

The Internal Dimension: Economic Impacts of Crisis Response Operations Abroad in Troop Contributing Countries – the Example of Austria

Harald Pöcher

1. Introduction: The Austrian Armed Forces and Crisis Response Operations

Crisis Response Operations (CROs) of the Austrian Armed Forces (AAF) abroad have a long tradition. During the Cold War, CROs abroad were a secondary task. After the fall of the Iron Curtain and the end of the Cold War, CROs became more and more important for the AAF. In its final paper the *Bundesheerreformkommission ÖBH2010* recommended that CROs abroad should be given the same importance as CROs in Austria.

The first CRO abroad in which the AAF took part was the contribution of troops to the UN-led mission in the Congo in 1960. Since 1960 the AAF have been engaged in numerous peace-keeping missions, with a participation of more than 70,000 Austrian troops in missions all over the world, i.e. on Cyprus (1964-2001), on the Golan Heights (from 1974 until now), in Kosovo (from 1999 until now), Bosnia-Herzegovina (from 1996 until now), in Chad (2008-2009) and in many observer missions, i.e. the observer mission of the Organization for Security and Co-operation in Europe (OSCE) in Georgia, Misiòn de las Naciones Unidas para el Referendum en el Sahara Occidental (MINURSO) in Western Sahara and the mission of the United Nations Truce Supervision Organization (UNTSO) in the Middle East. In January 2009, more than 1,300 soldiers were deployed in nearly 15 missions abroad. Most of the

1,300 soldiers were deployed in Kosovo (630), on the Golan Heights (377), in Chad (165) and in Bosnia-Herzegovina (100).¹

Forces for CROs consist of professional and militia soldiers. The fact that forces taking part in CROs consist of both professional soldiers and members of the militia shows the importance of the militia for the AAF. Therefore the militia was, is, and, will be a cornerstone for the composition of the AAF for CROs and CRO in-country too. In their agreement the coalition-partners of the new government declare that the militia will continue to be an essential part of the AAF. In principle, soldiers take part in CROs voluntarily, except when they are part of the Forces for International Operations or they are army doctors or air force pilots with a special contract which obligates these persons to take part in such missions. In respect to its population, Austria is a model with regard to troop contribution to CROs. Comparable countries like Sweden (1,000 soldiers) or Hungary (1,000 soldiers) have fewer soldiers in CROs than Austria.

In the literature² it is incontestable that the direct effects of CROs have a lot of benefits to an area of operations, i.e. effects of CROs enable a viable peace, social integration, reconciliation and economic prosperity. This effect of CROs is widely discussed in this book by the other authors. Following the topic, economic impacts of CROs on Austria itself are discussed in this paper. Before starting the discussion, I would like to elaborate on the connection between CROs and the status or relative importance of Austria within the world community.

CROs are an important factor for the status and importance of Austria within the world community. In 2008, Austria was elected as a non-permanent member of the UN Security Council for the period 2009/2010. Politicians issued a statement that Austria won the election because of its engagement in UN CROs. They added that the participation in CROs is responsible for Austria hosting many

¹ See Kosovo (www.nato.int/KFOR), Bosnia-Herzegovina (www.enforbih.org), Golan Heights (www.albnet.at/ausbatt/), and Chad (www.consilium.europa.eu).

² See <www.un.org/Depts/dpko/dpko/faq/q5.htm>.

international organizations, (i.e. OSCE, OPEC, UNO etc.). For that matter, it is worth noting that Austria pays its membership fee punctually and in the full amount. In my opinion this fact also played an important role in the election of Austria, because in the political reality within the world community the phrase ‘Who pays the piper, calls the tune’ is the normative power of the factual.

2. Provocative questions related to the Austrian Armed Forces and CROs abroad

For further academic discussion, it is necessary to raise four provocative questions in this context. It is also intended to contribute ideas, for designing a model, which is particularly suited to give answers to the questions.

Within the past decade, many fundamental questions concerning the purpose of CROs were debated. The discussion was focused on the benefits arising from CROs for the area of operations. In contrast, the benefits for sending states have not been discussed extensively in the necessary scientific depth. For the purpose of this summary it is necessary to raise the following four questions related to missions of the AAF abroad:

- (1) What actions can be taken by the government to increase public acceptance of CROs abroad?
- (2) What is the benefit for Austria to take part in UN-, EU- and NATO-led CROs?
- (3) How many Austrian companies have made business because of the presence of the AAF in the area of operations?
- (4) Is the success of CROs the reason for higher defence budgets?

Question 1: What actions can be taken by the government to increase public acceptance of CRO?

An important factor for the deployment of troops to CROs is the acceptance of such missions by the society. In terms of economics CROs are one part of the production process of the public-sector enterprise 'military forces'. This process is financed by the taxpayer. Because society has become more and more sensitized in regard to how the tax money is spent and what the concrete benefit of military forces for the society is, the government has to account for the costs and benefits of such missions, the whole society and every single taxpayer. Moreover, as the law demands, the society has the right to know what happens with their taxes. In the special case of Austria, it is important to mention that article 51a of the Austrian Federal Constitutional Law and Austrian budget law determines that payments by the government need to meet the principles of thrift, economic efficiency and expediency. In order to justify possible extraordinary high budget expenditures for CROs resulting from troop contributions to international missions the government has to explain the benefits for society.

An attentive observer of the discussion in the Austrian media about the necessity of CROs and of public opinion on this kind of missions has been able to get an impression of the Austrian society's ambivalent attitude. On the one hand side the majority of the Austrian society is proud of the performances of the troops deployed abroad, but on the other hand side, a minority fears that the apparent predominance of CROs abroad can drive back the importance of CROs at home. The latter group in particular feared that the AAF might not have enough soldiers in disposition to help in a suitable manner if natural catastrophes and disasters of exceptional magnitude occur.

For the government it is vital to find out how society thinks about CROs. Therefore it is necessary to conduct a public opinion poll about the acceptance. The result can be used as base material for a broad public discussion.

In the official literature it is not easy to find profound information about the benefits of CROs in which the AAF is participating. In the past, some newspapers and weekly magazines wrote about the fact that the AAF is going to take part in special CROs. At present, all these newspapers and magazines are only writing short notices about the temporal extension of a CRO but they give no further details. An attentive and interested reader gets no in-depth information about the benefits of such missions for Austria.

One important source of information concerning AFF operations abroad is the homepage of the *Bundesministerium für Landesverteidigung und Sport* (BMLVS).³ In my opinion, this homepage is professionally arranged but there is a lack of information referring to the real benefits of a CRO for Austria and its population. An extended BMLVS homepage, which includes the benefits for Austria would be the best source of information for the public about the benefits that CROs have. In addition, BMLVS should also take the advantage of the broad circulation of the Sunday editions of daily newspapers, i.e. 'Kronen Zeitung', 'Kurier', 'Die Presse' to transfer information on CROs. With these measures, the government can meet the requirements to inform the public about tax expenditure on operations abroad. All these measures have the potential to increase the overall acceptance of CROs in Austria.

Question 2: What is the benefit for Austria to take part in UN-, EU- and NATO-led CROs?

Nearly 40 years ago, the innovative research on the development of a cost-benefit analysis⁴ led to a practicable model which is able to answer questions about the reasonableness of undertaking public projects. In principle, a cost-benefit analysis is done to determine how well, or how poorly, a planned action will turn out but it is also possible to use this analysis to estimate whether the result of an action is positive or negative.

³ See <<http://www.bundesheer.at/english/index.shtml>>.

⁴ E. J. Mishan, *Cost-Benefit Analysis* (London: Unwin Hyman Ltd, 1971).

In brief, a cost-benefit analysis, quantifies, and adds all the positive factors – the benefits and subtracts all the negatives – the costs. The difference between the two indicates whether the planned action is advisable or, with hindsight, can be justified. The real trick to do a cost-benefit analysis is to make sure that you include all the costs and all the benefits and quantify them properly.

Currently it is not possible to present the results of a far-reaching study about the costs and benefits of CROs supported by the AAF. There exists only one study which analyzes the costs and benefits of one contingent which was deployed to Kosovo within a period of six months.⁵ This study is interesting with respect to the chosen scientific method of calculating the costs and benefits, but it is not possible and it is unrewarding to project the results of the study to all missions of the AAF within the past 40 years. Because of the lack of extensive research, it is not possible to present concrete figures describing the benefits of CROs, and what the direct results of contributing troops where to Austria. Therefore, it needs more laboratory-research and field studies to attain more knowledge about costs and benefits of missions abroad. For the purpose of this article, it is necessary to suggest a practicable approach to conduct this research

Explanatory notes on the term ‘costs’⁶

Costs are the rated consumption of goods and services for the production of output. Cost types of CRO abroad include ‘direct costs’, i.e. personnel costs, preparatory costs, outside service, repair and maintenance costs, operating costs, etc. and also ‘indirect costs’, i.e. costs for the care of veterans, non-governmental costs, effects on the whole economy.

In the special case of the AAF, besides the personnel costs, other important costs are the ones for mission-specific procurement of armament and mission-specific logistics.

⁵ K. Arnold: Der Aulandeinsatz des österreichischen Bundesheeres-Kosten und Nutzen am Beispiel von KFOR 12 (unpublished Study for MoD, 2007).

⁶ International Group of Controlling: Controller-Wörterbuch (Stuttgart: Schäffer-Poeschel, 2001) pp. 124-136.

The AAF are a large organization embedded in the public administration. For this reason the AAF have to observe the rules of budgeting and they have to use the public accounting system. Since the public sector and the AAF have to use a different accounting system than private owned enterprises, the AAF implemented a computer-aided accounting system, i.e. *Activity-Based-Costs*, especially a suitable cost accounting system which is a practical system for counting costs. This system is a procedure that measures the costs of objects, such as products, services and customs. The cost accounting system in use is accepted by the soldiers and civil employees, and they all receive training to handle its tools.

Explanatory notes on the term 'benefits'⁷

Economics textbooks define benefits as the excess of what consumers would be willing to pay for an item over what they must pay in order to obtain it. Like costs, benefits can also be classified as 'direct benefits', i.e. more security, increased economic growth, etc., or 'indirect benefits', i.e. the decline of crime control costs, rising real estate prices, etc... In contrast to costs, there exists no accounting system to calculate benefits. Therefore it is necessary to find a practicable way for calculating all the benefits of missions abroad. In consideration of the calculation of benefits we have two types of benefits, calculable benefits, i.e. the recovery of the economy, fewer refugees, assured supply of raw materials and non-calculable benefits, i.e. more influence within the bodies of international organizations.

Relating to the calculation of benefits arising from CROs there is more than just one weak point. One is the lack of statistical data on the area of operations. It is an incontrovertible fact that countries in bad economic conditions have incomplete statistics and accounting systems. Scientists are not able to build on such incomplete statistical data. Another weak point is the calculation of the impacts of Austrian business activity in the area of operations. Normally business activities create a multiplier-effect. The multiplier-effect is an economic effect: An increase in spending produces an increase in national income and consumption higher than the initial amount spent (see also chapter C.2. from Gauster and Maruszczak in this publication). For example, if a corporation builds

⁷ J. E. Stiglitz: Economics of the public sector (New York: W.W.Norton, 1986), pp. 217-236.

a factory in the operating area, it will employ construction workers and their suppliers as well as those who work in the factory. Indirectly, the new factory will stimulate employment in laundries, restaurants, and service industries in the factory's vicinity. In order to get convincing results, it would be necessary to question all the firms from the sending state and in the operating area which were involved in the process. The reader will be able to imagine the effort which is necessary to collect all the relevant data concerning all firms involved in a business process. You need more than 1,000 working hours to collect them.

Question 3: How many Austrian companies have made business because of the presence of the AAF in the area of operations?

Historians often use the phrase 'Trade follows the Flag' when business flourishes in the shadow of a CRO. Implicitly, this phrase demonstrates the importance of armed forces for securing livelihoods and a public administration in good order as a basis for prosperous economic activity. The example of the U.S.-led *Operation Iraqi Freedom* shows the need for a close cooperation between armed forces and firms when a military operation is undertaken. I don't want to analyze the importance of the presence of the U.S. Forces in Iraq for U.S. firms and their business activities, but it is evident that in the shadow of the U.S. Forces many U.S. firms are doing good business – in all phases of the intervention. The explanation is easy: because of the lack of military personnel, especially in logistics, the U.S. Forces contracted private firms to deliver goods and services for combat activities.

After the sensitive phase characterized by skirmishes, armed forces, civilian firms and non-governmental organizations have worked closely together in the reconstruction-process. The cooperation between armed forces and all the civilian organizations is called *Civil-Military Cooperation* (CIMIC). One important task of CIMIC is the handling of humanitarian aid in the area of operations. Another task should be the cooperation of armed forces and civil enterprises. Since the U.S. military administration in Iraq de facto controls the civil authorities of Iraq, it exerts an enormous amount of influence on nearly all parts of the daily life, also controlling the economy. It is obvious that the U.S. military

administration and the local administration of Iraq prefer business activities with U.S. firms.

Austria is small but productive in terms of foreign trade, and plays an important role in Central Europe. The most important markets for Austria are situated in the neighbouring states, especially in Germany, Italy and Switzerland. Within the last decade Russia, Eastern Europe and the Balkan region became more important. Non-European markets do not play a significant role for the Austrian economy. The Middle East and North-Africa have an important function as suppliers since Austria is an importer of raw materials and fossil energy sources. For that reason, secure and stable economic conditions in these regions are vital for Austria. Therefore Austria and the EU have a legitimate interest in stabilizing those regions in the case of inner turmoil. For this reason, CROs involving EU member states are always operations undertaken to restore frictionless foreign trade.

For centuries the Balkan Peninsula has been important for Austria. After the Second World War Yugoslavia became an important business partner and many Austrian banks and firms established offices there. After the breakdown of Yugoslavia in the early 1990s, business of Austrian firms rapidly declined. In the middle of the 1990s, the firms restarted their businesses in most of the successor states of the former Yugoslavia, especially in Slovenia, Croatia and Macedonia. In Bosnia-Herzegovina and Kosovo multinational forces take care of ensuring stable and secure conditions.

In my opinion, it is important for all foreign firms that multinational forces provide a secure environment encouraging business activities, but it is not possible to say what the concrete contribution of the AAF in CROs on the Balkan led to the success of Austrian banks and firms in this region. Therefore more research work is needed on the (economic) impact that the AAF missions have in the area.

There is a lack of cooperation between the AAF and the most important representations of interest of the Austrian economy, i.e. the Chamber of Commerce and the Federation of Austrian Industry. Therefore it is

necessary to prepare a strategy to overcome the situation. An entity is needed which is able to coordinate the economic activities of enterprises in the area of operations. This strategy should be part of the entire national (economic) strategy.

There is no satisfying answer to the third question if the business activities of private firms of the deployed forces are not considered. The AAF in CROs needs external suppliers to fulfill their duty. The AAF therefore makes contracts with a reliable native supplier in the area of operations or the supply goods are delivered by forwarding Austrian companies. Because of the relatively small number of Austrian troops during operations, only few firms are engaged in business with them.

Question 4: Is the success of CRO abroad the reason for higher defence budgets?

In order to discuss the fourth question it is necessary to analyze the trend of the Austrian defence budget within the last decades. To show this trend, we use the Gross Domestic Product (GDP) and Austrian Defence Budget (ADB) ratio. In 1980, the ADB accounted for 1.24 percent of the GDP; 1.05 percent in 1990, 0.8 percent in 2000 and 0.74 percent of the GDP in 2005. The maximum of 1.38 percent of the GDP was obtained in 1985. It is worth noting that Austria had deployed fewer troops in the 1980s than in the 1990s. The statistical data show a steady decline of the ADB in terms of the GDP-ADB ratio.

As mentioned above, CROs have become more and more important after 1990. In contrast to the growing importance of CROs, the ADB has declined steadily in terms of the GDP-ADB ratio for more than 20 years. This fact supports the conclusion that to date, CROs involving the AAF have not had an impact on a rise of the ADB as a result of engagement.

3. What went wrong and what has to be done next?

The logical consequence of the previous discussion is what has gone wrong with the AAF and CROs and what must be done next in order to improve the current situation.

First of all I want to give a simple answer to the question “What went wrong?” During the past few decades the AAF took part in various CROs. Austria is a small country with a small army. In times of peace, the Army comprises professional soldiers, further employees and conscripts. After having reached its final, overhauled structure in 2010, the personnel is expected to be comprised of 45,000 persons (Armed Forces Command together with Mission Support Command: 21,000 officials plus 24,000 militia soldiers). In addition to these, BMLVS employees, further offices, academies and schools contribute to a total troop strength of 55,000. In peacetime, the AAF consists of no more than 16,000 professional soldiers. Currently, more than 1,300 Austrian Soldiers are deployed in nearly 15 missions abroad.

Compared with Austria, larger countries with larger forces are able to send more troops to CROs. For example, in 2008 the more than 14,700-strong NATO Kosovo Force (KFOR) consisted of nearly 2,000 French soldiers, more than 2,200 German soldiers, nearly 2,200 Italian soldiers, approx. 1,500 U.S. soldiers, and of soldiers of 28 other nationalities. These 28 countries deployed contingents consisting of forces with no more than 650 soldiers each. The U.S. contributes more than 50,000 soldiers to the International Security Assistance Force (ISAF) in Afghanistan, Germany more than 4,500 and the United Kingdom more than 8,800 soldiers.⁸ The figures of KFOR and ISAF show that in comparison to larger countries, the contribution of Austria is minimal. Therefore, the exertion of influence by the AAF in an area of operations is minimal, compared to the possibilities of larger countries.

The bitter lesson of experience shows us that only a country with a large contingent, i.e. more than 1,000 soldiers in an area of operations, has the

⁸ For more details, see <www.nato.int/KFOR> and <www.nato.int/ISAF/>.

capacity to control the whole area or at least large parts of it. That is why such a lead nation wields its influence on the local government and the local economy. For this reason, a lead nation can enforce its economic interests more easily. It is evident that Austria is not able to send more than 1,000 soldiers to a sole CRO. For Austrian enterprises it is therefore only possible to find niche-products which are demanded in the areas of operations and which these enterprises can sell with great success.

One stumbling block for the capability to deploy more soldiers is the lack of an existing obligation for all soldiers. Because most of the soldiers deploy on a voluntary basis and not on the basis of a binding agreement, it is necessary to initiate a legally binding obligation for the deployment of professional soldiers abroad. This measure gives the chance to send more troops to CROs in the future. Higher troop contribution can lead to higher influence in an area of operations and in the end to more and better business activities of Austrian firms in an area of operations.

A procedure needs to be suggested as to what should be done next. First of all, we shall foster the development of a model on the basis of a cost-benefit analysis which guarantees convincing results. This model is particularly suitable to answer the questions relating costs and benefits of missions abroad.

As an accompanying measure Austria must take advantage of CIMIC, especially in cooperation with the Chamber of Commerce and the Federation of Austrian Industry. The result can be a widely accepted mission abroad, which results in higher benefits than costs, and this should motivate politicians to increase defence expenditure.

4. Concluding remarks

As discussed above, four aspects concerning economic impacts in troop contributing countries are important:

(1) Strengthening the society's acceptance of CROs abroad

An important factor for the deployment of troops to CRO is the acceptance by the society. In order to justify budget expenditures for CROs the government has to explain the benefits for the society. The government meets the requirement of informing the public about CRO abroad using the internet, i.e. the BMLVS homepage, weekly magazines and daily newspapers, i.e. in the form of loose inserts.

(2) Development of a model on the basis of a cost-benefit analysis which guarantees convincing results

50 years ago the innovative research work on cost-benefit analysis led to a practicable model which can answer questions on the reasonableness of undertaking public projects. CROs are such a public project. The result of a cost-benefit analysis should show whether a CRO has positive or negative effects on the troop contributing nations. The results can also be used as a reliable basis for informing the public.

(3) Development of a national economic strategy and intensification of cooperation between BMLVS and representations of the Austrian economy

A national (economic) strategy is vital for the development and further growth of the national economy. Therefore, a national (economic) strategy must include statements about the most important factors for the competitiveness of the Austrian economy, in the dominant markets for Austrian goods and services. If turmoil happens in regions of interest, where Austrian firms are present, it is vital to take part in such a CRO with Austrian forces in an appropriate strength to defend the Austrian

economic interests. In such a case the AAF and the main bodies of the Austrian economy have to work closely together.

(4) Obligation of a participation in CRO abroad for all soldiers and concentration of troops in very few areas of operation

As mentioned above, large countries with large contingents, i.e. more than 1,000 soldiers in the mission, are able to enforce their national goals in the area, i.e. to do good business. Currently more than 1,300 soldiers of the AAF are deployed in nearly 15 CROs abroad, but no more than 600 soldiers in one mission. Most of the soldiers of the AAF are dispatched to CROs on a voluntary basis and not on the basis of a binding agreement. To tap the full potential of the AAF, it would be necessary to initiate a law that creates an obligation for professional soldiers to a deployment abroad. This measure may give the chance to send more troops abroad in the future. A higher troop contribution can lead to higher influence in an area of operations and may result in more and better business activities of Austrian firms in the respective area of operations.