

## WHAT DO CRISIS AND THE MILITARY SYSTEM HAVE IN COMMON?

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*The cyclical crises in the 20<sup>th</sup> century, stemming primarily from the economic and financial sector and subsequently spreading into all of the social systems, have also influenced the military subsystem. In such circumstances the military subsystem as a major user of budgetary resources would be under a twofold pressure: the diminishing resources would call for profound or even radical changes of its dimension and quality, while on the other hand the crisis would usually involve an increased security risk, which would in turn involve the increasing demands being imposed on the military system. The Slovenian version of the global economic crisis, which broke out in 2008 as a financial crisis in the USA and Europe, resulted in a radical decrease of budgetary resources intended for the military system, which had been professionalised. One of the first economy interventions of the state involved a reduction of the military budget in the amount of 25 percent. The crisis hinders the stability and especially the development of the military system, and due to their size and lack of flexibility the military systems are not capable to adapt quickly. Nevertheless, in none of the cases can we discern any examples of increased aggressiveness towards the internal public, which demonstrates the traditional loyalty of the army in this space.*

**Key words:** economic crisis, financial crisis, Great Depression, military system, defence spending, Yugoslavia, Slovenia.

### 1 THEORETICAL GROUNDS

To understand the complex interplay between a global financial crisis, national and international responses to it and the overall implication this has for national defence spending we need to first look at the basic terminology and economic theory. There is no precise definition of “financial crisis,” but a

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common view is that disruptions in financial markets rise to the level of a crisis when the flow of credit to households and businesses is constrained and the real economy of goods and services.<sup>2</sup> The origins of the financial crisis that started in mid-2007 lie in the mounting losses in subprime mortgage markets which triggered disturbances throughout the international financial system. The subprime crisis triggered a reassessment of financial risk that encompassed other markets, including leveraged loans, takeover financing, credit derivatives and commercial paper. In this changed atmosphere, many market participants became reluctant to extend credit, either because they could not judge the prospective borrower's financial condition with any confidence, or because they were unsure what the assets in their own capital base would bring, should they be forced to liquidate them to cope with unexpected losses.<sup>3</sup> This in turn had trickledown effect and heavily impacted the national economies over the next years, with effect still being felt, especially in European countries.

The first wave of global financial crisis in the fall of 2008 was somewhat delayed in Europe, but the effects of the second and third waves have created a perfect economic storm that has upended European finance and politics. These conditions have led to growing unemployment and social unrest, the fall of a number of governments, and increasing pressures to reduce discretionary governmental spending, including for defence and foreign assistance.<sup>4</sup> Tight fiscal circumstances over the next five years will require cuts in force levels, capabilities, and readiness, as well as deferred procurements, further eroding overall European military capabilities already suffering from two decades of underinvestment. European governments have undertaken major reduction in their structures, and defence spending has been flat or slightly declining over the past two decades.<sup>5</sup>

Economically burdened nations are now compelled to restructure budgets to cope with the current crisis and reflect new fiscal realities. Most countries have opted for a reassessment and subsequent reduction of their defence budget. Defence strategies have been revised, military doctrines supplemented or changed, hot debates were in European governments and parliaments but the outcome was more or less the same: doing less with less. This paper will look at the theory behind defence cuts, how defence cuts are being implemented in the biggest defence spending nations and will conclude with a deeper look at the defence cuts and defence budget situation in Slovenia.

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<sup>2</sup> Mark Jickling. *CRS Report for Congress; Containing Financial Crisis*, 2008. Available at [http://assets.opencrs.com/rpts/RL34412\\_20081124.pdf](http://assets.opencrs.com/rpts/RL34412_20081124.pdf) (November 2012), 2.

<sup>3</sup> Mark Jickling. *CRS Report for Congress; Containing Financial Crisis*, 2008. Available at [http://assets.opencrs.com/rpts/RL34412\\_20081124.pdf](http://assets.opencrs.com/rpts/RL34412_20081124.pdf) (November 2012), 3.

<sup>4</sup> The EU-27 will most probably experience an average annual economic growth rate of 1.5 percent through 2013 with continuing risk of a double-dip recession and weak growth by historical standards through at least 2015. Debt will grow from 80 percent of GDP in 2010 to more than 100 percent of GDP by 2015 without policy changes. On these facts many European countries will face severe macroeconomic imbalances, including large output gaps, high unemployment, wide fiscal deficit, and the need to exit from exceptionally loose monetary policy. Furthermore, demographic trends will result in an increase in the ratio of pensioners to taxpayers what will lead to a sustainability gap. Demands on public resources to support aging populations will decrease GDP growth of the EU-27 from 2.4 percent to 1.7 percent per year through 2020. See Stephen Flanagan et al, *A Diminishing Transatlantic Partnership? The impact of the financial crisis on European defense and foreign assistance capabilities* (Washington D. C.: Center for Strategic & International Studies, 2011), VI.

<sup>5</sup> Total defense spending among 37 European countries examined has fallen from €251 billion to €218 billion between 2001 and 2009. Per-soldier spending in these countries has increased from above €73 thousand to more than €91 thousand during the same period, with relative shift of spending toward equipment and operations and maintenance and away from personnel and infrastructure. See Stephen Flanagan et al, *A Diminishing Transatlantic Partnership? The impact of the financial crisis on European defense and foreign assistance capabilities* (Washington D. C.: Center for Strategic & International Studies, 2011), VIII.

### 1.1 Economic theory

However in economic theory there is less agreement whether cutting defence budgets is economically sound for the countries in the long run. Economic Debate in the US suggests that in the short run, cuts in defence spending are likely to have disruptive effects on the U.S. economy. Productive resources—both labour and capital—must shift out of defence-related industries and into nondefense industries. The adjustment costs that this shift entails are likely to restrain economic growth as the defence cuts are implemented. Therefore if anything in the short term defence cuts are expected to have a negative effect on a countries economy.

Economic theory is less clear, however, about the likely long-run consequences of reduced defence spending. The neoclassical macroeconomic model (a simple version of which is presented by Barro)<sup>6</sup> assumes that all goods and services are produced by the private sector. Rather than hiring labour, accumulating capital, and producing defence services itself, the government simply purchases these services from the private sector. Thus, according to the neoclassical model, the direct effect of a permanent \$1 cut in defence spending acts to decrease the total demand for goods and services in each period by \$1. Of course, so long as the government has access to the same production technologies that are available to the private sector, this prediction of the neoclassical model does not change if instead the government produces the defence services itself.

A permanent \$1 cut in defence spending also reduces the government's need for tax revenue; it implies that taxes can be cut by \$1 in each period. Households, therefore, are wealthier following the cut in defence spending; their permanent income increases by \$1. According to the permanent income hypothesis, this \$1 increase in permanent income induces households to increase their consumption by \$1 in every period, provided that their labour supply does not change. However, the wealth effect of reduced defence spending may also induce households to increase the amount of leisure that they choose to enjoy. If households respond to the increase in wealth by taking more leisure, then the increase in consumption from the wealth effect only amounts to \$  $(1-a)$  per period, where  $a$  is a number between zero and one: That is, the increase in wealth is split between an increase in consumption and an increase in leisure. In general, therefore, the wealth effect of a cut in defence spending acts to increase private consumption, and hence total demand, by \$  $(1-a)$  per period.

Economic theory indicates that these defence cuts are likely to restrain economic growth in the short run as productive resources shift out of defence related activities and into nondefense industries. Economic theory is less clear, however, about the long-run consequences of reduced defence spending. Ireland and Otrok<sup>7</sup> found that models that assume that the Ricardian equivalence theorem holds find that a permanent decrease in defence spending decreases aggregate output in the long run. On the other hand, models that assume that Ricardian equivalence does not apply predict that a permanent decrease in defence spending increases output in the long run, provided that the proceeds from the spending cut are used to reduce the federal debt.

<sup>6</sup> Robert J. Barro, *Macroeconomics* (New York: John Wiley and Sons, 1984).

<sup>7</sup> Peter N. Ireland and Cristopher Otrok, "Forecasting the Effects of Reduced Defense Spending," *FRB Richmond Economic Review*, 78, 6 (1992), 2.

When great budgetary pressure is growing, there is a tendency for the defence debate to be dominated by tribalism that might be manifested in two ways. First, what might be termed as service tribalism or inter-service rivalry, is result of sometimes rather unedifying bargaining process which service has more military competence and therefore should not lose the financial resources.<sup>8</sup> Such approach leads into competitiveness between military services and can have irreparable consequences for military organization as a whole. With other words, this is a death blow to the esprit de corps and the end of cooperation and interoperability as modern and needed military doctrines for meeting new challenges to peace and security in nowadays world.

The second is represented by campaign tribalism, which embraces not only the demand that current operations should be undertaken seriously, with both the right equipment and the requisite level of political support, but also the idea that these campaigns represent the final, defining moment in the history of strategic thought.<sup>9</sup> This understanding of modern armies is indirectly questioning the modern military doctrines and strategies: what is a prime goal of national defence systems and where should they be employed to preserve the security of a state? Were governments successful in presenting the importance and role of European forces in Afghanistan? Are the extreme efforts of European soldiers far from the homeland understood and supported by political and national legitimacy? Because of this more and more European militaries are changing into expeditionary forces, light, deployable and manoeuvrable for the needs of the missions but disregarding the constitutional based obligations of military forces – defence of the homeland. That leads to constantly reduced public support to the defence systems and therefore no understanding for defence expenditures needed for safely conducting the obligations while on the missions.

Therefore no taboos in the process of auditing the military system should be present. Every area of it must be carefully examined and value determined. Otherwise the imposition of efficiency savings across the board would be nonsensical and further cuts might reduce rather than enhance the value and efficiency of the system.

## 1.2 Reducing defence spending

Economically burdened nations of whom many EU members<sup>10</sup> are now compelled to restructure budgets to cope with the current crisis and reflect new fiscal realities. Most countries have opted for a reassessment and subsequent reduction of their defence budgets. Government efforts to stabilize and reinvigorate their national economies raises the question of how these adjustments will affect defence expenditures and the manner in which governments will seek to achieve national and international security goals.<sup>11</sup>

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<sup>8</sup> Paul Cornish and Andrew Dorman, "National Defense in the Age of Austerity," *International Affairs*, 84, 4 (2009), 737–738.

<sup>9</sup> *Ibid.*, 738.

<sup>10</sup> Given the current economic climate, especially in terms of the consolidation and cleaning up of public finances, as well as a particularly unstable international context, European states should nonetheless feel that it is very much in their interests to 'Europeanise' policies in which the benefits of joint spending has no equivalent in terms of what can be done at the national level. See Fabio Liberti (ed.), *Defense spending in Europe: Can we do better without spending more?* (Paris: Notre Europe, 2011), 9.

<sup>11</sup> European countries are today faced with the dilemma of having to shed certain capabilities in order to modernize others. As a result defense catalogues of most European armies look like half-empty bookshelves. This is not just a problem facing small and medium sized countries. Even Britain and France, Europe's strongest military powers, have recognized the fact that no single European state can

When hitting the fact of cutting the defence budget, many questions arise but one is especially hard to answer: shrinking personnel or cutting the equipment costs.<sup>12</sup> Both may have immediate results but they are interlocked and especially in case of personnel would have long lasting consequences.

Most countries, the United States of America as the biggest defence spender included, have opted for budget cuts and scaling down of their defence capabilities. With the US projected defence cuts totalling more than \$450 billion over the next 10 years. Actually, describing it as a cut is a misnomer. The plan actually calls for an *increase* in the national security budget over the next decade – but it would scale back the 18 percent boost previously set for that period. That means Obama's proposed changes will shift such spending less than one percent annually. If approved, the change would be much smaller than the genuine reductions that followed the Korean War (20 percent), the Vietnam War (30 percent) and the Cold War (30 percent).<sup>13</sup> But some cuts will still have some direct and indirect impacts on national economies. Panetta announced on January 12 that around 7,000 U.S. troops in Europe will be removed – around 9 percent of the total there. Other officials have predicted that the permanent overall size of the Army and the Marines will shrink beyond the 5–8 percent cuts the Pentagon had previously planned. According to industry contractors, the Pentagon has signalled that the slowdowns will mostly affect troubled major weapons programs, such as the Air Force's F35 jet fighters and aerial tankers, the Navy's new aircraft carriers, and the Army's development of a new ground combat vehicle. The Air Force's Global Hawk drone program – which has had major cost overruns and poor reliability – is slated for early termination, but most other cancellations will involve smaller programs. Already a number of major defence projects are being cut or are under serious threat in the US including the F-22, new helicopters, next-generation armoured vehicles and high-technology naval vessels.<sup>14</sup>

However this cycle of defence budget reduction seems to be very much driven by the public opinion and less by the actual decrees in the need for defence capabilities as was the case with the defence spending reductions that followed the end of the Cold War. That said some of the defence capabilities that are being cut have been outdated for some time, such as the

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afford to buy, develop and operate every category of armament. See Asle Toje, *The EU, NATO and European Defense – A slow train coming* (Paris: European Institute for Security Studies, 2008), 12–13.

<sup>12</sup> Defense equipment is extraordinarily costly because of various reasons: first is the fact, that initial purchase costs must be considered only as the initial ones where the costs of sustainability through the service life shouldn't be disregarded. Second, the biggest savings are made when entire weapon system is removed from service rather than the traditional salami-slicing of all weapon systems. Third, defense should no longer subsidize industry and be forced to accept unnecessary costs and inefficiencies. See Paul Cornish and Andrew Dorman, "National Defense in the Age of Austerity," *International Affairs*, 84, 4 (2009), 750–752.

<sup>13</sup> As Obama made clear in a brief speech while standing with Panetta on January 5, "the growth in the defense budget will slow, but the fact of the matter is this: It will still grow". See Jeffrey R. Smith, *Will Cutting the Defense Budget Leave America at Risk?* *The Atlantic*, 2012. Available at <http://www.theatlantic.com/national/archive/2012/01/will-cutting-the-defense-budget-leave-america-at-risk/252010/> (November 2012).

<sup>14</sup> Lockheed Martin Corp, the largest U.S. weapons maker, urged Congress to act quickly to avert an additional \$500 billion in defense cuts that would begin in January, warning that uncertainty about the future was dampening investment and hiring across the industry. Lockheed Chief Executive Bob Stevens told the Senate Aerospace Caucus the very threat of the cuts, which would double \$487 billion in cuts already planned for the next decade, was already having a chilling effect on industry. Tom Captain, head of aerospace and defense industry research at Deloitte, said the industry accounted for about 2.2 percent of U.S. gross domestic product and supported more than 3.5 million direct and indirect jobs. Captain said he hoped that educating lawmakers and the public about the consequences of further defense spending cuts would help "cut through the fog" and encourage Congress to take other actions to cut the deficit. See Andrea Shalal, *Lockheed to Congress: Find Cuts Elsewhere*, 2012. Available at <http://www.thefiscaltimes.com/Articles/2012/03/15/Lockheed-Find-Cuts-Elsewhere.aspx#page1> (November 2012).



UK Aircraft Carrier Ark Royal that was decommissioned in March of 2011 following the 2012 Strategic Defence and Security Review. Despite the decrease in some countries the total world military expenditure in 2010 reached \$1,630 billion, representing 2.6 percent of global gross domestic product (GDP) or \$236 for each person. Spending was 1.3 percent higher in real terms than in 2009 and 50 percent higher than in 2001.<sup>15</sup> Other than in times of war or grave national emergency, it has been usual for the British defence budget to be tightly constrained. At the times of financial crisis, however, the downward pressure on defence spending can become very severe. In the 1930s, the pressure led to the adoption of the "infamous 10-year rule" and in the late 1940s, when the post-war economy was in a parlous state and before the Cold War had begun to drive defence spending upwards, defence struggled hard.<sup>16</sup> The Ministry of Defence has to lay off 54,000 staff by 2015, in an effort to reduce expenditure by £4.1 billion. The Ministry of Defence is in the process of cutting 25,000 armed forces personnel and 29,000 civilian staff by 2015. This will represent of a 10–15 percent real cut in the defence budget over the next six years. On top the MoD could be looking at a reduction of around 20–25 percent in total service personnel numbers by 2019.<sup>17</sup> As such these defence cuts are the biggest since the end of the Cold War.<sup>18</sup> But the more or less steady reduction in the size of the armed forces has been felt disproportionately. For all three services, senior officer positions have not been reduced as were junior commissioned and non-commissioned ranks. The outcome is a significant level of grade inflation, with the result that the cost per individual member of the armed forces has increased since the end of the Cold War. This is no doubt exacerbated by the many allowances and entitlements based partly on rank.<sup>19</sup> Based on that new UK Strategic Defence Review call for 8 percent cuts in defence spending over next four years and then levels off, but further cuts after 2014 are likely. This will reduce the UK possibility of unilateral joint military operations but will retain enough conventional military capability to be the lead coalition nation in a small-scale foreign contingency or make significant contribution to a US and/or NATO-led mission.<sup>20</sup> Quite comparable situation is in France. The 2008 French White Paper on defence had already called for sharp reductions in the number of French forces from 270,000 to 225,000 with corresponding budgets cuts over the subsequent six to seven years. The 2011 budget plan calls for a further 3 percent reduction in defence spending through 2013. Paris is committed to being in a position to simultaneously field 30,000 soldiers deployable within 6 months for a period of one year for a major operation, a 5,000-strong reserve on permanent operational alert, and up to 10,000 troops available for territorial defence.<sup>21</sup> Military personal cuts partly caused by reforms are underway in

<sup>15</sup> Sam Perlo-Freeman et al., *SIPRI Yearbook 2011, Armaments, Disarmament and International Security* (Solna: SIPRI, 2011), 157–159.

<sup>16</sup> Paul Cornish and Andrew Dorman, "National Defense in the Age of Austerity," *International Affairs*, 84, 4 (2009), 733.

<sup>17</sup> Malcolm Chalmers, *A Question of Balance? The Deficit and Defence Priorities* (London: Royal United Services Institute, 2010), 10.

<sup>18</sup> The head of the National Audit Office, Amyas Morse, said the MoD needed to adopt a "more targeted approach" to implementing the cuts, adding: "The department has acted decisively, but runs the risk that it will lose skills that it needs, worsening the current skills shortage." See BBC, *Defense spending cuts risk military skills, warns Whitehall watchdog*, 9 February 2012. Available at <http://www.bbc.co.uk/news/uk-politics-16950709> (November 2012)).

<sup>19</sup> The number of brigadier equivalent posts has fallen only by 10 percent despite the size of the armed forces falling by 39 percent. See Paul Cornish and Andrew Dorman, "National Defense in the Age of Austerity," *International Affairs*, 84, 4 (2009), 746–747.

<sup>20</sup> The UK is committed to maintaining a self-supporting brigade-sized force (6,500) capable of being deployed anywhere in the world and sustained indefinitely. See Stephen Flanagan et al., *A Diminishing Transatlantic Partnership? The impact of the financial crisis on European defense and foreign assistance capabilities* (Washington D. C.: Center for Strategic & International Studies, 2011), VIII.

<sup>21</sup> *Ibid.*, VIII.

Germany. A major reform effort to abolish conscription and cut troop levels from 250,000 to 180,000 once appeared to be on track to provide a promising example for other European countries with similar force structures. However, the difficulties of pursuing a comprehensive force overhaul in times of financial distress are becoming more and more apparent. The reforms efforts may be at risk and while they could enhance overall readiness and effectiveness of the Bundeswehr, a number of acquisition cuts will further constrain capabilities for high-end operations. The percentage of German forces that are deployable and sustainable is quite low compared to other NATO countries, but there is some support for increasing the number of rapidly deployable, high-quality forces for expeditionary mission from 7,000 to 10,000 or 15,000.<sup>22</sup>

## 2 CRISIS AND THE MILITARY IN THE KINGDOM OF YUGOSLAVIA 1929–1938

The "Great Depression", following the Wall Street "Black Friday", also engulfed Europe as early as in 1929.<sup>23</sup> Kingdom of Yugoslavia was seriously affected by the crisis a year later and in 1931 the situation has been exacerbated. Imposed restrictive measures are necessary.<sup>24</sup> Simultaneously, since 1931, the Kingdom of Serbs, Croats and Slovenes shared a profound internal instability with the other countries of the European southeast. The parliamentary system and national authorities were weak and unstable due to the dispute between Croat's and Serb's political elites, far exceeding the mere political aspects. The King as the sovereign made a bold and risky move: with a soft coup he took over the control of the parliamentary system, appointed a man he trusted as the Prime Minister, amended the constitution and outlawed the "tribal" national parties.<sup>25</sup> This did not allow the state to avoid the economic crisis. Production dwindled and then the crisis spread to agriculture, which represented the most vital part of the Yugoslav economy.<sup>26</sup>

During this crisis the Army of the Kingdom of Yugoslavia was forced to come to terms with a programme of saving after the recession had resulted in the reduction of budgetary resources in the beginning of the 1930s. When preparing the budget for the year 1933, the Parliament on 20<sup>th</sup> September 1932 passed a law reducing income from all state employees, including officers, reduced earnings by 20 percent.

The new legislation on the structure of the Army was implemented at the same time as the changes in the constitutional and political life. The King as the supreme commander sought to modernise the Army as soon as he had taken over the power. The task was to be carried out by general Milan Nedić, who was prevented from doing so because of the resource shortage and the resistance of the other generals, especially the group led by the guard division commander, general Petar Živković. Only urgent changes in the formation development were made. However, the basic infantry formation

<sup>22</sup> Ibid., IX.

<sup>23</sup> Mark Jickling. *CRS Report for Congress; Containing Financial Crisis*, 2008. Available at [http://assets.opencrs.com/rpts/RL34412\\_20081124.pdf](http://assets.opencrs.com/rpts/RL34412_20081124.pdf) (November 2012).

<sup>24</sup> Neven Borak et al, *Slovenska novejša zgodovina 1848–1992; Od programa Zedinjena Slovenija do mednarodnega priznanja Republike Slovenije: 1848–1992* (Ljubljana: Mladinska knjiga, Inštitut za novejšo zgodovino, 2005), 473–474.

<sup>25</sup> Ibid., 321–327.

<sup>26</sup> Miloš Vučković, *Uticaj svjetske privredne krize 1929–1932 na privredu stare Jugoslavije* (Beograd: SANU, Balkanološki inštitut, 1976), 197–227; Žarko Lazarević, *Kmečki dolgovi na Slovenskem: socialno-ekonomski vidiki zadolženosti slovenskih kmetov 1848–1948* (Ljubljana: Znanstveno in publicistično središče, 1994), 44.

was not modernised. Divisions as the basic military formations still consisted of up to 40,000 troops, and their expected concentration in the event of mobilisation took 30 days. The transformation of the divisions into more mobile units fell through in 1935, also due to the inability to procure a significant number of motor vehicles.<sup>27</sup> Until 1941 these formations were reduced to a size of 27,000 to 28,500 men, while their concentration now took 12 days. Around 50 percent of all servicemen were in the infantry. During peacetime 57 infantry, 10 cavalry, 38 artillery and 7 special regiments were deployed at 16 division areas, and these operated in 5 army areas.

However, the circumstances resulting from the Great Depression were a decisive factor. The Yugoslav state budget was reduced drastically. Consequently the military budget, otherwise amounting to approximately 25 percent of the total budget, was also reduced. The effects of reduced budget were short and longer term. Military procurement – in terms of frequency as well as quality – was also reduced. The purchase of uniforms was reduced and the diet of soldiers was introduced one vegetarian day a week. One of the most evident measures was a significantly smaller number of drafted recruits (by as much as 30 percent) in the years from 1932 to 1934. Even later the military authorities would often send the servicemen for lengthy leaves.<sup>28</sup>

The professional part of the Army, especially the officer corps, did not suffer severely because of the crisis. In 1931 it amounted to around 14,500 people, 6,741 of whom were officers. The mass retirement of more than 40 generals and 80 senior officers in the spring of 1929 was not caused by the crisis. Instead the King wanted to ensure the loyalty of the generals and the officer staff. He saw the Army as a means of supporting his regime, but according to his own assurances he did not want to politicise it or involve it into politics.<sup>29</sup> Professional officers and non-commissioned officers were forbidden from being politically active in any political parties or "tribal organisations". However, this could not prevent them from having contacts with individual political groups, or even from being part of the forbidden and thus illegal Communist Party of Yugoslavia. Examples of radicalisation and even communist ideas appeared among the officers. Between 15 and 17 April 1932 a group of younger officers attempted to overthrow the Maribor garrison, but failed. Ten officers were arrested, one officer committed suicide, and another was sentenced to death and executed. The "Maribor Rebellion" was the "worst form of undermining the military discipline" throughout the state's existence.

In October 1934, still in the middle of the Great Depression, King Alexander was assassinated in Marseilles. After his death the military reforms kept failing one after the other, not only because of the economy but also due to the resistance of the traditionalist decision-makers among the generals. General Petar Živković, who also became the Minister of the Military and Navy from 1934 to 1936, re-established himself once again as a guarantor of the Army's unity as well as its traditionalism.<sup>30</sup> At the same time the state had to be prepared for potential military operations. The question of the defence against Italy was at the forefront. The Kingdom of Yugoslavia only had one

<sup>27</sup> Mile Bjelajac, *Vojska kraljevine SHS/Jugoslavije 1922–1935* (Beograd: INIS, 1994), 83.

<sup>28</sup> Ibid., 81–89. According to the National Health Service data it was 45 percent of recruiters insufficiently developed for military service. See also Neven Borak et al, *Slovenska novejša zgodovina 1848–1992: Od programa Zedinjena Slovenija do mednarodnega priznanja Republike Slovenije: 1848–1992* (Ljubljana: Mladinska knjiga, Inštitut za novejšo zgodovino, 2005), 479.

<sup>29</sup> Mile Bjelajac, *Vojska kraljevine SHS/Jugoslavije 1922–1935* (Beograd: INIS, 1994), 134–147.

<sup>30</sup> Ibid., 171–172 and 181.



superior neighbour, hostile throughout its existence. Exactly during the economic crisis it managed to ensure somewhat less strained relations with Italy, but only for a short period between 1932 and 1934. This military-political situation resulted in the defence doctrine of the Kingdom of Yugoslavia. However, already in the 1920s it had protected itself from other less dangerous opposing states (Hungary, Bulgaria) by entering into a military pact called *Little Entente* (with Czechoslovakia and Romania) and military alliance with Turkey and Greece called the *Pact of Balkan Agreement*.<sup>31</sup> Therefore its doctrine was traditionally based on the offence. The same goes for its military operative plans, which, however, were simultaneously based on the presumed defence against Italy. In 1932, in order to improve the defence from the Kingdom of Italy, it decided to construct fortified defence lines just behind the borders in accordance with the European trends at the time. The first analyses and preparations for the fortification of the so-called "Western Front", a defence line from the Karavanke mountain range to the Kvarner Bay, date back to as early as 1926, but the final decision on the construction was adopted by the Yugoslav Army general headquarters in 1935. The construction of the fortified line was only possible when the state got a loan of 5 billion dinars from France, since regular budgetary resources were insufficient.<sup>32</sup> The military budget for 1935 is to reach the sum of 1,666 billion dinars and 513 million dinars in the extraordinary expenses.<sup>33</sup> Thus the state political interests resulted in focused investment of additional resources and additional state borrowing.

### 3 CRISIS AND THE MILITARY IN THE SOCIALIST YUGOSLAVIA 1979–1991

In the end of the 1970s Yugoslavia found itself in a crisis caused by external aspects (Second Oil Crisis, increasing prices of oil, and more expensive loans) and especially by the internal factors (inefficient system of "agreed economy", ineffective investment in industrial capabilities and social infrastructure). Yugoslavia had engaged in a period of cheap credit in the years 1974–1978 by about \$14 billion in order to achieve faster economic development. The burden of credit return it soon became too heavy. In 1979, the International Monetary fund called on Yugoslavia to implement the program, which will be to ensure financial stability, only under these conditions is intended to support the rescheduling of loans, which at that time, with interest, amounted to about \$20 billion. The initial economic crisis swiftly turned into a social and political crisis,<sup>34</sup> especially because the system crisis coincided with the change of generations in the very rigid state authority structure. The death of the charismatic historical leader Josip Broz Tito also had a detrimental effect on the military structures.<sup>35</sup>

<sup>31</sup> Damijan Guštin and Vladimir Prebilič, "Strategic military (mis)planning in the Kingdom of Yugoslavia 1918–1941," in *Strategic planning for war*, ed. Tomaž Kladnik (Ljubljana: General Staff of Slovenian Army; PDRIU, Military Museum, Defensor, 2008), 38–52.

<sup>32</sup> Zvezdan Marković, *Vojska Kraljevine Jugoslavije in utrjevanje zahodne meje na Slovenskem 1937–1941, Diploma paper* (Ljubljana: Faculty of Arts, 1995), 102–112; Velimir Terzić, *Slom Kraljevine Jugoslavije 1941. Uzroci i posledice poraza* (Beograd, 1983), 151–156. 40 companies and 52 battalions worked on the fortification. In 1939 this meant 30,000 and in 1940 even 60,000 labourers.

<sup>33</sup> *La Yugoslavie d'aujourd'hui* (Belgrade: Publie par le Section de la presse au Ministere des affaires etrangeres, 1935), 170.

<sup>34</sup> Neven Borak et al, *Slovenska novejša zgodovina 1848–1992; Od programa Zedinjena Slovenija do mednarodnega priznanja Republike Slovenije: 1848–1992* (Ljubljana: Mladinska knjiga, Inštitut za novejšo zgodovino, 2005), 1151–1153.

<sup>35</sup> Neven Borak et al, *Slovenska novejša zgodovina 1848–1992; Od programa Zedinjena Slovenija do mednarodnega priznanja Republike Slovenije: 1848–1992* (Ljubljana: Mladinska knjiga, Inštitut za novejšo zgodovino, 2005), 1148–1150; see also Dušan Bilandžić, *Jugoslavija poslije Tita* (Zagreb: Globus, 1986), 84–90.

For the Yugoslav People's Army the crisis mostly implied a reduction of budgetary resources for the Army, allocated from the federal budget, as well as for the Territorial Defence (another component of the armed forces), also financed from the budgets of the republics and municipalities amounting to 0.5 percent of GDP. Initially the Army attempted to make up for the budgetary resource shortage by seeking internal resources – partly by increasing self-supply (economy, farms, land holdings), and largely by increased sales of weapons and military equipment to the other non-aligned states.

In the late 1970s the military structures acquired relative independence, also reflected in the automatic allocation of a guaranteed percentage of budgetary resources. The weakness of the supreme command contributed significantly to this independence, since the collective presidency succeeding Tito as the supreme commander could not force its authority upon the generals. The important role of the Army was also strengthened by the geopolitical situation of the state – the existence of Yugoslavia outside of both Pacts, reaching the Yugoslav borders, making the defensive readiness of the state very important. However, the 1981 uprising in Kosovo, finally stifled by a Yugoslav People's Army intervention, called for a different orientation of the military structures, forced to also focus on the "internal enemy". The weapons of the Territorial Defence of Kosovo (a section of the armed forces) were confiscated, and Albanian recruits became suspicious in advance.<sup>36</sup>

In 1982 the military leadership started altering the strategic concept of the state's defence. However, the system of the total national defence was preserved. A concept of defending the vital strategic directions – or theatres of operations – was drawn up, and at the operative level the Territorial Defence was subordinated to the Yugoslav People's Army to a greater degree than before. Defence now focused on the western part of the state, against the NATO. The reorganisation of the Yugoslav People's Army into several army areas corresponded to the new deployment. At the same time the number of armed soldiers was reduced. However, since the political elites of the republics opposed this, most resolutely in the Socialist Republic of Slovenia, the reorganisation was only carried out as late as in 1987. The republics especially resisted the reorganisation due to the position of the Territorial Defence, changed with this reform.<sup>37</sup>

Furthermore, the Army had to face the increasingly tense relations within the leading political circles, mostly divided according to their adherence to the republics, to reformists or supporters of the return to classic socialism. Due to these conflicts as well as because of the actions of the League of Communists of Yugoslavia during its internal disputes and the standpoints of the Yugoslav People's Army leadership in the conflicts between the republics, the Yugoslav People's Army, which had previously ensured the state integrity, now gradually became a party in the political clashes. Already in the early 1980s the Yugoslav People's Army opted for an internal intervention should the regime or the state be threatened.<sup>38</sup> First the Yugoslav People's Army leadership had to face the Slovenian political elite, which tried to preserve its own autonomy and the republic's state-political

<sup>36</sup> Viktor Meier, *Zakaj je razpadla Jugoslavija* (Ljubljana: Sophia, 1996), 20–24; Branko Mamula, *Slučaj Jugoslavija* (Podgorica: CID, 2000), 11–53.

<sup>37</sup> Branko Mamula, *Slučaj Jugoslavija* (Podgorica: CID, 2000), 60–75 and 88–89; Martin Špegelj, *Sjećanja vojnika* (Zagreb: Znanje, 2001), 71–93.

<sup>38</sup> Viktor Meier, *Zakaj je razpadla Jugoslavija* (Ljubljana: Sophia, 1996), 68–69; Branko Mamula, *Slučaj Jugoslavija* (Podgorica: CID, 2000), 51 and 89; Jože Pirjevec, *Jugoslavija: nastanek, razvoj ter razpad Karadjordjevićeve in Titove Jugoslavije* (Koper: Založba Lipa, 1995) 384.

autonomy by reforming the socialist regime. As it was, the dominant centralist approaches to putting an end to the crisis kept pushing Slovenia into a corner. The relations between Slovenia and the Yugoslav People's Army were also strained due to the disputes with regard to the concept of military doctrine reform and the diminishing role of the Territorial Defence. Despite the fact that the majority of the generals did not support the Serbian nationalism, they sought and gradually found an ally in it due to common interests. "The idea of a single centralist Yugoslavia, controlled by the Serbs, also suited the ideas of most generals".<sup>39</sup> Since the Slovenian political leadership tolerated (or even encouraged) the public discussion of these problems, after almost twenty years the military was also criticised publicly. Not used to public discussion, the military saw the criticism as "attacks against the Yugoslav People's Army" and required the prosecution of authors of critical articles.<sup>40</sup>

The military leadership was very touchy in its reactions to any proposals for political solutions outside of the official system. Within its ranks the Yugoslav People's Army adhered to a stricter version of Yugoslav socialism (communism) and doctrine of consistent Yugoslavism through "brotherhood and unity". Its primary purpose until as late as 1990 was to use its authority to preserve the existing political system and federal state. Non-communist political groups were seen and treated as the "internal enemy". However, problems kept increasing with the unsteady progression of the democratisation process, until in the spring of 1991 these political parties finally won the democratic elections in Slovenia and Croatia, thus taking over the power.<sup>41</sup>

Consequently the military structures became directly involved in the political struggle within the League of Communists of Yugoslavia and the disputes between the political leaderships of individual republics with regard to political, economic and social system reforms, and adopted a completely negative attitude towards the nascent democratic alternative. Thus they became either the target or the sought-after ally in the on-going political struggles. Since the spring of 1988,<sup>42</sup> when this attitude was demonstrated publicly, and until the dissolution of the state, the Army changed from an important part of the state system to, above all, a strong and important participant in the political conflicts. At the same time it was susceptible to the economic crisis as it was heavily dependent on the state budget. Some republics, including Slovenia, resorted to the only option they had to oppose the Army as the main budget user: they refused to confirm the federal

<sup>39</sup> Viktor Meier, *Zakaj je razpadla Jugoslavija* (Ljubljana: Sophia, 1996), 96.

<sup>40</sup> Igor Ž. Žagar and Peter Tancig, "Napadi na JLA: kdaj, kje, kako – in če sploh. Prvi del, "Časopis za kritiko znanosti, (1988); Igor Ž. Žagar and Peter Tancig, "ZSMS in napadi na JLA - vsestransko neuspelo srečanje" in *Kompendij za bivše in bodoče politike ali Popotovanje od Krškega do Portoroža*, ed. Ingrid Bakše (Ljubljana: RK ZSMS, 1989), 211–219.

<sup>41</sup> Neven Borak et al, *Slovenska novejša zgodovina 1848–1992; Od programa Zedinjena Slovenija do mednarodnega priznanja Republike Slovenije: 1848–1992* (Ljubljana: Mladinska knjiga, Inštitut za novejšo zgodovino, 2005), 1283–1284.

<sup>42</sup> The open conflict between the leadership of the Yugoslav People's Army and the Slovenian political leadership broke out in March 1988. At the military council session on 25 March the generals accused Slovenia that due to the passivity of its leadership the so-called counter-revolution had been allowed to develop there, which could result in a military intervention. The Slovenian political leadership opposed such accusations sharply and reproached the Army indirectly with tendencies to carry out a military coup. Because the military leadership was unable to secure the support for an actual intervention with the indecisive Yugoslav Party elite, which otherwise opposed the Slovenian reformism, in the spring and the summer of 1988 the security structures of the Yugoslav People's Army tried a non-commissioned officer and three civilians, accusing them of revealing military secrets. The reaction of the nascent Slovenian civil society was forceful, and the protest was supported by around 100,000 people. The rigidity of the military structures offended the national feelings of the general Slovenian population, which resulted in a swift formation of the political opposition and radical standpoints of the Slovenian population, seeking the solutions for the crisis outside Yugoslavia.

budget. After considerable and prolonged efforts of the federal structures even Slovenia agreed to a new way of financing the Army, thereby losing the option of influencing its basic financing directly. The rekindled Albanian unrest in Kosovo in February 1989 called for another intervention by the Yugoslav People's Army. Even more importantly, due to the involvement in this problem the military leadership and the Serbian political authorities led by Slobodan Milošević became increasingly connected. Similarly the Yugoslav People's Army also wanted to intervene when the Republic of Slovenia adopted certain constitutional amendments in 1989.<sup>43</sup>

In the following months the Army had to withdraw somewhat. It was forced to take part in the new government of the reformist Ante Marković, since this was the only way to ensure its continued social and economic positions and privileges, even if somewhat reduced in scope. However, intimately it never came to terms with the political situation in Slovenia and Croatia, where new political parties were at the helm. The problem of depoliticising the Army, undertaken by the new leaders of these two republics, may have been acknowledged by the generals in principle, but even after the actual dissolution of the League of Communists of Yugoslavia in January 1990 they did nothing to solve it.<sup>44</sup> The other goal of both republics – namely, the development of Yugoslavia into a confederation or the formation of independent states – contributed to the situation. The Army leadership refused to take any part in these options or in the possibility to establish the armed forces of both republics. Meanwhile, its threats contributed to Slovenia and Croatia making a priority of developing their own defence forces by combining their security, police and military forces, which was even legal in the context of the total national defence system through a flexible legal interpretation of the defence and security legislation.<sup>45</sup>

The final period from the end of 1990 to the announced attainment of the Slovenian and Croatian independence in June 1991 was marked by the possibility of the generals themselves taking over the power in Yugoslavia, either through a softer or more radical coup, and by the search for political solutions to the state-wide crisis, heading towards an armed internal conflict more and more openly. In January the military leadership attempted to exert pressure against the Slovenian and Croatian leadership by stopping the establishment of their autonomous military formations and demanding the surrender of weapons and dissolution of "paramilitary formations", especially the military units of the Republic of Croatia. In March of 1991, after putting an end to the demonstrations of the Serbian opposition by acting openly and deploying tanks, the generals of the Yugoslav People's Army tried to make the presidency of Yugoslavia declare a state of emergency – a soft version of a coup d'état. But without the support of the State Presidency Army did not intervene. It only intervened after the Slovenian and Croatian independence had been declared in June 25<sup>th</sup> of 1991, and even then in a limited extent and unprofessionally.<sup>46</sup>

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<sup>43</sup> Viktor Meier, *Zakaj je razpadla Jugoslavija* (Ljubljana: Sophia, 1996), 175; Raif Dizdarević, S. Bianchini and Aziz Hadžihasanović, *Od smrti Tita do smrti Jugoslavije: svjedočenja* (Sarajevo: OKO, 1999), 235–274.

<sup>44</sup> Viktor Meier, *Zakaj je razpadla Jugoslavija* (Ljubljana: Sophia, 1996), 157–212; Martin Špegelj, *Sjećanja vojnika* (Zagreb: Znanje, 2001), 97–99 and 110–112.

<sup>45</sup> Janez Janša, *Premiki: nastajanje in obramba slovenske države 1988–1992* (Ljubljana: Mladinska knjiga, 1992), 35–46; Martin Špegelj, *Sjećanja vojnika* (Zagreb: Znanje, 2001), 119–158 and 192–194.

<sup>46</sup> Neven Borak et al, *Slovenska novejša zgodovina 1848–1992; Od programa Zedinjena Slovenija do mednarodnega priznanja Republike Slovenije: 1848–1992* (Ljubljana: Mladinska knjiga, Inštitut za novejšo zgodovino, 2005), 1315–1320.

#### 4 ECONOMIC CRISIS AND IMPLICATIONS FOR THE DEFENCE BUDGET OF SLOVENIA, 2008–2012

The global economic crisis, which started in 2008 as a financial crisis in the USA and in Europe, also manifested itself in the Republic of Slovenia soon thereafter. The onset of the crisis took place in time for the elections and consequently the change of government in the autumn of 2008. In the years preceding the outbreak of the crisis the defence system had drawn up a development-oriented vision of the future of the military sector, characterised by the recent introduction of the professional army in 2004 and the ambitious program of its outfitting.

With a defence budget of only €536 million, Slovenia is one of the minnows in Europe, easily outspent by all of its neighbours. Moreover, the global crisis has forced the Slovenian Ministry of Defence (MNSD) to make drastic cuts to the annual defence spending planned in its 'Mid-Term Defence Plan' (MTDP) for 2007–2012. Although the defence budget increased by an annual average of 9.2 percent over the period 2001–2008, 2009 and 2010 saw successive sharp cuts as the economic downturn deepened. Slovenia has been growing further away from meeting the NATO requirement of spending 2 percent of GDP on defence before 2014, with defence spending coming in at only 1.52 percent of GDP in 2009 and falling to 1.47 percent in 2010, despite falling GDP growth. Frequent spending cuts have mainly hit procurement. In late July 2011, the Slovenian government has proposed a further seven percent cut to the national defence budget under draft plans submitted to the country's parliament. The government had already approved a reduced budget for 2011. If this additional cut is accepted, defence spending will have fallen by €95.5 million or 20 percent compared with 2010, Slovenian Ministry of Defence (MoD) officials told Jane's. This would represent a figure of €412.3 million for 2011. According to the final draft supplementary budget, defence expenditure would represent 1.32 percent of GDP in 2011.<sup>47</sup>

Under the Mid-Term Defence Plan (MTDP), defence expenditures were originally planned to reach 2 percent of GDP in 2009. However, a combination of higher than expected economic growth in 2006 and 2007 and parliamentary cuts to the spending plan means that this target was not reached. Defence spending grew by just 5.36 percent in 2009, significantly lower than the 2001–2008 average of 9.2 percent, and shrank by nearly 20 percent in 2010.<sup>48</sup> Following Slovenia's NATO accession in 2004, Slovenian defence spending has been directed predominantly towards programs related to its transformation away from a conscript-heavy force to a fully professional NATO-compatible service. The key planning document is the MTDP for 2007–2012, which has emphasized force restructuring and improved mobility and sustainability. The most significant trends under the MTDP were: normalization of procurement spending to bring it under the main budget; a stabilizing of personnel costs at around €210 million; and a major increase in operational funds, which were to be more than doubled

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<sup>47</sup> Sentinel Security Assessment – The Balkans. *Defence Budget (Slovenia)*, August 2011. Available at <http://articles.janes.com/articles/Janes-Sentinel-Security-Assessment-The-Balkans/Defence-budget-Slovenia.html> (November 2012).

<sup>48</sup> Sentinel Security Assessment – The Balkans. *Defence Budget (Slovenia)*, August 2011. Available at <http://articles.janes.com/articles/Janes-Sentinel-Security-Assessment-The-Balkans/Defence-budget-Slovenia.html> (November 2012).



from €70 million in 2005 to €180 million by 2010.<sup>49</sup> However, since the MTDP was released, the increase in operational funds appears to have been scrapped, with Major General Alojz Steiner announcing in May 2009 that the army would have to cope with a cut of 19 percent to its operational budget. It seems likely that the number of battalions will be reduced. Efforts are also underway to bring procurement spending under the main budget. Recent ministry activity includes the purchase of new combat vehicles for €438 million; stabilizing personnel costs at around €210 million; and increasing funds for operations from €70 million in 2005 to €180 million by 2010. The mid-term Defence Plan for 2007–2012 initially anticipated defence expenditures reaching 2 percent of Slovenia's GDP by 2009; however, Slovenia will unlikely be able to achieve this mark before 2014. To reach that level of spending, the defence budget would have to be increased by between 8 and 16 percent over that period.<sup>50</sup>

The economic downturn has compelled the Slovenian Defence Ministry to make draconian reductions in defence spending. In March 2009, as the economic crisis worsened Defence Minister Ljubica Jelušič announced that the defence budget would be further cut and would only grow by 5.36 percent compared to 2008. In April 2010, a new national Security Strategy was adopted, but in light of the current financial situation, the implementation of its ambitions seems unlikely. By 2015, Slovenia wants to be able to field up to 750–1,000 troops for one year. Besides downsizing, the main axes of reforms are to achieve an all-professional force and to modernize equipment through increased defence spending with increased investment. Capability priorities are C2, deploy ability, mobility, combat effectiveness, sustainability and survivability. Recent ministry activity includes the purchase of new combat vehicles for €438 million; stabilizing personnel costs at around €210 million; and increasing funds for operations from €70 million in 2005 to €180 million by 2010.<sup>51</sup>

### FIGURE 1: MILITARY EXPENDITURE OF SLOVENIA

#### Convention:

US\$ m. = Million US dollars; . . = Data not available or not applicable, ( ) = Uncertain figure, [ ] = SIPRI estimate.  
th. = thousand; m. = million; b. = billion

Military expenditure figures in local currency is presented according to the financial year of the country in question. Figures in constant US dollars and as a share of GDP are presented by calendar year.

Military expenditure of Slovenia																							
In local currency ( m. euros )																							
Start of financial year: January																							
Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Value	..	..	..	..	[95.5]	[109]	[128]	166	186	194	209	208	207	275	328	360	396	413	485	506	566	571	578
In constant ( 2009 ) US\$ m.																							
Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Value	..	..	..	..	[530]	[455]	[442]	504	517	496	495	466	424	520	577	601	637	650	744	749	793	792	788
As percentage of gross domestic product																							
Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Value	..	..	..	..	[2.2]	[1.8]	[1.7]	1.6	1.6	1.4	1.4	1.2	1.1	1.3	1.4	1.4	1.5	1.4	1.6	1.5	1.5	1.6	

Source: Sam Perlo-Freeman et al, SIPRI Yearbook 2011, Armaments, Disarmament and International Security (Solna: SIPRI, 2011).

<sup>49</sup> Vladimir Prebilič, "Von der Staatsgründung bis zur EU- und NATO-Mitgliedschaft: permanente Reformierung der slowenischen Streitkräfte?", in *Strategische Wende - Technologische Wende: die Transformation der Streitkräfte am Übergang zum 21. Jahrhundert*, eds. Rudolf Jaun and Michael Olsansky (Zürich: Militärakademie and der ETH, 2008), 32.

<sup>50</sup> Sentinel Security Assessment – The Balkans. *Defence Budget (Slovenia)*, August 2011. Available at <http://articles.janes.com/articles/Janes-Sentinel-Security-Assessment-The-Balkans/Defence-budget-Slovenia.html> (November 2012).

<sup>51</sup> Ministry of Defence. *Annual Report for 2010*, Ministry of Defence, 2011. Available at [http://www.mo.gov.si/fileadmin/mo.gov.si/pageuploads/pdf/ministrstvo/LP\\_MO\\_2010.pdf](http://www.mo.gov.si/fileadmin/mo.gov.si/pageuploads/pdf/ministrstvo/LP_MO_2010.pdf) (November 2012), 59-64.

Due to the victory of the right-middle coalition at the early elections of December 2011 the Minister of Defence was also replaced. The first measure undertaken by the new Minister was finding new possibilities for defence budget cuts and internal rationalisation. Consequently in March 2012 the new staff plan of the Ministry of Defence of the Republic of Slovenia came into force, providing for the decrease of the number of employees in the administrative part of the Ministry from 1,378 in 2008 to 1,265 until the end of 2012. To date the number of employees in this sector of the Ministry has been reduced by 60. The reduction of the members of the Slovenian Army has not been envisioned in this plan, meaning that this number will also remain at the level of 7,600 people in the future.<sup>52</sup> The new Minister of Defence mostly sees reserves in the income received by the Ministry employees, since these already represent as much as 63 percent of the budget.<sup>53</sup> Savings in the field of defence will also be urgent in the future. Therefore resources in the amount of only €440 million are foreseen for the year 2012 after the budget revision, representing 1.24 percent of gross domestic product. The real decrease in gross domestic product in the same year by more than one percent should also be taken into account. This seriously affects the Slovenian Army staff's level of fighting morale and motivation already achieved, since the expenses for the equipment (which is a result of the new weapons systems purchased due to the tasks in the context of the Euro-Atlantic Alliance) have increased fourfold, while the salaries have remained the same for several years. Consequently a soldier's average monthly salary amounts to as little as €700 per month and most members of the Slovenian Army see participation in the missions where their salaries increase to €3,300 as a great opportunity.<sup>54</sup> Naturally, however, the participation in the missions cannot and should not be the only motive to seek employment in the Slovenian Army, since according to the Constitution the primary mission of the defence forces is to ensure security and defence of the state, especially in the territory of the Republic of Slovenia.

## 5 CONCLUSION OR WHAT DO DEFENSE AND ECONOMIC CRISIS HAVE IN COMMON?

In fact, there is no official or even widely-accepted criterion for distinguishing between a recession and a depression. In the United States, a recession is officially defined by the National Bureau of Economic Research (a committee comprised largely of academic economists)<sup>55</sup> as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. As such, recession represents a period of general economic decline; typically defined as a decline in GDP for

<sup>52</sup> Ministry of Defence. *With the implementation of the organisational and staff changes of the administrative part the reorganisation of the Ministry of Defence was complete*, Ministry of Defence, March 2012. Available at [http://www.mo.gov.si/nc/si/medijsko\\_sredisce/novica/article/12029/5751/](http://www.mo.gov.si/nc/si/medijsko_sredisce/novica/article/12029/5751/) (November 2012).

<sup>53</sup> J. S. S., Delo.si. *Hojs: the Ministry of Defence of the Republic of Slovenia could save by reducing the salaries*, Delo, March 2012. Available at <http://delo.si/novice/politika/hojs-na-mors-bi-lahko-privarcevali-z-znizanjem-plac.html> (November 2012).

<sup>54</sup> Jana Zupančič. *Vojsko menda še vedno potrebujemo*, Nedelo, 22 April 2012. Available at <http://www.delo.si/novice/varcevalni-ukrepi/vojsko-menda-se-vedno-potrebujemo.html> (November 2012).

<sup>55</sup> The Business Cycle Dating Committee at the National Bureau of Economic Research (NBER) provides a better way to find out if there is a recession is taking place. This committee determines the amount of business activity in the economy by looking at things like employment, industrial production, real income and wholesale-retail sales. They define a recession as the time when business activity has reached its peak and starts to fall until the time when business activity bottoms out. When the business activity starts to rise again it is called an expansionary period. By this definition, the average recession lasts about a year.

two or more consecutive quarters.<sup>56</sup> A recession is typically accompanied by a drop in the stock market, an increase in unemployment, and a decline in the housing market. A recession is generally considered less severe than a depression, and if a recession continues long enough it is often then classified as a depression. There is no one obvious cause of a recession, although overall blame generally falls on the federal leadership, often either the President himself, the head of the Federal Reserve, or the entire administration. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough. Between trough and peak, the economy is in an expansion. Expansion is the normal state of the economy; most recessions are brief and they have been rare in recent decades. The start and end dates are determined by the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER). It is a popular misconception that a recession is indicated simply by two consecutive quarters of declining GDP, which is true for most, but not all recession. NBER uses monthly data to date the start and ending months of recessions.

Before the Great Depression of the 1930s any downturn in economic activity was referred to as a depression. The term recession was developed in this period to differentiate periods like the 1930s from smaller economic declines that occurred in 1910 and 1913. This leads to the simple definition of a depression as a recession that lasts longer and has a larger decline in business activity. Depression therefore represents the lowest point in an economic cycle characterized by (1) reduced purchasing power, (2) mass unemployment, (3) excess of supply over demand, (4) falling prices, or prices rising slower than usual, (5) falling wages, or wages rising slower than usual, and (6) general lack of confidence in the future. Also called a slump, a depression causes a drop in all economic activity. Major depressions may continue for several years, such as the great depression (1930–1940) that had worldwide impact.

So how can we tell the difference between a recession and a depression? A good rule of thumb for determining the difference between a recession and a depression is to look at the changes in GNP. A depression is any economic downturn where real GDP declines by more than 10 percent. A recession is an economic downturn that is less severe.

There is a very old joke which says a recession is when your neighbour loses his job, a depression is when you lose yours. This plays to the widely accepted contemporary belief that a depression is simply a particularly severe recession. By this yardstick, the last depression in the United States was from May 1937 to June 1938, where real GDP declined by 18.2 percent. If we use this method then the Great Depression of the 1930s can be seen as two separate events: an incredibly severe depression lasting from August 1929 to March 1933 where real GDP declined by almost 33 percent, a period of recovery, then another less severe depression of 1937–1938. The United States hasn't had anything even close to a depression in the post-war period. The worst recession in the last 60 years was from November 1973 to March 1975, where real GDP fell by 4.9 percent. Countries such as Finland and

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<sup>56</sup> In the UK recessions are generally defined as 2 successive quarters of negative growth (or 6 months). In time, the other rules of thumb were forgotten. Some economists prefer a definition of a 1.5 percent rise in unemployment within 12 months. This definition is unpopular with most economists for two main reasons. First, this definition does not take into consideration changes in other variables. For example this definition ignores any changes in the unemployment rate or consumer confidence. Second, by using quarterly data this definition makes it difficult to pinpoint when a recession begins or ends. This means that a recession that lasts ten months or less may go undetected.

Indonesia have suffered depressions in recent memory using this definition. Nevertheless, there are two criteria for distinguishing a depression from a recession a depression is either a decline in real GDP of more than 10 percent, or a contraction in real GDP which lasts more than three, or four, years.<sup>57</sup>

But when discussing the recession and/or depression, certain other facts have to be highlighted though. Especially changes in the societies where psychological and confidence aspects are often neglected. For example, if the expectation develops that economic activity will slow; firms may decide to reduce employment levels and save money rather than invest. Such expectations can create a self-reinforcing downward cycle, bringing about or worsening a recession. Consumer confidence is one measure used to evaluate economic sentiment. The term animal spirits has been used to describe the psychological factors underlying economic activity. Economist Robert J. Shiller "...refers also to the sense of trust we have in each other, our sense of fairness in economic dealings, and our sense of the extent of corruption and bad faith. When animal spirits are on ebb, consumers do not want to spend and businesses do not want to make capital expenditures or hire people".<sup>58</sup> The recession and/or depression are tightly connected to the values that might be eroded, challenged and also changed. The deepening social gap may expose these things even more and social cohesion that enables the existence of each and every society is fading away. So, in extreme situation the members of such societies are losing the trust in state and its institutions what decrease the legitimacy of the elected representatives. And it is very appropriate to pose the question: which are the most important pillars of modern state and which embodied the national identity as the backbone of the nation? There are several sectors of the state and defence and within the military in definitely one of them.

In theoretical terms, military identity is closely related to the notion of military tradition and is subordinated to the concept of national identity in terms of its contents. Hence, in order to understand it, the definition of national identity ought to be stressed: "... , which is composed of similarities and differences, is a manner in which individuals or collectivities differ in comparison to other individuals or collectivities".<sup>59</sup> When speaking of national identity, we thus refer to the sum of the factors that determine the array of similarities and differences that is unique, irreplaceable and inalienable. National identity is the core of a nation, its essence and the sense of its existence. Since one can agree with the fact that most of the nations have in their historical development become nation-states and have therefore set up their own and internationally recognized state formations, it makes perfect sense to understand military identity as tied to the national one. A military system represents the rampart of a nation's existence; hence a military identity has a specific relationship with a national identity. National identity is a heightened and materialized essential component of otherwise broader national awareness.<sup>60</sup> The latter is formed during longer historical periods, offers the ability of identification to individuals and social groups and is inseparably interrelated with a territory inhabited by a certain nation. It is exactly the

<sup>57</sup> Saul Eslake. *What is the difference between a recession and a depression?*, 23 November 2008. Available at <http://clubtroppo.com.au/2008/11/23/what-is-the-difference-between-a-recession-and-a-depression/> (November 2012).

<sup>58</sup> Robert J. Shiller. *Animal Spirits Depend on Trust: The proposed stimulus isn't big enough to restore confidence*, 2012. Available at <http://online.wsj.com/article/SB123302080925418107.html> (November 2012).

<sup>59</sup> Mirjana Ule Nastran, *Sodobne identitete v vrtincu diskurzov* (Ljubljana: Sophia, 2000), 3.

<sup>60</sup> Stane Južnič, *Identiteta* (Ljubljana: Fakulteta za družbene vede, 1993), 320.

territorial component that is the easiest to identify with and is an important factor influencing a national identity either indirectly or directly. However, it must be taken into consideration that national identity could only have taken shape no earlier than in the time nations were forming, regardless of its frequent referrals to “glorious past”, which was raised to the status of an element of national consciousness in the form of myths and historical memory.

Many sociologist and politicians reached the fact on economic crisis. It is clear that it represent also the crisis of values and to a certain degree the crisis of national identity. Defence system and military organization are founded on the exact these values that are challenged by the recession and/or depression. Honesty, sacrifice for the state and the nation, valour, bravery, tolerance, comradeship and cooperation are foundation of all military systems around the globe, because one can't survive the challenges in the battlefield without them. Therefore we'll argue, that un-transparent defence cuts may not only irreparably damage the system designed for our safety, but indirectly represent silent consensus when listed values are being attacked. But how can we be victorious in this difficult struggle against the recession and/or depression without existence of these values among the nation?

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