Campagne tegen Wapenhandel

T N I

GUNS, DEBT AND CORRUPTION

Military spending and the EU crisis

Frank Slijper

April 2013

"We should not have acquired systems that we are not going to use, for conflict situations that do not exist and, what is worse, with funds that we did not have then and we do not have now."

Former Spanish secretary of defence Constantino Méndez

If you would account for Greece decades of formidable military spending "there would be no debt at all"

Greek economist Angelos Philippides

"No one is saying 'Buy our warships or we won't bail you out.' But the clear implication is that they will be more supportive if we do"

Aide to then Greek prime minister George Papandreou

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Executive Summary

Five years into the financial and economic crisis in Europe, and there is still an elephant in Brussels that few are talking about. The elephant is the role of military spending in causing and perpetuating the economic crisis. As social infrastructure is being slashed, spending on weapon systems is hardly being reduced. While pensions and wages have been cut, the arms industry continues to profit from new orders as well as outstanding debts. The shocking fact at a time of austerity is that EU military expenditure totalled €194 billion in 2010, equivalent to the annual deficits of Greece, Italy and Spain combined.

Perversely, the voices that are protesting the loudest in Brussels are the siren calls of military lobbyists, warning of "disaster" if any further cuts are made to military spending. This paper shows that the real disaster has emerged from years of high European military spending and corrupt arms deals. This dynamic contributed substantially to the debt crisis in countries such as Greece and Portugal and continues to weigh heavy on future budgets in all of the crisis countries. The power of the military-industrial lobby also makes any effective cuts less likely. This is perhaps most starkly shown in how the German government, while demanding ever higher sacrifices in social cuts, has been lobbying behind the scenes against military cuts because of concerns this would affect its own arms industry.

The paper reveals how:

- **High levels of military spending in countries now at the epicentre of the euro crisis played a significant role in causing their debt crises.** Greece has been Europe's biggest spender in relative terms for most of the past four decades, spending almost twice as much of its Gross Domestic Product (GDP) on defence as the EU average. Spain's military expenditure increased 29% between 2000 and 2008, due to massive weapon purchases. It now faces huge problems repaying debts for its unnecessary military programmes. As a former Spanish secretary of state for defence said: "We should not have acquired systems that we are not going to use, for conflict situations that do not exist and, what is worse, with funds that we did not have then and we do not have now." Even the most recent casualty of the crisis, Cyprus owes some of its debt troubles to a 50% increase in military spending over the past decade, the majority of which came after 2007.
- **The debts caused by arms sales were often a result of corrupt deals between government officials but are being paid for by ordinary people facing savage cuts in social services.** Investigations of an arms deal signed by Portugal in 2004 to buy two submarines for one billion euros, agreed by then-prime minister Manuel Barroso (now President of the EU Commission) have identified more than a dozen suspicious brokerage and consulting agreements that cost Portugal at least €34 million. Up to eight arms deals signed by the Greek government since the late 1990s are being investigated by judicial authorities for possible illegal bribes and kickbacks to state officials and politicians.
- **Military spending has been reduced as a result of the crisis in those countries most affected by the crisis, but most states still have military spending levels comparable to or higher than ten years ago.** European countries rank 4th (UK), 5th (France), 9th (Germany) and 11th (Italy) in the list of major global military spenders. Even Italy, facing debts of €1.8 trillion, still spends a higher proportion of its GDP on military expenditure than the post-Cold War low of 1995.

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- **The military spending cuts, where they have come, have almost entirely fallen on people** – reductions in personnel, lower wages and pensions – rather than on arms purchases. The budget for arms purchases actually rose from €38.8 billion in 2006 to €42.9 billion in 2010 – up more than 10% - while personnel costs went down from €110.0 billion in 2006 to €98.7 billion in 2010, a 10% decrease that took largely place between 2008 and 2009.
- **While countries like Germany have insisted on the harshest cuts of social budgets by crisis countries to pay back debts, they have been much less supportive of cuts in military spending that would threaten arms sales.** France and Germany have pressured the Greek government not to reduce defence spending. France is currently arranging a lease deal with Greece for two of Europe's most expensive frigates; the surprising move is said to be largely "driven by political considerations, rather than an initiative of the armed forces". In 2010 the Dutch government granted export licences worth €53 million to equip the Greek navy. As an aide to former Greek prime minister Papandreou noted: "No one is saying 'Buy our warships or we won't bail you out.' But the clear implication is that they will be more supportive if we do".
- **Continued high military spending has led to a boom in arms companies' profits and an even more aggressive push of arms sales abroad ignoring human rights concerns.** The hundred largest companies in the sector sold arms to the value of some €318 billion in 2011, 51% higher in real terms compared to 2002. Anticipating decreased demand at home, industry gets even more active political support in promoting arms sales abroad. In early 2013 French president François Hollande visited the United Arab Emirates to push them to buy the Rafale fighter aircraft. UK prime minister David Cameron visited the Emirates and Saudi Arabia in November 2012 to promote major arms sales packages. Spain hopes to win a highly controversial contract from Saudi Arabia for 250 Leopard 2 tanks, in which it is competing with Germany – the original builder of the tank.
- **Many research studies show that investment in the military is the least effective way to create jobs, regardless of the other costs of military spending.** According to a University of Massachusetts study, defence spending per US$ one billion creates the fewest number of jobs, less than half of what it could generate if invested in education and public transport. At a time of desperate need for investment in job creation, supporting a bloated and wasteful military can not be justified given how many more jobs such money would create in areas such as health and public transport.

Despite the clear evidence of the cost of high military spending, military leaders continue to push a distorted and preposterous notion that European Union's defence cuts threaten the security of Europe's nations. NATO's secretary general, Anders Fogh Rasmussen "has used every occasion to cajole alliance members into investing and collaborating more in defense." Gen. Patrick de Rousiers, the French chairman of the EU Military Committee, at a hearing in the European Parliament, even suggested Europe's future was at stake if military spending was not increased. "What place can a Europe of 500 million inhabitants have if it doesn't have credible capacity to ensure its security?," he asked rhetorically.

We believe by contrast, that at a time when the European Commission's agenda of permanent austerity faces ever-growing challenges, there is one area where Europe could do much more to impose austerity. And that is the arena of military spending and the arms industry. Abolishing nuclear weapons owned by France and the UK could save several billions of euros every year and fulfil a major pledge made by these countries under the nuclear non-proliferation treaty to finally eliminate nuclear weapons. Reductions of all EU nations' military spending to Ireland's levels (0.6% of GDP) would save many more billions. Writing off dirty debts caused by arms deals concluded through bribes, would be a good first step to lay the bill for the crisis with those who helped cause it. Such measures would also prove that at a time of crisis, Europe is prepared to invest in a future desired by its citizens rather than its warmongers.

Introduction

Since 2008 many countries in Europe have experienced drastic deterioration in their financial and economic position. The European Union has responded with new economic governance machinery based on a "model of permanent austerity, including widespread attacks on social rights".[1] The negative effects of this approach are now being recognised within the European Commission, which admits that the economic crisis has stripped social welfare rights from millions of people and is contributing to a widening poverty gap between member states.[2]

Most analyses on the causes of the current crisis have focused on the core role of the financial sector. The effect of sustained high military spending in this context has barely been a subject of discussion, even though it has clearly contributed to fiscal problems, especially in countries such as Greece, Portugal and Spain. Lower military spending over the past decade could have mitigated the severity of current fiscal and socio-economic problems. Hardest-hit countries have had to cut military budgets significantly, but often only after many years of excessive spending.

In those countries where military spending has barely been affected over the past five years - despite general austerity programmes - there is a strong case for slashing budgets for arms rather than education, health or other social expenditure. Overall military spending in Europe is today higher than in 2001, yet military leaders would have us believe that their budgets have been cut to the bone, threatening our security and economic well-being.

This paper aims to analyse military spending in Europe over the past decade, focusing on some countries hardest hit by the crisis – Greece, Italy and Spain – and looking at spending levels, debts and military procurement. It also addresses push factors: notably the key roles of the UK, Germany, Italy and France as arms suppliers, and the role of corruption in the arms trade.

This paper was written on the occasion of the Global Day of Action on Military Spending 2013, an initiative by peace organisations to highlight the one trillion euros governments worldwide are spending annually on their armed forces, with so many pressing social problems which could be solved for a fraction of that.

Military spending in Europe in an international context

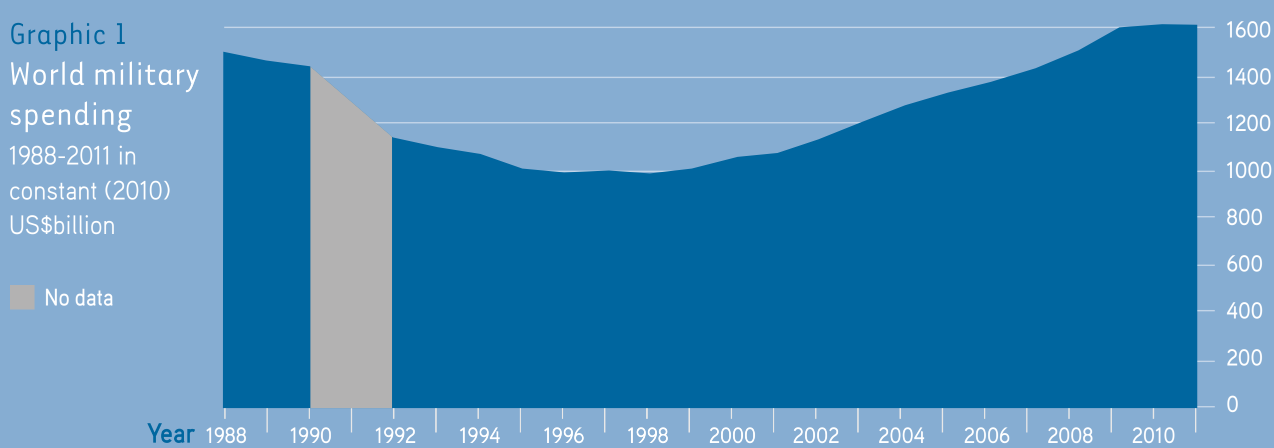
For a decade after the end of the Cold War, military expenditure fell from the preposterously high levels of the late-1980s by about a third. After the 2001 attacks on the United States and the subsequent invasions of Afghanistan and Iraq, military spending rocketed to a 2011 level higher than the 1980s peak, and probably higher than at any time since World War II.[3]

According to the Stockholm International Peace Research Institute (SIPRI), between 2002 and 2011 world military expenditure grew by 43 per cent, to an estimated $1,738 billion. The US is far and away the world's most lavish spender when it comes to the military. Accounting for almost 41 per cent of global military expenditure in 2011, the US spends about the same as the other fourteen countries in the 'top 15' list, *combined* (see table 1).

Four EU countries make this list of major global military spenders: the UK in fourth place, France in fifth, Germany ninth and Italy in 11th place; their combined expenditure of over $206 billion was about 12 per cent of the world total in 2011. The combined military expenditure of the 27 EU member states was €194 billion in 2010.

This represents 1.6% of European Union Gross Domestic Product (GDP[4]), second only to the €392 ($533.8) billion military expenditure of the United States that year, which represented 4.8% of United States GDP.[5]

Graphic 1
World military spending
1988-2011 in constant (2010) US$billion

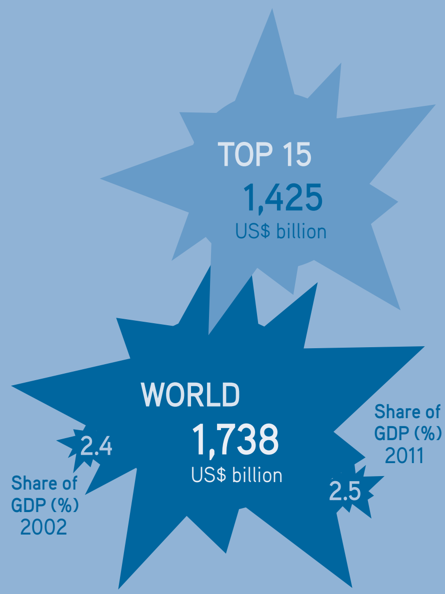


Source: *SIPRI military expenditure database* (http://www.sipri.org/research/armaments/milex/resultoutput/world)

Table 1 The world's top 15 military spenders 2011 US$ billion

Rank	Country	Military spending	Share of GDP (%) 2002	Share of GDP (%) 2011
1	USA	711	3.4	4.7
2	China	[143]	[2.2]	[2.0]
3	Russia	[71.9]	[4.5]	[3.9]
4	UK	62.7	2.5	2.6
5	France	62.5	2.5	2.3
6	Japan	59.3	1.0	1.0
7	India	48.9	2.9	2.6
8	S. Arabia	48.5	9.8	8.7
9	Germany	[46.7]	1.5	[1.3]
10	Brazil	35.4	1.9	1.5
11	Italy	[34.5]	2.0	[1.6]
12	S Korea	30.8	2.4	2.7
13	Australia	26.7	1.9	1.8
14	Canada	[24.7]	1.2	[1.4]
15	Turkey	[17.9]	3.9	[2.3]

Source: *SIPRI Yearbook 2012*, table 4.2; [ ] SIPRI estimate



Globally, military spending grew at a slightly higher rate than the world economy in the same period: up marginally from 2.4 to 2.5 per cent of GDP, with the US increasing the proportion from 3.4 to 4.7 per cent of GDP, a figure exceeded by only a few - mostly Middle Eastern - nations.[6]

Gen Patrick de Rousiers, the French chairman of the EU Military Committee, at a January 2013 hearing in the European Parliament, charged that Europe was disarming while the rest of the world rearms, and that since 2001, the proportion of Europe's military expenditure has fallen from 29 per cent of the world total to 20 per cent.[7] "What place can a Europe of 500 million inhabitants have if it doesn't have credible capacity to ensure its security?" he asked rhetorically.

Europe, with only 7% of the world's population, has no reason to fear that military spending is too low, at least in per capita terms. De Rousiers military-focused mind forgets the more pressing security problems many Europeans face today: rather than new fighter aircraft or submarines, they want decent jobs, an adequate income and proper access to social and health infrastructure. With countries outside Europe – such as China, India, Brazil, Mexico and Indonesia - growing in strength both demographically and economically, it is only logical that Europe's share of global military spending falls. Whether those boosting budgets outside Europe are justified is, of course, another question.

Looking at individual countries' military spending as a share of GDP, a number of data stand out. The marked increase in US spending is in stark contrast to Ireland – not a NATO member – which spends the lowest percentage of its GDP on the armed forces: only 0.6 per cent in 2010, compared to the EU average of 1.6 per cent.[8]. In the exceptional case of Ireland, the economic crisis is unrelated to military spending.

Generally, military spending in the EU is a stable or slowly declining proportion of all economic activity. The main exception is Greece, where military spending as a proportion of GDP was consistently the highest in the EU until 2009, by when the economy was in sharp decline.

As economic growth data vary between countries and significant changes in military spending can be obscured by similar GDP changes, it is worth looking at military expenditure changes over time. The table below [2] compares developments in military budgets for selected eurozone countries.

Table 2 Military spending as share of GDP (%) in selected EU countries and the US 2002-10

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average
US	3.4	3.7	3.9	4.0	3.9	4.0	4.3	4.8	4.8	4.1
Greece	3.2	2.6	2.7	2.9	2.9	2.7	3.0	3.2	[2.3]	2,8
UK	2.5	2.5	2.5	2.4	2.4	2.3	2.5	2.7	2.6	2.5
France	2.5	2.6	2.6	2.5	2.4	2.3	2.3	2.5	2.3	2.4
Cyprus	[2.3]	[2.2]	2.1	2.2	2.1	1.9	1.8	2.0	2.1	2,1
Portugal	2.0	1.9	2.0	2.1	2.0	1.9	1.9	2.1	2.1	2,0
Poland	1.9	1.9	1.9	1.9	1.9	2.0	[1.7]	[1.8]	[1.9]	1,9
Italy	2.0	2.0	2.0	1.9	1.8	[1.7]	[1.8]	[1.8]	[1.7]	1,9
Netherlands	1.5	1.6	1.5	1.5	1.5	1.5	1.4	1.5	1.4	1,5
Germany	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.4	1.4	1,4
Finland	1.2	1.4	1.4	1.4	1.4	1.2	1.3	1.5	1.4	1,4
Spain	1.2	1.1	1.1	1.0	1.2	1.2	1.2	1.2	1.0	1,1
Ireland	0.7	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0,6

Source: *SIPRI Yearbook 2012*, table 4.10; [ ] SIPRI estimate

In all these countries budgets grew between 2002 and 2008/9 and declined in 2009/10. In 2011 defence budgets in Europe remained essentially unchanged with a 1.9 per cent reduction in western and central Europe.[9]

Five countries boosted their defence budgets significantly until at least 2008: France, Spain, Greece, Finland and Cyprus. Of these, Finland and Cyprus continued to increase military spending after 2008. Finland's budget grew most of all: 67 per cent over the whole period, with a large jump in 2011.

Cyprus increased its military spending by about 50 per cent over the past decade, mostly after 2007. This is remarkable in the light of Cyprus' current financial problems, including a requested €17 billion bailout package.[10]

Other countries show only minor decreases (Germany, Italy), or more or less constant spending levels (Netherlands, Ireland) until 2008/2009. In the case of Greece, its cut in 2010 was followed by increased spending in 2011, despite a seriously worse economic situation, with GDP falling 7.1 per cent that year.[11]

Apart from general military expenditure figures, the allocations within the budget are also revealing. Overall EU military expenditure totalled €194 billion in 2010, according to European Defence Agency (EDA) statistics.[12] Of this, the proportion of spending on military equipment increased slightly, from 19.3 per cent in 2006 to 22.1 per cent in 2010. As the EDA data shows, EU arms procurement - including R&D - has not suffered from the cutbacks, unlike spending on personnel: budget allocations for the former have risen around 10 per cent, while the latter was cut by the same percentage.[13] This indicates that on the whole, cutbacks have affected military personnel much more than weapons programmes, with savings largely the result of cutting jobs and lowering wages and pensions.

Table 3 Military spending in selected eurozone countries 2002-2011, current values, in million €

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
France	38,681	40,684	42,690	42,545	43,457	44,273	45,063	48,146	44,619	44,900
Germany	31,168	31,060	30,610	30,600	30,365	31,090	32,824	34,166	34,032	[33,563]
Italy	25,887	26,795	27,476	26,959	26,631	[26,275]	[28,156]	[27,578]	[26,827]	[24,772]
Spain	8,414	8,587	9,132	9,508	11,506	12,219	12,756	12,196	11,132	10,898
Netherlands	7,149	7,404	7,552	7,693	8,145	8,388	8,448	8,733	8,514	8,459
Greece	5,030	4,462	5,048	5,652	6,064	6,235	7,219	7,612	[5,407]	[5,855]
Portugal	2,765	2,755	2,996	3,248	3,242	3,190	3,285	3,463	3,640	[3,353]
Finland	1,712	2,006	2,131	2,206	2,281	2,203	2,468	2,591	2,567	2,856
Ireland	862	855	887	921	949	1,003	1,081	1,019	962	935
Cyprus	[253]	[255]	271	302	304	295	310	339	361	385

Source: *SIPRI Yearbook 2012*, table 4.8; [ ] SIPRI estimate

'War is good for business, and our business is war'

The arms industry has flourished in the past decade with the post-9/11 increase in military budgets. The hundred largest companies in the sector sold arms to the value of €318 billion in 2011, 51 per cent higher in real terms than in 2002, but 5 per cent down on 2010 – the first decline in sales since the mid-1990s![14]

This decline can be seen as a consequence of withdrawals from Afghanistan and Iraq, as well as cutbacks in the Global North. Long-running contracts and budget cycles have so far spared most procurement programmes. Cuts to military spending have also mainly been to personnel costs, rather than military hardware.

The increased competition in the arms market, the emergence of new producers and a decrease in military budgets have seen the arms industry lobbying hard to keep sales flowing. Both oil-rich and developing nations continue to be the primary focus of foreign arms sales activity by weapons suppliers, with Saudi Arabia and India the main recipients. Just ten developing nation recipients of arms sales accounted for 61% of the total developing nations' arms market between 2004 and 2011, according to US statistics.[15]

The global arms industry is dominated by western companies, with 44 of the 100 largest companies from the US, representing 60% per cent of their sales. Thirty EU-based companies make up another 29 per cent of the total, with the five biggest of these responsible for $74.8 billion in sales in 2011 (see table 4). These five – plus Rolls-Royce - are among the 20 most profitable companies in the industry, with combined profits of $8.3 billion in 2011, half of which come from arms sales. (This in a year where Finmeccanica declared a $3.2 billion loss!)[16]

Other large EU-based companies are Rolls-Royce (UK, $482m profit from arms sales), DCNS (France, $249m), Saab (Sweden, $290m), Rheinmetall (Germany, $150m) and Babcock International (UK, $161m).

Most of these companies have representatives working in Brussels, or else are represented through the AeroSpace and Defence Industries Association of Europe, the industry's lobbying arm.[17] With falling domestic demand, there is sufficient reason for them to be active in Brussels, for example lobbying for more favourable export legislation or access to EU research money.[18]

Most EU governments support their industry based in their respective countries in securing new markets abroad to make up for reduced national orders, stressing the need to safeguard employment and to maintain a viable military industry. This comes in addition to the different forms of subsidies and support - both direct and indirect, such as tax breaks.

With regard to putting national interests over an ethical foreign policy, it appears nothing has been learned from the uproar over arms sales to dictators in countries such as Bahrain, Egypt, Libya, Syria and Yemen, when the Arab Spring broke out in 2011. In early 2013 French president François Hollande visited the United Arab Emirates (UAE) to push them to buy the Rafale fighter aircraft. This came after UK prime minister David Cameron had visited the United Arab EmiratesUAE and Saudi Arabia in November 2012, to promote major arms sales packagesdeals. Such arms sales to controversial destinations are typically facilitated by government-guaranteed export credits.

Similarly there are no lessons learned from the major corruption scandals which especially exposed the way of dealing deals are done – the BAE-Al Yamamah case being the most infamous one.[19]

EADS and Finmeccanica are currently under official investigation because of corruption allegations. The UK Serious Fraud Office is currently investigating corruption claims in a case relating to a £2 billion Saudi National Guard project.[20]

Finmeccanica is currently under official investigation because of corruption allegations over a €560 million helicopter deal with India by its AgustaWestland unit, which has already seen the arrest of the former chairman of the company.[21]

Table 4 The world's 15 largest arms producers, excl. China 2011, in million US$

Company (country)	Arms sales	Share of total sales (%)	Total profits	Arms sales profits
Lockheed Martin (US)	36 270	78	2 655	2 198
Boeing (US)	31 830	46	4 018	1 848
BAE Systems (UK)	29 150	95	2 349	2 231
General Dynamics (US)	23 760	73	2 526	1 843
Raytheon (US)	22 470	90	1 896	1 706
Northrop Grumman (US)	21 390	81	2 118	1 715
EADS (EU)	16 390	24	1 442	341
Finmeccanica (Italy)	14 560	60	-3 206	
L-3 Communications (US)	12 520	83	956	793
United Technologies (US)	11 640	20	5 347	1 069
Thales (France)	9 480	52	787	409
SAIC (US)	7 940	75	56	42
Huntington Ingalls (US)	6 380	97	-94	
Honeywell (US)	5 280	14	2 067	289
Safran (France)	5 240	32	895	286

Source: SIPRI[22]

NATO's mantra: 'spend to defend'?

The NATO motto is 'Animus in Consulendo Liber' ('in discussion a free mind'). The implication of keeping an open mind - and changing one's views as circumstances change - appears lost on the leadership of the organisation, however.

Despite more pressing social and economic issues, NATO's secretary-general, Anders Fogh Rasmussen "has used every occasion to cajole alliance members into investing and collaborating more in defense", noted *International Herald Tribune* columnist and Carnegie Europe associate Judy Dempsey, without exaggeration.[23] Ever since Rasmussen became NATO chief in 2009, his warnings of Europe losing relevance because of budgetary pressures have become a mantra. Most recently, in February 2013 at the trans-Atlantic security conference in Munich, he said: "Security challenges won't wait while we fix our finances. And more cuts now will lead to greater insecurity in the future, at a cost we simply can't afford".[24]

Rasmussen expressed concern late in 2012 about allied defence expenditure, which had fallen by $56 billion between 2009 and 2011.[25] He neglected to point out, however, that this was the first decline in ten years, with most of the decrease – $46 billion – a long overdue correction of America's massively increased budget. Nor did he appreciate that, according to the same NATO statistics, the 2011 level was still 15 per cent higher in real terms than in 2005.[26] Rasmussen also added that very few European member states devoted more than 2 per cent of GDP to defence in 2011, which he found "worrying".[27]

NATO has long held the two per cent threshold as a desired minimum for collective military spending. Even with increased spending after 2001, this has been the exception rather than the rule since the fall of the Berlin Wall. Moreover, the two per cent norm merely has a propaganda value, as it is completely irrelevant in terms of military efficiency or foreign policy priorities.

Inefficiency issues are no doubt as old as the military, but remain a perennial concern and no less relevant. In February 2013 it was revealed that between 2009 and 2011, the British ministry of defence bought €1.7 billion worth of equipment more than it used. A report by a cross-party committee of MPs identified €3.9 billion worth of supplies that it said could be sold. "It is particularly galling at a time when funding is tight and when one considers that the National Audit Office has been warning about these issues for over 20 years", remonstrated a committee member.[28]

The *Washington Times* recently reported that in the US, poor management has affected the armed forces "immensely":

> *The Pentagon has squandered billions of dollars over the past two decades on weapon systems it never produced and on rosy cost estimates that ballooned to sizes that ate up funds for other projects, according to government reports and defense analysts.* [25]

Concerning the Joint Strike Fighter, one of the Pentagon's former top weapons testers is quoted as saying:

> *We would have been halfway through the program at half the cost if things had been managed properly. I think we screwed that up by trying to combine three different capabilities in one airplane, and then mismanaged it even beyond that. Here we are, 2013. We almost should have finished buying the thing.*

Despite the crisis, major new weapons programmes still dominate military planning, be they nuclear weapons, fighter aircraft, armed drones, or NATO's missile defence plans. In January 2013, UK defence secretary Philip Hammond outlined plans to spend almost £160 billion (€190bn) on new defence equipment by 2022. The programme includes £35.8 billion (€42.6bn) for submarines, including a replacement for the Trident nuclear system[29]

According to a recent report by Royal United Services Institute (RUSI), "submarine and deterrent spending" - the Successor programme to replace Trident – is alone set to account for around 35 per cent of the total procurement budget by 2021/22. "The MoD may need to find around £11 billion (€13bn) in savings over ten years as a result of the [recent] decisions", warns Prof Malcolm Chalmers, RUSI's research director.[30]

Abolishing nuclear weapons in Europe could save several billions of euros every year for France and the UK – Europe's sole possessors of such weapons. It would fulfil a major pledge made by these countries under the nuclear non-proliferation treaty to finally eliminate nuclear weapons. As UN Secretary-General Ban Ki-moon wrote in an opinion piece in August 2012:

> *Let us dramatically cut spending on nuclear weapons, and invest instead in social and economic development, which serves the interests of all by expanding markets, reducing motivations for armed conflicts, and in giving citizens a stake in their common futures. (...) [N]ational budget priorities still tend to reflect the old paradigms. Massive military spending and new investments in modernizing nuclear weapons have left the world over-armed - and peace under-funded.*[31]

Courting disaster or poverty?

For decades transatlantic military strategists and lobbyists have pointed to the differences in spending between the US and Europe, with reference to widening gaps, increasing reliance on the US, or otherwise pushing the need for Europe to spend more if it is not to completely lose global credibility and relevance. The same people hardly ever relate the erosion of US credibility in the world to the massive spending that has accompanied post-9/11 wars in Afghanistan, Iraq and elsewhere, not to mention the huge burden these expenditures have put on American citizens.[32] The US still faces major economic impediments caused by a decade of indifferent economic performance, escalating military budgets and the economic recovery and bailout programmes initiated since 2008. While a cumulative $5.6 trillion budget surplus had been projected by the Congressional Budget Office back in January 2001[33], Washington instead ran major deficits, causing federal debt to increase $8.5 trillion between October 2001 and July 2011, more than doubling total debt.[34] Currently at $14 trillion and counting, the behemoth U.S. national debt has become a cause for alarm for many people. Although an eye-popping figure, this amounts to 107.18 per cent of GDP, compared with Greece (170.73 per cent), Italy (126.33 per cent) or Portugal (119.07 per cent).[35]

The recently released report of the Costs of War Project, the work of about 30 academics and experts, assesses the cost in dollars and lives from the post-9/11 wars in Afghanistan and Iraq. The report considers that:

> *There are at least three ways to think about the economic costs of these wars: what has been spent already, what could or must be spent in the future, and the comparative economic effects of spending money on war instead of something else.*[36]

While Washington has already spent close to $2 trillion dollars in direct costs related to its military campaigns in Iraq and Afghanistan, that total "represents only a fraction of the total war costs", according to prominent Harvard University researcher Linda Bilmes:

The Iraq and Afghanistan conflicts, taken together, will be the most expensive wars in US history – totalling somewhere between $4 and $6 trillion. This includes [anticipated future costs for veterans care], military replenishment and social and economic costs. The largest portion of that bill is yet to be paid. (...)The large sums borrowed to finance operations in Iraq and Afghanistan will also impose substantial long-term debt servicing costs. (...) The legacy of decisions taken during the Iraq and Afghanistan wars will dominate future federal budgets for decades to come.[37]

These wars have been paid for almost entirely by borrowing, rather than by raising taxes or selling war bonds, as in the past. This borrowing has raised the U.S. budget deficit, increased the national debt, and had other macroeconomic effects, such as raising interest rates. So far, Washington has paid some $260 billion in interest charged on war-related borrowing between 2001 and 2013. Interest costs on both wars until 2053 will exceed $7.5 trillion, with cumulative interest on borrowing for Iraq amounting to about $4 trillion.[38]

Pressure not to cut military spending comes not only from NATO, but as much from within the EU military structures. Speaking to the European Parliament in early 2013, the Director General of the EU Military Staff, Ton van Osch, echoed his NATO colleagues, saying: "For the protection of our prosperity and security, it would be disastrous to further reduce the defence budget. We have already surpassed the acceptable limit".[39] Van Osch is also an Advisory Board member of the Security and Defence Agenda, a Brussels-based lobby group dominated by military bigwigs and the arms industry.[40] With European economies struggling through recession, NATO has come to accept the inevitability of cuts in military spending, but claims that military investments are fundamental to protect sustainable economic growth.[41]

This distorted view smacks of special-interest pleading and is countered by numerous economic studies showing that other public spending often yields much better results.[42] In standard economic models, military spending is a direct drain on the economy, reducing efficiency, slowing growth and costing jobs. Research by Global Insight, an economic-modelling firm, showed that a sustained increase in military spending in the US would lead to lower economic growth over time:

Slower growth would imply a loss of almost 700,000 jobs compared to a situation in which defense spending had not been increased. Construction and manufacturing were especially big job losers in the projections, losing 210,000 and 90,000 jobs, respectively.[43]

A 2007 University of Massachusetts study into how spending priorities effect employment estimated the effects of spending $1 billion on several alternative uses, including military spending. According to that study, military-related spending creates the fewest jobs. If the money were spent on either education or public transportation, more than twice the number of jobs would be created than with military spending.[44]

Miriam Pemberton, a national-security analyst at the Institute for Policy Studies, referring to the Costs of War Project study, suggests that it should prompt a major re-assessment of the military budget, and argues that the savings generated by reining it in should:

[B]e re-invested in the needs that have been neglected over the past decade, foremost among them, in my view, being the urgent need to address the climate crisis by investing in a transition to a clean energy and transportation economy.[45]

The Cost of War Project poses a few pertinent questions on the opportunity costs of war spending, while noting that many such costs cannot be enumerated:

What could the economy look like if we had not spent that money on war? Were jobs lost or gained by war? Military spending does produce jobs, but spending in other areas could produce more jobs.

Military spending has also affected investment in public assets and infrastructure. While investment in military infrastructure grew, investment in other, non-military, public infrastructure did not grow at the same rate.(...)

Investments in renewable energy such as solar, wind, or biomass, would create just as many jobs as military spending (...) but would contribute to combating climate change and building a more sustainable energy infrastructure. Efficiency programs such as weatherization of homes and public buildings would create about 1.5 times as many jobs, and federal support for healthcare and education would create twice as many as the same level of military spending.[46]

UN Secretary-General Ban Ki-moon in 2012 highlighted the changing understanding of 'security', the need for arms control (both nuclear and conventional arms), and the poignant absurdity of astronomical military spending while being tardy in addressing basic human needs, writing:

Many defence establishments now recognize that security means far more than protecting borders. Grave security concerns can arise as a result of demographic trends, chronic poverty, economic inequality, environmental degradation, pandemic diseases, organized crime, repressive governance and other developments no state can control alone. Arms can't address such concerns.

[In 2011], global military spending reportedly exceeded– more than $4.6 billion a day, which alone is almost twice the UN's budget for an entire year. This largesse includes billions more for modernizing nuclear arsenals decades into the future.

This level of military spending is hard to explain in a post-Cold War world and amidst a global financial crisis. Economists would call this an "opportunity cost". I call it human opportunities lost. Nuclear weapons budgets are especially ripe for deep cuts.[47]

He went on to outline concrete steps towards nuclear disarmament and non-proliferation, as well as conventional arms control, concluding that "perhaps above all, we must address basic human needs and achieve the Millennium Development Goals [MDG]. Chronic poverty erodes security.(...) No development, no peace. No disarmament, no security."

The 2010 MDG Summit managed pledges of $40 billion of resources over five years - from a wide range of sources - to accelerate progress on women's and children's health, a key MDG goal.[48] This is paltry when compared with the 2011 figure for total Overseas Development Aid (ODA) of $133.5 billion,[49] or the more than $1.7 trillion global arms expenditure.

The tension between social development and a focus on 'security' and making war is set out in a report on MDG progress in Pakistan, a major arms importer. The longstanding tension with India has been added to by the war in Afghanistan, which has spilt over into Pakistan, resulting in a 'security paradigm' undermining development priorities. The report points out that:

The costs of this war have been estimated to range between $35-40 billion. While the exact [costs] are difficult to assess, they are bound to be [significant], especially when we translate them into numerous and multiple lost targets for the MDGs.[50]

That makes the UN Charter's article 26 even more relevant, stressing as it does the need "to promote the establishment and maintenance of international peace and security with the least diversion for armaments of the world's human and economic resources".

Organisations such as the International Peace Bureau (IPB) – the 1910 Nobel Peace Prize Laureate - have long advocated general reductions in excessive military spending and a shift of resources to projects addressing human needs, both domestic and international. According to the IPB:

> *'Austerity cuts' (...) have intensified the scrutiny of government spending priorities and has given rise to a political climate more favourable to a critique of military spending. (...) If only a small fraction of global military expenditure were freed up for development programmes, we could go a long way to achieving the MDGs. (...) Reductions in military spending are of course not a panacea. We have to find ways to ensure that savings are actually transferred to social and development programmes. And that must necessarily be part of a much more comprehensive global transformation – away from an economy based on massive inequalities and mutual hostility, and towards a new economy founded on the principles of a culture of peace (...) [a] green economy to nourish a peaceful and sustainable global society.*[51]

Particularly in times of economic downturn, it is important to bring together the notion of inefficient military spending and the need to foster a sustainable social environment, backed up by decent spending levels, rather than cut by austerity measures. As the 2013 Human Development Report argues:

> *Rollbacks of health, education and other public services are likely to impair the health of the population, the quality of the labour force and the state of scientific research and innovation for years to come. (...) Moreover, economic stagnation reduces the tax revenues that governments need to finance social services and public goods. Much of this damage is avoidable.*[52]

Even the International Monetary Fund (IMF), a leading proponent, now accepts that austerity measures are generally followed by a jump in long-term unemployment that remains pronounced even after five years.[53] Long-term unemployment has been called the hidden crisis, with every year of unemployment reducing the chances of re-employment. According to an op-ed piece in the *New York Times*, "[t]he result is nothing short of a national emergency. Millions of workers have been disconnected from the work force, and possibly even from society. If they are not reconnected, the costs to them and to society will be grim".[54]

As noted already, based on American research, military spending appears largely untouched by 'austerity fever', with increased spending leading to negative employment effects; cuts would thus be beneficial to the national workforce.

Military and industrial circles have been crying wolf recently over plans to cut military spending in France and the UK, as part of deficit-reduction efforts. These representatives of the 'military-industrial complex' fail to mention, though, that neither country has cut its military budget significantly since 2008. In that respect, the "apocalyptic" [55] proposals are long overdue and likely to be beneficial for society as a whole, unlike many of the current austerity measures focused on social spending cuts.

Greece: suffering from decades of reckless military spending

Greece, as is well publicised, is in deep crisis – financial, economic and social. The Greek national debt reached crisis levels in 2010, following which the country received a bailout loan package from the IMF and other EU countries, and also instituted government austerity measures. These have, of course, proved controversial and generated intense debate about what went wrong, who was responsible and how the dire situation could be retrieved.

The question of inflated military spending has loomed in the background, thrown into relief when the governments of lending countries – like Germany and France – are emphatic on the priority of settling outstanding bills with arms suppliers in their jurisdiction, while at the same time insisting on swinging cuts in public spending and other austerity measures.

The impact of these measures has been devastating to many, and the hardship is expected to continue. Since the start of the crisis the unemployment rate has more than doubled, from 9.4 per cent in 2009 up to 20 per cent in November 2012, to become the second-highest in Europe. Youth unemployment in 2012 - among people under 25 - was highest in Greece (57.6%), compared to 24.4% in the eurozone.[56]

Greece has been Europe's main military spender in relative terms for most of the past four decades, spending twice as much of its GDP on defence as the EU average, from an average 6 per cent in the 1970s and 1980s[57] to 3 per cent in the first decade of this century. According to economist Angelos Philippides, if you could account for Greece's decades of formidable military spending "there would be no debt at all".[58] Despite its deep economic and financial crisis, Greece today is still one of the few EU members devoting more than 2 per cent of its GDP to the armed forces.

Greece's economy has shrunk by 20 per cent since 2008 and is expected to contract a further 25 per cent by 2014.[59] As the *New York Times* columnist Judy Dempsey summarised the consequences,

> *The middle and lower classes — not the rich business community — have been hit hardest. The International Monetary Fund and the European Commission have imposed stringent austerity measures in return for loan guarantees. As a result, pensions and health care, transportation and education have all been cut drastically.*[60]

Military expenditures also fell – and quite significantly – but only between 2009 and 2010, to grow again slightly in 2011, as shown earlier. Yet unpublished data for 2012 and 2013 is expected to show further decreases. According to SIPRI, these cuts come in large part from steep cuts to wages and pensions, which have hit all public sector workers.[61] Under the 2012 EU-IMF co-sponsored rescue programme – with an extra €130 billion in emergency loans until 2015 – Athens agreed to cut defence expenditure by €400 million.[62]

According to Dempsey, however, there is a "political reason for exempting the army from cuts. Closing some of the 500 military bases and 17 training centres would mean sending tens of thousands of young soldiers into the ranks of the unemployed, adding a dangerous component to social unrest".[63]

Wherever cuts have been made, they have mostly "affected salaries, but not the arsenal. Greece already has a lot of weapons for a small country and can easily defend itself," according to a research associate of the Institute for Security and Defence Analysis in Athens.[64]

The Greek military budget peaked in 2009 at €7.2 billion. While most other countries cut their post-Cold War budgets, Greek military expenditure declined only marginally, picking up again from 1993 onwards and accelerating from 2004. Already in 2006 an unnamed high-level military official was quoted as saying: "Overspending the last 10 years has resulted in the accumulation of excessive obligations for the financial servicing of the existing contracts, amounting to more than €9.5 billion".[65]

For Greece, longstanding tensions with Turkey over the Aegean Sea and Cyprus have provided the justification for high spending levels. Such justifications have lost most of their credibility since both are NATO members and tensions have greatly diminished. In 2010 Turkey removed Greece from its list of perceived threats, and the two have engaged in efforts to resolve maritime disputes. Still, Greece's former deputy defence minister Panos Beglitis cautioned: "How could we decide to reduce military spending to a level below what would be dangerous for our national security? Everything depends on the Turks."[66]

Early in 2010 Egemen Bagis, Turkey's chief negotiator with the European Union, said that to help Greece escape its "economic disaster" and reduce regional tensions, Ankara would reciprocate if the Greeks froze or cut defence procurement. "One of the reasons for the economic crisis in Greece is because of their attempt to compete with Turkey in terms of defence expenditures," he said, at the same time criticising Germany and France for seeking to sell military equipment to Greece while simultaneously pressing Athens to make drastic public spending cuts:

> *Even those countries that are trying to help Greece at this time of difficulty are offering to sell them new military equipment. Greece doesn't need new tanks or missiles or submarines or fighter planes, neither does Turkey. It's time to cut military expenditure throughout the world, but especially between Turkey and Greece. Neither Greece nor Turkey needs either German or French submarines."*[67]

Later that year, Turkish prime minister Recep Tayyip Erdogan visited Athens for talks aimed at a reciprocal reduction in defence budgets,[68] during which Greek deputy prime minister Theodore Pangalos said that he felt "forced to buy weapons we do not need" and that the deals made him feel "national shame".[69]

Recalling a meeting of European trade union leaders with German chancellor Angela Merkel, Yiannis Panagopoulos of the Greek GSEE trade union, told the *Guardian* newspaper:

After running through all the reasons why austerity wasn't working in my country I brought up the issue of defence expenditure. Was it right, I asked, that our government makes so many weapons purchases from Germany when it obviously couldn't afford such deals and was slashing wages and pensions? She immediately said: 'But we never asked you to spend so much of your GDP on defence', and then she mentioned the issue of outstanding payments on submarines she said Germany had been owed for over a decade.[70]

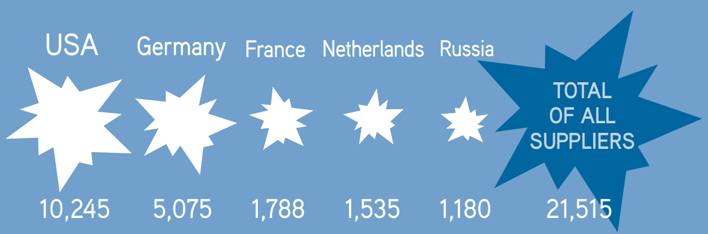
While France and Germany have always denied charges that they pushed their weapon deals with Athens as a precondition for participation in the financial rescue of the country[71], insiders confirm the pressure was real.

Prominent French Green MEP Daniel Cohn-Bendit has recalled on several occasions that while in Athens in 2010, his friend and then-prime minister George Papandreou told him that Berlin and Paris did not want Greece to slash military spending, as that would hurt contracts with French and German industry. These countries also insisted that Greece should use part of the first tranche of financial aid from the EU to pay for arms contracts.[72] "If you really want to balance the budget in Greece, you have to attack the military budget", said Cohn-Bendit. "The Greek problem is the military budget".[73] As an aide to Papandreou told Reuters, "No one is saying 'Buy our warships or we won't bail you out.' But the clear implication is that they will be more supportive if we do".[74]

After the Cold War, Greece emerged as one of the world's top arms importers, and a prime target for arms producers around the world keen to sell their weapon systems. During the 1990s it was the world's seventh arms importer (with Turkey at number 1); in the first decade of this century it was the fourth largest, with Turkey at 6.

Graphic 2 Greece's main arms suppliers 1990-2011

SIPRI TIV[75] data in million US$ at constant 1990 prices



Source: SIPRI[76]

SIPRI confirms that while Greece placed no major new orders in 2011, payments for earlier orders from France and Germany boosted the share of procurement spending in the defence budget.[77] In only in a few cases have orders been dropped, and then only partially.[78]

The U.S. and Germany have benefited especially from Greece's decades of excessive military spending, together with France, the Netherlands and Russia (see graphic 2). Weapons delivered include the whole range, from frigates and submarines to armed helicopters and fighter aircraft.

Among the more recent purchases from the US are Boeing Apache attack helicopters, Lockheed Martin F-16s (€1.5 billion[79]) and Raytheon's Patriot air defence missile systems. In January 2013 the Greek government approved a €184 million deal to buy spare parts for its F-16s.[80] Washington is currently considering a Greek request to take over two or three retired cruisers from the US Navy.[81]

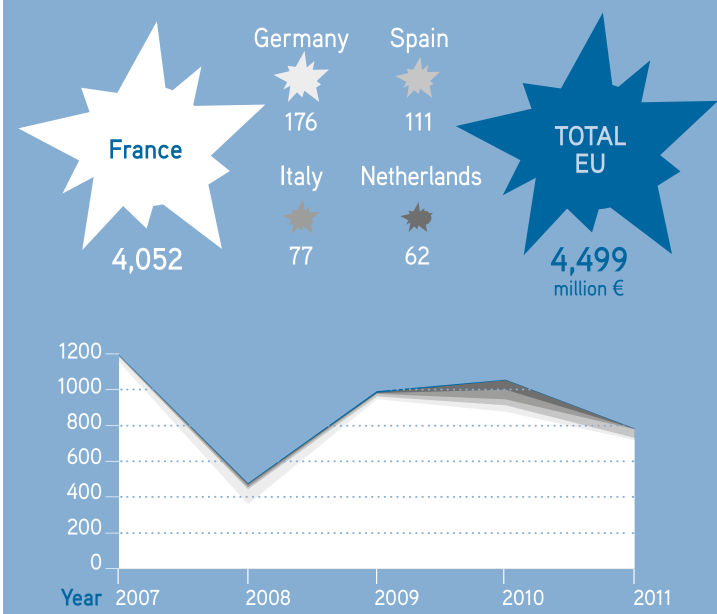
Germany's value appears inflated in the graphic above (2) as a number of deliveries came in as aid from ex-GDR (East German) stocks, which SIPRI nevertheless accounts for because of their strategic value, and does not represent the financial value of the transfers. Nevertheless, Greece paid hard cash for big-ticket items from the German industry, much of it including transfers of technology under licensed production schemes, for submarines, frigates and battle tanks. While Chancellor Angela Merkel told Greece "to do its homework" on debt reductions, "the military deals illustrate how Germany and other creditors have in some ways benefited from Greece's profligacy, and how that is coming back to haunt them", according to the *Wall Street Journal*.[82]

France delivered Mirages and associated missiles and a range of helicopters and drones.[83] But the bulk of French arms deals with Greece were concluded just prior to and deep into the financial and economic crisis, regardless of what rescue plans were enforced upon the country, as graphic 3 below shows.[84] In 2010 alone - the same year the first bailout was negotiated - Paris granted arms export licences for Greece worth €876 million, out of a total of EU arms exports to the country worth just over one billion euros.[85]

Generally the picture of EU arms exports just prior to and since the financial and economic crisis started is astounding, but the role of France is especially striking, representing 90 per cent of the €4.5 billion worth of licences for military hardware sales to Greece.

Although debt-ridden, Greece continues to be an important focus for France when it comes to arms sales. In a new attempt to maintain Greece's interest in French weapon systems in difficult times, France is strengthening ties with Greece through a lease deal for two FREMM-type frigates, after an initial sales programme for four of these frigates failed due

Graphic 3 Value of EU arms export licences for Greece 2007-2011, in million €



Source: EU annual reports[86]

to financial constraints and German opposition.[87] The French shipyard DCNS is desperate to sell FREMM frigates after its own government cut its original 17-ship order down to eleven.[88]

Contractual discussions took place in early 2013 between French defence minister Jean-Yves Le Drian and his Greek counterpart Panos Panagiotopoulos.[89] This gave Le Drian the opportunity to thank Greece for contributing army officers to the EU Training Mission in Mali (all four of them!), emphasising that "France and Greece have always enjoyed great solidarity during difficult times".

Greece is also considering the loan of four French aircraft for the navy.[90] According to *Jane's Defence Weekly,* the announcement "caught many, including the Hellenic Navy, by surprise. The decision to pursue an equipment transfer with France thus appears to be largely driven by political considerations, rather than an initiative of the armed forces".[91]

Over the past fifteen years Greece has been the third most important destination of Dutch military hardware, behind only the US and Germany. The Netherlands has sold a lot of surplus equipment to Greece during this time, including tanks and frigates. Thales Nederland has long been a major supplier of naval radar and fire control systems.[92] A thriving trade continued until 2010, when the Dutch government granted export licences worth €53 million to equip the Greek navy.

The Greek government has so far had little success in (partially) privatising the largely publicly-owned arms industry, though Qatar is said to be interested.[93] The privatisation plans were agreed as part of the EU bailout of Athens.[94] Together with the sale of other assets, including state-owned land and gambling concessions, it should raise up to €50 billion to buy back sovereign debt and free the government of its loss-making ventures.[95] Greece's military industry has historically been inefficient, loss-making and faced with liquidity problems.[96] According to a Greek military-industrial insider,

> *The [Greek] economy received just a marginal profit in terms of new jobs compared to the amount spent and the Hellenic defence industry finds itself almost exactly where it has started from, if not even in a worse situation: struggling to survive. Even though things went wrong for both the economy and the domestic defence industry, it seems the decision makers across the defence domain have not yet learned their lesson.*[97]

In 2011 Elefsis Shipyards sought bankruptcy protection, connected to a dispute with BAE Systems over arrears of €11.4 million.[98] Frustrations have run high in the sector, which became visible when some 250 workers of the Hellenic Shipyards in Skaramangas stormed the Ministry of Defence demanding talks with the minister and the payment of six months outstanding wages.[99] The Abu Dhabi-owned yard had not paid salaries after the Greek government had stopped paying for naval work under contract.[100]

Italy: cuts in personnel, not procurement

Italy has the third largest economy of the eurozone and the world's eighth largest, but nevertheless came close to bankruptcy in 2012, with volatility on bond markets driving up the national debt to 123 per cent of GDP that year. This came after the economy had contracted by 5.5 per cent of GDP in 2009 and government borrowing reached 5.4 per cent of GDP that year,

Since 2009 the unemployment rate has gone up almost 20 per cent, from 7.8 per cent in 2009 to an estimated 9.5 per cent in 2012. Youth unemployment had hit 37 per cent by 2012, according to the European Commission.[101] Italy faces spending cuts of €21.5 billion for 2013 and 2014.[102]

In nominal values Italy's defence budget has fluctuated between €24-28 billion since 2000, with a high of €28.2 billion in 2008 and the most recent 2011 figure at €24.8 billion – a 12 per cent decline since 2008, according to SIPRI data.[103] However in terms of GDP the 1.7 figure for 2011 equals the post-Cold War low of 1995, being between 1.7 and 2.0 per cent for the intervening years.

The main target of Italy's defence cuts is the number of personnel, with reductions proposed from the current 180,000 to 150,000 soldiers, including many senior officers; 30 per cent of the military bases will be closed over the next ten years.[104]

Under the proposals personnel costs should make up half of the budget, compared to the current 70 per cent, trying to safeguard equipment programmes as much as possible.[105] That would bring spending on personnel to comparable levels with Germany and France. Rather than cutting requirements, Italy is trying to save money by slashing maintenance and operational costs, as well as delaying orders.[106] Sales of surplus equipment, especially naval vessels, should also bring in some revenue; Philippines and Tunisia, for example, have already lined up.[107] On the other hand six new frigates, two submarines and a multirole support ship will be commissioned before 2020, besides new drones, helicopters and fighter jets for the navy.[108]

The only seemingly significant cut in arms purchases concerns the prestigious Joint Strike Fighter (JSF) project, with the order reduced from 131 to 90 aircraft.[109] The steeply increased costs of the project, though, mean this reduction is unlikely though to save any money from the original budget of €15 billion. The JSF has come under attack in Italy from civil society, including the powerful Catholic church.[110] "My personal view is that we cannot afford to cut too much, because we still have a strong industrial base, and we think that base has to be supported", air force chief Giuseppe Bernardis told *Defense News*.[111]

Meanwhile Italy and Germany have set up armaments co-operation deals, mirroring a similar move by France and the UK. Defence industry associations of both countries signed a cooperation deal covering unmanned aerial vehicles (UAVs), unmanned ground vehicles, guided munitions, satellites and missiles. Alenia Aeronautica, a unit of Italian defence giant Finmeccanica, and EADS unit Cassidian are looking to cooperate on UAVs, including on armed versions.[112]

To compensate for falling domestic demand, Italy has aggressively pushed exports to markets on all continents, winning major deals in Brazil, Israel and Turkey, as well as Gaddafi's Libya.[113] It now seems that Italy pushed its export offensive a bit too hard, with Italy's flagship arms company - partly state-owned Finmeccanica - almost collapsing under a string of corruption scandals which have so far resulted in the arrest of its CEO Giuseppe Orsi in February 2013, and successive losses in major tenders.[114] In 2011 the company faced a €200 million loss, after years of expansion under Orsi's predecessor Pierfranceso Guargualini.[115] In 2013 it announced it will slash 2,529 jobs.[116]

State-controlled shipyard Fincantieri has also run into trouble in its home market. CEO Giuseppe Bono warned the Italian Senate in mid-2011 that more warships should be ordered by the navy to save the company from the economic downturn.[117] In 2017 the last of six FREMM frigates from the yard are planned for delivery to the navy.[118] Earlier plans to slash the local workforce to 2,500, down from 8,500, were not approved by the government after workers went on strike and clashed with police. At the same time Fincantieri has expanded globally since 2008, buying shipyards from competitors in the United States and South Korea.[119] While the Korean takeover concerns largely civilian activities, its US yards, building the plagued US Navy's Littoral Combat Ship, face an uncertain future.[120]

While local politicians and trade unions have generally strongly backed arms industry jobs, former Labour, Health and Welfare minister Maurizio Sacconi made clear that "state contracts occur if they are really needed, whether for defence or security, and certainly not to keep facilities busy and save jobs."[121]

Italy has proposed extending the use of so-called 'golden shares', as a measure to protect the arms industry from foreign takeovers and exercise stronger powers over these "activities of strategic importance for national security and defence".[122] An earlier, more radical move was deemed incompatible with EU competition regulations and almost led to the imposition of sanctions after Italy's initial failure to respond.[123]

Spain: crippling debts, unneeded weapons

Spain has the 15th-largest economy in the world and the fifth-largest in the European Union. In 2009 GDP contracted by 3.7%, ending a 16-year growth trend and marking the start of the deep recession in which Spain is now mired.

The economic downturn has also hurt Spain's public finances. The effects of the global financial crisis of the late-2000s have been compounded by the continuing European sovereign debt crisis. Public debt almost doubled between 2008 and 2012 to an estimated 79 per cent of GDP. The public deficit rose by almost 50 per cent in the same period; reaching about 11.2 per cent of GDP in 2009; it was expected to be about 6.7 per cent in 2012.[124]

Since 2009 the unemployment rate has gone up by a third, growing from 18 per cent in 2009 to 26.6 per cent in 2012 – the highest in the EU.

Youth unemployment stands at a shocking 56.5 per cent.[125]

Spain's 29 per cent increase in military expenditure between 2000 and 2008 was one of biggest in Western Europe. Spain initiated 19 military programmes from 2000 which "arguably lacked clear strategic justification", according to SIPRI researcher Sam Perlo-Freeman.[126] The recession means it faces major problems repaying a €26-30 billion debt to arms suppliers. As then-secretary of state for defence Constantino Méndez pointed out in 2010: "We should not have acquired systems that we are not going to use, for conflict situations that do not exist and, what is worse, with funds that we did not have then and we do not have now."[127]

Due to the deteriorating economic situation Spain reduced its military expenditure by 18 per cent between 2008 and 2011. With one per cent of its GDP spent on defence, Spain now has the third lowest percentage within NATO, after Luxembourg and Hungary.[128] But it still faces huge problems in repaying debts for its unnecessary military programmes.

In September 2012 the government arranged a special credit line to pay off €1.8 billion of outstanding debts to the arms industry accumulated over the previous two years.[129] "We hope it won't be necessary in 2013 and that it will not need to happen again in the future", according to Spanish defence minister Pedro Morenés. He warns that further cuts from his budget "would be very dangerous",[130] but until the outstanding €26-30 billion debt is cleared his hopes seem forlorn.

Nevertheless, to staunch the growing debt, orders are being delayed or cancelled.[131]

There are also plans to reduce military personnel numbers over the next decade: the defence ministry's Vision 2025 report envisages a 15,000 cut in troop numbers, 10 per cent of the MoD's employees.[132]

Like Italy, Spain has raised government support to facilitate exports, to make up for falling domestic orders.[133] It has also called for the consolidation of the local armaments industry to strengthen it and secure its survival.[134] According to Morenés, Spain needs to safeguard this industry which has been developed "with an enormous financial and work effort".[135] Spain hopes to win a controversial contract from Saudi Arabia for 250 Leopard 2 tanks, in competition with Germany – the original builder of the tank.

Germany greasing the wheels

Writing about public corruption as the "dark side of social evolution", Robert Neild writes that "[t]he leading arms firms in virtually every major arms-producing country have been implicated [in corruption], including reputable firms from the most respectable countries." He goes on to note that "bribery in the arms trade has not subsided since the end of the Cold War. On the contrary, as military spending has been cut back the arms firms have been seeking markets abroad more fiercely than before."[136]

According to the *Economist*, German businesses were reckoned in 1999 to pay "more than $3 billion a year all told to win contracts abroad". In the international arms trade, "probably the world's dirtiest legitimate business, one estimate reckons that roughly $2.5 billion a year is paid in bribes, nearly a tenth of turnover".[137]

Corruption in the arms trade contributes roughly 40 per cent to all corruption in global transactions, according to SIPRI. "This corruption exacts a heavy toll on purchasing and selling countries, undermining democratic institutions of accountability and diverting valuable resources away from pressing social needs", according to the think tank.[138] Transparency International singles out Greece and Portugal, where "corruption is so deeply ingrained it poses a direct threat to democratic legitimacy and jeopardises economic recovery".[139]

Portuguese Socialist MEP Ana Gomes also sees a key role for Brussels here:

> *What we don't see is political courage on the part of the EU institutions, notably the European Commission, to actually tackle this question of corruption that is at the root of the current crisis. Corruption in the management of banks, which were not properly regulated and supervised, and corruption in the public sector in relation to defence procurements.*[140]

Two recent major corruption cases in Europe involve submarine sales to Greece and Portugal by German company ThyssenKrupp Marine Systems. While Germany, together with Australia, is considered by Transparency International to be the least sensitive country to corruption in its procurement processes,[141] this apparently does not relate to its exporters, nor the government's efforts and ability to prevent corruption in arms exports.

In 2011, German prosecutors succeeded in convicting two former managers of Ferrostaal for paying €62 million in bribes to key Greek and Portuguese officials in connection with the submarine deals.[142] At the time Ferrostaal explicitly denied ever having paid bribes for the deals.[143] The two former Ferrostaal managers were given quite lenient sentences, while Ferrostaal itself was fined €140 million for 'obtaining an economic advantage' through its two employees.[144]

Portugal[145]

In 2004 Portugal – under then prime minister Manuel Barroso (now EU Commissioner) - signed a deal with the German Submarine Consortium[146] to purchase two submarines for one billion euros – the single largest arms deal the country had ever agreed. This was accompanied by a €1.2 billion in counter-contracts ('offsets') for Portugal's naval, automotive and new technologies industries. It is alleged that offsets have served as a vehicle for improper payments. More than a dozen suspicious brokerage and consulting agreements related to the deal were identified, all of which were designed "to obfuscate the money trails," so as to pass on payments "to decision-makers in the Portuguese government, ministries or navy."[147] The Portuguese state suffered losses of at least €34 million, which it is trying to recover through the courts.[148] Even worse, the two submarines will account for about 40 per cent of defence spending until 2023.

Ana Gomes, the Portuguese MEP, is "disappointed" that her government did not stand up to the German administration and freeze payments until the corruption case was finalised: "It would have been a courageous gesture to show that Portugal is a country whose people are victims of corrupt practices between German and Portuguese officials and companies."[149]

As part of its austerity measures Portugal in 2012 cancelled a number of procurement programmes, including 40,000 small arms, 94 Pandur armoured vehicles and 10 NH-90 helicopters, the latter of which would save €420 million alone.[150] State-owned and debt-ridden naval shipbuilder ENVC has also been put up for sale.[151]

Still Portugal's economic prospects are bleak and little appears to have been learned from wasteful military spending and associated corruption. "Portugal is a country of black holes in its public accounts and budget slippages at all government levels", charged Louis de Souza, chief of Transparency International Portugal, and government statements on anti-corruption measures are plainly "bullshit." He accused the EU of "neglect" on Portugal, noting that even inspectors monitoring its EU-IMF bail-out, did not mention corruption in their official memos.[152]

Greece

In 2000 Greece ordered one submarine from the German Submarine Consortium (GSC) in a contract worth €1.14 billion.[153] Delivery was delayed by contractual disputes between the two parties, from 2006 until the end of 2010. Plans for the costly purchase of a further five such submarines have been thrown into question by the need for cutbacks. [154]

For Greece, the submarine order "had placed in danger the country's largest shipbuilding industry, thousands of jobs, the entire Greek Navy submarine programme and over €2 billion already paid by the Greek state without tangible results", according to then-minister of defence Evangelos Venizelos.[155] In 2010 vice-admiral Stelios Fenekos resigned to protest the submarine deal. "How can you say to people we are buying more subs at the same time we want you to cut your salaries and pensions?" he said.[156]

Up to eight arms deals signed by the Greek government since the late 1990s are being investigated by judicial authorities for possible illegal bribes and kickbacks to state officials and politicians, according to the Greek newspaper *Kathimerini*.[157] Among these is the purchase of US-made Patriot missiles and the German submarine deal. "Investigators are probing bank accounts and offshore companies in a bid to trace millions of euros received by senior state officials as sweeteners for the arms deals. *Kathimerini* understands that two cases involve possible offenses committed by two defense ministers who served before 2006."[158] Suspicious payments were reportedly made via Austria, the Caribbean, Liberia and Cyprus.

Former defence minister Akis Tsochatzopoulos, his wife and 17 others are to stand trial, from April 2013, for kickbacks from arms purchases. Tsochatzopoulos, a founding member of the PASOK socialist party, is alleged to have pocketed €20 million in kickbacks between 1998 and 2001, including €8 million from Ferrostaal in the submarine deal.[159]

Germany

The submarine corruption scandals are not limited to Greece and Portugal. Questionable payments were also involved in the sale of German submarines to South Korea. In an investigation US law firm Debevoise & Plimpton could not find concrete evidence bribes paid, "but its report lists numerous inconsistencies related to submarine deals with Pakistan, Indonesia, Turkey, Italy and Egypt. The attorneys investigated, for example, a deal in Turkey that involved a questionable loan of more than €2 million ($2.8 million) to a local business partner. In Indonesia, the local intermediary allegedly demanded openly that the company "line the pockets of my friends.""[160]

Another case under scrutiny has been the €1.7 billion sale of 170 Leopard tanks to Greece by Kassel-based KMW, which denied having paid bribes for the deal. [161] The refusal of cooperation from the Virgin Islands, a key link in the money trail, has stymied this investigation however.

Electronics giant Siemens is a third German company implicated in corruption related to Greek military trade. The company agreed a $355 million (around €273 million) out-of-court settlement with Greece in connection with accusations that it had bribed politicians to secure state contracts. "The settlement, a combination of debt forgiveness and investment capital, is a small fraction of the $2.6 billion that a Greek parliamentary committee said the country had paid in inflated contract prices during the 1990s", according to the *New York Times*, which further notes that "both the Siemens and Tsochatzopoulos cases reflect the tense relations between Greece and Germany, which has demanded sharp Greek spending cuts even as its defense companies have won billions of dollars in contracts from Greece."[162]

"There's a level of hypocrisy here that is hard to miss", says Greek SIRYZA MP Dimitris Papadimoulis,

> *Corruption in Greece is frequently singled out as a cause for waste but at the same time companies like Ferrostaal and Siemens are pioneers in the practice. A big part of our defence spending is bound up with bribes, black money that funds the [mainstream] political class in a nation where governments have got away with it by long playing on peoples' fears."*[163]

Austerity? Tighten the military belt!

For a decade after the end of the Cold War, military budgets were reduced from the preposterously high levels of the late-1980s, before ballooning again post-9/11 and the subsequent invasions of Afghanistan. While the US is responsible for most of this spending, most countries in Europe also allocated extra money to the armed forces.

"The United Nations and all its agencies and funds spend about $30 billion each year, or about $4 for each of the world's inhabitants. This is a very small sum compared to most government budgets and it is less than three per cent of the world's military spending."[164]

The massively increased defence budgets over the past decade have contributed significantly to government deficits and sovereign debt. Those countries now facing acute budgeting and debt problems also boosted their military budgets, mainly for major arms purchases, between 2002 and 2008. Without such increases, state debts would have been much lower; alternatively, the same money could have been spent on alternative policies with better prospects of economic growth, more jobs and greater social cohesion.

Five years into the financial and economic crisis, and despite some sharp spending cuts, it seems that most countries still cling to their 'toys for the boys' approach. Troop reductions are underway and salaries and pensions have been cut, but most of the budgets for weapons procurement have thus far remained intact. While some programmes are being cut, sometimes merely to offset price increases, other new programme priorities – such as missile defence, drones, cyberwar and anti-piracy – get substantial new budgets as more technological "solutions" are promoted.

The sale of surplus armaments is seen by many countries as a way of compensating for lost income and enabling the purchase of new weapons. With so many countries selling on the second-hand market and keen competition, there is a clear risk that export controls are neglected to gain market share, and that weapons are more likely to end up in conflict areas, or in the hands of undemocratic, repressive governments.

Equally concerning is the tendency to increase government support for newly-produced weapons, in an effort to compensate for a shrinking domestic market. Given a lack of focus from major EU suppliers on corruption – inextricably linked to the arms trade – governments urgently need to come up with credible policies to tackle and prevent it. This is equally true for supplier and recipient states.

The prospect of potentially significant cuts in European military budgets - especially those of the UK and France, Europe's largest two spenders - can only be seen as a positive step, although long overdue and entirely logical in the current financial and economic climate. Rather than "apocalyptic", as some have dubbed them, major cuts - especially in arms procurement - are a good opportunity to reduce government deficits, or better yet, to stimulate employment and economic recovery more broadly.

It is high time to adjust military spending to levels reflecting a realistic threat perception and draw lessons from the wildly expensive and often counter-productive military campaigns in Afghanistan and Iraq. Nuclear weapons should be withdrawn from European (and other) arsenals and the procurement of excessively expensive weapons, mainly bought to serve an aggressive foreign policy, stopped.

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