

BRIEF ANALYSIS

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Privatizing Defense: Britain Leads the Way

by **Wess Mitchell**

The military campaign in Afghanistan demonstrated that, among NATO countries, only Great Britain — with its small but professional military — has the capability to deploy advanced military assets to far-flung theaters of operation in support of U.S. forces. However, the British spend less on defense every year than France and about the same amount as Germany [see the figure]. So how do they maintain a military that is the best in Europe and the only one in the world capable of joint, prolonged deployment with American forces overseas? The explanation lies in a number of factors, including the British military's superior training and traditionally strong leadership. But in recent years, the most decisive factor has been its willingness to do what no other European country will consider: privatize the military.

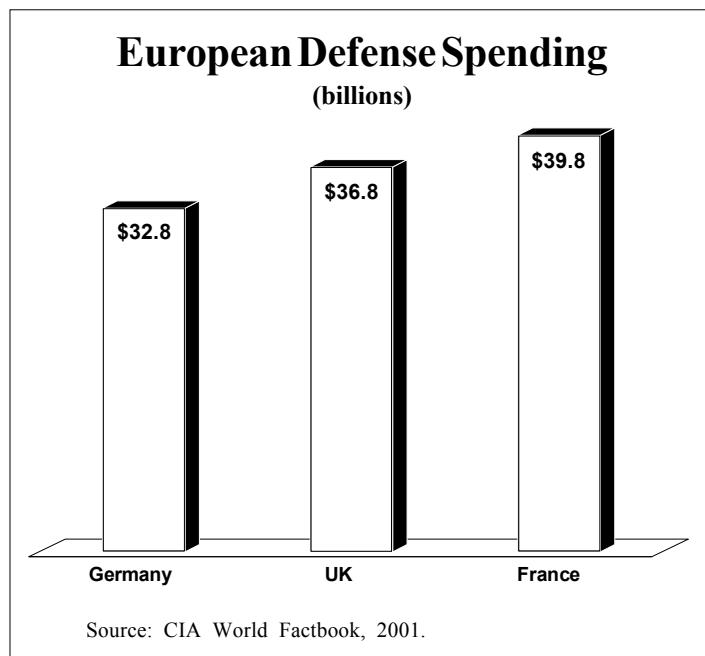
Why Privatize? Like all Western militaries, the British military has undergone significant budget reductions since the end of the Cold War. From its peak in the mid-1980s, British defense spending has declined by more than 30 percent to a current level of 2.7 percent of GDP. As a result, the British Army's manpower was reduced by a third, and all services entered a period of relative decline. Like other European countries, Britain faced the difficult choice of either continuing to reduce its military force structure or further slowing the pace of modernization. In response to these pressures, in the early 1990s the Conservative government launched a series of defense privatization projects as part of John Major's Private Finance Initiative (PFI). Tony Blair's

Labour Party has continued and expanded these efforts, with 40 separate defense privatization contracts valued at \$2.5 billion — on top of the \$2.1 billion privatized by Major. These programs allow Britain's armed forces to tap private sector capital and expertise with two separate but interrelated defense goals: (1) reducing public spending and (2) increasing operational efficiency.

Reducing Public Spending. By 1998 — Labour's second year in office — nearly 200 non-combat defense activities had been privatized for an estimated savings of \$685 million (33 percent). Privatization reached virtually every sector of Britain's defense establishment, including: airfields, dockyards and Army bases; personnel recruitment and training; equipment supply and maintenance; military satellites; Internet services; payroll; research facilities; and logistical support and transport.

Under PFI, the British government leases service or equipment from a private contractor at a fixed annual rate for 15-30 years. Rather than investing permanently in the equipment or service itself, the government leases it on a seasonal basis, as it is needed. The private sector assumes the risks of provisioning and covers its costs by leasing the equipment or service to other customers when the military is not using it.

Unlike outsourcing, which involves contracting military support services to outside sources while retaining responsibility for them within the military, privatization involves transferring responsibility for planning, organizing, financing and managing a program or activity from the military to private contractors. The PFI requires substantial private sector investment, including up-front costs and ongoing operation of capital assets. As a result, the government saves money. For example:



BRIEF ANALYSIS

No. 391

Page 2

- The Royal Air Force saved \$8.5 million after privatizing its transportation services in 1996 and expects to save an additional \$50 million by contracting its pilot training services to a private company.
- The British Army is saving \$410 million by leasing 92 tank-transporter trucks from the U.S. company Brown and Root, and an additional \$140 million by privatizing the training facilities and services for its tank crews.
- The Ministry of Defense saved \$425 million by privatizing the development of its integrated, cross-branch, Internet and communication system.

Altogether, PFI-generated savings amount to about \$560 million every year. As a result of these successes, the British government is planning an additional 50 PFIs worth over \$17 billion. Within a few years, about half of the British defense establishment will have been privatized.

Increasing Efficiency. The funds that are saved from noncombat military spending will help to allow the military to purchase expensive new combat technology, including:

- Twenty-five A400 heavy transport aircraft to replace the RAF's aging fleet of Hercules transports (cost: \$5 billion).
- The Joint Strike Fighter, which will replace the old Harrier jets.
- Two new fleet aircraft carriers, capable of operating 50 aircraft each, to replace the Invincible Class carriers (cost: \$4.9 billion each).
- Five new Astute Class hunter-killer nuclear submarines to replace the old Trident Class submarines (cost: \$2.8 billion).

The warfare environment of the future will require expensive and highly trained personnel operating costly and sophisticated weapons. These assets will require significant allocations of public resources, affordable only if the British military reduces spending in non-core areas. If it does not, it will have to either rely on old equipment or reduce the number of new weapons it procures.

Although many combat assets are considered inherently governmental and thus are unlikely to be privatized, the Labour government has shown a surprising willingness to extend PFI programs to frontline activities. In several areas, PFI programs are bringing in not only

private sector capital but also valuable expertise and state-of-the-art equipment. For example:

- The private sector is providing heavy transport vehicles for British tanks that are capable of operating in previously inaccessible combat zones, including sub-arctic climates and hot deserts.
- The privatized armored vehicle training service is using high-tech combat driving simulators to reduce the number of miles expended during tank training and dramatically improve the level of combat readiness among tank crews.
- A private company also uses advanced combat simulators to train hundreds of British pilots to fly the newly acquired Apache helicopter gunship — an essential component in joint British-American military exercises.

Due in large part to the military capabilities that nearly a decade of private sector capital, resources and expertise has helped to create, the British have been able to respond to international crises from Bosnia and Kosovo to Sierra Leone. Private sector resources have also allowed the British to train more regularly and maintain a higher level of overall readiness. Most recently, in September 2001, the British Army deployed 20,000 troops to desert exercises in Oman as part of Operation Saif Sareea (Swift Sword). Aside from demonstrating Britain's ability to deploy an entire armored brigade more than 3,000 miles from home, the exercise placed British troops in close proximity to Afghanistan, where in the following months 4,200 troops were deployed in support of U.S. forces in Operation Enduring Freedom. By comparison, the French and Germans were able to send only a handful of troops into the fray long after initial hostilities had ended.

Conclusion. As the likelihood of new military operations to combat terrorism increases, the British military will be ready to take the field — both unilaterally and alongside the United States. Whether or not the other Europeans are able to do the same depends on their willingness to follow the British example of military privatization. Doing so may yet enable them to revitalize their deteriorating militaries and help win the struggle against terror.

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