

# Economic Constraints of Defence Reform in SEE

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*Defence reforms in general and building of new military capability in particular affect the national defence environment as much as these exogenous variables affect it. A combination of government economic policies, reduced defence budget ceilings, the projected further decline in defence expenditures and escalating manpower and equipment costs serve to put severe constraints on what armed forces can and can not do in the future. Armed forces depend on the government and parliament to decide what annual amount of money they are to receive from the public purse. The government's approach to the question of how much to spend on defence is a time tested one. Beside the total amount per year which state can reasonably afford for defence, there is another principal issue where levels of defence expenditures are concerned. The broad alternatives of SEE countries to downward pressures on defence expenditures are clear: either "drown down" the number of defence and security commitments or finding ways of achieving more by ways of operational effectiveness with progressively less money and fewer resources.*

**Keywords:** defence reforms, military spending, economic constraints

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## 1. Introduction

The defence reforms do not take place in a vacuum. As results of defence reform new national defence policy, military doctrine, force design and equipment combine to create a new military capability. This is, however, contingent of the availability of four variables: manpower, economic resources, weapons availability, and organisation, which are in turn affected by external influences, both domestic and international. However this process of causality is not one way. Defence reforms in general and building of new military capability in particular affect the national defence environment as much as these exogenous variables affect it.

One of the major external variables influencing defence reforms is national resources. Although usually poor economic performance, which leads to budgetary restrains, is a condition to undertake substantial defence reform, because they create the necessary pressure on armed forces to evaluate the whole

structure, we can say that on the other hand they are limiting factors in defence planning of substantial defence reforms, which are expensive. A combination of government economic policies, reduced defence budget ceilings, the projected further decline in defence expenditures and escalating manpower and equipment costs serve to put severe constraints on what armed forces can and can not do in the future.

## 2. The Problem of Economics

Most people understand the problem of economics as being the question of availability of national resources that make the achievement of the given public objectives possible. It is an issue of scarce resources and excessive needs. Usually armed forces depend on the government and parliament to decide what annual amount of money they are to receive from the public purse. Two basic considerations arise from this predicament: (1) one is the gross amount they receive in one year and (2) the other is

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Table 2: Trends in GDP Growth in SEE countries

	GDP growth rate, 1990-1999 (%)	GDP growth rate, 1999 (%)	GDP growth rate, 2000 (%)
Albania	3,2	7,3	8,7
Bosnia and Herzegovina		9,9	5,9
Bulgaria	-2,7	2,4	5,8
Croatia	0,2	-0,4	3,7
Macedonia	-0,8	4,3	1,6
Romania	-0,8	-2,3	4,6
Slovenia	2,4	5,2	4,6
FRY		-15,7	5,0

Source: World Development Indicators Database, April 2002

bear on the level of national defence expenditure and the resources available for the armed forces, and (2) they are drivers behind public's perception of what should be appropriate amount of taxpayers money to be allocated to defence.

(1) As defence is a public good, which is entirely funded from public purse, defence expenditures bring us to the classic problem of "guns versus butter", that is, the trade-off of defence goods against non-defence goods. For the public official, the challenge is to optimise a fixed budget in such a way as to produce the best mix of defence and non defence goods, which would meet both the national security and social welfare goals set by the government.

The common element of transition experience of the SEE countries is disruption and economic distress (Table 1). In the beginning of 1990s output and income fell everywhere. What is worse, in most SE European countries the key macroeconomic indicators did not regain late 1980s levels until second half of 1990s and in same post conflict countries have

still not done so. Thus the key indicator of individual well-being – income per capita - has stood for years, and still stands at alarming low levels. This is troubling, because it accounts for widespread disappointment with democratisation, market economy and reform in general. The fight for better socio-economic situation in the SEE countries not only influences the level of defence expenditure, but also forces Ministry of Defence, as one of major spending departments, into direct competition with other government departments with expenditure obligations.

However, there is a fundamental difference between the Ministry of Defence and other government departments: the government does not usually have any exact long-term statutory obligation to provide for defence of the nation, in contrast, the government is legally obligated to provide minimum standards of health, education, social welfare, pensions and other social benefits. Therefore the scope for significant adjustment to the amounts that these social obligations generate is limited in law. Above all, any policy to reduce these obligations would be

Table 3: Defence Expenditures in SE Europe States

	Defence expenditures as % of GDP, 1999 <sup>a</sup>	Defence expenditures (in mio US\$), 1999 <sup>b</sup>	Peacetime Active Force Size, 1999 <sup>c</sup>	Defence Expenditures Per Solider (in US\$), 1999
Albania	1,4	48,3	47.000	1.028
Bosnia & Herzegovina <sup>d</sup>	5	227	40.000	5.675
Bulgaria	2,8	351	79.760	4.401
Croatia	4,2	922	61.000	15.115
Macedonia	2,5	89	16.000	5.563
Romania	1,6	660	207.000	3.188
Slovenia	1,4	282	9.000	31.333
FRY	5,4	351	97.700	3.593

<sup>a</sup> Calculated by SIPRI for latest year available 1999, except FRY 1998; SIPRI Yearbook, 2002.

<sup>b</sup> Calculated by SIPRI; data are in constant US\$ based on constant 1998 prices, SIPRI Yearbook 2002.

<sup>c</sup> From IISS, The Military Balance, 1999-2000.

<sup>d</sup> Exclude Bosnian Serbs.

politically sensitive, and ill judged. In other words, the defence budget, especially in time of peace and when there is no immediate military threat, is relatively easy area in which to make cuts in support of more immediate priority objective of holding down levels of public expenditures.

(2) Further, defence is not an area of politics, which normally attracts large public sympathy of support, least of all when viewed in terms of civilian opportunity costs. Concomitant with changed perception of security has been a marked shift in public attitude as to what constitutes an acceptable level of public expenditure on the armed forces and military security. There is clear appreciation of the extent of the threat once posed to the SEE in contrast with that posed today. The military landscape in SEE countries over the last few years has manifestly changed substantially and renders past levels of military preparedness and budgetary spending on defence difficult to justify and for the most SEE countries publicly unacceptable.

Moreover, as health, education, and welfare demands continually put on pressure to rise the total level of public expenditure, the government's response is to look for reduction elsewhere. The pressures to cash in "peace dividend" have also made the defence budget in SEE countries an obvious and ready target (Figure 1).

The only alternative way to break out of economic constraints would appear to be to promote an increase in the rate of national economic growth, from which all areas of public spending can benefit, defence included. In other words the best indication of a defence budget's potential future growth is the rate of GDP growth. If the state has sufficient extractive capacity, GDP growth generally allows for growth in state expenditures. Thus, sustained high GDP growth points to the potential for increased expenditures on defence. The problem here is that although the trends point to the feasibility of gradual increases the GDP real growth in the past ten years in the most SEE countries has not been good enough to meet that objective (Table 2).

Apart from that the Ministries of Defence and armed forces from SEE have found themselves in a cleft stick: on the one hand the total amount of resources has been declining, while, on the other, the costs of modern weapons, equipment, manpower, training etc. have been increasing at a faster rate. Defence expenditures per soldier provide a rough measure of the technological sophistication of a country's armed forces. The technologically most advanced armed forces spend more than 100,000 US\$ per soldier. That means that the SEE countries would have to rise their per-soldier spending significantly if they wanted to have technologically modern armed forces (Table 3).

#### 4. Conclusion

Thus we can conclude that economic constraints in SEE at list seriously limit the governments and armed forces to promote defence reform as rapidly as they would like, if not even threat their realization.

Beside the total amount per year which state can reasonably afford for defence, there is another principal issue where levels of defence expenditures are concerned. That is what to do with that amount, once it has been appropriated. As total amounts decline, so those charged with the responsibility for planning defence have to try and do more with the limited resources they have been given. At the same time they must continue to meet the responsibilities and objectives they have to fulfil. The only option would be to reduce defence policy objectives.

The broad alternatives of SEE countries to downward pressures on defence expenditures are clear: either "drown down" the number of defence and security commitments, overall reduction in force levels, fewer man and equipment, called also defence forces "down-sizing" or finding ways of achieving more by ways of operational effectiveness with progressively less money and fewer resources.