

INCONVENIENT TRUTHS – THREATS JUSTIFY PRIORITISING DEFENCE



'Be prepared'

- Motto of the Scout Association, 1908

'Mass matters – and we don't have it'

– General Sir Michael Jackson, February 2006

by

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A UKNDA REPORT

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FOREWORD

by Bernard Jenkin MP

In the aftermath of Iraq, and as the campaign in Afghanistan grinds on, there is new life in the “little Britain” argument that “we should stop fighting major wars outside the European theatre.” This may seem attractive but is based on a misrepresentation of recent history and misunderstands what “defence” is and what our armed forces are for.

I heartily commend the authors of this paper for setting out the rationale for spending more on Defence. Nobody in this excellent paper advocates “fighting wars”. It is the worst fallacy in the defence debate that the choices lie somewhere between “fighting wars abroad” and shutting our eyes to the rest of the world so we simply look after the home turf. One of the reasons that SDSR is so disastrous is that the choices seem to have been framed upon this asinine, sub-GCSE mentality. This is not a choice between large armed forces with lots of wars abroad, or small armed forces and no conflict. Sadly, we have become inured to the idea that the sole purpose of the armed forces is to use them in anger, but their prime purpose should not be “liberal interventionism” but to influence and to deter. As Sun Tzu points out, supreme excellence is not to fight and to conquer all your enemies in battle; it consists in breaking the enemy’s will without fighting. Even the nuclear deterrent only has utility within a context of rational defence. It becomes less and less credible if you cannot do very much to deter aggression in the world short of threatening nuclear Armageddon. This is just one demonstration of the massive failure of strategic thinking at the heart of today’s politics.

You only start fighting a war when everything else has gone wrong. This is why the doctrine of “liberal interventionism” is mistaken. Military intervention as a deliberate tool of foreign policy might have suited the Romans, but it tends to madness in the modern world. It is fraught with risk. As the great German General Von Moltke commented, no plan survives first contact with the enemy. The question is not “whether or not to fund major wars outside Europe”; the whole point of possessing defence capability is to be able to deter aggression without fighting – in other words not to make war but to keep the peace. And the point is that it is so much cheaper to do this, than to get it wrong and to have to resort to force.

We do not wish to maintain a major military presence in Afghanistan after 2015. We should not be preparing to increase our footprint in Iraq. We don’t have secret plans to invade Iran! We do not harbour ambitions to back reconstruction in Libya with “boots on the ground”. These are not practical, let alone affordable options.

But it is wholly wrong to conclude from this that expeditionary capability at scale (that is, the ability to operate without host nation support, with all three services and, say, 10,000 personnel) has no utility. Defence capability is not just about having an “insurance policy”. It is about who we are as a nation, how determined we are to use our influence to advance our interests, and how we as a nation project our values and aspirations. Our armed forces are one of the best things about the UK. They embody our history and resilience and represent our confidence and determination to succeed in the world, not by bombing and shooting, but just by being the best in the world. They are admired. They are also feared: they deter. But only because, ultimately, they can fight.

In a world where so few democracies have this capacity, and in which the UK continues to play such a disproportionate role in global stability and security, the question is not whether we can afford to sustain this role, but whether we can afford to abandon it, without taking real risks. Which nation fills the void that we leave? If we continue to cut back the Royal Navy, who will mount the naval anti-piracy patrols off Africa? Who will protect our shipping? Must we become more beholden to Russia for gas supplies? If we cut our commitment to NATO, who will lead in NATO? Why should any other member state not cut as well? The ugly truth is, as Leon Trotsky put it, *“You may not be interested in war, but war is interested in you.”*

We want more defence, not because we can predict future threats, but precisely because we cannot. When was the last time the UK was involved in a war which was predicted? World War I was known as the “war to end all wars”. It was not to be. In 1927, Winston Churchill claimed that war with Japan would be “unthinkable”. It only took 13 years to prove him wrong. It was erroneously believed in the 1930s that the UK would have at least three years’ notice of any major war. That was wrong. Even in 1938, there was denial there would be another war with Germany. We failed to anticipate the invasion of the Falklands until it was happening, and the invasion of Kuwait.

One of the failures of SDSR is that it assumes that threats can be known in advance. And they pretend to understand the known unknowns. And what about the unknown unknowns: the wicked threats, which come out of the blue? If history was predictable, then defence would be easy and cheap. In today’s world of such complexity, and social, political and technological change, defence must be about being prepared for what we don’t expect and cannot anticipate. When something happens, you have to make do with what you have got. Hopefully, by being better prepared, we make the unexpected less probable.

The MoD is already suffering a 17 per cent cut in funding over the CSR period. It must not only absorb the eight per cent reduction in Treasury funding, but must claw back the £38 billion overspend inherited from Labour. It is already clear that the "Force 2020" goals set out by SDSR are unachievable even with an increased in budget after 2015 (which is by no means assured). This is not an argument to cut even more. A mere 2.5 or 3 per cent of GDP for defence is a very small price to pay to protect the freedom, security and prosperity that we too easily take for granted.

The real question is about what sort of nation we want to be. Is the UK simply to become just another European country, with our head in the sand, pretending that things happening outside Europe are of little consequence to us? If we were to quit the field as a global player, who would take our place? Other nice countries, or nastier ones? The US is already threatening to become more isolationist, yet they are the only guarantor of European security. If the UK gives up on NATO, by cutting our defence budget, so we are even less capable of contributing to US and global security concerns, why should the US continue to bother with us?

The reason we are a global power and must seek to remain one is not just historic. Our interests are global. Our political reach and influence is global. Our trade is global. One of the disasters of SDSR is how much it neglects the simple fact that we need maritime power to project our influence so we can protect our trade and energy supplies. There is no sign that any other EU power, except perhaps France, is remotely prepared to think about this.

The Chichley Professor of History at Oxford, Hew Strachan, has remarked that the UK has not been so complacent about the possibility of future conflict since the mid-1930s. Some people flatly assert that nobody is threatening the UK homeland at present. Ergo, we can cut defence. I would remind them that it is far cheaper to spend enough on defence to be able to prevent wars, than to lack the right means at the right time and to finish up having to fight them.

EXECUTIVE SUMMARY

THREATS AND DEFENCE

Libya has, so far, been a great political and military success. According to some, it vindicated SDSR and demonstrated the importance of the Anglo-French Agreement. Yet the inconvenient truth is that, despite the fine performance of our armed forces, it was only feasible if US forces first destroyed Libyan Air Defences, and then provided 75% of all air support missions. The Government must now be honest – with themselves if no one else. Is the UK to be a competent player in the world stage or just a bit-player only if and when the US agrees, and participates?

Dr Liam Fox stated recently, *'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.'* Surely then, the greater the threats, the greater the needs?

Not only are the sources of conflict becoming more diverse, so too are their methods and means, many of which have a severe impact on our way of life. Recall, for a second, that both the '67 and '73 Arab-Israeli Wars each resulted in a doubling of the price of oil and precipitated a global recession that lasted a decade. Now the Middle East is again in turmoil: as recently as Friday, 9th September, Egyptian extremists invaded the Israeli embassy in Cairo; Turkey has firmly turned against Israel; and Syria is a cauldron of agitation – and all this against a backdrop of an 'Arab Spring' whose revolutionary, even extremist, course has yet to be played out. As we write, the world population has probably just passed 7 Bn, up from just over 1 Bn a century ago; all require food and an increasing share of declining world resources, particularly oil. Forty percent of that oil transits through the Straits of Hormuz, increasingly threatened by an aggressive nuclear Iran who, with nuclear North Korea, deploys ballistic missiles that threaten Israel, Europe and other allies.

Though NATO might buy Afghanistan a breathing space, few remain optimistic about her prospects beyond 2015 when a resurgent Taliban could so easily disintegrate both that country and the nuclear-armed Pakistan. A collapsing Pakistan would inevitably draw-in China, against a confident and nuclear India. The knock-on effects would be incalculable but might so easily ripple throughout South East Asia, two of whose states are protected by the UK's Defence Arrangements.

Then there is the so-called basket-case of Sub-Saharan Africa, from where so many of our essential minerals are extracted, often under the auspices of corrupt and dictatorial governments. Quite apart from Sudan, Somalia, Zimbabwe, the Congo, Cote d'Ivoire etc, we have to respond to the increasing problems from large-scale piracy and the mass migration to Europe as countries collapse and disintegrate.

These factors mean that we inevitably face increasing challenges, functionally as well as geographically. Terrorism remains highly attractive, particularly if employing chemical or radiological weapons or if targeted against vital interests. In particular, our electronic infrastructure, so critical for our economy, is vulnerable to attacks by hackers, by anti-satellite systems and even by Electro-Magnetic Pulse weapons.

The latest National Security Strategy 'A Strong Britain in an Age of Uncertainty' acknowledges that we live in an age of uncertainty, yet still emphasizes our ability to 'spot and deal with emerging risks before they become crises.' Sadly, none of the crystal ball-gazing done by Whitehall seems very accurate. Not one of our recent operations was anticipated and on each occasion troops had to be diverted from other tasks. None of the 3 recent National Security Strategies foresaw even the possibility of an Arab Spring yet this revolution began just 4 months after the most recent was published.

Britain fought for her very survival once in the 19th and twice in the 20th Centuries. While that risk now seems very remote, so too did it in 1788, 1913 and early 1938. Under successive governments Britain is now living under a *de facto* '10-Year Rule' - no threat for at least 10 years. While this may have been logical when it only took a few years to design, build and deploy a Spitfire, such notions make no sense when it takes 20 years for a modern weapons system. Perhaps we now need a 20-year Rule? But if politicians failed to react to the threat from the rise of Hitler how much less likely are they to anticipate 20 years ahead? The inescapable logic is that we must maintain robust and effective forces in-being – across all 3 Services.

Our nuclear submarines provide deterrence but so too does conventional capability, often by giving real muscle to our diplomatic efforts to prevent and contain threats. It is far more cost-effective to deter conflict than to fight, and vastly cheaper than losing! Currently, only the USA retains the ability to fight a high intensity war across the full spectrum, though China and Russia are not far behind. We now have incomplete Armed Forces weakened by 20 years of cuts, with whole capabilities (e.g. Nimrod) missing and many of those that remain reduced to token levels. Even alongside the French and our other allies we cannot act alone. Potential

enemies cannot but notice this, and as our forces reduce and our political will weakens, we will be confronted more, not less often. The European force is largely show, pitifully weak, unsustainable and hollow. For us, having an effective future force of just 5 brigades, a hundred or so combat aircraft, one part-time carrier, maybe 5 attack submarines and perhaps 12 frigates is hardly likely to deter much and only makes sense from under an American umbrella. However, that umbrella may soon be lost as Europe does ever less and the US, frustrated by diminishing European support and near bankruptcy, becomes progressively more Pacific-orientated.

As threats mount and defences decline so our security ebbs away. No government can control these threats, only react to them. Since there is little practical choice, Defence must be funded and treated differently.

WHY DEFENCE IS DIFFERENT AND JUSTIFIES THE HIGHEST PRIORITY

History suggests that only lip service is paid by political parties to the proposition that defence is the first priority of government. It is one of very few services that must be provided and directed wholly by government; health and education, for example, have significant private providers. Governments of the last twenty years are no exception. They claim that the funding provided, despite continued cuts in defence spending, is fully sufficient for Britain's global role. They are deaf to the virtually unanimous contrary view of informed politicians and military experts. As the front benches of all parties have virtually no military experience and appear to be in denial on this matter it is timely to reconsider the proposition.

There are ten main reasons why the security of the nation - defence for the purposes of this report - should be the first priority of government. First, and most importantly, without adequate defences nothing else in national life can be enjoyed in safety and confidence. It is an irreplaceable societal insurance which guarantees everything else. To provide less is effectively to surrender. Once the contribution from allies, and all other options are taken into account, there will remain an irreducible minimum cost for the adequate defence of the country. That minimum defence expenditure –which guarantees our national security – represents the best value possible of all forms of public expenditure.

Once identified that minimum must be fully funded even in a severe economic crisis because, by definition, no other public service can be enjoyed without it, and no other government

expenditures offer such a high return. **Had funds the Chamberlain government belatedly spent on defence gone instead on new hospitals we would have had the finest health service in Nazi-occupied Europe.**

Second, while a sound defence depends in the long run on a sound economy, a sound economy depends, in the short, medium, and long term, on sound defence. It safeguards trade, energy supplies, food and raw materials, and underpins international stability.

Third, as we have argued, defence is dictated by external threats not in government control. Freedom, peace and prosperity depend on forestalling the hostile actions of others. The greater the dangers the greater the defence needs.

Fourth, most major threats are uncertain and unpredictable. The seven wars from the Falklands in 1982 to this year's Libyan war came as surprises. More surprises can be expected from the continuing 'Arab Spring'. These uncertainties can be met only by providing sufficient flexible capabilities and proper contingency reserves in all three Services for no-one knows which Service will provide the principal capability for future emergencies. Judging potential threats and what is needed to meet them requires considerable military, historical and political expertise. Facing up to uncomfortable truths is essential if we are to avoid expensive and possibly catastrophic mistakes.

Fifth, an adequate defence posture is the pre-condition for the continuation of our collective security on which our defence depends. The twin pillars of our defences for over fifty years, the 'Special Relationship' with America, and a strong NATO, are now in serious peril because of our continuing defence cuts and those of our European Allies. Only Britain and France still meet the inadequate NATO minimum requirement of 2% of GDP defence. We are steadily losing the respect of US military and political leaders on which our politicians rely for much of their status in the world. This is an uncomfortable truth. The same applies to NATO's European members who have wavered in their commitment in Iraq, Afghanistan and Libya. The respected former American Defence Secretary, Robert Gates, has warned NATO Europe of America's unwillingness to continue support unless Europe contributes far more to her own security and shares fully in combat responsibilities. America's essential contribution in Libya may well be the last unless there is a major reconsideration, as America is no longer willing to fund 75% of NATO's military budget and, as the balance of power shifts, is refocusing on China and Asia. Further, under severe economic pressure, America's defence budget is shrinking. The Government must acknowledge these clear threats to Britain's status and security and address them as the highest priority. It must also cease pretending that the

relative size of the defence budget is the main yardstick; we palpably do not have the fourth largest or most effective forces. Libya confirmed our absolute dependence on America. Our lack of any clear Defence Industrial Strategy adds to this outcome.

Sixth, defence is inescapably long-term, requiring steady committed funds. It is quite unsuited to a fluctuating budget. With major complicated weapons programmes taking typically 20 years to reach fruition, postponements add greatly to costs and explain many overruns.

Seventh, a long-term defence commitment is necessary to attract, motivate and retain quality service personnel which the highly technological nature of modern defence systems requires. Because of the major and continuing cuts any belief that attractive long term careers are available in the armed forces is fading fast.

Eighth, *in extremis*, temporary defence cuts might have been acceptable if defence had been generously funded for many years, or if all potentially hostile nations were also budget constrained. Neither condition applies.

Ninth, defence is an excellent form of economic stimulus because it achieves two major national objectives simultaneously. Any stimulus- such as improving Married Quarters - would greatly boost falling Service morale, using idle resources in the depressed construction industry; and would strengthen one of Britain's largest strategic high technology industries, a major source of employment and exports.

Tenth, providing for optimum defence would not, in reality, be a frightening burden on the nation. The extra funding necessary for adequate defence is relatively small compared to total government expenditure and GDP. At present Britain spends around 2% of GDP on defence. The required increase for adequate long-term defence requires strategic debate but is probably around 1% GDP. In the pressing circumstances described above this cannot be unaffordable. Providing an extra 1% does not require axing other government expenditures, but rather prioritising future revenue increases. In any case, this money could not be spent immediately as military investments have long lead times. It would take three to four years to return defence expenditures to optimum long-term levels, starting slowly. Hence, if the necessary commitment were made now it would take to 2015 or so to achieve. Thus the burden on the government budget would not be immediately significant, particularly as economic growth returns. Any small temporary burden could be easily accommodated, and be eminently saleable to voters.

FINDING THE NECESSARY FUNDS

Even though adequate defence needs only around an extra 1% of GDP, built up slowly over 3 to 4 years or so, careful consideration should be given to how the extra funds could most sensibly be found even in the midst of the current severe economic crisis. The radical and highly successful Canadian achievement in the early 1990s deserves to be studied and emulated. That government reduced a 9% of GDP annual deficit and a national debt of 70% of GDP, comparable to Britain today, within only 5 years. At the end of that time there was even a small fiscal surplus.

As the Canadians found, in addition to spending cuts, adequate defence funding rests on accelerating economic growth. This requires the successful policy of introducing sensible competition into the provision of most public services; the proven policy of cutting general taxes, particularly on wealth creation (the Canadian experience, that of President Reagan in America between 1981 and 1988, and that of Margaret Thatcher in 1980s Britain, all attest to the efficacy of well-targeted tax cuts for stimulating economic growth); and a major reduction in our vastly overcomplicated planning regulations. This last policy will require repatriation of power from the European Union.

The last and major handicap to economic growth is the Government-imposed burden of climate change, especially its impact on the vital manufacturing industry to which it looks to spearhead economic growth. This burden, based on often questionable scientific evidence, is far more onerous than in any other nation – all this while the main polluters, America, China and India, are doing little. Even if it turns out that *CO₂ is indeed the principal agent of climate change*, we are imposing a major handicap on British competitiveness for negligible global benefit. The Government can stimulate manufacturing competitiveness and growth or impose its present draconian climate control policies, but it cannot have both. It should think again.

Given the necessary realism, pragmatic policies and political will, the Government can provide for adequate defence at a relatively modest and entirely affordable cost. It should now act accordingly. Adequate defence does indeed justify the highest priority – in bad times as well as good.

MAIN REPORT - AN INCONVENIENT TRUTH

1. INTRODUCTION

Defence needs are driven by external forces and the threats they pose to Britain's future. The greater the threats the greater the need for sound defence – on which the safe enjoyment of everything else in national life depends. Adequate defence funding therefore must be the first priority of government. This report considers first the extent and seriousness of the potential threats facing Britain, threats which the Secretary of State for Defence, Dr Liam Fox, set out starkly in the 2nd November 2010 House of Commons Defence Debate, and has repeatedly referred to both in Opposition and since.

Next it considers in some detail the most cogent reasons why adequate defence is different from all other government expenditures and, because the relatively small sums involved in a national context are eminently affordable, justifies the highest priority. Finally, it addresses where the essentially modest required funding – *circa* 1% of GDP – can most sensibly be found.

2. THE THREATS

*'Good national strategy must ...recognise the critical importance of perceptions in international relations. As we visibly reduce our capacity to defend and advance our interests, and as the public and political will to do so dissolves away, we will find ourselves confronted more, not less often.'*¹

2.1 An age of uncertainty

The National Security Strategy 'A Strong Britain in an Age of Uncertainty' emphasises in its title that we live in an age of uncertainty, yet still places great emphasis on our ability to 'spot and deal with emerging risks before they become crises.'² However, the Strategy did not

¹ *The Tipping Point, British National Strategy and the UK's Future World Role*, Bernard Jenkin and George Grant. Henry Jackson Society pamphlet 2011.

² National Security Strategy, Oct 2010, pp 5 *et seq.*

foresee even the possibility of the 2011 Arab Spring, yet that revolution began just 4 months after the paper was published. That does not mean that forecasting is pointless. Analysing and understanding a risk can offer the opportunity to deter or neutralise it before it evolves into a crisis. However, any risk that was not considered clearly cannot be negated, and any escalation thus comes as a nasty surprise as risk evolves into toxic threat.

2.1 Preparation to meet the threats

Preparing our Armed Forces to meet all the contingencies they may encounter inevitably requires a fair amount of crystal ball-gazing. The problem is that none of the crystal ball-gazing done by our experts in Whitehall seems accurate. Since WWII not one of our conflicts has been forecast, and all crises have required the reassignment of forces from other tasks.

2.2 Not within our control

Though they might wish it otherwise, effectively the British Government has little control over global threats; however, the Government does have a choice in how it prepares for the uncertainty ahead, and how it reacts when situations become threatening. In the 2nd November 2010 Defence Debate, Dr 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.'*³

Yet the SDSR response to these diverse and increasing threats has – illogically – been disengagement, loss of capabilities and the smallest armed forces of modern times. And lest we think that success over Libya justifies our new reduced posture, let us recall that it could not have been begun without comprehensive US support and proved unsustainable in the long term – witness the grave concerns expressed by the most senior naval and air officers over the implications from the length of the campaign.

³

Dr Fox, quoted in Hansard, 2 Nov 2010 Column 788.
<http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm101102/debtext/101102-0001.htm>

2.3 Prevention is better than cure

An amount equivalent to $\frac{1}{3}$ of the total defence budget is allocated to Overseas Aid, but there seems little tangible link between our overseas charity and any benefit to national security. Arguably, by fostering population growth, by giving to those who already have capable militaries or (even inadvertently) by funding tyrants, we may be achieving the opposite of that intended. Meanwhile, British military forces have been cut, whole capabilities have been lost and the strong message given to potential foes is that Britain is weakened and withdrawing. This weakness increases the risk – as the adage runs, while “the strong do what they can; the weak accept what they must”.⁴

2.4 A muddled defence review

In part, the Strategic Defence and Security Review (SDSR) muddles methods and tasks, confuses capabilities and policies and fails to differentiate between long term strategic need and short-term necessities. The allocation of risks to Tiers (and hence funding) appears politically motivated and judgemental with no attempt at quantification. For example, the risk from a thermo-nuclear weapon killing 3 million people sits comfortably alongside a ‘significant increase in organised crime’, while disruption to essential ‘oil or gas supplies’ or ‘international supplies of resources (e.g. food, minerals)’ are both consigned to the lowest Tier, almost as if an Iranian threat to 40% of the world’s oil was of little consequence! We believe that the National Security Risk Assessment (NSRA) needs to be genuinely strategic in outlook, not just a hobby-horse for vested interests. It requires continuous review, not just the biennial review planned. The problem is that each reassessment could well require a new SDSR, that is, unless we prepare for threats in a far more general way, acknowledging uncertainty, and preparing all 3 Services robustly, both for threats wherever our vital interests are threatened and those targeted against our essential infrastructure.

2.5 Cyber

Modern reliance on software and communications creates a vulnerability of astronomical proportions – literally as well as metaphorically. Even localised failures can easily paralyse whole systems. Links can be infected, jammed, exploited or used in new and unhelpful

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Paraphrase of Melian Dialogue, Thucydides, *History of the Peloponnesian War*, Penguin Classics. P 402.

ways. Cyber attack is a newly recognised threat to our whole way of life but, since other threats have not diminished, any additional funds (£650m thus far) need to be found from the Treasury, and not from existing programmes.

2.6 Space

In parallel, the West is wholly dependent on space-based communication and other systems for the economy, information, navigation and reconnaissance, to name just a few. Space systems have long been substitutes for more expensive surface systems and all developed countries now rely on them. Unfortunately, this success is built on great vulnerability. China has now demonstrated an anti-satellite weapon for kinetic kill in low-earth orbit, and other systems such as lasers are becoming increasingly effective in destroying satellites.

2.7 Electro-Magnetic Pulse (EMP)

A nuclear detonation in space would create a huge Electro-Magnetic Pulse, inducing sudden high-voltage currents in all micro-systems out to a range of approximately 1000miles, burning out printed circuits both in space and on the ground. So far, this risk to civilian and military circuits has been largely ignored. For our enemies this represents a cheap, albeit politically sensitive, option.

2.8 Ballistic Missiles

At the November meeting of NATO members in Lisbon, delegates authorised the establishment of an anti-ballistic missile system to counter threats from Iran and others. Britain is currently just out of (Iranian) missile range but it would certainly not be immune to the after-effects of any missile attack on Europe. According to Mr Gerald Howarth MP⁵, 'The Government assesses NATO Ballistic Missile Defence to be an important capability which could contribute to the defence of the UK and our NATO allies against potential future ballistic missile threats. As stated in the SDSR, we intend to support proposals to expand NATO's ballistic missile defence role'⁶.

⁵ He is currently Parliamentary Under-Secretary of State at the Ministry of Defence as Minister for International Security Strategy.

⁶ Hansard, 29 Oct 2010

2.9 Deterrence

The government fully accepts that the likelihood of a nuclear exchange is relatively low, at least for the time being. However, the risks from a nuclear exchange are extreme, necessitating a permanent deterrent. This is right. What it seems unable to accept, however, is the same deterrence aspect of having potent forces. At the very least conventional power gives real muscle to our diplomatic efforts to deter, contain or reduce conventional conflict. As nuclear deterrence deters nuclear war, so too does conventional capability deter conventional war, with any reduction in conventional capability inevitably lessening our conventional deterrent posture. Given that all European Allies have cut their defence expenditure, with the sole exception perhaps of France, what is left is seen as little more than a training camp for conscripts. Only the USA retains the ability to fight a high intensity war across the full spectrum, though China and Russia are not far behind. Potential enemies cannot but notice this and most of the talk of much vaunted NATO 'new strategy' does not hide the fact that much of the European force is largely show, pitifully weak, unsustainable and hollow. Allied capabilities and sustainability in Libya have borne this out⁷. US forces were essential in suppressing Libyan air defences and in destroying control nodes. Thereafter they provided three-quarters of all air support.

For us, having an effective future force of just 5 brigades, a hundred or so combat aircraft (of all types), one part-time carrier, maybe 5 operational attack submarines and perhaps as few as 12 frigates is hardly likely to deter or give much muscle to our diplomacy, and only makes sense from under an American umbrella – an umbrella that may soon be lost as Europe does ever less and the US, under severe economic pressure, turns from NATO and becomes progressively more Pacific-orientated.

2.10 Terrorism

The risk from terrorism needs detailed consideration. Though terrorist attacks have high iconic value (as intended) the actual quantifiable risk is relatively low. Even the 9/11 attack, highly regrettable though it was, only killed 3,000! In contrast, a chemical, biological or nuclear (CBRN) attack by terrorists could easily cause deaths in millions and it is upon the

⁷ Defense Secretary Gates' Valedictory Address to NATO: "the mightiest military alliance in history is only 11 weeks into an operation against a poorly armed regime in a sparsely populated country – yet many allies are beginning to run short of munitions, requiring the U.S., once more, to make up the difference."

latter that the greatest effort must be focused. Coordination of (national) police, military forces and intelligence services needs to be fully funded, properly commanded and regularly exercised.

2.11 Afghanistan

Afghanistan has been given overwhelming priority because, after public dismay over inadequate funding by successive Labour governments, it is too dangerous politically to do otherwise. That, combined with the determination to make overall defence cuts regardless of the consequences means all other defence expenditure has been cut disproportionately. The coalition government is adamant that the UK will cease combat operations by the end of 2014, with the US planning to do the same. This lack of long-term commitment gives comfort to our enemies and allows them to pretend to negotiate, whilst still planning for an offensive in 2015/6. As central authority collapses, civil war between warlords and the Taliban is almost inevitable. Taliban success in Afghanistan could easily have the knock-on effect of destroying (the reputation of) NATO, and in weakening a fragile Pakistan which could easily implode.

2.12 Pakistan

Pakistan is the 'epicentre' of Islamist extremism.⁸ The government has lost control of many cities and most of the tribal areas. It is riddled with madrassas that train for little except Jihad. With little prospect of economic success⁹, it is dangerously unstable. Pakistan may have 60 nuclear weapons or more and, were there to be a severe shock such as Western failure in Afghanistan, or war with India¹⁰, the country would likely collapse in either an Islamic revolution or another military coup. Even now, the army is a state within a state, with the intelligence services (ISI) separate and highly influential. Pakistan faces the impossible task of appearing to support the West whilst, at the same time, preparing for the return of the Taliban in Afghanistan that it considers almost inevitable. Meanwhile Kashmir remains a

⁸ Dr. Larry P. Goodson, *PAKISTAN - THE MOST DANGEROUS PLACE IN THE WORLD*, U.S. Army War College Strategic Studies Institute, July 2009

⁹ To compound Pakistan's woes, the Indus valley was ravaged by monsoon floods in Aug 2010, and again in Sep 2011, affecting up to 20 million people.

¹⁰ See Economist May 19th 2011,

festering sore and while India seeks to become involved in Afghanistan, Pakistan turns increasingly to China.

2.13 Egypt

With a ballooning population, a weak economy and little fertile land, Egypt is an ideal recruiting ground for extremists such as the Muslim Brotherhood. The military coup of 2011 will not solve any of these basic challenges, and further instability must be feared. Any insecurity in Egypt would inevitably have a knock-on effect for Israel and could destabilise the entire oil-rich¹¹ Eastern Mediterranean basin which would include Turkey (NATO member) and Cyprus.

2.14 Syria

As Syria collapses the risks of knock-on grow. If Bashir al-Assad learned anything from his father (Hafez), it was the use of military power to suppress a population to allow his Alawite oligarchy to retain power. Increasing suppression inevitably means that the revolution when it comes will be even more bloody and chaotic. The implications for Israel are uncertain, but a Syrian attack could easily destabilise Lebanon, Gaza, Palestine and Iraq and encourage extremists in Egypt and Jordan as well.

2.15 Iran

Although the majority of the population of Iran may be ambivalent towards the West, they are led by a die-hard regime determined to cling on to power by inflaming xenophobia as a means of retaining power. Already a state-sponsor of terrorism, an embryonic nuclear power and a regional hegemon, Iran has ambitions to neutralise Israel and foster instability in regions where there is a significant Shi'ite minority (e.g. Bahrain). Iran is increasingly supported by Turkey who was until recently one of Israel's friends. Iran's coercive options are to foster terror attacks in the West, in Israel and in Russia. In addition she has the option of closing or threatening to close the Straits of Hormuz, through which up to 40% of the world's oil passes. Iran's Navy, one of the region's most capable, can temporarily disrupt

¹¹ Exploration is currently beginning to the South of Cyprus, in an area between Israel and Egypt. Oil and gas discoveries in the eastern Mediterranean are ratcheting up tensions in a region that already has its fair share of pernicious disputes. <http://www.worldpoliticsreview.com/articles/6903/oil-and-gas-finds-fueling-tension-in-eastern-mediterranean>

maritime traffic through the Strait of Hormuz using a layered force of KILO and GHADIR Class diesel submarines, ship- and shore-based anti-ship cruise missiles and naval mines.¹² Iran announced the addition of four new submarines to its fleet on 8 Aug 2010, bringing the total to 11, saying the Iranian-manufactured vessels to be deployed in the Persian Gulf have sonar-evading technology and can launch torpedoes and missiles simultaneously¹³. 'King Abdullah of Saudi Arabia urged Iran's foreign minister to "spare us your evil" in a meeting that reflected profound Arab hostility to the Islamic Republic'.¹⁴ This insecurity is entirely understandable as Iran also threatens the Gulf monarchies that provide bases for the US or have relations with Israel. Indeed, Iran's first response to any attack might well be to occupy the oil fields of the Gulf.¹⁵ According to recent unclassified reports in the New York Times, Iran bought 19 advanced missiles from North Korea, ...The North Korean version of the advanced missile, known as the BM-25, could carry a nuclear warhead. ... Rocket scientists say the BM-25 is longer and heavier, and carries more fuel, [than current Iranian missiles] giving it a range of up to 2,000 miles. If fired from Iran, that range, in theory, would let its warheads reach targets as far away as Western Europe, including Berlin.¹⁶

2.16 North Korea

The old order is changing, and it is difficult to predict the route that the young Kim Jong-un may take – or even whether he will survive in the power struggles ahead. But at his disposal is a nuclear armoury atop medium range missiles, an army of over a million and a militia of 3.5 million. As a friend of Iran and an exporter of terrorism and instability, any actions that North Korea takes are likely to ripple across the globe, including to the Middle East and potentially into Europe as well. North Korea is entirely unpredictable and will, no doubt, continue to push the bounds with ever increasing outrages.

¹² Global Security <http://www.globalsecurity.org/military/world/iran/navy.htm>

¹³ <http://www.cnsnews.com/news/article/70728>

¹⁴ The Guardian, 28 Nov 2010: <http://www.guardian.co.uk/world/2010/nov/28/arab-states-scorn-iranian-evil>

¹⁵ <http://www1.albawaba.com/main-headlines/case-attack-iran-will-target-gulf-states-iraq-jordan-and-israel>

¹⁶ NY Times, 28 Nov 2010:

http://www.nytimes.com/2010/11/29/world/middleeast/29missiles.html?_r=1&adxnnl=1&emc=eta1&adxnnlx=1291060901-

ByTjolzgLxujawsCAb7WCA

2.17 Russia

Increasing military dialogue and cooperation demonstrate a new willingness on the part of Russia to help in the world. President Medvedev attended the Lisbon NATO summit in November but relations are still strained over the invasion of Georgia and the meddling in Ukraine. However, such cooperation might well evaporate were Putin to become President in 2012. Russia is already substantially rearming as its revenues from oil increase, and as instability on its southern border, and Arctic confrontation, loom. Defence Minister Anatoly Serdyukov announced recently that by the end of 2017, the number of professional troops will increase to 425,000.¹⁷ Russia is keen to procure precisely the high-technology edge in military firepower that the UK is reducing. Modern 5th generation aircraft, new aircraft carriers and stealthy submarines top the lists. Russia has recently signed a series of energy contracts with China and will, no doubt, continue to supply her with modern systems, such as the 5th generation PAK-FA stealth aircraft.

2.18 China

With a current annual growth rate of 9.6% per annum China is expanding economically across the globe and cornering the market in essential minerals. China already accounts for 46% of the world's coal consumption and similar levels for zinc and aluminium, and its appetite for raw materials keeps their prices up. To feed her population, she has bought sizeable tracts of land in Africa and South America, and has recently acquired part of Piraeus as a container port, bought a controlling interest in the Grangemouth oil refinery and bought 40% of Repsol's stake in Brazil. Though (presently) avowedly pacific, China has considerable ambition. China has established a 'Ring of Pearls' - a ring of bases that surrounds and worries India – and has ambitions against Taiwan, islands in the South China Sea and over Japanese islands near Okinawa. China's defence expenditure more than keeps up with her growth and this year plans to increase it by 12.7%¹⁸. At current growth rates, by 2015 she is likely to be spending an equivalent of almost \$250Bn on defence alone, with every \$1Billion spent in China buying far more than the same billion spent in the West. China has recently revealed its own stealth bomber, has announced that it intends to produce up to 5 aircraft carriers over the next decade, and is developing an anti-carrier

¹⁷ Ria Novosti 5 Jul 2011; http://en.rian.ru/military_news/20110705/165026894.html

¹⁸ FT, March 4 2011

ballistic missile. Although the US still vastly outspends China on Defence, it is against China that she must necessarily benchmark in the future – no doubt with fundamental implications for the US' commitment in Europe and the Middle-East.

2.19 Five Power Defence Arrangements (FPDA)

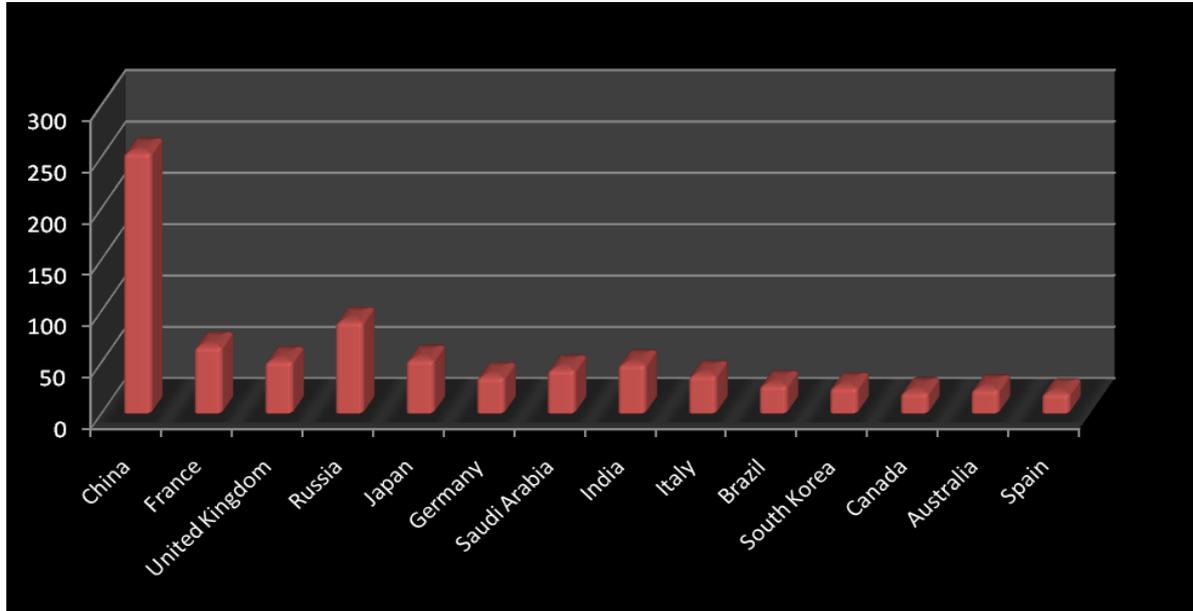
China has long had ambitions in the South China Seas, particularly over oil exploration areas near the Spratlys and Paracels. The FPDA are a series of defence relationships established by bilateral agreements between the United Kingdom, Australia, New Zealand, Malaysia and Singapore signed in 1971, whereby the five states will consult each other in the event of external aggression or threat of attack against peninsular Malaysia or Singapore. Apart from inclusion in one diagram, the FPDA is entirely absent from the SDSR. Why? Has the treaty then lapsed?

2.20 Argentina and the Falklands

Virtually all Latin America now support Argentina's claims over the 'Malvinas' as, seemingly, does the Obama Administration, with even Mrs Clinton now referring to the islands as the Malvinas. Britain is, therefore, alone on this issue. The Mount Pleasant/Mare Harbour complex is prepared for rapid reinforcement. However, the Government's plans rely on a few Typhoons, 1,000 soldiers, the odd destroyer, and the possible presence of a nuclear attack submarine to defend the complex for long enough for reinforcements to arrive. Once lost, the islands would be very difficult to retake, particularly with no air cover over a task force. Argentina, under Christina Kirchner, says it has no *aggressive* intentions towards the Malvinas, yet intentions can change in a trice, and Argentine staff college students still repeatedly re-plan a successful re-invasion! Oil in small recoverable quantities has just been found off the Falklands and this will exacerbate our relations with Argentina. It is not just the economic advantage that this oil represents, it is the uninterrupted of supplies in a world that is increasingly oil-hungry and oil-vulnerable. By 2020 Falklands oil will most likely be coming on stream and Argentina, perhaps in concert with her new friend, the Peoples' Republic of China, may well be looking with jealous eyes on this potential source of easy energy. Our assessment is that current force levels are inadequate to hold off even a small-size invasion; everything therefore hinges on accurate intelligence, timely threat analysis, swift decision making, and the availability of sufficient forces in the right locations. Not only is the oil at stake but so too is the fate of the islanders and, above all, Britain's global reputation. Though MOD 'keeps this under constant review', reinforcement is rarely practised (on cost

grounds). Despite assurances, this is still a potential disaster waiting to happen, and if oil is found in large quantities expect the worst!

2.21 Predicted Defence Expenditures



(\$Bn) In 2015, on current plans, effective defence budgets are likely to be as shown (US at \$661Bn not shown for clarity). As can be seen, by 2015 Britain sinks from the much vaunted 4th place to 6th, or maybe even 7th.

Despite politicians trumpeting the fact that the UK ranks No 4 in the defence expenditure leagues, the country is certainly not No 4 in military capability. Cost overruns, delays and revised contracts account for much of our fruitless expenditure. For example, £3.4Bn spent on Nimrod MPA was, quite literally, thrown away when the unused aircraft were cut up for scrap without ever being used. Worse, on current plans, and if nothing else is done, Britain will slip by 2015 to No 6, or maybe even lower.

2.22 Potential Worst Cases

As discussed, none of the five wars since 1990 was predicted - and staring into a crystal ball now is probably likely to meet with similar success. However, the following four (not entirely unlikely) scenarios are posited to provoke thought about how British Forces might react, be allied, and measure up:

2015 Peak Oil. Hezbollah conducts a plausible deniability attack on Israel using Iranian-supplied nuclear contaminants. Retaliatory strike by Israel against Iran. Iran closes Straits of Hormuz and then occupies

Gulf oilfields. Oil trebles in price. Fuel rationing in Europe. AQ terrorist attack on Western bourse/cities. Deep recessions across world. Euro collapses...

Oil doubles in price after Peak Oil. In 2019 Argentina's economy collapses. Demands Falklands oil and sovereignty. China promised share of oil won. China deploys terminally-guided IRBM to Comodoro Rivadavia, SA-20 to Patagonia. Threatens RAF Mt Pleasant unless... UK has no ABM capability. Reinforcement impossible. Government falls...

2020: China takes Taiwan against US threats; occupies Spratlys and Paracels. Malaysia threatened - invokes FPDA. Australia moves JSF to Kuantan¹⁹. Britain asked to implement Treaty; only French carrier available...

2017: US & UK withdraw from Afghanistan. Taliban assumes power. Pakistan collapses in turmoil. India destroys Pakistan's nuclear facilities. China threatens retaliation. India destroys "ring of pearls" in Burma and Bangladesh. China...

Quite likely, the actual challenges will be very different from these, but given the cumulative effects of SDSR 10 we believe whatever challenges we will inevitably face *we will be asking too much of too few.*

¹⁹

Air base on eastern side of Malaysia.

3. WHY DEFENCE IS DIFFERENT AND JUSTIFIES THE HIGHEST

PRIORITY

It has long been the practice of successive political parties when in opposition to assert that defence of the nation is the first priority of government. It has equally been the practice of these same parties when in government largely to ignore this principle in practice. The present government is no exception. They all nonetheless claim that whatever funding is provided, despite continued cuts, is fully sufficient for Britain's needs and its continued and necessary global role. They are deaf to the virtually unanimous contrary view of informed politicians and military experts. As the front benches of all parties lack sufficient military experience and appear to be in denial on this matter it is timely to reconsider why adequate defence and security should always have the first call on public funds. Equally, as there is an unsustainable government deficit it is important to consider where funds needed can best be found.

There are ten main reasons why defence should always be the first priority of government.

1. The essential guarantor of national life

The first and most important distinguishing characteristic of defence expenditure is that without adequate defence nothing else in national life can be enjoyed in safety and confidence. It guarantees the provision of *all* other government services. It is an irreplaceable societal insurance. To provide less than is needed is effectively to surrender. That is why by the end of the life and death struggle of WW2 Britain was spending 60% of GDP on the war effort. Not to have done so would have been fatal.

At any given time, once the contribution from reliable allies, and all other options are taken into account, there will remain an irreducible minimum cost for the adequate defence of the country. That minimum defence expenditure - the level of expenditure which most economically provides the capabilities to cope with short, medium and long-term major threats in an increasingly uncertain and unstable world - represents the very best value possible of all forms of public expenditure. It guarantees national security. It provides the highest return on national investment that could be made. Accordingly, once the minimum defence expenditure has been identified that expenditure must be fully funded even in a severe economic crisis because no other public expenditures, by definition, offer comparable

value for money. The most desirable health, education and welfare services may have to be somewhat restricted to pay for the defence insurance. But that policy ensures those services can be enjoyed in long-term safety and confidence. The Chamberlain government realised this just in time in the late 1930s. They belatedly knew defence had then to be the top priority. They spent what was needed on Spitfires and Hurricanes, and on Wellingtons and Lancasters rather than new hospitals, rightly sacrificing the chance to have the finest hospitals in Nazi-occupied Europe.

The dangers we face today may be less than then, but the general principle still stands. As Churchill remarked, 'Courage is the first of human qualities because it guarantees the others'. Equally, sufficient defence guarantees the safe enjoyment of everything else.

2. A sound economy requires sound defence

The government has rightly argued that defence depends on a sound economy, and in the long run that is true. But equally, a sound economy depends on sound defence in the short, medium 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, and will continuously remain, mutually interdependent. A Defence 'holiday' is just too risky.

3. Defence must be reactive to external events

Another fundamental distinguishing characteristic of defence provision is that it is not in government control. Defence needs are dictated by existing and potential *external* threats. Freedom, peace and prosperity depend on forestalling the hostile actions of others. Budgets do not and cannot determine threat levels; it is the other way round. The greater the dangers the greater the defence needs and, as set out earlier, the threats are many and increasing just as the Defence Secretary, Dr Liam Fox, has warned.

4. The difficulties of predicting threats

Further, as set out above in the identification of threats facing Britain, most threats are uncertain and unpredictable. Nearly all of the wars Britain has fought since WW2 were unforeseen. Over the last thirty years the seven wars, from the Falklands in 1982 to the Libyan war this year, came as surprises. More surprises can be expected from the continuing 'Arab Spring'. These uncertainties can be met only by providing sufficient flexible

capabilities and proper contingency reserves in all three Armed Services because no-one can know which Service or which combination of Services will be needed in future emergencies. Few if any emergencies require only one Service to be involved.

In judging these threats and what is needed to prepare for them, long perspective military, foreign policy and historical expertise is required. In few major Departments of State are Ministers so dependent on expert opinion. Successful defence provision thus requires the constant analysis and expert questioning of proposed expenditure. Outside military experts and the Select Defence Committee have a particularly vital role to play. Humility and openness to criticism, alternative views, and uncomfortable truths are essential qualities in those responsible for defence, be they ministers, civil servants, military chiefs, or advisers, if we are to avoid possibly catastrophic mistakes.

5. Essential for collective security

An adequate defence posture is the pre-condition for the continuation of our collective security on which our defence depends. Since WW2 Britain has necessarily relied on collective security for the greater part of the nation's defence. This will always be the case in future to meet most major threats, although Britain needs to maintain the ability to respond alone to specific British concerns where there may be no reliable allies, e.g. the defence of the Falklands.

Our collective security has long depended on two key overlapping arrangements, the 'Special Relationship' with America and the NATO treaty. Both are now in the most serious danger through major cuts in our defence provision. In Europe only Britain and France meet even the inadequate NATO minimum of 2% of GDP. America is increasingly unwilling to continue hugely to subsidise NATO Europe's inadequate expenditure and many European countries refuse to take a fair share of the combat. Most worryingly, America's defence budget is set to shrink significantly as their budget deficit is addressed, and the US' focus is increasingly now on China and the Pacific. All combine to undermine the NATO treaty and America's commitment to it.

For seventy years 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 serious peril because of the underfunding of the Armed Services, the Foreign Office and our global intelligence network, and the prospect of further major cuts even in PR2012. We are losing the respect of US military and political leaders on which our politicians rely for much of their status in the

world. This is an uncomfortable truth. Yet, as Professor Colin Gray has argued unanswerably in the *RUSI Journal* (December 2008): *'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.'* The Government repeatedly and vigorously proclaims that it retains the full spectrum of capabilities for its global responsibilities. However, it fails the vital test of convincing the American Government and Military. Unless our defence provision is increased substantially the 'Special Relationship' is in serious danger.

Equally, Britain needs an effective commitment by all the major European members of NATO to meet the alliance's goals and commitments. That has not happened in Iraq or Afghanistan, and too few members have played their part in the Libyan operation. The highly respected just retired American Defence Secretary, Robert Gates, has warned NATO Europe that America is unwilling to continue to support them in future if they will not pay for their own security, in part because, as noted, America's defence budget is shrinking and it is refocusing on China and Asia.

America's generous support for the Libyan operation may be the last. If Britain spends much more on its own Armed Forces (and hopefully France does so also) that may preserve the Special Relationship; but without a proper much increased European commitment to NATO as well, Britain's defence and security will be gravely weakened.

The Government must acknowledge these extreme threats to Britain's collective security – the greatest for over fifty years - and address them forcefully as the highest priority.

A last point. The government must cease pretending that because Britain's defence budget is the fourth largest in the world, it is therefore adequate. We palpably do not have the fourth largest or most effective forces. Libya confirmed our absolute dependence on America. Our lack of any clear Defence Industrial Strategy adds to this outcome. The facts are that many, including potentially hostile nations, 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, and as set out above, manifestly it is not. Also remember that, as an island state, we are more dependent on the security of international seaborne global trade than any other major nation of similar size. Equally we have major military treaty obligations to our mutually supporting allies which we must retain

the capacity to honour. Finally, we have for centuries been a force for good in an unstable world, and by any test the need for that is growing. If we do not continue in that role, what friendly nation will replace us?

6. Defence is inescapably long-term, requiring steady, reliable, committed funding

Since defence is necessarily long-term it is quite unsuited to a fluctuating budget. Major weapons programmes take typically 20 years to be conceived, designed, tested, built, and commissioned, and Servicemen recruited, trained and given the necessary experience. Any temporary funding cuts and postponements of large and complicated items increase costs far more in the long run (a major cause of the Labour Government's overruns) and can cause immense damage later in reduced or even lost capability. Nothing less than sound strategic planning and adequate stable expenditure can ensure long-term defence on the most economical terms. This has been far from the case in the Ministry of Defence under successive governments for fifteen years or more, although this is at last being vigorously addressed. Major savings are possible but only if stable long-term funding is provided.

7. Long-term defence commitment is necessary to attract, motivate and retain quality service personnel

The high technological nature of modern defence systems requires long-term career servicemen and servicewomen. They need to be highly trained, well paid, motivated, properly equipped and in sufficient numbers so that they and their families can cope with likely operational demands. These conditions are currently far from being met in Britain's Armed Forces. Fortunately, battlefield morale remains fairly high because of the admirable 'can do' attitude of our troops and their leaders. But unless there are more of them, properly trained and better equipped, morale and efficiency will suffer. Those who daily risk their lives for the rest of the nation deserve much better than this and that means additional committed resources. The nation has no right to ask our troops to substitute their courage and commitment for avoidable underfunding. They will not do it forever. Because of the major and continuing cuts, any belief that attractive long-term careers are still available in the Armed Forces is fading fast, as a just published (10th September (Ministry of Defence

'Continuous Attitudes Survey'²⁰ reveals. *'More than half of all officers and 43% of other ranks believe the Armed Forces are suffering from low morale following a year of pay freezes, cuts and redundancies.'* These are the worst figures in the four years since the Surveys began. Many feel it is not safe to challenge the way things are done in their Services of the MoD. These are very ominous findings. The Government should respond urgently.

8. Temporary cuts in the defence budget only *in extremis*

We acknowledge that *in extremis* some otherwise desirable expenditures may need to be cut. However, we believe *net* defence cuts now are unjustified for the following reasons. First, if defence had been generously funded for many years, as in America, some temporary economies might now be acceptable. But, given the severe underfunding of the last twenty years, further underfunding will expose us and our allies to unacceptable risk. A second reason why some temporary rescheduling of expenditure might be justified would be if all potentially hostile nations were also budget constrained. But the main Islamic threats (from Iran, Afghanistan and Pakistan, etc.) are not so constrained. On the contrary, high oil prices provide ever greater funds, and terrorists and insurgent activists show no sign of budgetary constraint. Nor it seems do Russia or China.

9. Defence expenditure an excellent form of 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 idle resources in the depressed construction industry. A significant pay increase for lower ranks is long overdue to compensate for the risks, hard life, uncongenial postings compared with civilian life, and to discourage early leaving. Any pay rises would almost certainly be spent in full, so raising economic activity. Finally, where justified, increased defence spending in the defence industry would bring many benefits. The industry is the world's second largest exporter of defence equipment, is clearly one of Britain's strategic and 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

²⁰ *'Morale in Armed Forces plunges to a new low'*, Armed Forces Continuous Attitudes Survey, *The Daily Telegraph*, 10th September 2011.

industry deserves special support. 'A £100million investment in the defence industry generates an increase in gross output of £227million, and increases Government revenues by £11.5million. This means the industry has an output multiplier of 2.3, ranking it above the median of the 27 main sectors. This reflects both a strong UK based supply chain and a relatively high wage level paid to its 110,000 employees. For every job created in the defence industry, 1.6 jobs are created elsewhere in the economy.'²¹ In 2010 the industry supported a total of 314,000 jobs in the economy. These are important and encouraging points to note in the present severe recession as the government urgently seeks economic growth.

10. Putting the defence burden in perspective

The necessity for providing for a level of defence sufficient for Britain's needs and for ensuring the continuation of American commitment to Britain should not be considered a frightening burden on the nation. To put the matter in perspective, 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 defence. The required increase for adequate long-term defence requires strategic debate but is probably around 1% of GDP. In the circumstances described here, this cannot be unaffordable, particularly as adequate defence (see Reason 1 above) offers the highest return of all government expenditure. (If at the end of WWII we spent 60% GDP on defence, when our national income was a quarter of today's, an extra 1% is surely affordable.) It is a matter of political priority and choice. To provide that extra 1% does not require taking an axe to all other government expenditures, but rather making marginal cuts. Further, an extra 1% of GDP for defence 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 desirable long-term levels, starting slowly. If the necessary commitments were made now it would take to 2015 or so to achieve. Thus the burden on the government budget would not be immediately significant. However slow economic growth may be, it will grow back towards normal with each passing year. Hence the small temporary extra burden should be easily accommodated by other departments and be saleable to voters.

For all these reasons adequate defence justifies the highest priority in good times and bad.

²¹ A/D/S Briefing Sheet on UK Defence Industry for SDSR

4. FINDING THE NECESSARY FUNDS

Defence expenditure justifies the first call on government funding regardless of current economic circumstances. And the extra long-term funding requirement of *circa* 1% of GDP requires prioritisation of the increased tax revenues as the economy grows. But at a time when the public sector must reduce total expenditure by a quarter over five years any further cuts, however essential to fund necessary defence, will be unwelcome. Therefore, as a matter of practical politics, some attention must be given to how the extra funds, not just for defence, but for all the desirable forms of government expenditure, could most sensibly be found.

4.1 A radical approach to public finances

One of the most successful governments to achieve a very major turnaround in public finances in recent years was the Canadian Government in the early 1990s.²² The key point of the seminal reference article is that our public sector '*continues to be insulated from the pressures that the majority face in the private sector*'. To overcome this, the Canadian Government with an annual deficit of 9% of GDP and a national debt of 70% of GDP, comparable to Britain today, abandoned the usual government approach of efficiency drives and percentage cutbacks. Instead, it systematically reviewed every programme and asked five fundamental questions:

- i. Was it a core function of government?
- ii. If so, was it affordable?
- iii. And if so, could it be privately provided?
- iv. Could local government do it? and
- v. Could it be organised more efficiently?

'There were no across the board cuts. Some departments were cut by up to 50%, some shut down, while others were protected or even increased.' But this was only after the most

²² '*As public pay rises, Britain's fortunes sink* – Britain will never cut its deficit unless the state learns to save money as well as spend it'. by David Green, director of Civitas, *Daily Telegraph*, 4th August 2011.

rigorous review. Within five years Canada had a small fiscal surplus – far more than Britain is currently aiming to achieve. We urgently need such an across the board fundamental review, much more effective than has been achieved so far. Ministers and sympathetic civil servants probably need to be supplemented, department by department, by businessmen with proven relevant records. It would be an honour for them to give the time – say a day a week for the several months needed. Defence would have nothing to fear from such a review and should emerge a relative winner.

The *academic* evidence shows that cutting deficits does not harm growth even in highly indebted countries which, like Britain, have floating exchange rates.

4.2 Reducing the barriers to economic growth

Achieving economic growth and thus increased tax revenues is neither easy nor painless, or it would have happened already. What is needed is generally well understood: the difficulties are mainly political. In practice, there are four main policy options which together can help to kick-start economic growth:

The *proven* policy of introducing sensible competition in the provision of all public services and particularly the NHS with its large budget. This is already happening in other government activities, notably in education and welfare provision. It needs to become universal.

The *proven* policy of cutting taxes which inhibit wealth creators who are the main source of economic growth, and which raise all net of tax incomes and so promote consumption. From the resultant increased economic activity government revenues grow much faster – a virtuous circle. President Reagan in 1981, in the midst of the worst recession since the Great Depression of the 1930s, cut the top rate of American tax from 78% to 35% over eight years (and all other taxes in proportion). This achieved the greatest economic expansion in American history – over 32%! He also raised American defence expenditure substantially from the very start of his government when still in major deficit, leading to the end of the Cold War; and hence to further major economic benefits for America and the West. Margaret Thatcher achieved similar benefits for Britain by cutting taxes in the 1980s.

Thus the American, British and Canadian examples all teach the same fundamental lesson of the benefits of lower taxes.

A major reduction in regulation for the private sector is an equally proven policy. Regulation restricts innovation and expansion. It is most crippling for small businesses that are by far the major source of new jobs. The Government understands this, but the pace of regulatory reduction needs to be powerfully accelerated as economic expansion falters in Europe and America, Britain's main export markets. In particular, regulations imposed by the European Union, by far the largest source, need to be radically pruned by repatriating large swathes of restrictive legislation on jobs, working conditions, etc.

Finally, there is the major reform of our vastly overcomplicated planning regulations – Whitehall added 3,250 pages of guidance between 2005 and 2010 – which is long overdue. This is well recognised by the Government and is being actively pursued with a proposed much simpler planning system, hopefully subject to sensible amendment to protect beautiful countryside, with a strong presumption of sustainable development. It will greatly help small businesses wishing to expand, young families seeking affordable homes and communities wishing to decide their own futures. Such reforms cannot come soon enough.

The last and major handicap to long-term economic growth is that the Government is imposing large climate change burdens on industry, especially the vital manufacturing industry to which it looks to spearhead economic growth. Equally it is imposing heavy charges on all individual electricity consumers thus significantly curtailing their spending power. *These handicaps are greater than on any other nation is imposing.* In contrast the main polluters, America, China and India, besides which Britain's 2% of global carbon emissions is puny, are doing relatively little. All this, based on the belief that the increase of carbon dioxide in the atmosphere will lead to damaging rises in global temperature, is far from clear. An article by Lord Turnbull²³ (a very senior distinguished former civil servant), shows that the basic scientific evidence is far from conclusive. The Government should urgently review these matters before continuing its present policy. It is unwise to have placed such heavy bets on just one interpretation of the evidence. Belief in serious man-made global warming has become, in the words of the most celebrated economic journalist, Sir Samuel Brittan, an unexamined '*...collective craze*'. CO₂ concentrations have risen steadily since the 1940s but global temperature rises occurred far earlier. The rises in temperature experienced between 1970 and the late 1990s have stopped, with no rise and more probably a fall in the last decade. Our very expensive Climate Change Act ignores the

²³ 'The Inconvenient Truth is that They are Wrong – New Coalition targets for tackling climate change promise only a succession of own goals'. by Andrew Turnbull, Daily Telegraph, 17 May 2011.

fact that other EU nations are mainly doing far less and the big overseas nations almost nothing at all. We are thus imposing a major handicap on British competitiveness for negligible global benefit *even if it turns out that CO₂ is the principal agent of climate change*. The Government can have manufacturing growth or its present climate control policies – but it cannot have both. It should think again.

In sum, the Government have a number of ways of overcoming the huge public deficit, and promoting economic growth. While adequate defence fully deserves the first call on government funding even in hard times, there are many achievable ways of raising economic growth and government revenues. This will help make the necessary funding available for defence and indeed other desirable public policies.

CONCLUSIONS AND RECOMMENDATIONS

There can be little doubt that Britain is facing serious and growing threats to its security and prosperity as global instability mounts. It is equally clear that nearly twenty years of substantial cuts to Britain's Armed Services under the previous Conservative government and the three Labour governments, have reduced all three Services to less than half strength. Further, last October the Coalition, in a rushed (five month) cost-driven Strategic Defence and Security Review (SDSR10), and on the basis of a flawed and deficient National Security Strategy (NSS) imposed further substantial cuts. This hugely damaging and dangerous process is continuing with yet further major cuts in the pipeline! This is happening in the teeth of informed opinion and to the dismay of our principal ally, America. Yet the government repeatedly asserts that it is vital to Britain's security to retain a global defence capability while implicitly signalling strategic retreat. The one small consolation is that the Ministry of Defence, more vigorously than for several decades, is pursuing a programme of reforming its seriously deficient procurement procedures, etc., a very welcome, necessary and long overdue process. But, no matter how efficient the MoD becomes it cannot make up for a budget much too small for the safe defence of Britain.

It is now quite clear that the vital twin pillars of Britain's security for the past fifty years, the 'Special Relationship' with America and the continuation of an effective NATO, can no longer be guaranteed unless Britain increases its defensive capabilities substantially and soon. ***The Government must acknowledge these extreme threats to Britain's collectively provided security, and address them forcefully as the highest priority.***

It is mistakenly believed, however, that given the severe public sector deficit that adequate defence is presently just unaffordable. We have, however, set out ten cogent reasons why adequate defence should always be the first priority of government, in good times and bad, and why it is always affordable even in today's severe economic crisis. The extra *circa* 1% of GDP required is relatively modest, and we have set out *proven* ways whereby the necessary funding can be found over the next 3-4 years in which necessary defence expenditure needs to build up.

Given the necessary realism and political will, the Government can provide for adequate defence at relatively modest and entirely affordable cost. It can have no valid reason for not doing so.



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