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Summary: The provision of global public goods — for the common defense, the economic development of the world's poorest societies, and the mitigation of and adaptation to climate change — is at risk as governments in Europe and the United States try to rein in their spending to cope with the mounting public debts incurred during the Great Recession. Such fiscal austerity threatens the long-term security, humanitarian, and environmental interests of nations on both sides of the Atlantic. Looming austerity will require defense cooperation heretofore not seen in peace time. Greater cooperation in research and development, production, and procurement of defense technologies would be a logical move for cash-strapped NATO allies. Foreign aid is likely to be another casualty of fiscal belt-tightening. A pooling of American and European aid funding at the country or regional level may be necessary to cope with limited resources. Climate finance needed for adaptation to and mitigation of climate change is similarly at risk. New and innovative sources of financing are desperately needed. It is time for a transatlantic dialogue on the implications of fiscal austerity for global public goods.

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Deep Cuts: What the Age of Austerity Means for Global Public Goods

by Bruce Stokes

The provision of global public goods — for the common defense, the economic development of the world's poorest societies, the mitigation of and adaptation to climate change — is at risk as governments in Europe and the United States try to rein in their spending to cope with the mounting public debts incurred during the Great Recession. Such fiscal austerity, as economically justified as it may be, threatens the long-term security, humanitarian, and environmental interests of nations on both sides of the Atlantic.

The United States is expected to cut its fiscal deficit by 3.4 percentage points of GDP between 2010 and 2012, according to estimates by the International Monetary Fund. The United Kingdom plans to reduce its deficit by 4.2 percentage points and Germany by 1.7 points. Given prospects of slow growth in Europe and possibly even in the United States over that time period, much of this deficit reduction will have to be achieved through a contraction in government spending.[1]

But even currently planned belt-tightening may not prove sufficient. Net public debt as a portion of the economy is expected to grow in the United States by 18.9 percentage points of GDP by 2015, by 7.2 points in the United Kingdom, and by 3 percentage points in Germany. Deeper budget cuts may be unavoidable to slow this rise in debt levels, especially in the United States.

To date, the austerity already imposed has largely consisted of cosmetic, one-off measures that trim fat from bloated government spending. Over the next few years, the budget scalpel will need to cut muscle and bone. With domestic constituencies not yet recovered from the economic downturn, the most vulnerable budget lines may prove to be those that provide for international public goods.

This day of reckoning for such spending was inevitable. As defense analysts Gordon Adams and Matthew Leatherman argued recently in *Foreign Affairs*, "The U.S. government's ambitions now outstrip its capacities at home." While they were specifically discussing prospects for the Pentagon's budget, their comments may apply equally to the political willing-

[1] http://www.imf.org/external/pubs/ft/weo/2010/02/pdf/tables.pdf

ness and budgetary headroom to provide foreign aid and climate finance.[2]

Complicating matters, European and U.S. governments and their publics differ in their belt-tightening priorities. Washington intends to continue to increase defense spending, backed by a majority of the public, while London and Berlin are cutting back on military outlays. The British government wants to increase foreign aid, despite public opposition to such giving, but the U.S. House of Representatives, backed by American public opinion, wants to cut development spending.

Fiscal austerity threatens the long-term security, humanitarian, and environmental interests of nations on both sides of the Atlantic.

Moreover, global public goods are clearly in the eye of the beholder. As Sam Perlo-Freeman, a senior researcher at the Stockholm International Peace Research Institute (SIPRI), has noted, "From an American government perspective, U.S. military spending is a global public good. But if you ask the Chinese, they would say no."[3]

So a lack of consensus on international priorities and just who should bear those burdens complicate needed coordination of national budget cutting that would help minimize the impact of fiscal austerity on the provision of global public goods.

Looming government budget cuts pose a crippling threat to defense spending, foreign aid, and climate finance. Nevertheless, mounting public debts make such cutbacks almost inevitable, despite the potential long-term adverse consequences of shortchanging the future. This shared challenge underscores the urgency of a transatlantic dialogue on budget cutting. Moreover, it highlights the need for governments in Europe and the United States to better coordinate military roles, defense procurement, development assistance activities, and climate spending.

Defense Spending

Provision of the common defense has long been a shared transatlantic challenge. Allied nations have long invested significant national treasure in their militaries. That spending is now likely to be significantly curtailed. And the apportionment of the defense burden, which was never equal, is likely to become even more uneven in the years ahead.

In 2008, the last year for which comparable data is available from SIPRI, the United States devoted 4.3 percent of its GDP to defense. The United Kingdom spent 2.5 percent and Germany 1.3 percent. Current budget-cutting plans suggest this discrepancy in allied military budgets may grow as austerity begins to bite.[4]

The Obama administration has recently announced plans to curtail defense spending by $78 billion over the next five years. But such cuts will still allow the roughly $720 billion Pentagon budget to continue to keep pace with inflation. U.S. Secretary of Defense Robert Gates has resisted pressure for further cutbacks in outlays, arguing that "when it comes to the deficit, the Department of Defense is not the problem."[5]

"In the near future," concludes Perlo-Freeman, "we cannot expect any reduction in U.S. military spending. It might, however, stop increasing at the breakneck speed it had been increasing."[6]

While Washington is attempting to hold the line on defense spending, London is already aggressively trimming it. The government of Prime Minister David Cameron plans to curtail defense spending in real terms by 7.5 percent over the next four years by phasing out Britain's troop deployment in Germany, scrapping the Nimrod reconnaissance aircraft, mothballing one planned aircraft carrier and leaving the other with no planes to land on it for several years.[7]

[2] http://www.foreignaffairs.com/articles/67145/gordon-adams-and-matthew-leatherman/a-leaner-and-meaner-defense

[3] phone interview February 2011

[4] ibid

[5] http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4720

[6] http://milexdata.sipri.org

[7] http://www.bbc.co.uk/news/uk-politics-11569160

So far, the British navy plans to continue with a $30 billion modernization of its four nuclear submarines. But a final decision on this matter is not expected until 2016. The Cameron government's coalition partner, the Liberal Democrats, campaigned on a pledge to eliminate this deterrent, suggesting it, too, could one day be on the chopping block.

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The German government of Chancellor Angela Merkel has similarly announced plans to trim €8.4 billion from the €31.5 billion annual defense budget over the next three years. Personnel in the German armed forces will be reduced from 250,000 to 185,000. Conscription will be suspended. The Luftwaffe will curtail its planned acquisition of Eurofighters and reduce its contingent of Tornado aircraft. And the air force's fleet of military transport aircraft will be reduced, giving Germany less heavy airlift potential and expeditionary capability.[8]

The disconnect between American and European military spending plans mirrors transatlantic differences in public opinion about the future of defense outlays. But whereas Americans support Washington's go-slow approach to trimming the Pentagon's budget, the British question London's cutbacks.

Less than a third (30 percent) of Americans want to decrease military spending (31 percent want an increase), according to a February 2011 survey by the Pew Research Center. That compares with 43 percent who wanted to slash the defense budget in August 1990 at the end of the Cold War.[9,10]

In contrast, the British public is uncertain about impending defense belt-tightening. A poll by YouGov.com in October 2010, at the time the U.K. defense cuts were announced, found that a solid majority (59 percent) of those surveyed thought it unacceptable that a lack of carrier-based jet fighters and the reduction in the size of the navy fleet would leave the Royal Navy weaker than that of some other European NATO allies. And a plurality (48 percent) of the public thought that the planned reduction in troop numbers was too large.

Nevertheless, while the Obama administration's proposed defense budget continues to grow and Republicans in the U.S. Congress seem to have no stomach for trimming military outlays, there is a consensus among American budget policy experts that Pentagon spending should not be exempt from fiscal discipline. Defense budget cuts have been proposed by the National Commission on Fiscal Responsibility and Reform, which was appointed by President Obama, by the centrist Bipartisan Policy Center, and by think tanks on both the left and the right. If and when Washington gets serious about reining in spending, their suggestions are a roadmap for future austerity.[11]

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From a European perspective, these proposed cuts could have far-reaching implications. Already, proponents of a leaner American defense budget from both the left — Rep. Barney Frank (D-MA) — and the right — Rep. Ron Paul (R-KY) — have revived talk not heard since the Cold War about greater Allied "burden-sharing."

As U.S. defense analyst Gordon Adams has noted: "The American argument seems to be that the U.S. defines the 'burden' and everybody else should share it. We do not ask our allies what they think the 'burden' is."[12]

[8] ww.iiss.org/members-login/?ReturnUrl=/publications/strategic-comments/past-issues/volume-16-2010/december/german-armed-forces-face-big-changes/

[9] http://people-press.org/report/702/

[10] http://www.nato.int/cps/en/natolive/opinions_70400.htm

[11] http://milexdata.sipri.org

[12] http://thewillandthewallet.org/2011/02/14/the-defense-budget-time-to-end-the-mantra-of-fear

Nevertheless, the Congressmen's concerns have some basis in fact. A decade ago, Pentagon spending accounted for a little less than half of all NATO defense outlays. Today, it is close to three-quarters and growing. In the last two decades, British military spending has decreased 1.6 percentage points of GDP and German spending has similarly contracted 1.6 points. American outlays have declined only 1.4 points, widening the burden sharing gap.

Rebalancing that defense burden, while imposing fiscal discipline, will require hard choices. The U.S. National Commission on Fiscal Responsibility and Reform has suggested decreasing from four to two the U.S. combat brigades now stationed in Europe, reducing U.S. military personnel there by 33,000.[13] The U.S. Bipartisan Policy Center would cut American force levels in Europe even more.[14] In addition, the National Commission has called for cutbacks in the F35 Joint Strike Fighter, which is supported by a number of European governments.

In the confrontation between looming fiscal austerity needs and ongoing security requirements, Europe and the United States risk drifting apart.

Given the limited likelihood of a European war, the suggested troop drawdown is unlikely to impair European security. But shorter production runs for military hardware could lead to higher per-unit costs for European governments that are committed to buying the F35, frustrating Europeans' plans to contain defense spending.

Moreover, as NATO Secretary General Anders Fogh Rasmussen has warned, in the confrontation between looming fiscal austerity needs and ongoing security requirements, Europe and the United States risk drifting apart. The transatlantic alliance could include a weaker, divided Europe, with only a few European powers providing the bulk of security, undermining the principles of collective defense and allied solidarity.

Greater cooperation in research and development, production, and procurement of defense technologies, what Rasmussen calls "Smart Defense," would be a logical move for cash-strapped NATO allies. But experience teaches just how difficult such coordination can be. To bolster domestic employment in response to taxpayer concerns and to satisfy domestic defense industry stakeholders, national governments have long demanded that they get a slice of the military spending pie. For example, 80 percent of European defense research and development is still spent on national programs. This "fair return principle" has meant that the Eurofighter requires assembly lines in several European countries, hardly an efficient way to build an expensive airplane.

Anglo-French cooperation efforts — on nuclear warhead research, on the next generation of unmanned surveillance drones, a shared maintenance contract on the new A400M military transport aircraft, and joint procurement of missiles — go further than any military spending coordination hitherto attempted, suggesting that national prerogatives may finally be breaking down under budgetary pressures. But the test will come when production facilities are closed in one nation, but not another, or when, with British and French aircraft sharing the same aircraft carrier, their governments disagree on where that carrier is deployed and how it is used. The Pentagon's recent award of a $35 billion aerial tanker contract to Boeing, not to its competitor, the European company EADS, suggests that budgetary pressures may lead to more nationalism in defense spending, not more international cooperation.

Fiscal problems have yet to significantly constrain the U.S. military, but their effects are already being felt by the armed forces in Germany and in the United Kingdom. If American budget hawks prevail, the Pentagon may also soon feel the budget-cutting knife. Differences in timing and degree of belt-tightening are likely to reopen old wounds about burden sharing. Provision for the common defense in a time of austerity will require defense cooperation heretofore not seen in peace time.

[13] http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/Illustrative_List_11.10.2010.pdf

[14] http://www.bipartisanpolicy.org/sites/default/files/BPC%20FINAL%20REPORT%20FOR%20PRINTER%2002%2028%2011.pdf

Foreign Aid

The economic development of the world's poorest societies is clearly in the economic and security self-interest of both Europe and the United States, an obvious humanitarian imperative, and has long been a shared transatlantic commitment.

In 2009, the United States was the leading foreign aid donor in dollar terms, contributing $28.8 billion, according to data from the Organization for Economic Cooperation and Development. Germany provided $12.1 billion and the United Kingdom $11.5 billion.[15]

But when measured as a portion of the economy and assessed by recent spending performance, a quite different picture existed. In 2009, London provided .52 percent of its gross national income for foreign aid, up 14.5 percent in dollar terms from 2008. Berlin gave .35 percent of its GNI, an increase of 11.3 percent. Washington donated only .21 percent, up 6.1 percent.

American and European governments need to find new ways to stretch their development assistance budgets and to maximize the impact of what promises to be limited future increases in spending.

The proposed 2012 Obama budget would increase U.S. development assistance by 15.8 percent and bolster global health and child survival spending by 11.3 percent. But the 2010 spending measure passed by the U.S. House of Representatives in mid-February would cut American development assistance by 29.6 percent and global health and child survival spending by 10.1 percent.[16] The U.S. Senate is unlikely to go along with all the House's austerity measures. But any House-Senate compromise could lead to less not more foreign aid.

The Cameron government in the United Kingdom is even more ambitious about foreign aid than the Obama administration. Despite draconian domestic budget cuts, it plans to increase development assistance by 37 percent in real terms over the next four years. Foreign aid is one of only two areas of spending, along with national health care, to be spared the U.K. budget knife. It is Cameron's goal for British overseas aid to reach the international target of 0.7 percent of GDP by 2013. And given his parliamentary majority, he may be able to sail against the austerity winds.[17]

But neither Obama nor Cameron enjoy public support for their foreign aid spending plans. Development assistance has never been popular with Americans. And, in the wake of the Great Recession, support has eroded even further. A plurality (45 percent) of Americans wants to decrease global poverty assistance, according to a February 2011 survey by the Pew Research Center. In 2009, only 34 percent of the public wanted to cut foreign aid.[18]

Foreign aid is also a partisan issue in the United States. Seventy percent of Republicans, and 75 percent of the public that identifies with the Tea Party, would slash global anti-poverty funding, compared with only 28 percent of Democrats. It is little wonder that the Republican-controlled House of Representatives voted to reduce foreign aid.

British voters agree with their American cousins, not with their own government, when it comes to development assistance. In an October, 2010 YouGov.com survey, a plurality (47 percent) of Britons thought international development funding should be subject to bigger cuts than other areas of the budget.

Given fiscal pressures and the lack of public support for foreign aid, American and European governments need

[15] http://www.oecd.org/statisticsdata/0,3381,en_2649_34447_1_119656_1_1_1,00.html

[16] http://blogs.cgdev.org/mca-monitor/2011/02/h-r-1-–-cuts-like-a-knife.php?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+cgdev%2Fmca-monitor+%28Rethinking+U.S.+Foreign+Assistance+Blog%29

[17] http://www.npr.org/2011/02/22/133958620/the-new-republic-real-conservatives-dont-slash-aid

[18] http://people-press.org/report/702/

to find new ways to stretch their development assistance budgets and to maximize the impact of what promises to be limited future increases in spending.

A lack of coordination, subsequent duplication, redundancy, and resultant high costs have long plagued foreign aid programs. Budgetary constraints for the foreseeable future now make transatlantic development assistance coordination a higher priority than ever.

A 2009 German Marshall Fund study recommended pooling American and European aid funding at the country or regional level.[19] It also proposed common procurement standards that would minimize complexity and improve efficiency. In addition, Europeans and Americans could agree to end tied-aid practices that require aid recipients to buy goods and services from firms in the donor countries. Such requirements are designed to benefit the rich while driving up costs for the poor. The looming era of budget austerity makes it imperative to spend limited development assistance resources more wisely.

Climate Finance

Climate change poses harsh challenges for much of the world's population. Rising sea levels imperil tens of millions of people who live in low-lying coastal areas. Changing rainfall patterns threaten harvests and raise the specter of periodic famines in parts of Africa and Asia. Mitigating these effects and adapting endangered societies to the unavoidable consequences of global warming is both a humanitarian imperative and a strategic necessity for both Europe and the United States.

The potential cost of such mitigation and adaptation is staggering. In 2009, the United Nations Framework Convention on Climate Change estimated the cost to be at least $93 billion per year. The World Bank has put a greater price tag on it — at least $159 billion per year (in 2005 dollars) by 2030.[20]

In December 2009, at the Copenhagen climate summit, rich nations promised to provide poor countries with $30 billion in "new and additional" resources by 2012 to cope with climate change. This sum would be a down payment on a pledge to provide $100 billion annually in climate finance by 2020. In December 2010, at the Cancun climate meeting, donor nations agreed to establish a Green Climate Fund to manage these resources. But governments failed to agree on how to fund such climate finance.

Much may depend on their definition of "new and additional." In 2008, according to the Organization for Economic Cooperation and Development, developed nations provided $8.5 billion in bilateral assistance to help developing countries reduce their greenhouse gas emissions and to integrate climate change concerns into their development efforts. This represented about 8 percent of total foreign aid that year. A literal interpretation of "new and additional" would suggest such annual aid has to double just to meet the 2012 commitment.[21]

The United States must be seen to take the lead in the struggle against global warming or suffer the fate of being blamed for it.

Moreover, officially reported climate finance may overestimate donors' current contribution toward meeting their Copenhagen pledge. Government climate aid data often counts the total cost of a renewable energy project, say the building of a wind farm, rather than only counting as "new and additional" the increased cost of such a project compared with the price tag for a conventional power plant that would been built anyway. But, by whatever definition, American and European climate finance may fall short of the need.

The Obama administration's 2012 budget proposal includes $1.3 billion to help developing countries to cope with global warming, deploy clean energy technologies, and reverse deforestation. But the 2011 budget passed by the U.S. House of Representatives in mid-February would eliminate at least $650 million in climate finance from the administration's 2010 request, including zeroing out all contributions to climate finance efforts by the World Bank and other multilateral institutions. In addition, it would prohibit the use of any U.S. funds for the United

[19] http://www.gmfus.org/galleries/ct_publication_attachments/TransatlanticTaskforceonDevelopment_KolbeCarlsson.pdf

[20] http://www.germanwatch.org/klima/gcf10.pdf

[21] http://www.oecd.org/dataoecd/33/60/45906157.pdf

Nations Intergovernmental Panel on Climate Change. "This would gut U.S. international climate assistance," said Jake Schmidt, international climate policy director of the U.S. Natural Resources Defense Council. "The United States would go from being in the game to basically sitting on the sidelines."[22]

Opposition to climate finance in the U.S. House of Representatives is hardly surprising given the American public's attitudes about global warming. Less than half of Americans (37 percent) think climate change is a very serious problem, according to the Pew Global Attitudes survey.[23] And such concern has dropped considerably in the last few years. Moreover, a large number of the House members newly elected in 2010 do not believe that global warming is actually occurring.

Neither the Obama 2012 budget nor the House 2011 budget is likely to pass the Senate without significant changes. And there may be no U.S. budget at all for the next two years, merely an extension of current spending at somewhat reduced levels. Whatever happens, it is clear that the austerity-minded political environment in Washington will make it quite difficult for the United States to meet its Copenhagen climate finance pledge.

There will be a cost for this failure. As Robert Kaplan has argued in his recent book *Monsoon*, "Because it is the world's greatest power, the United States must be seen to take the lead in the struggle against global warming or suffer the fate of being blamed for it."[24]

Climate finance prospects are better on the other side of the Atlantic. Germany has historically been one of the largest donors of aid for climate change-related activities. The government of Chancellor Angela Merkel earmarked approximately €1.26 billion in the 2010 federal budget for spending on climate protection and adaptation in developing countries. About €350 million can be counted toward the fast start finance commitment made in Copenhagen, according to a study by Brot fur die Welt.[25]

With more than half (52 percent) of the German public very concerned about global warming, there is more political support for climate finance in Germany than in the United States, enhancing the Merkel government's ability to actually deliver on its Copenhagen pledge.[26] But it will take more than the good intentions of the German government to meet the Copenhagen financing goals.

In November 2010, the UN High Level Group on Climate Change Financing concluded that "it is challenging but feasible" to mobilize $100 billion a year by 2020 for climate mitigation and adaptation efforts in developing countries.[27] But their assumptions underscore how very difficult that task will be.

The Group assumes there will be an international carbon cap and trade system in place, none now exists. And that developed countries will impose carbon taxes on emissions. It expects the price for traded carbon emission certificates to be at least $20 per ton of CO^2 equivalent. And that up to 10 percent of total revenues generated by such trading will allocated for international climate action. These are heroic assumptions.

Differences in national priorities, domestic public opinion and governmental majorities threaten to divide rather than unify transatlantic efforts to meet these challenges.

In an era of fiscal austerity, new and innovative sources of financing are desperately needed. This might include some form of small tax on financial transactions or some similar activity and greater incentives to entice private investors into financing climate projects. Without such efforts, and with donor budgets constrained, any hope of meeting climate finance needs may prove impossible.

[22] phone interview February 2011

[23] http://pewglobal.org/2010/06/17/obama-more-popular-abroad-than-at-home/9/#chapter-8-environmental-issues

[24] http://www.randomhouse.com/catalog/display.pperl/9781400067466.html

[25] http://www.germanwatch.org/klima/gcf10.pdf

[26] http://pewglobal.org/2010/06/17/obama-more-popular-abroad-than-at-home/9/#chapter-8-environmental-issues

[27] http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF%20Report.pdf

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The Challenge to Global Public Goods

In the wake of the Great Recession and the subsequent run-up in government debt on both sides of the Atlantic, a prolonged period of fiscal austerity was inevitable in both Europe and the United States. But this government belt-tightening poses major challenges for the common defense, for efforts to lift hundreds of millions of people out of poverty, and for the imperative to slow global warming.

It is time for a transatlantic dialogue on the implications of fiscal austerity for global public goods.

As domestic battles in Europe and the United States over budget cuts heat up, the funding of global public goods are at risk. Moreover, differences in national priorities, domestic public opinion, and governmental majorities threaten to divide rather than unify transatlantic efforts to meet these challenges. New burden sharing frictions may be inevitable.

It is time for a transatlantic dialogue on the implications of fiscal austerity for global public goods. Heretofore, budget cutting was solely a domestic issue, a national sovereign concern. That is a 20th century luxury that Europe, the United States, and the world cannot afford in the 21st century.

About the Author

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Brussels Forum is an annual high-level meeting of the most influential North American and European political, corporate, and intellectual leaders to address pressing challenges currently facing both sides of the Atlantic. Participants include heads of state, senior officials from the European Union institutions and the member states, U.S. Cabinet officials, Congressional representatives, Parliamentarians, academics, and media.

Leaders on both sides of the Atlantic continue to deepen transatlantic cooperation on a vast array of distinctly new and global challenges from the international financial crisis to climate change and energy security to the retention of high-skilled workers, yet there is no single transatlantic forum focused on this broad and increasingly complex global agenda. Brussels Forum provides a venue for the transatlantic community to address these pressing issues. By bringing together leading politicians, thinkers, journalists, and business representatives, Brussels Forum helps shape a new transatlantic agenda that can adapt to changing global realities and new threats.