United States'*:

*'In international relations, an ally is worth as much as, and no more than, the resources, and specifically military resources, it is capable of contributing towards implementing a shared purpose by force or threat of it.'*

This is a fact we cannot ignore in calculating 'necessary' defence. Suggesting that because Britain's defence budget, "the fourth largest in the world", is therefore adequate is not any sort of serious measure. We palpably do not have the fourth largest or most intimidating forces. The Libyan campaign confirmed our absolute dependence on America even for such a small-scale operation. The facts are that many nations, including potentially hostile ones, are strongly re-arming and our relative ranking will soon shrink; what matters is not that relative ranking, but whether our defence provision is adequate for our needs to meet the many threats to Britain and our allies.

For centuries we have been a force for good in an unstable world, and by any test the need for that is growing. What is the premium to be paid for this role and what will be the effect on our influence in the world if we forgo it?

## The Need for Steady and Predictable Funding

Since defence provision is necessarily long-term it is quite unsuited to a fluctuating budget. Major weapons programmes typically take 20 years to be conceived, designed, tested, built, and commissioned, and servicemen trained and given the necessary experience. Any temporary funding cut or postponement of large and complicated items increase costs (a major cause of the Labour Governments' overruns) and can cause immense consequent damage later in reduced or even lost capabilities. Nothing less than sound strategic planning and adequate stable expenditure can ensure long-term defence on the most economical terms.

There is one further vital point to make about defence needing very long-term commitment from government. We fight today's wars essentially with what predecessor governments laid down 20 years earlier. It is a sacred trust that each government, to the best of its ability, provides 'necessary' defence for the next

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5 RUSI Journal December 2008

generation. A Government must ask itself whether it is meeting this obligation. If it is cutting the defence capabilities which the next generation are almost certain to need in a world likely to be yet more unstable and dangerous even than today – all perhaps for relatively minor short-term savings to protect an unsustainable welfare budget - is it really fulfilling its principal duty?<sup>6</sup>

### **The Recruitment, Motivation and Retention of Quality Service Personnel**

The high technological nature of modern defence systems requires long-term career servicemen and women. They need to be highly trained, well paid, motivated, properly equipped and in sufficient numbers so that they and their families can cope with all likely operational demands. These conditions are currently far from being met in Britain's Armed Forces.

At the heart of our ability to “punch above our weight”, has been the excellence of our servicemen and women. Unlike in any other department of state, these public employees are recruited knowing they may have to make the ultimate sacrifice, something they have been doing in every year but one since the end of the Second World War.

As they have shown on numerous occasions, they can be substituted for other state employees who strike; they bring order into chaos - witness the foot and mouth debacle and the Olympic manpower shortages; they can be relied on because of their discipline, loyalty and skill to support Governments of all hues; and they have continued to provide service despite the relentless series of redundancies which have taken place since the end of the Cold War. No other government employees have served so loyally and suffered such cuts over such an extended period of time.

When considering defence funding for the future, these aspects must be factored in. Such loyalty and service cannot be assumed for ever; it has also to be earned by the Government through a long term commitment to the careers and well being of the personnel of the armed forces. Have we the right to ask our troops to substitute their courage for inadequate funding?

### **Defence Expenditure - an Economic Stimulus**

If and when there is a case for government funded economic stimulus, Defence is a particularly worthy candidate because it achieves two major national objectives simultaneously. Upgrading the long-neglected housing of the Armed Forces would greatly boost morale and use otherwise underemployed resources in the depressed construction industry; the Secretary of State's recent announcement in this regard is a good start, but only a start. Building new accommodation for troops withdrawn from Germany is a one-off “spend to save” measure, offering no evidence of a new budget trend. A significant pay increase for lower ranks is long overdue to compensate for the risks, hard life, and uncongenial postings compared with civilian life - and might discourage early leaving. Any pay rises would almost certainly be spent in full in the domestic economy, so raising economic activity.

Increased spending in the defence industry would also bring many significant benefits. The industry is the world's second largest exporter of defence equipment and is clearly one of Britain's strategic high technology industries accounting for 10% of manufacturing output (£22.1bn), 11% of exports (£9.5bn) and 17% of the global aerospace industry. Hence the industry deserves special support. A £100million

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<sup>6</sup> Daily Telegraph, 2 March 2013, 'Philip Hammond: cut welfare not troops' by Holly Watt

investment in the (UK) defence industry would generate an increase in gross output of £227million. For every job created in the defence industry, 1.6 jobs are created elsewhere in the economy. In 2010 the industry supported a total of 314,000 jobs. Conversely, any reduction in Defence would have precisely the opposite effect. These are important points to note in the present severe recession as the government urgently seeks economic growth.

Moreover, that same £100 million investment in Defence would generate a large tax return for government - including Corporation Tax, Income Tax, National Insurance and even VAT on employees' purchases. In a well researched and very detailed RUSI study of January 2012,<sup>7</sup> Professor Trevor Taylor and Dr John Louth discussed the value to the Treasury of defence spending within the UK. Noting the report of Oxford Economics<sup>8</sup> that of every £100 million spent in industry, £11.5 million returns to the Treasury in direct taxation, they calculate more fully the total return to the Treasury in direct and indirect taxation of defence pounds spent onshore in the UK as of the order of one third of the money spent. Paradoxically, offshore purchases instead provide similar benefits to competitor governments. Contrast this with an equivalent expenditure on the social security budget - where most expenditure would likely be on basics such as food, which carry little or no VAT and with little or no consequent tax return.

## CONFRONTING THE REALITY TODAY

### The defence threats overview

Just before relinquishing his appointment as Secretary of State for Defence in October 2011 Liam Fox stated:

*'...we live in a world in which our national and overseas interests are likely to be threatened in more places and by more people than at any time in the past.'*

More recently, the Foreign Secretary, William Hague, stated:

*'...the range of threats and dangers is, if anything, increasing.'*

And at the end of January, welcoming Australia's new seat on the UN Security Council, he described 2013 as a year which may bear witness to a

*'...perfect storm of crises converging on the Middle East.'*

The main threats can be summarised as follows:

- a. With a fast growing global population and the rise of a huge new global middle class the competition for food, water, energy and raw materials, is rapidly increasing, threatening large scale migration and conflicts.
- b. Iran is on the point of possessing nuclear weapons threatening Israel and the whole Middle East and risking a nuclear arms race.

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<sup>7</sup> Taylor T. And Louth J., 'The Destinations of the Defence Pound', RUSI Briefing Paper January 2012

<sup>8</sup> Oxford Economics, The Economic Case for Investing in the UK Defence Industry, Oxford (Oxford Economics),2009. For every £100m some 726 jobs would be generated within Defence with a total of 1885 jobs generated overall .

- c. Syria is near collapse and destabilising its neighbours.
- d. Israel is frustrating the establishment of a Palestinian homeland with unknown consequences.
- e. Russia is substantially rearming, seeking the same high-technology capabilities which Britain is reducing.
- f. Pakistan is an unstable nuclear power with uncertain allegiances to the West, allied ever closer to China and at risk of collapse.
- g. China is increasing its world footprint and is seen as hostile and threatening by its Asian neighbours.
- h. North Korea shows little sign of restraint in its nuclear ambitions and remains the source of missile proliferation.
- i. Islamic terrorism in one form or another remains a growing threat to Western nations.

This multiplicity of threats is on the rise; but as we have described, our ability to predict where and when they will materialise is fallible. We will certainly continue to be surprised.

Add to this that NATO Europe, already weak militarily, is further disarming, and that America is not only reducing its defence expenditure but also concentrating more on Asia/Pacific (60% of its military capability) in response to the Chinese armament programme, then a perfect storm is indeed on the horizon. NATO and America are facing armed forces with increasingly comparable high technology weapons, but potentially far greater mass. Add in Chinese cyber capability and space activities and we have a daunting prospect with the relative power balance shifting markedly against us.

### **Our Armed Forces Today**

The underlying trend affecting all three Services<sup>9</sup> is that they have been cut and cut for 20 years, and the cuts continue to the point where, in the words of Admiral Lord West, their combined ability *'...to protect the nation from the shock of the unexpected has diminished to a perilous degree'* and *'...we can no longer count on sufficient strength to influence global events, help to prevent war, and if war is inevitable, to fight and win at arm's length from our home territory.'*

There are still some strong capabilities such as the Government's clear determination to preserve our ultimate deterrent, the four-unit submarine-based nuclear missile system<sup>10</sup>. But this, as Lord West states, is our ultimate insurance policy, not a realistic war-fighting weapon nor a conventional deterrent - which is what is most frequently needed. As a largely political weapon these new submarines and missiles should not displace vital conventional capabilities, which are themselves a key element of deterrence at a conventional level. Moreover, the new nuclear weapons will now absorb a significantly larger proportion of the defence equipment budget

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<sup>9</sup> See *'The State of the Nation's Armed Forces'* a report by the UK National Defence Association by Admiral Lord West, General Sir Michael Rose and Air Chief Marshal Sir Michael Graydon, January 2013

<sup>10</sup> *The Alternatives to Trident carry an Enormous Risk'* by Philip Hammond, *Sunday Telegraph*, 3 February 2013, an important and convincingly argued article.

than when conceived, and the defence budget should be enhanced commensurately.

On 31 Jan 2013 the Defence Secretary published his Defence Equipment Plan 2012. Although some aspects, such as the inclusion of realistic contingency margins in procurement, are to be welcomed, it does nothing to restore capabilities discarded in the 2010 Security Review. The Armed Services need strong general-purpose flexible capabilities for no one can predict which Service or combination of Services will be needed to deter a future threat, or if it eventuates, to fight it successfully.

The Royal Navy will have no manned aircraft carriers until the end of the decade, a massive gap in capability, far too few destroyers and frigates (only 19 when the more realistic 1997/98 Labour Security Review said we need at least 32), insufficient 'Airborne Early Warning', too few supply ships, minesweepers and amphibious landing ships, too few sailors and insufficient stores, weapons and ammunition to sustain prolonged combat operations. ***In a conflict exceeding 6 months we could sustain only 6 surface combat ships on continuous operations.***

The Army is no better off. The announced 20,000 troop reduction to 82,000, and reliance on Territorial Reserves, means that the Army could field only 8,500 troops for an overseas operation of more than 6 months – far too small a mass for any serious conflict, and sufficient only for one small war at a time. There are concerns, too, over the ability to recruit Special Forces from this reduced number, and the need for these forces is rising. We could not have participated effectively in any of the prolonged conflicts of the last 20 years with such a small force. ***In a conflict exceeding 6 months we could sustain only 1 brigade on continuous operation.***

The Royal Air Force is in an equally poor state. In the last 20 years manpower is down from 90,000 to around 30,000 and fast jet combat squadrons from 30 to 11. Further, the Defence Equipment Plan entirely ignores long-range Maritime Patrol aircraft, essential for protecting our nuclear deterrent submarines when leaving or returning to Britain, and for gaining sea supremacy across the vastness of the oceans. Moreover, our vital air to air refuelling aircraft are approaching 50 years old, and their replacement by 14 Voyager aircraft raises questions over costs and numbers. In turn, such questions bear on our future deep strike capability now that the government has selected the shortest-range Lightning II Joint Strike Fighter with only 48 being considered for both the RAF and RN; moreover the costs of this programme are rising in worrying fashion. On the other hand there are some important improvements in the helicopter fleet, and the weapons capability of our existing Tornado and future Typhoon aircraft remain world class. Also, modern and capable transport aircraft are in service, or planned to be introduced; the C-17 which has been used successfully for a decade, and the A-400M which is still awaited. Finally, the Reaper remotely piloted aircraft is delivering outstanding intelligence for combat operations. Thus, there are some quality aircraft but far too few of them for comfort. ***In a conflict exceeding 6 months we could sustain only 2 attack squadrons on continuous operations.***

These forces are a fraction of what we fielded in two Gulf Wars. Who is going to make up the difference?

The Defence Secretary has just recently warned of the danger of further cuts to the armed forces.<sup>11</sup> This is to be welcomed but the facts are that, despite effective niche capabilities, Britain is already giving up the ability to participate in prolonged combat operations save on a small scale, and only one at a time. The risks in so doing are

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<sup>11</sup> Quoted in Daily Telegraph, 2 Mar 2013.

high. Implicit in this is the assumption in our present defence policy that nothing much will happen to threaten our security, that we can rely on the Americans, and that the rest of the world is disarming and becoming more peaceful. That hardly describes the world in 2013 and beyond.

In sum, there is a huge mismatch between the many and growing threats and the small planned 2020 military capabilities. Stopping further defence cuts is welcome but 'necessary' defence requires a larger provision.

## CALCULATING DEFENCE EXPENDITURE

We have attempted to show that for good reasons Defence cannot be treated as just another Government expenditure. The Prime Minister appears to agree:

*'We are agreed that the first duty of government is to safeguard our national security and support our troops... and we will fulfil that duty.'*

David Cameron and Nick Clegg  
Foreword to the Coalition's 2010 programme for government.

*'National security is the first duty of Government. Britain as a country continues to have global responsibilities and global ambitions. We will remain a first rate military power.'*

Current Cabinet Office Briefing Notes.

We have also attempted to show that defence expenditure is neither the cause nor the cure for the financial deficit.

We have examined the special considerations which should apply when calculating expenditure for 'necessary' defence, and we have reminded the reader that the solution lies in a clear and honest view of our ambitions and obligations for today and the future. There is no formula for this calculation; what can be said with some authority is that in the Cold War our contribution to collective security was recognised by our allies as convincing and sufficient to justify our influential position in international institutions, and that it ensured that the Special Relationship with America was strong. It was also sufficient, just, to enable us to meet our residual bilateral and historic treaties, to protect our global trade interests and territories, and to be 'a force for good in the world', on which our global influence depends.

Since that time, we have steadily reduced our defence capabilities with today's force levels at the lowest since the 1920s. This has been done despite threat level increases which have involved us in 8 wars in 20 years, continuous patrols at sea and the enforcement of no fly zones over Bosnia, and over north and south Iraq for over a decade.

We have chosen to take this risk because of choices made to pour money into Welfare, Education and Health, and latterly because of the financial deficit. Despite this deficit, Health is untouched and Welfare remains staggeringly high.

The task facing the Government is massive. Yet it has to recognise that the basis for its risk taking strategy for Defence - that America would always provide for our security - is now uncertain. The world has changed and President Obama, whose interest in Europe and indeed appetite for intervention abroad is uncertain, has another 4 years in the White House. As the Financial Times emphasised so recently:<sup>12</sup>

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<sup>12</sup> Gideon Rachman, Financial Times, 19 Feb 2013.

*'The US is fed up with a situation in which America alone now accounts for about three-quarters of NATO defence spending. One day, perhaps soon, the Europeans may wake up and find that the US military is simply not there to deal with whatever threat is lapping at the frontiers of Europe.'*

Against this background, it should be obvious that we are not allocating priority to the first duty of Government, and that we are underfunding defence. The extra funding necessary for adequate defence is relatively small compared with total government expenditure and GDP. At present Britain spends around 2% of GDP on core defence. The required increase for 'necessary' long-term defence requires expert strategic study and debate, but on the post-war historical evidence of Britain and other countries it is probably only of the order of a further 1% of GDP. In the circumstances described here, this cannot be unaffordable; it is a matter of political priority and choice. An increase could not be spent immediately; military investments have long lead times. It would take three to four years or more to increase defence expenditures to the required long-term levels, inevitably starting slowly. If the commitments were made now it would take to 2017 or later to achieve. Thus the burden on the government budget would not be immediately significant. However slow economic growth may be in coming, it will return to more normal levels with each passing year if the Government makes the necessary, indeed inevitable, cuts to its overall deficit.

The present risks to our security in the fall-away from force levels at the time of the first Gulf war, will not be immediately reduced. Nevertheless, potential enemies will note the change and resolve inherent in such a step, and this is likely to be cautionary. Moreover, this must surely be a better position to be in when pressing European allies for greater commitment to collective defence:<sup>13</sup>.

*'Europe's ability to use military force is dwindling fast, and with it the power of Europeans to defend their interests around the world. ... Europeans [may] get away with a modern version of the Glistrup strategy in which we disband our armed forces, order a takeaway and turn on the answering machine....'*

*'The risk is that Europeans may suddenly find that they need armed forces, after all – only to discover that they are not there any more.'*

Finally, if we are to have any future influence with America in shaping strategies and policies which could affect our security and prosperity, this above all other actions will be the most convincing that we could take.

If further cuts are imposed on defence in the upcoming Budget, not only will we put at risk the security of future generations and our influence in the world, but the incoherence of a defence policy - with a commitment to massive expenditures in the nuclear and carrier programmes, with crucial capability gaps, and with force levels in a majority of fields at token level - will be exposed for all to see.

It appears that Philip Hammond has concerns which are not so different to ours:<sup>14</sup>

*'I shall go into the spending review fighting the case for the defence budget on the basis that we have made very large cuts to defence ... We can't go on doing that, with further reductions, without having significant impact on military capability.'*

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<sup>13</sup> Gideon Rachman, *ibid.*

<sup>14</sup> Defence Secretary, Philip Hammond, quoted in Daily Telegraph 2 March 2013.

However, Mr Hammond, actions speak louder than words.

Let us leave the final word to Andrew Roberts from his introduction to our papers of last September:

*'It seems astonishing that politicians themselves should not want a stronger military, as that, and only that, gives them a voice worth listening to in the councils of the world.'*<sup>15</sup>

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<sup>15</sup> Andrew Roberts in *A National Debate on Defence*, by Sir Michael Graydon et al, UKNDA, Sep 2012.

The views expressed in this paper are those of the authors and not necessarily those of the UKNDA.



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