

## THE INTERNAL DIMENSION: ECONOMIC IMPACTS IN TROOP CONTRIBUTING COUNTRIES — THE EXAMPLE OF AUSTRIA

**The Austrian Armed Forces and the Crises Response Operations abroad Crises Response Operations (CRO) abroad of the Austrian Armed Forces (AAF) have a long tradition. During the period of the Cold War, CRO abroad were a secondary task. After the fall of the Iron Curtain 1991 and after the end the Cold War in Europe, CRO abroad became more and more important for AAF. In its final paper the Reform Commission BH2010 recommended that CRO abroad should be given the same importance as CRO in Austria itself.**

The first CRO abroad of the AAF was the contribution of troops to the Congo mission of United Nations (UN) in 1960. Since that time the AAF has been engaged in various peace-keeping missions with a participation of more than 70,000 Austrian troops in numerous missions all over the world, i.e. on Cyprus (1964-2001), at the Golan Heights (1974 until now), in Kosovo (1999 until now), Bosnia-Herzegovina (1996 until now), in Chad (2008 until now) and in many observer missions, i.e. the observer mission of the Organization for Security and Co-operation in Europe (OSCE) in Georgia, Misión 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. Currently more than 1,300 Soldiers are deployed in nearly 15 missions abroad. Most of the 1,300 soldiers are deployed in Kosovo (630), at the Golan Heights (370), in Chad (160) and in Bosnia-Herzegovina (103)<sup>1</sup>.

Forces for CRO abroad consist of professional soldiers and militia. This fact shows the importance of militia for the AAF. Therefore Militia was, is, and, will be a cornerstone for the composition of the AAF for CRO abroad and CRO in-country too. Furthermore, in the agreement of the new government the coalition-partners declare that militia will be an essential part of the AAF. In principle, soldiers take part in CRO abroad voluntarily except they are part of the Forces for International Operations or they are army doctors or air force pilots with a special contract which obligate these persons to take part in such missions. In respect to its population, Austria is a model student with regard to troop contributing for CRO abroad. Comparable countries like Sweden (1,000 soldiers in CRO abroad), Hungary (1,000 soldiers in CRO abroad) have fewer soldiers in CRO abroad than Austria<sup>2</sup>.

In the scientific literature it is incontestable that the direct effects of CRO abroad have great benefits to an operational area, i.e. these effects enable a viable peace of social integration, reconciliation and economic prosperity. Following the topic, economic impacts of CRO abroad of AAF to Austria itself are discussed in this paper. Before starting the discussion, I want to discuss the connection between CRO abroad of AAF for the status and relative importance of Austria within the community of states in the following paragraph.

CRO abroad of AAF are an important factor for the status and relative importance of Austria within the community of states. 2008 Austria was elected as a non-permanent member of the security council of UN for the period 2009/2010. Because of this fact, politicians made a statement that Austria won the election because of the engagement in CRO abroad. They added that the participation in CRO abroad is responsible that Austria is the host of many international organizations, i.e. Austria hosts special bodies and sub-organizations of UN and the OSCE. With the status of a non-permanent member of the security-council it is worth to note that Austria pays the membership fee punctually and in the full

<sup>1</sup> See <http://www.bmlv.gv.at/ausle/index.shtml>, downloaded: 14 January 2010

<sup>2</sup> See [International Institute for Strategic Studies Military](#): The Military Balance 2009, downloaded: 14 January 2010



amount. In my opinion this fact also plays an important role of the election of Austria because within the community of states in political reality the phrase “Who pays the piper, calls the tune” is the normative power of the factual. As a basis for the further academic discussion, I raise four provocative questions concerning CRO abroad of the AAF first and in the following parts I try to answer the questions and contribute ideas for designing a model which is particularly suited to give answers to the questions.

#### PROVOCATIVE QUESTIONS RELATED TO CRO ABROAD OF THE AUSTRIAN ARMED FORCES

Within the last decade many fundamental question were discussed about the purpose of CRO abroad. Thereby the discussion was focused on the benefits of CRO abroad for the operational area. In contrast the benefits of CRO abroad to a sending state were not extensively discussed in the necessary scientific depth until now. For the purpose of this abstract it is necessary to raise the following four questions related to missions abroad of the AAF:

1. What actions can be taken by the government to increase public acceptance of CRO abroad?
2. What was the benefit — valued in money — for Austria to take part in CRO abroad of the UN and EU?
3. How many Austrian companies made business because of the presence of the AAF in the operational area?
4. Is the success of CRO abroad responsible for higher defence budgets?

#### QUESTION 1: WHAT ACTIONS CAN BE TAKEN BY THE GOVERNMENT TO INCREASE PUBLIC ACCEPTANCE OF CRO ABROAD?

An important factor for the deployment of troops to CRO abroad is the acceptance of such missions by the society. In terms of the economic science, CRO abroad are a part of the production process of the public-sector undertaking “military forces”. To finance this process, the AAF gets the money from the taxpayer. Because the society became more and more sensitised in regard what happened with their paid taxes and what is the concrete benefit of military forces for the society the government has to prepare answers about the costs and benefits of such missions abroad and what is the benefit, valued in units of money, for the whole society and to a single taxpayer. Moreover, due to the law the society has the right to know what happened with their paid taxes. In the special case of Austria it is important to mention that the Austrian Federal Constitutional Law Art. 51a and the Budget law § 2. determine that payments of the government need to meet the principles of thrift, economic efficiency and expediency. To justify possible extraordinary high budget expenditures for CRO abroad resulting from a troop contributing to international missions the government has to explain the benefits for the society.

An attentive observer of the discussion in the Austrian media about the necessity of CRO abroad and of the attitude of the society to this kind of missions gets an impression of an ambivalent attitude of the society. On the one hand side the majority of the Austrian society is proud of the performances of the troops deployed to CRO abroad but on the other hand a minority feared that the apparent predominance of CRO abroad can drive back the importance of CRO in-country. Especially this group feared that in the case of natural catastrophes and disasters of exceptional magnitude the AAF wouldn't have enough soldiers in disposition to help in a suitable manner.

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

In the official literature it is not easy to find some profound information about the benefits of CRO abroad of AAF. In the past, some newspapers and weekly magazines wrote about the fact that AAF will take part in special CRO abroad. At the present all these newspapers and magazines only write short notices about the temporal extension of a CRO abroad of AAF but all the information don't go into further detail. An attentive and interested reader gets no deepening information about the benefits of such missions for Austria. The most important source of information concerning CRO abroad is

the homepage of the Ministry of Defence (MoD) of Austria. For my opinion, the homepage of MoD is professionally arranged and it is the best place as a source of information of the government to position all information about the benefits of CRO abroad for the interested man in the street. In addition MoD should also take the advantage of the broad circulation of the Sunday edition of large newspapers to transport the information related to CRO abroad in the form of loose inserts. With these measures the government best possible meets the requirements to inform the public about CRO abroad. All these measures are able to raise the society's acceptance of CRO abroad.

**QUESTIONS 2: WHAT WAS THE BENEFIT — VALUED IN MONEY — FOR AUSTRIA TO TAKE PART IN CRO ABROAD OF THE UN AND EU?**

Nearly 50 years ago the innovative research work about the development of a cost-benefit-analysis 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. It is also possible to use a cost-benefit-analysis to estimate if the result of an action is positive or negative.

It would go beyond the scope of the abstract to discuss the cost-benefit-analysis in details. In brief this methodology finds, quantifies, and adds all the positive factors, the benefits. Then it identifies, quantifies, and subtracts all the negatives, the costs. The difference between the two indicates whether the planned action is advisable or has been justified from the hindsight. The real trick to doing a cost-benefit-analysis well is making sure you include all the costs and all the benefits and properly quantify them.

Currently it is not possible to present the results of a far-reaching study about the costs and benefits of CRO abroad of the AAF. There exists only one study which analyzes the costs and benefits of only one contingent which was deployed to the Kosovo within a period of six months. The study is interesting in respect of the chosen scientific method to calculate 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 last 40 years. Because of the lack of extensive research work about the topic it is not possible to present concrete figures which describe the benefits of CRO abroad which were the direct result of troop contributing of AAF in such missions. Therefore it needs more laboratory-research work and field studies to attain more knowledge about costs and benefits of CRO abroad especially for a sending state. For the purpose of this abstract I want to show a practicable approach to a solution for further research work in the following parts.

#### *Special explanatory notes about “costs”*

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

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

The AAF is a large organization embedded in the organization of the public administration. Armed Forces therefore had to observe the rules of budgeting and they have to use the public accounting system. Because the public sector and the AAF have to use a different accounting system as private owned enterprises, 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 used cost accounting system is accepted by the soldiers and civil employees and, they all get a training to handle the tools of the cost accounting system.

#### *Special explanatory notes about “benefits”*



Textbooks of economics define benefits as the excess of what consumers would be willing to pay for an item of a unit over what they must pay to obtain it. Like costs, benefit can also be classified as “direct benefits”, i.e. more security, rise of economic growth, etc. or “indirect benefits”, i.e. decline of costs of crime control, rise of prices of real estate, etc. In contrast to costs in the case of benefits there isn't any accounting system to calculate them. 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: first are the calculable benefits, i.e. recovery of the economy, fewer refugees, assured feed-stock supplies and the so called non-calculable benefits, i.e. greater influence within bodies of international organizations.

Relating to the calculation of benefits of CRO abroad there are existing more than one weak point. One of these weak points is the lack of statistical data of the operational area. 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 statistical data. Another weak point is the calculation of the impacts of business activity of Austrian enterprises in the operational area. Normally business activities create a multiplier-effect. The multiplier-effect is an effect in economics in which an increase in spending produces an increase in national income and consumption greater than the initial amount spent. For example, if a corporation builds 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. To get convincing results it is necessary to question all the firms in the sending state and in the operating area which were involved in the business process. The reader can imagine what effort necessary is to collect all data of all in a business process involved firms. You need more than 1,000 man hours to collect the data.

**QUESTION 3: HOW MANY AUSTRIAN COMPANIES MADE BUSINESS BECAUSE OF THE PRESENCE OF THE AAF IN THE OPERATIONAL AREA?**

Historians often use the phrase “Trade follows the Flag” when business flourishes in the shadow of an operation of armed forces in a foreign country. Implicitly, the phrase demonstrates the importance of armed forces for secure living condition and a public administration in good order as a basis for prosperous economic activity. The example of the US-operation in Iraq shows us the importance of a close co-operation between armed forces and firms in the case of an operation. I don't want to analyze the importance of the presence of the US-forces in Iraq to US-American firms and their business-activities but it is evident that in the shadow of US-armed forces many US-American Firms made good business and it is said they will make good business in the future. It is necessary to mention that US-firms made good business in the hot phase of the war and also in times after the successfully ending of the first phase military operation. An explanation of this fact is easy. Because of the lack of military personnel, especially for logistics-activities, the American forces contracted private firms to deliver goods and services for combat activities. After the sensitive phase of fighting activities, in the following reconstruction process the armed forces, civilian firms and non-governmental organizations are working close together. The co-operation 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 operational area another task should be the co-operation of armed forces and civil enterprises in the field of business activity in the operational area. Because US-military administration in Iraq de facto controls the civil authorities, it exerts a great influence on nearly all parts of the daily life. In this way it controls the economy also. It is obvious, that the US-military administration and the local administration of Iraq prefer business activities with US-firms.

Austria is a small European country with a small but a productive national economy in terms of foreign trade and it plays an important role in Centre and Middle Europe. The most important markets for Austrian goods and services are situated in the neighbouring states, especially Germany, Italy and Swiss. Within the last decade more and more important be-



came Russia, Eastern Europe and the Balkan region. Non-European markets don't play an important role for the Austrian economy. As an importer of raw materials and fossil energy sources the Near and Middle East and North-Africa have an important function as suppliers. For that reason, secure and stable economic conditions in these regions are vital for Austria. Therefore Austria and the EU have a legitimate interest to stabilize regions in the case of inner turmoil. Therefore CRO abroad are always operating to restore the requirement for a frictionless foreign trade.

Historically, for centuries the Balkan Peninsula has been important for Austria. After the Second World War the former Yugoslavia became an important business partner and many Austrian banks and firms established business offices in that region. After the breakdown of the Yugoslavia in the early 1990's the business of Austrian firms rapidly declined. In the middle of the 1990 the firms restarted their business in most of the successor states of the former Yugoslavia, especially in Slovenia, Croatia and Macedonia. In Bosnia-Herzegovina and Kosovo multinational forces are taking care of stable living conditions. In my opinion it is important for all foreign firms that multinational forces provide a secure environment for business activities. Despite this, it is not possible to say, what is the concrete contribution of the AAF CRO regarding to the success of Austrian banks and firms in the Balkan region. Therefore it needs more research work.

Concerning AAF, in the case of CRO abroad there is a lack of co-operation between AAF and the most important members of the Austrian economy, i.e. the Chamber of Commerce and the Federation of Austrian Industry. To correct the lack of the co-operation between AAF and Austrian firms in operational area it is necessary to prepare a strategy for a co-operation between armed forces and the most important bodies which are able to co-ordinate the economic activities of enterprises abroad. This strategy should be a part of the entire national economic strategy.

An answer to the third question is not complete if there is not included the business activities of private firms for the deployed forces. AAF in CRO abroad needs external suppliers to fulfil their duty. AAF therefore makes contracts with reliable native suppliers of the operational area or the supply goods were delivered by forwarding companies of Austria. Because of the relatively smallness of Austrian troops in CRO abroad only few firms make business with AAF in CRO abroad.

#### QUESTION 4: IS THE SUCCESS OF CRO ABROAD RESPONSIBLE FOR HIGHER DEFENCE BUDGETS?

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)-Austrian Defence Budget (ADB) ratio. 1980 the ADB account for 1,24 percent of GDP, 1990 of 1,05 percent of GDP, 2000 of 0,8 percent of GDP and 2005 of 0,74 percent of GDP. The maximum of 1,38 percent of GDP was obtained in 1985. The statistical data show us a steadily decline of ADB in terms of the GDB-ADB ratio. As we mentioned above, CRO abroad became more and more important after 1990. In contrast to the growing importance of CRO abroad the ADB have been declined steadily in terms of the GDP-ADB ratio for more than 20 years. This fact supports the conclusion that CRO abroad of AAF don't have an influence on a raise of ADB up to now.

#### *What went wrong and what must be done next?*

The logical consequences of the previous discussion are questions about what went wrong with CRO abroad of AAF up until now and what must be done next to improve the current situation.

First of all I want to give a simple answer concerning the question "what went wrong". During the last decades AAF took part in various CRO abroad. 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, personnel is expected to comprise of 45 000 persons (Armed Forces Command together with Mission Support Command: 21 000 officials + 24 000 militia soldiers = 45 000 persons). In addition to these, employees of Ministry of Defence, of further of-



fices, academies and schools contribute to total troop strength of 55 000<sup>3</sup>. In peacetime, AAF consists of not more than 16 000 professional soldiers. Currently more than 1 200 Austrian Soldiers are deployed in nearly 15 missions abroad. Compared with Austria, larger countries with larger forces are able to send more troops to CRO abroad. For example, the 14 759 strong NATO Kosovo Force (KFOR)<sup>4</sup> consists of nearly 2 000 French soldiers, 2 250 German Soldiers, 2 160 Italian Soldiers, 1 490 US-American soldiers and of soldiers of 28 other countries. These 28 countries deployed contingents consisting of forces with not more than 650 soldiers each. In the case of the 51 350 strong International Security Assistance Force (ISAF)<sup>5</sup> in Afghanistan, the USA takes part with nearly 20 000 Soldiers, Germany with 3 600 Soldiers and the United Kingdom with 8 745 Soldiers. The figures of KFOR and ISAF show us that in comparison to larger countries the contribution of Austria to CRO abroad is only minimal. Therefore in the case of CRO abroad of AAF, the exertion of influence in an operation area is minimal compared to the possibilities of larger countries with larger contingents in operation areas. The bitter lesson of experience shows us that only a country with a large contingent, i.e. more than 1 000 soldiers in an operation area, has the possibility to control the whole area or large parts of the operating area. Therefore such a lead nation wields its influence on the local government and the local economy. For this reason a leading nation can better enforce its economic interests. In the case of Austria it is evident that it is not able to send more than 1 000 soldiers in a sole CRO abroad. For Austrian enterprises therefore it is only possible to find niche-products which were demanded in the operational area and which enterprises can sell with great success. Nevertheless it is necessary to tap the full potential for CRO abroad. One stumbling block for the capability to deploy more soldiers to CRO abroad is the lack of an existing obligation for all soldiers. Because most of the soldiers dispatched on a voluntary basis and not on the basis of a binding agreement it is necessary to initiate a binding obligation for deployment abroad of professional soldiers by law. This measure gives the chance to send more troops to CRO abroad in the future. A higher troop contribution can lead to higher influence in an operation area and in the final end to more and better business activities of Austrian firms in an operation area.

Secondly, we had to suggest a procedure telling what must be done to the next? First of all, we shall foster the development of a model on the basis of a cost-benefit-analysis which guarantees convincing results. Such a model is particularly suitable to answer for most of the question about costs and benefits related to missions abroad. As accompanying measure Austria had to take advantage of all possibilities of CIMIC, especially the co-operation with the Chamber of Commerce and the Federation of Austrian Industry. In the final end, widely accepted missions abroad which result in higher benefits than costs, should motivate politicians to push higher defence expenditure.

#### CONCLUDING REMARKS

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

*(1) Strengthening society's acceptance of CRO abroad:*

An important factor for the deployment of troops to CRO abroad is the acceptance of it by the society. To justify budget expenditures for CRO abroad resulting from a troop contributing to international missions, the government has to explain the benefits for the society. The government best possible meets the requirement to inform the public about CRO abroad using internet, i.e. the homepage of MoD and weekly magazines, daily newspapers, i.e. in the form of loose inserts in the Sunday edition.

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

<sup>3</sup> See <http://www.bmlv.gv.at>, downloaded: 14 January 2010

<sup>4</sup> <http://www.nato.int/KFOR/>, downloaded: 14 January 2010

<sup>5</sup> <http://www.isaf.nato.int/>, downloaded: 14 January 2010

Nearly 50 Years ago the innovative research work about the cost-benefit-analysis led to a practicable model which is able to answer questions about the reasonableness of undertaking public projects. CRO abroad can be seen as such a public project. The result of a cost-benefit –analysis should show us whether a CRO abroad has positive or negative effects on the sending state. The results can also be used as a secure basic for the public information.

*(3) Development of a national economic strategy and intensification of co-operation between MoD 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, these are dominant markets for Austrian goods and services and the behaviour to secure these markets against turmoil. If some turmoil happens in regions where Austrian firms make good business and the international community decided to dam the turmoil with armed forces for Austria it is vital to take part in such a CRO abroad with forces in an appropriate strength to defend its economic interest in the region. In such a case AAF and the main bodies of the Austrian Economy have to work close together.

*(4) Obligation of participation to CRO abroad for all soldiers and Concentration of troops to very few operating areas:*

As shown above, large countries with large contingents, i.e. more than 1,000 soldiers in one CRO abroad are able to enforce their national goals in the operating area, i.e. to make good business in the operating area. Currently more than 1,300 Soldiers of AAF are deployed in nearly 15 CRO abroad, but no more than 600 soldiers in one mission. Most of the soldiers of AAF dispatched to CRO on a voluntary basis and not on the basis of a binding agreement. To tap the full potential of AAF it is necessary to initiate a binding obligation for deployment abroad of professional soldiers by law. This measure gives the chance to send more troops to CRO abroad in the future. A higher troop contribution can lead to higher influence in an operation area and in the final end to more and better business activities of Austrian firms in an operation area.

*Keywords: economic impacts, Austria, Crises Response Operations*

#### BIBLIOGRAPHY

<http://www.bmlv.gv.at/ausle/index.shtml>, downloaded: 14 January 2010

[International Institute for Strategic Studies Military: The Military Balance 2009](#), downloaded: 14 January 2010

<http://www.bmlv.gv.at>, downloaded: 14 January 2010

<http://www.nato.int/KFOR/>, downloaded: 14 January 2010

<http://www.isaf.nato.int/>, downloaded: 14 January 2010