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Abstract

This article examines the military retrenchment of regional powers in the face of a sudden economic crisis, thus distinguishing itself from mainstream scholarship, which has focused on single hegemonic powers undergoing relative decline. Collective action theory suggests that actors seeking to obtain a common good may be able to diminish their collective contributions, yet optimize an output factor to avert a loss in the common good provided. This indicates that retrenchment carried out collaboratively may yield greater results than if states were to execute that policy individually. A case study examination of Britain, France, Germany, and Italy in the years of the European economic and financial crisis finds evidence that national governments and defense planners indeed sought to minimize the adverse effects of spending cuts by seeking defense partnerships with each other and other states. As predicted, state retrenchment and collaboration were proportional to the extent to which the crisis affected each state. This article's model and findings provide significant implications for states considering or undergoing retrenchment policies.

Résumé:

Contrairement à d'autres travaux universitaires qui mettent l'accent le relatif déclin militaire des grandes puissances régionales, cet article étudie la baisse des dépenses militaires de l'ensemble des puissances régionales dans un contexte de crise économique rapide. La théorie de l'action collective suggère que les acteurs qui cherchent à obtenir un bien commun peuvent parfois baisser leurs contributions collectives, cherchant à optimiser le facteur de sortie (output factor) pour éviter une perte dans le bien commun produit. Selon ce modèle, une baisse collective des dépenses n'a de meilleurs résultats que si les États mènent cette politique individuellement. Une étude de cas portant sur la Grande-Bretagne, la France, l'Allemagne et l'Italie au moment de la crise économique et financière européenne montre que les gouvernements nationaux et les acteurs en charge de planifier les dépenses de défense ont en effet cherché à minimiser les effets néfastes des réductions de dépenses par la recherche de partenariats en matière de défense, à la fois entre eux et avec d'autres États. Le résultat confirme l'hypothèse selon laquelle la baisse des dépenses militaires de l'État et la collaboration sont proportionnelles à l'impact de la crise sur chaque État. Le modèle développé dans cet article et ses résultats ont des implications cruciales pour les États qui envisagent ou qui mènent des politiques de réduction des dépenses.

Introduction

How are the leading European states responding to the pressures of the economic and financial crisis [hereinafter the Eurozone crisis] on their defense budgets? The Eurozone crisis, which began in early 2008, exacerbated the continent's relative economic decline, pushing European governments to consider various policy responses. The primary strategic challenge European states are facing is how to balance their interests and role in the international system with pressures to reduce defense spending.

The conventional view in international relations holds that defense retrenchment (i.e., systematic cuts in defense spending and disengagement from costly foreign commitments) is an undesirable strategy with many risks and costs associated to it.¹ Furthermore, various scholars have discussed the capacity of allied states to cooperate in the security realm without free riding and causing imbalanced distributions of costs and benefits.² In this article, I challenge these positions by examining defense retrenchment in regional powers facing relative decline. I develop a model of collective action and state retrenchment that explains collaboration in defense policy among allies. By examining the case studies of four European powers—Britain, France, Germany, and Italy [hereinafter the EU-4]—I develop three connected arguments.

First, I argue that it is possible for allies to retrench collaboratively, thus achieving important savings while not forfeiting defense or security benefits. Second, consistent with previous work on defense retrenchment, I argue that the extent of retrenchment and cooperation undertaken in any given state are congruent with the decline that state is undergoing. Third, this article argues that retrenchment can take forms other than those that international relations scholars have envisioned thus far, by employing defense industrial policy to balance competing foreign and domestic policy interests.

1. The Importance of Studying State Responses to the Crisis in the Defense Sector

This article has two primary objectives. The first is to understand the impact of the Eurozone crisis on the defense budgets and policies of the EU-4. The Eurozone crisis, which began in 2008 as a banking crisis but then spread to encompass the national economies of nearly all European states, both those inside and outside the European Union and the euro currency area.³ The crisis necessitated extensive governmental policy changes, including changes in defense and security policy.

¹ See Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981); Jeffrey W. Taliaferro, *Balancing Risks: Great Power Intervention in the Periphery* (Ithaca, NY: Cornell University Press, 2004); Stephen G. Brooks, G. John Ikenberry, and William C. Wohlforth, "Don't Come Home, America" *International Security* 37, no. 3 (Winter 2012/13); Robert Kagan, "No Time to Be Cutting the Defense Budget," *Washington Post*, February 3, 2009; and Robert D. Kaplan, "Where's the American Empire When We Need It?," *Washington Post*, December 4, 2010, accessed October 13, 2012. For a summary of critiques of retrenchment, see also Paul K. MacDonald and Joseph M. Parent, "Graceful Decline: The Surprising Success of Great Power Retrenchment," *International Security* 35, no. 4 (Spring 2011).

² See John R. Oneal and Paul F. Diehl, "The Theory of Collective Action and NATO Defense Burdens: New Empirical Tests," *Political Research Quarterly* 47, no. 2 (June 1994); and Todd Sandler and Hirofumi Shimizu, "NATO Burden Sharing 1999–2010: An Altered Alliance," *Foreign Policy Analysis*, 2012.

³ This naming is not restricted to discussing the countries whose currency is the euro; where there is the need to be specific, such as discussing the issues of euro-area, I shall note this. For a more technical and in-depth overview of the origins of the European economic and financial crisis, see Henk Overbeek, "Sovereign Debt Crisis

The second objective is to determine whether the consequences of the Eurozone crisis have led the EU-4 to adopt collaborative defense policies that address the current phase of increased economic decline or whether these states chose to pursue independent response strategies. The analysis focuses on intergovernmental cooperation rather than cooperation through intergovernmental organizations. This is both to keep the analysis at a manageable size and to focus on the unconstrained direct interstate cooperation that can happen following such a crisis. The mechanisms of supranational organizations might cause a delay in their response, making a study of intergovernmental cooperation better suited to an examination of the EU-4 cases so close to the actual crisis period. However, this paper does not seek to overlook supranational cooperation and this article's findings will ideally aid future scholarship in this regard.

An analysis of the effects of the Eurozone crisis on European defense spending fits in the context of three broader issues. The first issue is that of relative decline, the loss of power—in economic, military, and diplomatic terms—of certain states compared to others. The second issue is defense retrenchment: a strategy that seeks to reduce costs and commitments in order to address a situation of relative decline.⁴ The third issue is that states often plan and implement crisis mitigation measures at the multinational level due to the interconnected structure of the globalized modern world. This implies coordination and collaboration across different countries whose varying interests must be reconciled to devise a shared solution. Since retrenchment has been studied primarily at the national level, a modern and up-to-date analysis should encompass this policy's international and collaborative elements.

2. Outline of the Content and Argument

This article examines the period between the beginning of the Eurozone crisis in 2008 and mid-2013. The first section presents the relevant international relations scholarship, offering a critique of several existing perspectives and highlighting shortcomings in the current literature. With this in mind, the section then examines a model of collective action and state retrenchment that links cooperation among actors to varying security goals. The second section lays out the hypotheses this article will test and then describes the research design, motivation for case study selection, and variables. The third section comprises the case studies of the EU-4. It begins by laying out the effects of the Eurozone crisis on the EU-4 and analyzes their responses in major areas: armed forces planning, defense industrial policy, and collaborative efforts. The fourth section discusses potential barriers to retrenchment. The article then provides the final assessment of the evidence discussed.

3. A Theoretical Framework for the Study of Retrenchment

in Euroland: Root Causes and Implications for European Integration," *The International Spectator: Italian Journal of International Affairs*, 47, no. 1 (March 2012).

⁴ Retrenchment should not be confused with austerity measures, which are policies aimed at reducing budget deficits through spending cuts and tax hikes. Austerity measures may be included in a strategy of retrenchment, and relative decline can also entail budget deficits, though this is not always the case. On austerity as a policy, see "Austerity Measure", *Financial Times Lexicon* (<http://lexicon.ft.com/Term?term=austerity-measure>).

Retrenchment Theory

Paul Pierson lays the groundwork for retrenchment scholarship by proposing three components that the study of retrenchment should possess. First, such research must examine both long-term and short-term spending cuts. Second, an analysis of retrenchment should observe both program structure and program spending. Third, the study must cover both systemic (nationwide and overarching) and programmatic (single-policy) retrenchment.⁵ Pierson develops additional elements useful for analyzing retrenchment policies. The structure of institutions, existing policies, the strength of societal actors, and the vulnerability of individual government programs are all relevant variables in assessing whether retrenchment can achieve its stated objectives or not.⁶

Paul MacDonald and Joseph Parent extend the application of Pierson's foundational scholarship to international relations, defining defense retrenchment as "a policy of retracting grand strategic commitments in response to a decline in relative power". Defense retrenchment entails policy options such as "economizing expenditures, reducing risks, and shifting burdens."⁷ MacDonald and Parent find that the magnitude of decline influences both the extent and type of retrenchment states will select. Emphasizing the observed benefits of retrenchment, the authors further note that by retrenching effectively, states are able to slow down or arrest their decline. In some cases they can even position themselves for a future return to the status they had lost.⁸

In recent years, a number of authors have taken a stance either supporting or criticizing retrenchment, complementing political science studies with policy analysis work. The debate between these authors indicates that retrenchment is an issue discussed in the public domain by academics and public intellectuals alike. Various authors have argued for policies that favor hegemonic retrenchment as a means of focusing national resources on key goals rather than on secondary issues and of reducing the potential for international conflict, thus making a state both more powerful and effective.⁹ This point of view further posits that hegemonic retrenchment also benefits the international system by increasing its stability.¹⁰

Conversely, other scholars—though agreeing with MacDonald and Parent on what constitutes retrenchment—contend that this strategy is both counterproductive and eschewed by policymakers. These scholars argue that retrenchment signals weakness and vulnerability to allies and adversaries alike, increasing external perceptions of the severity of decline.¹¹ According to this group, although retrenchment may be the economically preferable policy, the desire to avoid the perception of weakness is a more significant driver

⁵ Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994), pp. 14-17.

⁶ *Ibid.*, ch. 2, 6.

⁷ MacDonald and M. Parent, "Graceful Decline," p. 11.

⁸ *Ibid.*, pp. 28-29.

⁹ David P. Calleo, *Follies of Power: America's Unipolar Fantasy* (Cambridge: Cambridge University Press, 2009), ch. 6; and Christopher A. Preble, *The Power Problem: How American Military Dominance Makes Us Less Safe, Less Prosperous, and Less Free* (Ithaca, NY: Cornell University Press, 2009), ch. 6.

¹⁰ Fareed Zakaria, *The Post-American World: Release 2.0* (New York: W. W. Norton, 2011), ch 7; and Christopher Layne, "Graceful Decline: The End of Pax Americana," *American Conservative* 9, no. 5 (May 2010).

¹¹ Gilpin, *War and Change in World Politics*, pp. 192-195.

of leaders' positions.¹² Other critics emphasize that retrenchment deteriorates military capabilities and leads to power vacuums with their inherent security threats as the hegemon withdraws from certain commitments.¹³

Three important caveats must be made here regarding retrenchment theory. First, Pierson discusses case studies of retrenchment motivated by ideology. In this article, I instead discuss retrenchment as a policy motivated by strategic logic. Second, within the international relations discussion of retrenchment, the focus is largely on so-called “great powers”: those states which by virtue of their economic, military, and political resources rank among the five or so most powerful actors in the international system. In particular, recent emphasis is on the hegemonic system. While the EU-4 rank among the world's ten largest economies and are in similar positions in military expenditure, they are not imperial great powers at a global level. Rather, they are regional powers with certain global ambitions. In part, it will be the goal of this study to assess whether these types of states can fit in the existing retrenchment framework or not. Third, and most importantly, existing retrenchment scholarship focuses on individual states. According to the model, this implies a certain degree of cooperation with other states, but retrenchment has so far remained a policy studied (and undertaken) solely at the state level. This article looks to expand the analysis of retrenchment to include retrenchment as a collaborative endeavor between multiple countries facing similar problems. Jointly managed decline is not considered in current perspectives on retrenchment, and this study of post-crisis European defense will seek to fill this gap.

Power Transition Theory

Power transition theory, at its core, aims to understand under what conditions the international system will be stable and peaceful and when it will instead degenerate into conflict.¹⁴ Power transition theory's understanding of economic factors and regional dynamics has remained relatively constant over time. It posits that military and economic powers are equally relevant elements for analyzing and predicting interstate relations.¹⁵ This makes power transition theory a key tool in studying the confluence of economic and defense trends this article focuses on. This theory is versatile and applicable to regional as well as global dynamics—a structure of “multiple hierarchies”—through the notion that developments in one part of the world have the ability to influence those in another through threat spillover, economic fluctuation, or patterns of alliances.¹⁶

Moreover, recent scholarship has addressed the problematic tenets of mainstream power transition theory: that states are the exclusive actors in international relations and that interstate alliances are relatively inflexible.¹⁷ Both tenets question the applicability of power

¹² See Gilpin, *War and Change in World Politics*; and Jeffrey W. Taliaferro, *Balancing Risks: Great Power Intervention in the Periphery* (Ithaca, NY: Cornell University Press, 2004).

¹³ Kagan, “No Time to Be Cutting the Defense Budget”; and Kaplan, “Where's the American Empire When We Need It?.”

¹⁴ Ronald L. Tammen et al., *Power Transitions: Strategies for the 21st Century* (New York: Chatham House Publishers, 2000), ch. 1.

¹⁵ *Ibid.*, p. 107.

¹⁶ Tammen et al., *Power Transitions: Strategies for the 21st Century.*, ch. 3.

¹⁷ Jon M. DiCicco and Jack S. Levy, “Power Shifts and Problem Shifts: The Evolution of the Power Transition Research Program,” *Journal of Conflict Resolution* 42, no. 4 (December 1999): p. 684.

transition theory to a study of European defense in the 21st century, first because of the need to account for a rise in the importance of non-state actors in the field of security and second, because of the crucial role conventional views on external balancing can have when discussing defense retrenchment. Modern research addresses the first discrepancy by acknowledging the growing role of non-state actors in current analyses of power and security.¹⁸ Regarding the second incongruity, scholars have demonstrated that alliances play a part in the power transition framework and the occurrence of war, extending power transition theory to encompass external and not just internal balancing.¹⁹

Finally, various analyses have identified the financial burdens of foreign commitments, of maintaining a large military establishment, of servicing debts from previous wars, and of failure to dominate emerging economic sectors as the primary factors leading to state decline.²⁰ These are, by and large, the same factors retrenchment policies seek to address. It follows that since the extent of decline affects the likelihood and timing of transitional conflict,²¹ it is increasingly important for policymakers to focus on these factors when elaborating a grand strategy. Power transition theory would predict that relative decline will not be met with strategic reconsideration of the resource-commitment balance but will rather be addressed by attempts to increase state power (especially militarily) at the expense of other calculations. Hence, in order to avoid conflict and maintain supremacy, states that fear being overtaken by another state will be driven to increase their power rather than address the causes of their decline.²² We thus see the normative suggestions of retrenchment theory clash with the predictions of state behavior under power transition theory.

Collective Action Theory

Collective action theory explains how multiple, self-interested actors collaborate in the pursuit of public goods—goods that are non-excludable and benefit all actors regardless of their contribution. This is especially relevant for state behavior in multilateral settings, such as alliances and common security initiatives. The underlying phenomenon that this field seeks to explain is the behavior of individual actors in a public goods situation, where: there is more than one agent; these agents must decide whether to commit to costly action; this action will increase the chance of obtaining a public good; this particular good is desirable by all agents.²³ A further elaboration of the model rests on the assumption that collective action situations have multiple equilibriums where there is, variably: no cooperation; the initiation of cooperation; or, complete cooperation. The ranges of these equilibrium sets vary, and it is

¹⁸ Tammen et al., *Power Transitions*, p. 5.

¹⁹ Woosang Kim, "Power Transitions and Great Power War from Westphalia to Waterloo," *World Politics* 45, no. 1 (October 1992).

²⁰ Woosang Kim and James D. Morrow, "When Do Power Shifts Lead to War?," *American Journal of Political Science* 36 (November 1992): p. 897.

²¹ Ibid.

²² Daniel S. Geller, "Capability Concentration, Power Transition, and War," *International Interactions* 17, no. 3 (1992): p. 277. See also Henk Houweling and Jan G. Siccamo, "Power Transitions as a Cause of War," *Journal of Conflict Resolution* 32 (March 1988).

²³ Luis Fernando Medina, *A Unified Theory of Collective Action and Social Change* (Ann Arbor: University of Michigan Press, 2007), p. 23. See also Mancur Olson, *The Logic of Collective Action Public Goods and the Theory of Groups* (Cambridge, MA: Harvard University Press, 1971).

the likelihood of various paths emerging from shifts between these sets that determine whether and how collective action takes place.²⁴

Joe Wakano et al. provide such a model, defining specific equilibriums for cooperation and noncooperation and quantifying the specific payoffs for actors at various points within the model. The overall benefit to all actors also depends on an output factor, which is determined by how strong the positive outcome of the collective contribution is.²⁵ This model effectively encapsulates actor behavior within an alliance. First, different members will contribute different amounts of resources to it—the cost to the individual actor. Second, these contributions will produce varying degrees of positive outcomes, depending on the output factor. Third, given the size of the output factor and the extent of cooperation, alliance members will have different preferences and will favor cooperation to different degrees. These aspects are crucial in any discussion of retrenchment because they show that it is not necessarily the size of defense investment that matters, but how effectively the investment is put to use.

Although Wakano et al.'s model postdates some of the key discussions of collective action problems within modern alliances, it is certainly possible to see similarities between what these authors propose and what scholars have found to be state behavior within NATO, the most common case study of these phenomena. Scholars have determined that NATO has provided a relatively public good—shared defense and deterrence—to all of its members, even though the majority of these are considered to be free-riding on the contributions of the alliance's largest partners.²⁶ However, greater interdependence, a change in NATO's mission, and "rational altruism"—states indirectly contributing to the collective by expanding military spending for parochial interests—could potentially lead to greater burden sharing.²⁷

4. Theory

Retrenchment theory and power transition theory offer contrasting predictions and recommendations for state behavior in times of unbalanced resources and ambitions. The former posits that states can halt their decline by reducing superfluous strategic commitments in order to focus scarce national resources on core interests. To the contrary, the latter argues that states facing relative decline should devote their efforts to strengthening their power and ensuring that all of their interests are achieved. By working the logic of retrenchment and power transition theories into a model of state behavior elaborated by collective action theory, I provide a framework to analyze and explain state behavior in the circumstance of relative decline. In this section, I elaborate the key mathematical function of the model and derive the hypotheses this work will test.

²⁴ Medina, *A Unified Theory of Collective Action and Social Change*, ch. 4.

²⁵ Joe Y. Wakano, Martin A. Nowak, and Cristoph Hauert, "Spatial Dynamics of Ecological Public Goods," *Proceedings of the National Academy of Sciences* 106, no. 19 (May 2009).

²⁶ Oneal and Diehl, "NATO Defense Burdens."

²⁷ See Sandler and Shimizu, "NATO Burden Sharing 1999–2010"; and Oneal and Diehl, "NATO Defense Burdens," p. 381.

A Model of Collective Action and State Retrenchment

Wakano et al. propose a model of collective action that can accurately reflect a scenario of retrenchment encompassing a number of allied states.²⁸ In this formulation of the model, there is a public good—collective security—provided by the alliance. An output (or multiplication) factor also determines how much public good is provided.²⁹ This model, albeit simple, serves as a production function to illustrate how greater cooperation has the potential to offset a decline in participant state contributions through the increase of efficiency measures, which can take the form of interstate cooperation as well as technological improvements and structural reforms.

The defense production function of Wakano et al.'s model of collective action has three independent variables: N , C_i , and α .

N : total number of alliance partners

C_i : contribution of partner i to collective security (cost of collective security to partner i)

α : multiplication (output) factor

The dependent variable, b_i , calculates the benefit each state receives from the partnership.

b_i : benefit received by partner i

$$b_i = \alpha \sum_i^N C_i - C_i$$

The collective action theory model of state behavior rests on the notion that states have a credible commitment to their partnership and that the security benefits will be equitably apportioned. In the case of the EU-4, common membership in NATO and the EU meets the first condition. The second element is more difficult to ascertain, though the longstanding alliance of the EU-4 suggests that the diplomatic and defense relations in place between these countries are able to achieve results that satisfy each state. The production function indicates that it is possible, at least theoretically, for states to decrease absolute and relative defense expenditures but—by changing the way in which that expenditure is used and by collaborating with other states—to preserve existing levels of security or even to increase them. Therefore, retrenchment theory would be correct in asserting that states can benefit from a reduction in their defense expenditures while not jeopardizing their overall security. We can now derive the hypotheses this article undertakes to test.

Hypotheses

I base the hypotheses on the assumption that Britain, France, Germany, and Italy are rational state actors that seek to preserve their relative position, power, and security, and to minimize their comparative decline in the global hierarchy.

Null Hypothesis (derived from power transition theory): Regardless of the severity of their relative decline, the EU-4 will maintain or increase current levels of defense expenditure.

²⁸ Although the authors do not develop the model for state behavior, it treats a general collective action problem and its components can be adapted to reflect this case.

²⁹ Wakano et al., "Spatial Dynamics of Ecological Public Goods."

Hypothesis 1: The pressures of relative decline are pushing the EU-4 to retrench.

Hypothesis 2: In order to retrench without reducing overall security, EU-4 states are undertaking a collaborative form of retrenchment.

The theory developed thus far presents a relationship between the condition (the Eurozone crisis), a mechanism (the model of state behavior and collective action theory), and the outcome (defense retrenchment in the EU-4). The next section will describe how the hypotheses will be tested and evaluated.

5. Methodology

This article employs a case study methodology. This allows for a more in-depth examination of the matter at hand that takes into account various levels of defense policy—international, domestic, industrial—that exhibit complicated interplays which are difficult to capture numerically. The case study analysis will provide a brief overview of the impact of the Eurozone crisis on the various states. The core of the discussion will then focus on policy responses in the defense sector, determining what steps each state has taken to address the crisis' pressures. Emphasis will be placed on key programmatic documents issued by national governments and their impact on defense expenditure, procurement, and armed forces' size and equipment. Additionally, the article will analyze post-crisis cooperation initiatives to identify whether they can potentially be understood within the framework of cooperative retrenchment.

Case Study Selection

Before the Eurozone crisis, Britain, France, Germany, and Italy had the four largest defense budgets in Europe and some of the largest in the world. In 2006, two years before the onset of the Eurozone crisis, the EU-4 collectively accounted for slightly over 70 percent of European Union (EU) and NATO Europe defense spending. Italy, the member of this group with the smallest defense budget, spent approximately twice as much as Spain, the fifth country in Europe by military spending. Furthermore, Britain, France, Germany, and Italy ranked fifth, third, seventh, and eighth respectively in terms of global defense expenditure rankings in 2006. Similarly, these four states had the largest Gross Domestic Products (GDP) in Europe and among the largest in the world.³⁰ At the industrial level, four of the top ten global defense firms were headquartered in or closely affiliated with EU-4 states.³¹ Ranking at the top of the global and regional power hierarchy, the EU-4 are relevant international actors with a strong commitment to mutual defense, as further indicated by their significant contributions to NATO and EU missions outside of their own borders.³²

³⁰ *Defence Data of EDA Participating Member States in 2007*, report (European Defence Agency); "World Economic Outlook Database", *International Monetary Fund*; North Atlantic Treaty Organization, "Financial and Economic Data Relating to NATO Defence. Defence Expenditures of NATO Countries (1985-2009)", news release, June 10, 2010; and Samuel Perlo-Freeman et al., "SIPRI Military Expenditure Database", *Stockholm International Peace Research Institute* (2013).

³¹ Samuel Perlo-Freeman et al., *SIPRI Yearbook 2008. (Appendix 6A. The SIPRI Top 100 Arms-producing Companies, 2006)*, publication (Stockholm: Stockholm International Peace Research Institute, 2008), p. 281.

³² See "Europe" *The Military Balance* 106, no. 1 (2006): 47-146; and France, ministère de la Défense, *The French White Paper on Defence and National Security* (New York: Odile Jacob Publishing Corporation, 2008), pp. 79, 99.

Taken individually, each of these four states exhibits characteristics that make them relevant to the present analysis. Britain is a very important player on the international security scene with a sizable nuclear arsenal and a permanent seat on the United Nations Security Council. That Britain is not in the euro currency area sets it apart from the other EU-4 states. Likewise, France maintains a permanent position in the Security Council and a considerable nuclear arsenal. Germany is without question Europe's prime economic power but it chooses to devote fewer funds to defense than either Britain or France, eliciting criticism from its allies.³³ Finally, Italy is an active member of the international community, contributing extensively to international peacekeeping, humanitarian, and other missions across the globe despite having a military budget lower than that of the other states in this quartet.³⁴

Although this article deals with the effects of the Eurozone crisis on defense spending and cooperation, I chose not to include the countries most affected by the crisis to focus on regional leaders with broad homogeneity in size, power, and resources. This is necessary to provide a successful analysis and comparison of the various countries considered.

Key Variables

The case studies look at economic indicators—GDP growth or decline, budget deficits, sovereign debt, and unemployment—to determine the impact of the crisis on each state. To assess the hypotheses, strategy—in terms of defense budget size and allocation, efficiency measures, and the composition of defense personnel, equipment, and infrastructure—will serve as the key parameters to analyzing state responses. To evaluate cooperation, the case studies will examine international agreements such as bilateral and multilateral defense and procurement treaties, and novel forms of joint defense planning. Returning to the model outlined above, C_i is determined by the defense budget size and allocation, whereas α is determined by efficiency measures and collaborative initiatives that optimize resource use for all participating states.

Regarding the model's predictions, the expected relationship is that the stronger the effects of the crisis, the greater the withdrawal from non-essential initiatives, the budget reductions, and cuts in staff, equipment, and infrastructure. Conversely, efficiency measures across defense planning are predicted to increase. Lastly, the greater the crisis, the more EU-4 states will initiate and carry out international cooperation. Defense policy changes and cooperation measures that are justified by governments as a means to respond to the effects of the Eurozone crisis will constitute evidence for or against the existence of retrenchment, and collaborative retrenchment in particular.

See also "The Alliances and Europe" *The Military Balance* 90, no. 1 (1990): 44-96 and "NATO and Non-NATO Europe" *The Military Balance* 100, no. 1 (2000): 35-108.

³³ R. Nicholas Burns, Damon M. Wilson, and Jeff Lightfoot, *Anchoring the Alliance*, report (Washington, DC: Atlantic Council, 2012).

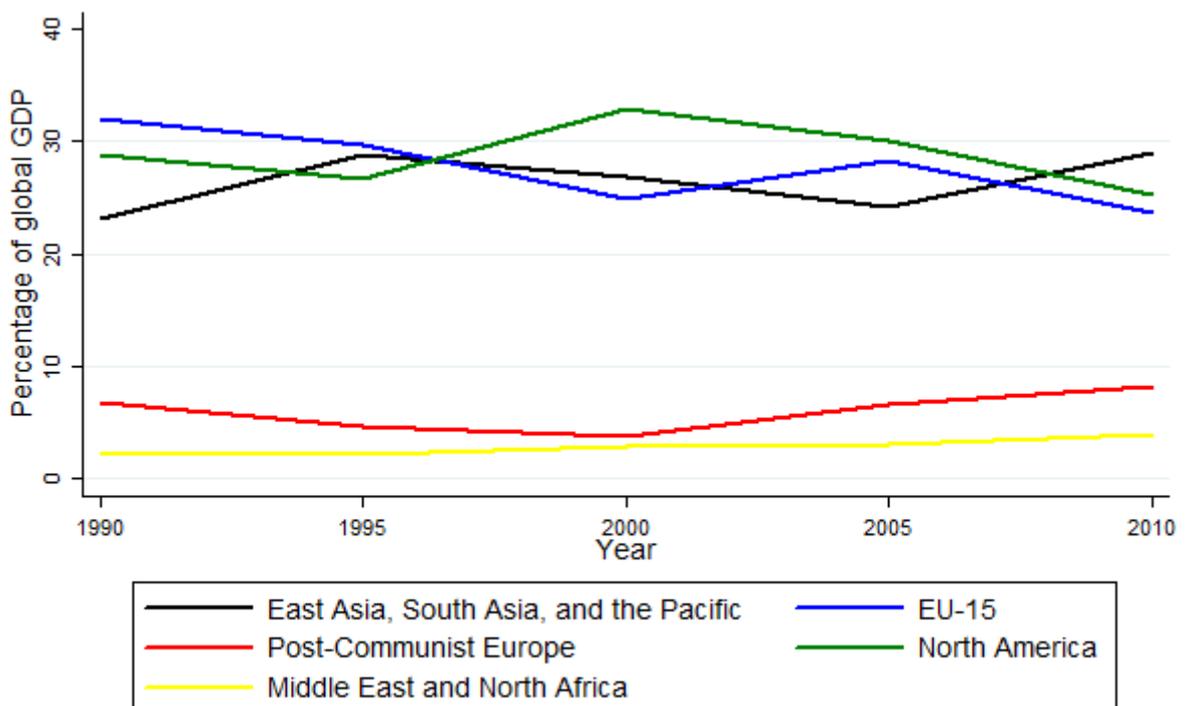
³⁴ Paolo Quercia, "I Perché Della Forza E Le Trasformazioni Del Sistema Internazionale. Dalla Soglia Di Gorizia Alla Difesa Di Kabul. E Dopo?," in *Quale Difesa Per La Repubblica? Sicurezza Nazionale, Costituzione, Scenari Internazionali Ed Industria per La Difesa*, ed. Paolo Quercia (Fondazione Farefuturo - Strategitaly Srl, 2012), pp. 33-35.

6. Case Study Analyses

Europe's Relative Decline

The relative decline of each EU-4 state must be framed within the broader global context of Europe's general decline. Figure 1 shows how the Western European (EU-15) share of world GDP has declined since 1990. Figure 2 displays how the European share of global defense expenditure has decreased in the same period.³⁵

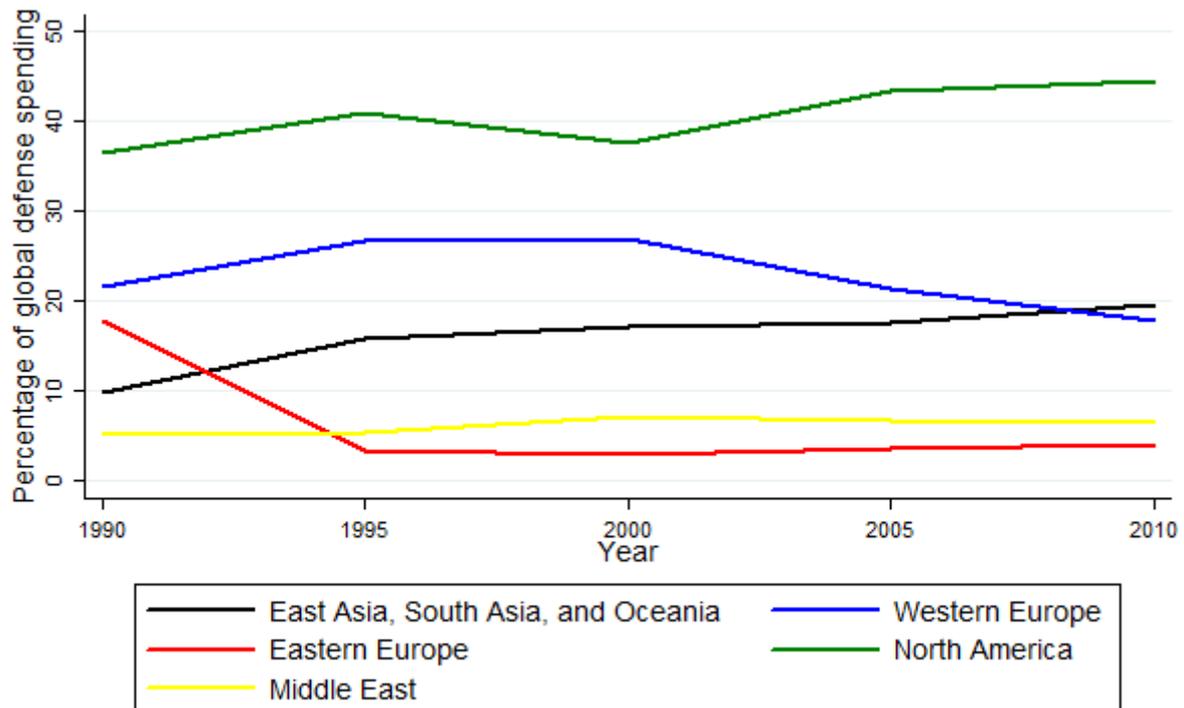
Figure 1. Share of Global GDP by Region, 1990-2010



Source: World Bank National Accounts Data

³⁵ Latin America and Sub-Saharan Africa are not included in Figures 2 and 3 as they account for less than 5% of global defense spending. I have attempted to keep groupings as consistent as possible though minor differences exist due to discrepancies in sources.

Figure 2. Share of World Defense Expenditure by Sub-Region, 1990-2010



Source: SIPRI Military Expenditure Data

Europe's declining share of global GDP and defense spending since 1990 will have a lasting impact on its role in the world. More interesting, however, is Europe's relative decline since the start of the Eurozone crisis: European states are significantly weakened as their national economies and finances suffer.

The Eurozone crisis' Economic Effects on the EU-4

In the case of the EU-4 (as well as the EU-27 and the euro-area), there is a highly evident shift in trends that occurred in a number of economic indicators starting in 2007 and 2008. GDP growth stumbled and became negative, government deficits and debt-to-GDP ratios increased at much higher rates, and unemployment grew (with the exception of Germany). Throughout the Eurozone crisis and by all measures, Italy performed significantly worse than the other EU-4 states. This includes calculations of GDP growth, debt-to-GDP ratio, and unemployment. Even though since 2012, Britain performed similarly to France by most indicators, it suffered from the worst relative increases in overall indebtedness, government deficits as percentage of GDP, and unemployment. Thus, whereas Italy's performance was the worst of the EU-4, Britain's was the worst relative to its pre-crisis situation. The crisis affected France much more modestly. Finally, Germany evaded most of the Eurozone crisis' dire consequences and has subsequently returned to pre-crisis standards—if not better—according to most indicators.³⁶ On this basis, the model would predict that Britain and Italy—as the states with the greatest relative decline—will engage in

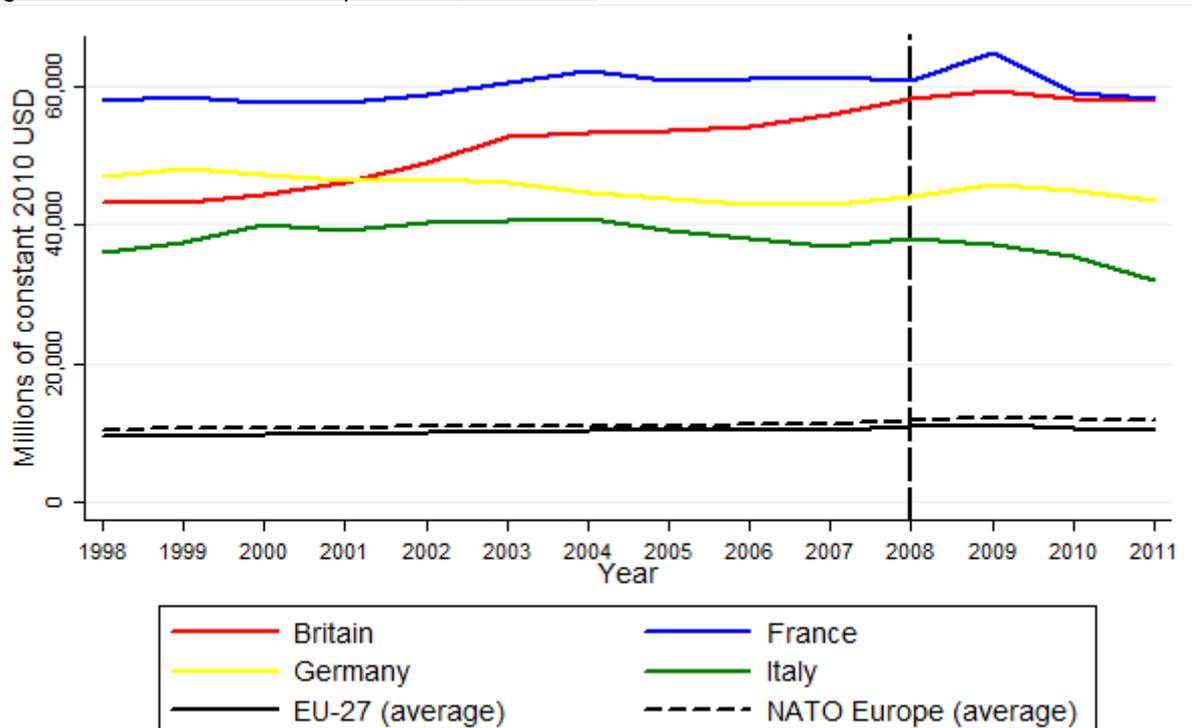
³⁶ Trends in all of these indicators were identified from data available in the Eurostat *Government Deficit/Surplus, Debt and Associated Data and Unemployment Rates by Sex, Age and Nationality* and Organisation for Economic Cooperation and Development *Monthly Monetary and Financial Statistics (MEI)* and *Quarterly National Accounts* databases, accessed January 2013.

more retrenchment and cooperation initiatives than France, which in turn will retrench more than Germany.

A First Look: Defense Budgets

Although EU-4 defense budgets are the largest in Europe and among the largest in the world, there is a clear hierarchy among them. Between 1998 and 2008, France and the United Kingdom spent an average of \$59.62 billion and \$51.06 billion per year in defense, respectively. In the same period, the German defense budget averaged \$45.41 billion per year, while Italy's stood at \$38.78 billion. The EU-27 and NATO Europe yearly averages for the same period were \$10.30 billion and \$11.07 billion. The totals and variations in this period are presented in Figure 3.

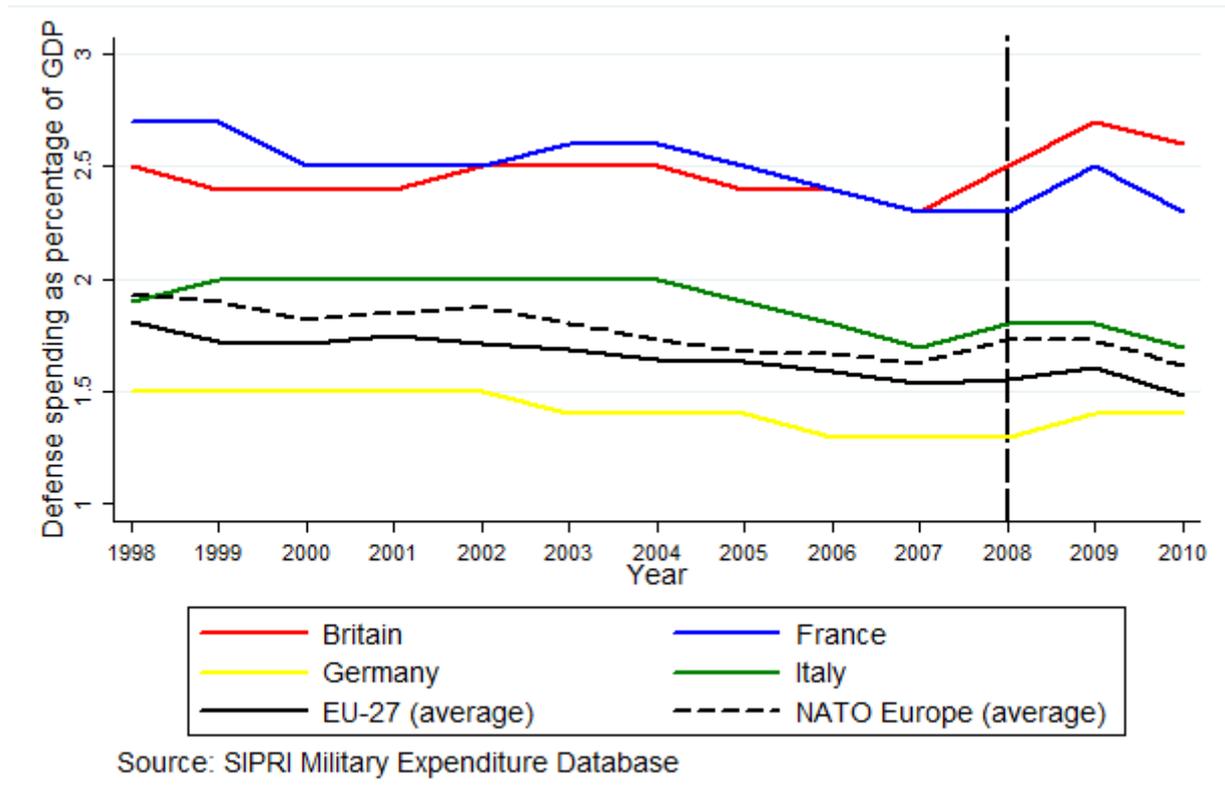
Figure 3. Absolute Defense Expenditure, 1998-2011



Source: SIPRI Military Expenditure Data

Figure 4 displays defense spending as a percentage of GDP for the EU-4 and the two regions. While Britain and France spend much more than EU-27 and NATO Europe averages, Italy maintains a slightly greater average. Germany is unique among the EU-4 for consistently dedicating a smaller percentage of its GDP to defense than the other states and groupings.

Figure 4. Defense Spending as Percentage of GDP, 1998-2011



With the exception of Germany, EU-4 defense spending as percentage of GDP dropped markedly following 2009. Nonetheless, it would be inaccurate to assert these assessments outright, as the data are not articulated over enough years to be able to draw firm conclusions. I therefore proceed to a qualitative discussion of the effects of the Eurozone crisis on EU-4 defense spending and cooperation in order to seek evidence that may lend more validity to the observations made thus far.

National Defense in the Aftermath of the Eurozone Crisis

The British government's main evaluation of national defense, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review (Strategic Defence and Security Review, or SDSR)*, was conducted and published in the midst of the crisis, between May and October 2010. It was part of a series of actions the government took to curb the effects of the crisis on the country, most notably on its government budget deficit—the largest in peacetime British history.³⁷ The SDSR devised a new position for Britain's armed forces and determined that significant personnel cuts were required to reduce costs to the Ministry of Defense. Post-crisis British personnel cuts were scheduled for the decade following the 2010 SDSR (see Table 1). A further Three Month Review supplemented the first round of measures in July 2011. These additional cuts were particularly severe for the army and MoD civilian staff. Equipment measures were also significant, with large cuts to the

³⁷ "Europe," *The Military Balance* 112, no. 1 (2012), p. 84.

army's heavy equipment and the decommissioning of many ships and aircraft. The cuts, which were rapidly carried out, were visible as early as 2012 (see Table 2).³⁸

Table 1. British Armed Forces and Ministry of Defense Personnel Measures, 1990-2020

Year	Army	Royal Air Force	Royal Navy	MoD Civ. Staff	Total (military)
1990	155,500	91,450	64,650	n/a	311,600
2000	113,950	54,740	45,770	n/a	214,460
2010	102,000	38,000	35,000	85,000	175,000
2015	95,000	33,000	30,000	60,000	158,000
2020	82,000	31,500	29,000	53,000	142,500

n/a: Not available

Sources: Daily Mail; *The Military Balance* (1990), (2000), and (2012); and *Strategic Defence and Security Review*.

Table 2. British Equipment Changes by Armed Force Services, 2008/2009-2011/2012

Army		
Equipment	2008/2009	2011/2012
Main battle tanks	386	227
Infantry fighting vehicles	575	526
Helicopters*	299 (67 combat, 232 support)	312 (66 combat, 246 support)
Air Force		
Equipment	2008/2009	2011/2012
Combat aircraft	328	220
Refueling and transport aircraft	91	76
Navy		
Equipment	2008/2009	2011/2012
Ballistic missile submarines (nuclear)	4	4
Attack submarines (nuclear)	8	7
Aircraft carrier and carrier group	2	0
First-rank combat ships	25	18
Force projection and command vessels	7	3
Naval aviation (combat aircraft)	13	0

* Note: Army, Royal Air Force, and Royal Navy helicopters are placed under the separate authority of the Joint Helicopter Command, formed in 1999.

Note: These numbers do not include every vehicle in service with the British armed forces but only the ones relevant to Britain's strategic posture.

Sources: *The Military Balance* (2009) and (2012).

³⁸ United Kingdom, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*. (London: HM Government, 2010), pp. 8, 16, 23-24, 34, 38.

The British MoD also placed emphasis on reforming its own procurement process as a way of addressing program mismanagement. This effort targeted the entire defense procurement process, including stronger MoD industry oversight.³⁹ and renegotiating or rescinding up to 900 equipment contracts. Additionally, the British government made defense export promotion a larger part of its foreign and defense policies.⁴⁰ For domestic British defense firms, increasing foreign customers would reduce their dependence on the British government as well as decrease equipment costs for the MoD through economies of scale. Finally, the 2010 Comprehensive Spending Review—an additional deficit reduction plan—targeted the MoD for eight percent cuts in real terms to the defense budget leading up to 2014.⁴¹ The June 2013 Comprehensive Spending Review, covering fiscal year 2015-2016, maintains a defense budget frozen in nominal terms. It plans for additional cuts to the MoD's civilian workforce but none to uniformed armed forces personnel.⁴²

France published its *White Paper on Defense and National Security* in June 2008, several months before the Eurozone crisis began to worry European governments. It determined that France's defense expenditures had to be consistent with national security threats and interests. For Paris, defense needs dictated expenditure and not the reverse.⁴³ Sources indicate that France delayed defense spending cuts from any change driven by the crisis until 2011.⁴⁴ The 2008 *White Paper* did, however, entail a number of force revision measures that sought to reduce units and equipment that were considered superfluous. The newly-elected French president commissioned another white paper in May 2012, finding that the economic and security circumstances had changed enough to warrant renewed analysis of the defense budget. A very important aspect of the 2013 *White Paper* is that, for the first time in a national defense review, foreign representatives—the British ambassador to France and a senior German diplomat—had an official and not just consultative position on the panel preparing the document.⁴⁵

Ultimately, the 2013 *White Paper* recommended further reductions in both enlisted personnel and vehicles across the military's three branches in order to preserve its broad-spectrum capabilities and high-technology programs.⁴⁶ Personnel cuts planned by the 2008 *White Paper* began in 2009 with a completion deadline of 2015. The 2013 *White Paper* extended the duration of reforms to 2025 and significantly increased the personnel to be shed (see Table 3). The *White Paper* also imposed heavy cuts on the civilian staff of the MoD and of the three services.⁴⁷ Concurrently with personnel cuts, the 2008 and 2013 *White Papers* ordered important reductions in military equipment across all services (see

³⁹ Thomas Harding, "Over Budget Defence Contractors to Be 'Named and Shamed' in Radical Defence Reforms," *The Telegraph*, February 23, 2011.

⁴⁰ Guy Anderson, *Major Defence Markets in an Age of Austerity – Trends and Developments*, report (IHS Jane's, 2011), pp. 14-15.

⁴¹ *The Military Balance* (2012), p. 84; Anderson, *Major Defence Markets*, p. 12.

⁴² United Kingdom, HM Treasury, *Spending Round 2013*, Cm 8639 (London: Stationery Office, June 2013), pp. 43-44.

⁴³ Ministère De La Défense, *White Paper* (2008), p. 273.

⁴⁴ "Europe," *The Military Balance* (2012): p. 78; and Anderson, *Major Defence Markets*, p. 21.

⁴⁵ Anderson, *Major Defence Markets*, p. 7.

⁴⁶ France, Ministère de la Défense, *Livre Blanc. Défense et sécurité nationale* (Paris: Direction De L'information Légale Et Administrative, 2013), ch. 7.

⁴⁷ Ministère de la Défense, *White Paper* (2008), p. 279.

Table 4).⁴⁸ Policymakers have avoided drastic cuts to the budget, preserving it at pre-2013 nominal levels throughout the 2014-2025 period, but implying a decrease in real terms.⁴⁹ On the other hand, France did not wait for the crisis to strike to make defense exports a core mission of both its defense and foreign policies. French diplomats and an entire unit at the MoD actively supported this goal as part of established practice.⁵⁰ Britain appears to be imitating the French model, citing it as an example in a 2009 review of acquisition procedures.⁵¹ The 2008 *White Paper* further called for an export potential estimate of all future military equipment development programs.⁵² Lastly, the 2013 *White Paper* curbed current French procurement, resulting in numerous, significant order cancellations and the shelving of plans for more ambitious acquisitions in the near future.⁵³

Table 3: French Ministry of Defense Military Effectives Reduction, 1990-2015

Year	Army (<i>Armée de Terre</i>)	Air Force (<i>Armée de l'Air</i>)	Navy (<i>Marine Nationale</i>)	Total
1990	288,553	93,118	65,294	446,965
2000	169,342	66,473	49,491	285,306
2009	132,375	57,212	41,615	231,202
2015	131,000	50,000	44,000	225,000
2019	Further reductions by 24,000 units between 2015 and 2019, proportionately divided between all the services.			

Note: General numbers do not include the general MoD civilian staff, for which the relevant information was not available. According to the 2008 *White Paper*, the MoD will have to cut 7,500 employees from its civilian staff and about 46,500 units from non-military armed forces personnel.

Source: Gautier, *La Défense de la France*, ch. 8; and *Livre Blanc. Défense et sécurité nationale* (2013), ch.7.

⁴⁸ Björn Fägersten et al., *Towards a European Global Strategy. Securing European Influence in a Changing World*, report (European Global Strategy Group, May 2013), ch. 11; Ministère de la Défense, *White Paper* (2008), ch. 13; and Ministère de la Défense, *Livre Blanc* (2013), ch. 7.

⁴⁹ Ministère de la Défense, *Livre Blanc* (2013), p. 138.

⁵⁰ Louis Gautier, *La défense de la France après la Guerre Froide: Politique militaire et forces armées depuis 1989* (Paris: Presses Universitaires De France, 2009), p. 479; and "Europe," *The Military Balance* (2012): p. 78.

⁵¹ United Kingdom, Ministry of Defence, *Review of Acquisition for the Secretary of State for Defence. An Independent Report by Bernard Gray*, by Bernard Gray (London: Ministry of Defence, 2009), pp. 232-234, 239.

⁵² Ministère de la Défense, *White Paper* (2008), p. 269.

⁵³ Anderson, *Major Defence Markets*, p. 23; Jean-Dominique Merchet, "Marine : Ce Sera 8 Fremm Au Lieu De 11", *Marianne*, April 30, 2013; Jean-Dominique Merchet, « Armée De L'air : Moins D'une Quarantaine D'A400 M devrait être commandée, », *Marianne*, April 30, 2013; Ministère de la Défense, *Livre Blanc* ~~*White Paper*~~ you use both *Livre Blanc* and *White Paper* (2013), ch. 7.

Table 4. French Equipment Changes by Armed Force Services, 2008/2009-2015

Army (Armée de Terre)			
Equipment	2008/2009	2015*	2025**
Main battle tanks	400	250	200
Infantry fighting vehicles	1100	650	Not available
Helicopters	420 (288 combat, 132 support)	210 (80 combat, 130 support)	Not available
Air Force (Armée de l’Air)			
Equipment	2008/2009	2015*	2025**
Combat aircraft	320	260-270	190
Refueling and transport aircraft	115	Approximately 88	Approximately 70
Navy (Marine Nationale)			
Equipment	2008/2009	2015*	2025**
Ballistic missile submarines (nuclear)	3	4	4
Attack submarines (nuclear)	6	6	6
Aircraft carrier and carrier group	1	1	1
First-rank combat ships	18	18	15
Force projection and command vessels	2	4	3
Naval aviation (combat aircraft)	90	30-40	35

Note: These numbers do not include every vehicle in service with the French armed forces but only the ones relevant to France’s strategic posture.

* Note: 2008 White Paper

** Note: 2013 White Paper

Sources: *The French White Paper on Defence and National Security (2008)*, ch. 13; Gautier, *La Défense de la France*, ch. 11; *Livre Blanc. Défense et sécurité nationale (2013)*, ch. 7; and Marine Nationale Website.

The German Ministry of Defense issued the *Defence Policy Guidelines* (DPG) in May 2011 as part of an adjustment in defense policy and the MoD’s response to government budget issues.⁵⁴ The DPG focus largely on German contributions to NATO collective security, implicitly recognizing Germany’s allies’ accusations that Germany’s participation in the alliance is not commensurate with its wealth and status.⁵⁵ Subsequent economic troubles immediately challenged the primary ambitions the DPG set for the Bundeswehr (Germany’s armed forces), forcing the MoD to downsize out-of-area operation capabilities significantly.⁵⁶ The implementation of the DPG—which include a thorough framework on how and in what sectors Germany can cooperate with its European allies to achieve a more effective and

⁵⁴ Germany, Bundesministerium Der Verteidigung, *Defence Policy Guidelines. Safeguarding National Interests – Assuming International Responsibility – Shaping Security Together* (Berlin: Bundesministerium Der Verteidigung, 2011).

⁵⁵ See Ulrike Demmer and Cristoph Schult, “Unreliable Partners?: Germany’s Reputation in NATO Has Hit Rock Bottom”, *Der Spiegel*, March 17, 2012; and Burns et al., *Anchoring the Alliance*.

⁵⁶ “Europe”, *The Military Balance* (2012): p. 79.

efficient defense—hinge on the government’s willingness to commit substantial funds to the MoD in the coming years. Furthermore, the Ministry of Finance responded to the Eurozone crisis by requiring the MoD to devise a plan to reduce expenditures consistently by 2016.⁵⁷

The approach combined three principal measures. First, a complete professionalization of the armed forces that, together with their reduction in size, would bring savings to MoD. This meant that nearly half of the monetary cuts would come from the personnel budget.⁵⁸ Second, the Bundeswehr would restructure its territorial organization, closing bases to form larger military centers and create economies of scale.⁵⁹ Third, the MoD would renegotiate a large number of procurement contracts with its domestic contractors, reducing the short-to-medium term burden of acquisition and eliminating material considered superfluous for the new armed forces. Changes in personnel are shown in Table 5, and procurement project cuts in Table 6.

Table 5: German Armed Forces and Ministry of Defense Effectives Reductions, 1990-2018

Year	Army (Heer)	Air Force (Luftwaffe)	Navy (Marine)	Joint Support Service (Streitkräftebasis)*	MoD Civ. Staff	Total
1990	340,700	106,000	36,000	n/a	n/a	482,700
2000	221,000	73,300	26,600	n/a	n/a	321,000
2011	80,000	38,000	17,000	63,000	75,000	198,000**
2018	61,000	23,000	13,800	38,700	55,000	170,000***

n/a: Not available

* Note: The Joint Support Services is an interforce branch of the Bundeswehr responsible for logistics and operations for the other three services. It was created in late 2000.

** Note: This figure does not include reserve forces.

*** Note: The total is greater than the sum of the individual armed forces since data for each service does not include units in training, education, or other organizational tasks.

Note: The table excludes the Central Medical Services (*Zentraler Sanitätsdienst*) as its effectives are already included in the totals for each individual service.

Sources: German Federal Ministry of Defence Website; and *The Military Balance* (1990), (2000), and (2012).

⁵⁷ Ryszarda Formuszewicz and Marcin Terlikowski, *Willing and (Un)able. New Defence Policy Guidelines and Reorientation of the Bundeswehr*, vol. 11 (Warsaw: Polski Instytut Spraw Miedzynarodowych, 2011), p. 6; “The 2012 Defence Budget,” Federal Ministry of Defence, January 4, 2012.

⁵⁸ Daryl Lindsey, “The World from Berlin: Germany Weighs the Elimination of Conscription,” *Der Spiegel*, August 24, 2010; and *The Military Balance* (2012), pp. 79-80.

⁵⁹ Kristen Allen, “The World From Berlin: Military Reforms Are ‘Sad, But Inevitable’” *Der Spiegel*, October 27, 2011.

Table 6. Planned Cuts in German Procurement Programs

Program	Initial Order Size	Revised Order Size
Infantry fighting vehicles	405	350
Transport helicopters	122	80
Combat support helicopters	80	40
Multirole combat aircraft	177	140
Transport aircraft	60	40
Multirole combat ships	8	6

Source: Royal United Services Institute elaboration of German Federal Ministry of Defence Data.

Lastly, starting in 2011, the German government became a leading supporter of German defense firms abroad, using diplomacy to produce business opportunities for German arms manufacturers in other countries. Additionally, in speeches in 2011 and 2012, the German Chancellor suggested that, by exporting weapons systems to developing countries, Western states would reduce their own burden in providing security in distant regions while making their industrializing partners more responsible and capable.⁶⁰ This is a form of dually advantageous retrenchment: Germany would benefit both from weapon sales to foreign countries and from no longer having to bear the costs of out-of-area military missions.

The Italian MoD and government had to confront both the Eurozone crisis and a growing trend of defense budget imbalances in prior years that had been causing noticeable repercussions on personnel and equipment readiness.⁶¹ Already unable to address this imbalance with existing funding, the situation deteriorated for the MoD when austerity measures imposed significant defense budget cuts through 2014.⁶² In order to address this situation, the Italian government passed a legislative decree revising the “national military instrument” (*Legge 31 Dicembre 2013, N. 244*). Italy’s personnel reductions aim to take Italy’s armed forces from the current model to a much smaller future force with fewer MoD civilian support personnel by 2024. The reform will also address command rank imbalances, as the armed forces are currently excessively top-heavy.⁶³ To complement personnel measures, the MoD will also have to rationalize its physical structures and sell unneeded assets for cash by 2016.⁶⁴ Furthermore, parliamentary hearings describe important

⁶⁰ Holger Stark, “The Merkel Doctrine: Tank Exports to Saudi Arabia Signal German Policy Shift,” *Der Spiegel*, October 14, 2011; and Von Hammerstein et al., “German Weapons for the World,” *Der Spiegel*, December 3, 2012.

⁶¹ See See Andrea Nativi, “Difesa 2012. La Riforma, Ora!,” *Rivista Italiana Difesa*, January 2012, p. 28; Andrea Nativi, “Bilancio Difesa 2006 & Programmazione Quindicennale,” *Rivista Italiana Difesa*, January 2006, p. 26; Andrea Nativi, “Bilancio Difesa 2000: Tutto Cambia, Niente Cambia,” *Rivista Italiana Difesa*, January 2000; Andrea Nativi, “Il Bilancio Della Difesa 2010: Se Potessi Avere...un Miliardo All’anno,” *Rivista Italiana Difesa*, January 2010; and Quercia, “I Perché Della Forza E Le Trasformazioni Del Sistema Internazionale,” in *Quale Difesa Per La Repubblica?*, pp. 37-38.

⁶² Nativi, “Difesa 2012. La Riforma, Ora!”.

⁶³ Italian Government. La Camera Dei Deputati Ed Il Senato Della Repubblica, *Legge 31 Dicembre 2012, N. 244. Delega Al Governo per La Revisione Dello Strumento Militare Nazionale E Norme Sulla Medesima Materia* (Rome: La Camera Dei Deputati Ed Il Senato Della Repubblica, 2012): Art. 3, § 1(a), Art. 3, § 1(b), Art. 3, § 2(a); “Di Paola, Difesa: La Revisione Dello Strumento Militare. “Non E’ Nuovo Modello,” *ForzeArmate.Org*, November 6, 2012; and Nativi, “Difesa 2012. La Riforma, Ora!”.

⁶⁴ La Camera Dei Deputati Ed Il Senato Della Repubblica, *Legge 31 Dicembre 2012, N. 244*: Art. 2.

equipment cuts across all services and revising procurement procedures and programs in line with financial needs and operational requirements.⁶⁵ Tables 7 and 8 present the planned personnel and equipment measures.

Italy provides a notable deviation from the cases above in two regards. First, the absence of a defined export policy suggests that Italy's defense industrial policy response to the Eurozone crisis is lacking.⁶⁶ Second, the legislative decree—which, unlike the *White Paper*, SDSR, and DPG, does not possess a strategic element—fails to address whether Italian defense policy itself might not also need a reassessment.⁶⁷ Policy clarity and coherence have certainly not benefited from the numerous changes in government that have taken place so far in the aftermath of the crisis.

Table 7. Italian Armed Forces and Ministry of Defense Personnel Measures, 1990-2024

Year	Army (<i>Esercito Italiano</i>)	Air Force (<i>Aeronautica Militare</i>)	Navy (<i>Marina Militare</i>)	MoD Civ. Staff	Total (military)
1990	265,000	73,000	52,000	n/a	390,000
2000	169,617	60,000	40,000	41,462	269,617
2010	108,355	43,503	33,641	32,859	185,500
2024	89,400	33,800	26,800	20,000	150,000

n/a: Not available

Sources: *Huffington Post*; *Legge 31 Dicembre 2012, N. 244*; *The Military Balance (1990)*; and *Rivista Italiana Difesa (2000) and (2010)*.

⁶⁵ Vincenzo Camporini, "La Riforma Inevitabile," in *Quale Difesa Per La Repubblica? Sicurezza Nazionale, Costituzione, Scenari Internazionali Ed Industria per La Difesa*, ed. Paolo Quercia (Rome: Fondazione Farefuturo - Strategitaly Srl, 2012), pp. 77-80; and Claudio Graziano, "Intervento Del Capo Di Stato Maggiore Dell'Esercito" (address, 4^a Commissione Difesa Del Senato, Rome, May 22, 2012).

⁶⁶ "Export Difesa: Un Passo Avanti (europeo) E Due Indietro (italiani)," *Rivista Italiana Difesa*, December 2011.

⁶⁷ On questions of Italian strategic posture reform, see Giacomello and Verbeek, "Conclusion," in *Italy's Foreign Policy in the Twenty-first Century: The New Assertiveness of an Aspiring Middle Power*, ed. Giampiero Giacomello and Bertjan Verbeek (Lanham, MD: Lexington Books, 2011), p. 225.

Table 8. General Italian Equipment Changes by Armed Force Services, 2012-2024

Army (Esercito Italiano)
Reduce maneuver brigades from 11 to 9 Reduce heavy vehicles such as main battle tanks and armored vehicles Reduce support units such as logistical vehicles and artillery units Reduce number of combat helicopters
Air Force (Aeronautica Militare)
Consolidate air defense line to 92 aircraft Replace 143 in-service ground attack aircraft (including 16 naval aviation jets) with 90 (at least 15 for naval aviation) fighter-bombers within the next 15 years Preserve transport, tanker, and reconnaissance aircraft fleet Address problem of reduced support helicopter availability due to increased mission wear
Navy (Marina Militare)
Reduce number of units in high seas and coastal fleets Reduce number of minesweepers Reduce number of submarines
Sources: Fondazione Farefuturo; Defense News; and <i>The Military Balance</i> (2012).

Friends with Benefits: The Advantages of Defense Cooperation

A common element of EU-4 defense and industrial policy is commitment to cooperative procurement projects. These initiatives allow participating states to share costs in a predetermined manner. This has been a strategy of choice for the EU-4 since the 1960s. In this field too, France appears to have been more proactive than Britain, focusing time and resources into building a coherent framework for European operational and industrial cooperation. Furthermore, France—realizing in the 1990s and 2000s that aspirations of total independence would only lead to strategic insignificance⁶⁸—decided to return to full NATO membership in 2009. In another gesture of rapprochement with the United States, in the same year, France opened a joint-service military base in Abu Dhabi with a strategic view to Iran and the vital Straits of Hormuz.⁶⁹ France did not need the Eurozone to serve as a driving force for it to actively pursue its strategic interests. It had already made some adjustments that other states would implement later. Britain, on the other hand, complements the centrality of NATO in its defense policy by seeking to engage with a number of different partners.⁷⁰ For instance, Britain is considering expanding its military presence in the Persian Gulf, further aligning itself with the U.S. and France in that critical region while establishing profitable export relationships with local states looking to equip themselves with modern technology.⁷¹

Following the Eurozone crisis, the most important strategic shift for both countries was the realization that, as states with similar capabilities and interests, each must

⁶⁸ Gautier, *La Défense de la France*, p. 215.

⁶⁹ Edward Cody, "France Opens First Military Base in Persian Gulf Region" *Washington Post*, May 27, 2009.

⁷⁰ HM Government, *Securing Britain in an Age of Uncertainty*, p. 59.

⁷¹ Emma Graham-Harrison, "Britain Could Deploy More Troops to Gulf, Says David Cameron", *The Guardian*, December 21, 2012; and Christopher Hope, "Britain Could Build up Its Military Presence in the Gulf to Counter Iran Threat" *The Telegraph*, November 6, 2012.

collaborate closely with the other to achieve their overlapping goals.⁷² This shared outlook led to the November 2010 Lancaster House treaty. Defense experts cited economic and financial pressures as a driver of the treaty.⁷³ To preserve their resources and global position, in the Lancaster House treaty France and Britain set forth operational and procurement collaboration in a broad spectrum of defense programs as well as in nuclear safety testing facilities.⁷⁴ The 2013 *White Paper* places strong emphasis on the treaty, renewing commitment to defense cooperation between London and Paris.⁷⁵ Although there are mixed signals on the implementation of the treaty, and obstacles for France and Britain to overcome,⁷⁶ this document embodies the essence of collaborative retrenchment.

As for Germany, it is expanding its cooperation initiatives as well, particularly with regard to shared strategic airlift capabilities. In addition to a bilateral initiative with the Netherlands, Germany also assisted in establishing the European Air Transport Command (EATC) in 2010 with the Benelux countries and France. The EATC played an important role in the 2011 Libyan operation and during the 2013 French intervention in Mali.⁷⁷ Additionally, between November 2010 and early 2012, Germany secured agreements for pooling and sharing technology development, creating interoperability, and developing broader European defense initiatives with partners such as Sweden, Italy, and France.⁷⁸ In particular, the German and Italian defense firms' federations catalyzed the German-Italian intergovernmental agreement for defense industry collaboration, seeking to promote greater coordination in research and product development across the German and Italian defense industries.⁷⁹ Finally, in 2012 Italy launched the "European Global Strategy" consultation process to consolidate European defense and foreign policies and overcome the continent's strategic decline.⁸⁰ Over the course of 2012, Italy has also deepened its military relationship with Israel by organizing policy summits, staging joint military exercises, and signing important defense industry contracts.⁸¹

⁷² Ministère de la Défense, *White Paper* (2008), p. 65; and HM Government, *Securing Britain in an Age of Uncertainty*, p. 60.

⁷³ Benoît Gomis, "Franco-British Defence and Security Treaties: Entente While It Lasts?", *Chatham House Program Paper*, March 2011, p. 4-15.

⁷⁴ *Ibid.*, p. 16-17.

⁷⁵ Ministère de la Défense, *Livre Blanc* (2013), ch. 2, 7.

⁷⁶ See Merchet, Jean-Dominique. « Ravitailleurs En Vol: Les Britanniques Trop Gourmands » *Marianne*, October 14, 2011.

⁷⁷ Bastian Giegerich, "Budget Crunch: Implications for European Defence," *Survival* 52, no. 4 (2010): p. 91; Claudia Major, "A New Force To Be Reckoned With", Deutsche Gesellschaft Für Auswärtige Politik E.V., April 26, 2012; and "EATC's Contribution to Operation Serval," European Air Transport Command, January 21, 2013.

⁷⁸ See Germany and Sweden, *Pooling and Sharing, German-Swedish Initiative. Food for Thought* (November 2010); Tom Kington and Albrecht Müller, "Italy, Germany Make Their Own Pacts", *Defense News*, December 19, 2011; Présidence de la République, *Renforcer les moyens de la sécurité et de la défense européennes* (Paris: 14ème Conseil des ministres Franco-Allemands, February 2012); Julian Hale, "Germany to Press Maritime Patrol Aircraft Pool," *Defense News*, July 29, 2011; "'Weimar Plus' Countries Discuss Security Policy in Paris," Ministry of Foreign Affairs - Republic of Poland, November 15, 2012; and "Weimar plus Foreign Affairs-Defence Meeting - Increased Efficiency for European Security," Farnesina - Ministry of Foreign Affairs, November 15, 2012.

⁷⁹ Kington and Müller, "Italy, Germany Make Their Own Pacts".

⁸⁰ Fägersten et al., *Towards a European Global Strategy*.

⁸¹ Antonio Mazzeo, "Patto Militare Italia-Israele. Un Accordo Scellerato E Illegale", *Cadoinpiedi*, December 2, 2012.

7. Overarching Issues in Defense Retrenchment

The Trappings of Defense: “Sticky” Planning, Policy Options, and Retrenchment

The data discussed in the case studies describe defense planning across the EU-4 as an unequivocally long-term issue. In modern defense planning, this difficulty is due primarily to vested interests, procurement program “stickiness,” the difficulty of carrying out personnel reductions, and commitments to international operations. First, the vested interests present in defense spending are numerous and powerful. Both between and within armed forces services, numerous actors are in competition for limited resources. Outside of the armed forces, politicians fiercely oppose the closing of bases or the cancellation of industrial programs located in their constituencies. At the same time, the defense industry strongly lobbies the government to promote its interests, which seldom align with those of retrenchment.

Second, medium and large defense procurement programs, which can last decades—especially for projects such as combat jets, nuclear submarines, and warships—pose a serious obstacle to defense budget reductions or recalibrations. These are “sticky” programs which may already have sunk costs in the billions, may be far from completion, and may entail tens of thousands of jobs and long-term contracts worth equal amounts in future equipment upgrades and maintenance. At times, it may be more expensive to cancel a program than to preserve it due to sunk costs and contractual penalties. Other times, a program may be considered so flawed or unnecessary as to warrant its elimination, regardless of what has already been spent.⁸² Governments may also be reluctant to modify “flagship” projects. Furthermore, at a time when many of the largest programs undertaken by the EU-4 are multinational, withdrawing from them would cause important backlash from a country’s principal allies, potentially jeopardizing future collaboration. Considering all of this, the possibility of gaining immediate savings through program cuts may not be as simple as one might envision.

This relates directly to the third issue: although defense programs may be difficult to amend, personnel numbers—the other most significant line item for any ministry of defense—may be equally complicated to reduce. Members of the armed forces and defense ministries’ civilian staff are government employees, and as such enjoy a number of workplace protections. Oftentimes, personnel reductions thus have to happen “naturally” over decades, and even policies entailing incentive schemes and measures that are more forceful cannot accomplish this rapidly.

Finally, international missions taking place in international frameworks take a toll on every country’s defense budget. States cannot always abandon them speedily due to the logic of alliances and fixed deployment and withdrawal timetables. France’s decision to withdraw from Afghanistan in 2013 rather than in 2014 upset other NATO members who

⁸² In British planning, the *Queen Elizabeth*-class aircraft carriers and Nimrod MRA4 aircraft are an example of the former and latter, respectively.

feared it could jeopardize the mission's objectives.⁸³ On the other hand, France contributed extensively to operations in both Libya and Mali that may have been of much greater relevance to French policymakers. France's withdrawal from Afghanistan will give it greater flexibility in implementing personnel cuts, whereas British army reductions can only begin after the Afghan operation ends in 2014.⁸⁴ The Italian government sought to reduce deployments and costs though the policy was limited to missions in the Balkans and other secondary theaters and left intact the bulk of its commitment in Afghanistan.⁸⁵ While Germany's DPG aim to increase the number of deployable units, the country did not intervene in Libya or effect changes to its missions; it thus constitutes an ambiguous case.

Assessing the Response

Based on the evidence presented above, collaborative retrenchment appears to be the path the EU-4 have taken. They have increased cooperation not only with each other but also with other states, both within and outside of Europe. At the same time, they have extended their participation in several bilateral and multilateral initiatives, though these have largely taken the form of attempts to increase intra-European pooling and sharing partnerships. Although the majority of current collaborative procurement programs began before the Eurozone crisis, they remain an established and valid framework for European states in defense planning in times of relative decline. With the exception of Italy, EU-4 governments complemented this with strong defense export promotion. The EU-4 adopted this policy both to sustain the domestic industry in light of decreasing government procurement and to create lasting ties with partner countries in a number of sensitive areas in the world.

We see fewer developments than might be expected in fostering interoperability and greater compatibility between each country's respective armed forces. The notable absence of interoperability measures in collaborative retrenchment may indicate that governments can work out broad frameworks of cooperation, both in operations and procurement programs, but are still unable to compromise on the small details that would greatly improve partnership results. Several factors could cause this. For instance, a lack of trust between armed forces might prevent them from depending on the other's assets for key capabilities. Bureaucratic politics might also intervene, as MoD executives and armed forces' top brass may not be willing to give up resources to external actors, even if they are historic allies. National defense industries may be inclined to develop a special version of common weapon systems to exclude other firms from production, maintenance, and upgrade contracts for the equipment. Finally, the time might not yet be ripe for the development of new, interoperable equipment.

Interoperability appears to be the boundary collaborative retrenchment has not yet managed to overcome, suggesting that though states are increasingly willing to work with partners in securing a common good, they remain stuck in traditional paradigms of

⁸³ Steven Erlanger and Rod Nordland, "France, Breaking With NATO, Will Speed Afghan Exit", *The New York Times*, January 28, 2012; and "Francois Hollande: France Will Press Ahead with Afghan Withdrawal", *The Telegraph*, May 18, 2012.

⁸⁴ HM Government, *Strategic Defense and Security Review*, p. 83.

⁸⁵ Andrea Nativi, "Difesa 2011: Un Esercizio Sempre Più Difficile", *Rivista Italiana Difesa*, January 2011, p. 28; and Silvia Cerami, "Sulle Armi Non Si Bada a Spese", *L'Espresso*, July 13, 2012.

sovereignty. In this sense, bilateral treaties between similar partners and incremental step-by-step cooperation could provide sample zones of interoperability that could evolve into more significant programs. Ultimately, the output factor of collaboration may not emerge immediately, but rather be the fruit of marginal increases. The defense and industrial partnerships discussed above have allowed the creation of a positive output factor among the EU-4, and they could serve as the basis for more extensive cooperation in the future.

8. Evaluating the Model of Collective Action and State Retrenchment

By coupling retrenchment theory and collective action theory, my model creates a framework in which an interconnected group of actors—in this case, states in an alliance—can contribute varying amounts to obtain a common good, such as security. Depending on each state's contribution and an output factor, each state will receive a different benefit from this common good. The model hinges on the notion that it is possible for states in an alliance to increase the output factor—through collaboration and internal efficiency measures—in order to maintain the common good provided at acceptable levels despite a decrease in individual contributions to this good.

Since 2008, the Eurozone crisis has significantly affected the EU-4, adding critical stress to existing relative decline. The Eurozone crisis hit Britain's government deficits particularly hard. As part of its general government reorganization, the British government thus ordered a wide-ranging defense review. The MoD proceeded to implement the revision on force numbers and equipment stocks. At the same time, the British government began to support defense exports actively. The key development, however, was the 2010 Lancaster House treaty with France, which set a framework for extensive cooperation aimed at strengthening a partnership that will be critical for Britain not just in terms of capabilities but also in terms of the financial sustainability of defense.

By contrast, although France did suffer from the effects of the Eurozone crisis, it escaped the negative shocks that affected Britain. This allowed the French government to opt for a policy of continuity until the persistence of the crisis led to a further review and more extensive retrenchment measures. France had already started implementing a policy of external balancing and defense exports promotion before the Eurozone crisis, giving France a head start over its peers and reducing the amount of balancing needed in the aftermath of the crisis. As with Britain, the Lancaster House treaty set a benchmark in defense sector cooperation.

Germany distinguished itself from the other three states by navigating the worst phases of the Eurozone crisis with minimal impact. Germany too chose to retrench, yet it did so while trying to align its defense policy with the standards its allies expected of it. Germany placed more emphasis on its ability to participate in foreign military interventions, although this objective risks being sacrificed for the sake of consolidating the national budget. The German government was decidedly active in promoting defense exports, expanding existing European pooling and sharing initiatives, and developing a number of bilateral partnerships with other European states.

Finally, Italy was the most negatively affected country of the quartet, reaching a crisis point unlike that of any other. Furthermore, an outdated model had caused deep structural

problems within Italy's armed forces and defense policies. The Italian government moved to reform Italian defense to make it sustainable and effective in the future. The Italian government expended considerable effort in promoting numerous bilateral and multilateral collaboration initiatives to strengthen its defense capabilities. That this took place during and following the most critical phase of the sovereign debt crisis lends additional support to the notion that cooperation became a key strategy in defense retrenchment. Nonetheless, Italy's efforts fell short of devising a broad defense and industrial strategy. Government instability and political volatility may be to blame for these shortcomings.

The policies undertaken by the EU-4 in the aftermath of the Eurozone crisis provide clear evidence for the rejection of the Null Hypothesis: no state sought to prevent its relative decline by increasing expenditures and commitments in the defense sector, as power transition theory would suggest. Each of these four states decreased both the defense budget and armed forces personnel and equipment. In addition to this, defense industry reforms aimed to make procurement leaner, improve collaboration with the defense industry, and restructure bases, logistics, and other such elements to create efficiency savings. The extent and speed with which each state intervened in carrying out the above measures is proportional to the extent to which each state suffered from the Eurozone crisis, matching the model's predictions. Altogether, this forms substantial backing for Hypothesis 1.

Each EU-4 state sought to remedy the significant potential loss in means and capabilities by working with partner states to offset individual losses of power. There was a focus on cooperative programs, some degree of pooling and sharing, extensive export promotion, and the formation of defense and security ties to complement areas where states were sacrificing capabilities. While the focus on interoperability was smaller than expected, the Lancaster House treaty provisions on interoperable nuclear testing facilities offer great opportunities for savings as well as an ambitious example of what states can commit to and achieve through this approach. Overall, the evidence suggests that EU-4 states acted according to the model's predictions with regard to collaborative retrenchment, substantiating Hypothesis 2 as well.

A potential counterargument to this assessment of the evidence is that if the EU-4 were rational actors, they should have implemented improved policy and efficiency measures even before the crisis struck, since strengthening cooperation and saving resources in the process would have been a desirable outcome even before 2008. However, rational actors do not always possess the will to modify certain policies—for example, a particular level of defense expenditures. Political constraints and institutional politics may thus impede change until there is an environmental shock powerful enough to cause a shift in direction. As we have seen, the Eurozone crisis certainly played such a role.

Considering the differences in economic and military power and modern defense policies that existed between EU-4 states before the onset of the Eurozone crisis, these four states responded to the crisis remarkably similarly and in a manner consistent with what my model suggests. Furthermore, EU-4 states did not only largely overcome the obstacles to retrenchment discussed in the previous section, but also overcame the potential barriers of commitment and distributional problems. By developing multiple but circumscribed areas of collaboration, each state could manage each partnership independent of the other, giving

policymakers greater independence and discretion. These relationships built trust and collaboration in a tailored manner because it was not necessary for partners to have identical interests in all fields for a single agreement to succeed. Importantly, with various interconnected but non-integrated networks, issues in one area would not spill over into the next. This suggests that while the segmented approach EU-4 states took to collaboration did not provide a broader or more complete framework, it effectively served to create islands of cooperation that were less likely to be submerged by commitment and distributional factors.

This raises the question of the role that organizations like the EU and NATO can play in fostering the long-sought objective of a coherent, engaged, and well-equipped European defense policy, especially in light of the Eurozone crisis' strong blow to already-declining defense budgets. This article has only focused on the intergovernmental side of collaborative retrenchment, leaving room for future research into how supranational institutions can adopt and expand national initiatives in areas ranging from rapid intervention forces to more effective procurement. Common Foreign and Security Policy, EU Battlegroups, and European Commission directives constitute longstanding efforts on defense integration, running parallel to previous intergovernmental activities.⁸⁶ The crisis led to a heightened pace of collaboration in leading states as they sought new initiatives to overcome budgetary issues. More research is required to determine what role the EU and NATO are playing in collaborative retrenchment in the EU-4 and beyond. These relationships will also depend on U.S. policy towards Europe and the extent to which the former will maintain its defense umbrella over the latter. As shown by this article, further integration is possible but it remains to be seen to what extent it will occur.

This article extends the discussion on the validity of retrenchment for regional powers facing relative decline, thus adding to previous scholarship that had concentrated primarily on hegemonic or "great power" retrenchment. Although policymakers may not articulate their policies with this terminology, the discussion above supports the idea that governments and ministries of defense share the idea that increasing an output factor can offset reduced defense expenditures and capabilities. The outcome is that the common good—security—continues to be provided at levels acceptable to all. Although it is far too early to determine whether this effort is effective or not, it is fair to say that the congruence between the theoretical model and the evidence discussed points to the possibility that the strategy of collaborative retrenchment will achieve its intended goal: maintaining or increasing collective security while retrenching the resources available for defense.

⁸⁶ Directives 2009/43/EC and 2009/81/EC aimed to further the integration of the European defense market and industry by extending existing free trade norms to the realm of defense procurement.