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The Economics of Military Outsourcing

KEITH HARTLEY

The UK Funding Problem

UK defence policy is facing major financial pressures. Defence budgets have been falling in real terms and only recently received a small real terms increase. This budget has to fund a major new equipment programme involving the acquisition of Typhoon, A400M airlifters, missiles, warships, submarines and aircraft carriers. New equipment is costly and costs are rising in real terms, typically by about 10 per cent per annum, which is greater than the increase in the defence budget. An all-volunteer force is also costly to recruit, train and retain, since military personnel require salaries which are higher than in the civilian sector to persuade them to accept the disadvantages of the military employment contract (e.g. discipline; unsocial hours and conditions; and risks of injury and death).

The funding pressures mean that UK defence policy cannot avoid the need for difficult choices: something has to go and the question is what goes? There are four broad policy options, namely, 'equal misery' or another major defence review or higher defence spending or increased efficiency. Typically, governments prefer the 'easy' options of equal misery (e.g. delays in the new equipment programme; reduced training) and increased efficiency. Military outsourcing provides opportunities for efficiency savings. It is not the only option for efficiency improvements. Others include purchasing equipment more cheaply from overseas, especially high technology equipment which is costly to develop and where the UK requires only small quantities (e.g. nuclear-powered submarines); and opening-up all UK defence contracts to competition (i.e. warships where there remains a commitment to build all Royal Navy warships in the UK).

Professor Keith Hartley, Director, Centre for Defence Economics, University of York.

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