

Fiscal rules for the Armed forces

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Outline

1 History

2 New advances

History

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2 New advances

History

A Norwegian tradition

Every four years:

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- MoD publishes new long term plan

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Why?

- Two types of cost growth

1st type

Price growth

Prices are determined in external markets:

- Aluminium bolts
- Fuel
- Coffee for officers
- Highly centralized wage setting

Price growth

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1961 budget:

"To maintain the same level of consumption in 1961, the budget must be increased to cover the nominal price and wage growth that has occurred."

Price growth



New advances

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2nd type

New advances

Input/output

Why does the Armed forces still face cost challenges when they receive a compensation?

Input/output

Why does the Armed forces still face cost challenges when they receive a compensation?

Aluminium, fuel, coffee, wages – **input**



combines to produce **output/outcome**

New advances

Output and outcome

Aim: Constant output

Output and outcome

Aim: Constant output



Requires a constant utility from weapons systems

Unique features of defence

- Utility a relative measure
- Distance win – defeat
- Willingness to pay
- Limited supply of quality



Photo: Paul Weatherman, Lockheed Martin



- ✓ Utility a relative measure
- ✓ Distance win – defeat
- ✓ Willingness to pay
- ✓ Limited supply of quality



New advances

Loss in equipment relative effect



Loss in equipment relative effect



- 1987:
- **2 cm** cyst
 - **3 mm** fracture
 - **800 km** behind enemy radar
 - Escapes **70%** of enemy air-defence

Loss in equipment relative effect



- | | | |
|-------|---|--|
| 1987: | <ul style="list-style-type: none">• 2 cm cyst• 3 mm fracture | <ul style="list-style-type: none">• 800 km behind enemy radar• Escapes 70% of enemy air-defence |
| 2017: | <ul style="list-style-type: none">• 2 cm cyst• 3 mm fracture | <ul style="list-style-type: none">• 400 km behind enemy radar• Escapes 30% of enemy air-defence |

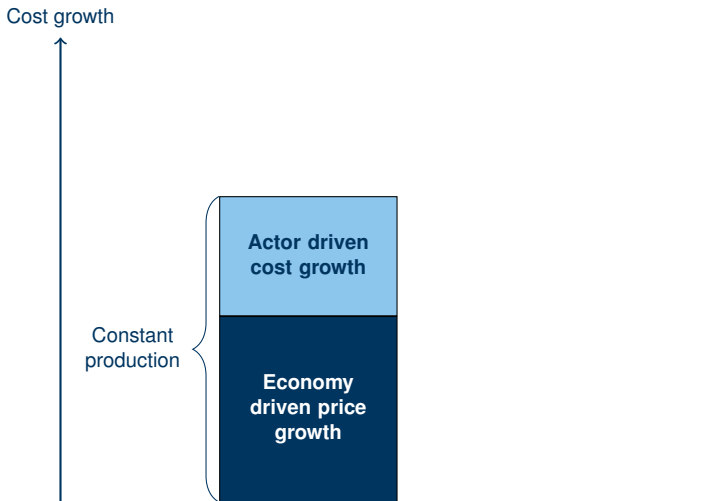
Long-term defence planning

In the new long term plan:

"seek to sustain the fighting power relative to a potential adversary. The need for continuous improvement in effect account for a significant cost driving factor. Observed cost growth is therefore part of the budget."

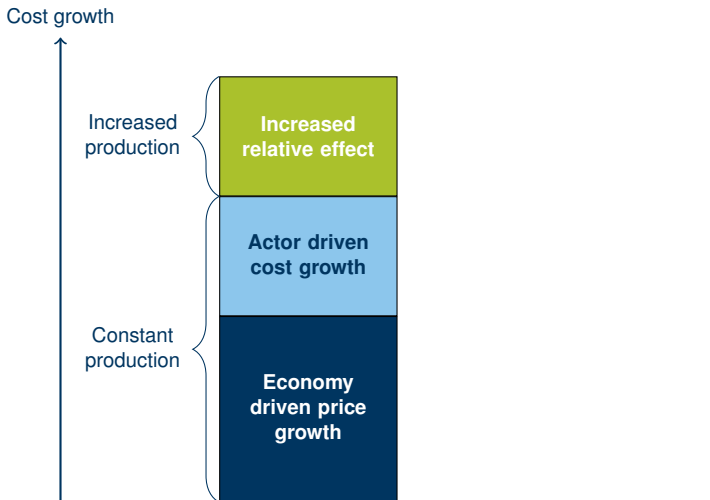
New advances

Long-term defence planning

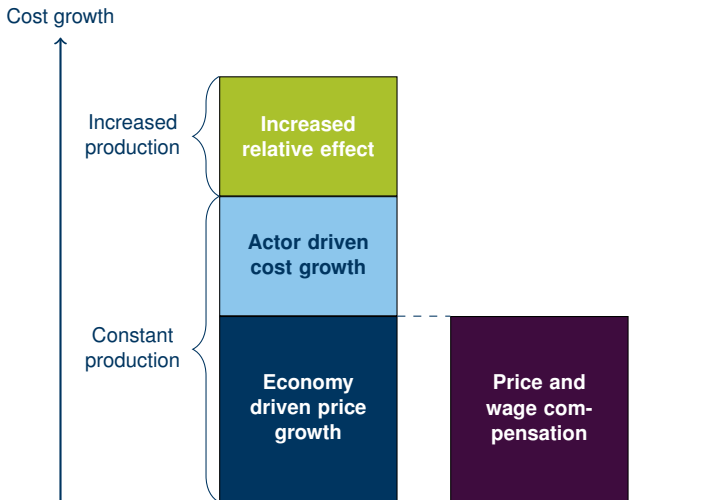


New advances

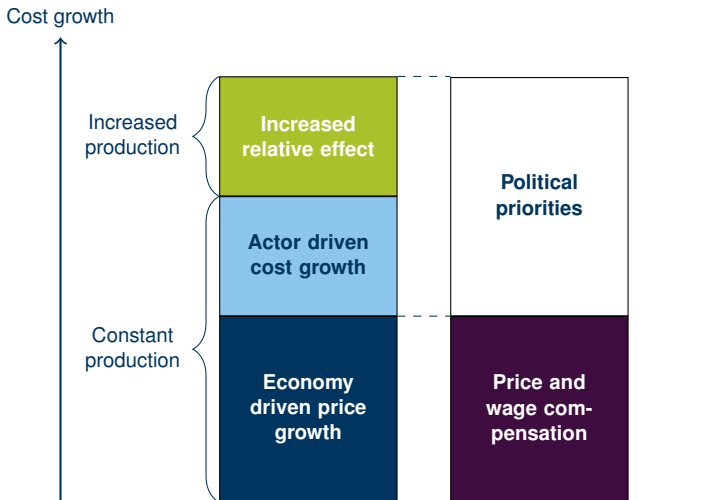
Long-term defence planning



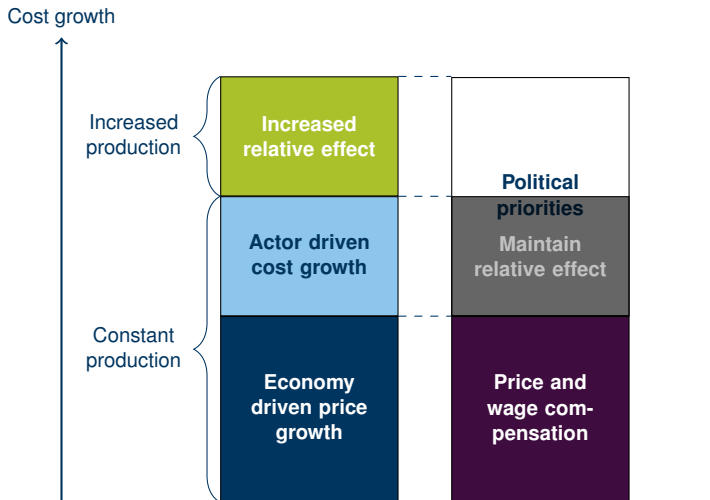
Long-term defence planning



Long-term defence planning



Long-term defence planning



Remaining challenges

- Which costs only maintain relative effect?
 - Difficult to measure and classified

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Remaining challenges

- Which costs only maintain relative effect?
 - Difficult to measure and classified
- Branches want to maximize their own size
 - Expert power
- Some definitions are still unclear
 - Between generation cost growth
- New appropriation not explicitly stated
 - Sensitive to changing political preferences

**Questions?
Comments?
Objections?
Inputs?**

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