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Costs of NATO expansion grossly underestimated, Cato budget expert says

"Administration's low-ball estimate is less than half the true cost"

“The Clinton administration’s estimate of the costs of NATO expansion is fatally flawed,” and the U.S. share will be at least $7 billion, rather than the $1.5 billion to $2 billion touted by the White House, according to a Policy Analysis published today by the Cato Institute. The study’s author, Ivan Eland, is director of defense policy studies at the Cato Institute. He is one of Washington’s most knowledgeable experts on defense budgets, having spent the past 15 years as an analyst at the Congressional Budget Office and the General Accounting Office.

Eland, who testified on the costs of NATO expansion before the Senate Foreign Relations Committee yesterday, says that White House estimates are absurdly low for several reasons. First, they’re based on unrealistic assumptions. He estimates that the true cost of NATO expansion would be at least double the administration’s highest estimate if one accepts their assumptions, and much higher if the assumptions prove false. Moreover, “the administration’s estimate is not a cost estimate at all, but an ‘affordability’ estimate.”

“Instead of determining a detailed list of requirements for expansion and adding up their costs, Department of Defense analysts simply estimated how much new and current NATO members could afford to spend in each category,” Eland says. “In many cases, that method bore no relation to what would be needed for NATO expansion; furthermore, the analysts often did not even specify how they arrived at their estimates. Although that method created the appearance of precision, the reality was more like ‘garbage in, garbage out.’”

As an example, Eland noted that “DoD analysts simply chose a level of spending for logistics improvements”—approximately $1 billion—that would purchase items such as NATO-compatible fuel nozzles, fuel standards, radios, and computer systems. “Yet when asked how many radios or how many fuel nozzles they assumed would be purchased, DoD analysts replied that they could not specify the number because the estimate was a ‘level of effort.’ They made no effort to find out how many of those and other items new member nations would need or how many their projected level of effort would purchase.” In fact, the Defense Department analysts “could not even specify how they arrived at their estimate.”

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Eland cites a number of faulty assumptions used by the administration, including: that the current benign threat environment will continue for at least a decade; and that no NATO forces will need to be permanently stationed in new member states at any time in the future.

Even if one accepts those and other equally dubious assumptions on which the White House estimate is based, Eland says the true cost of NATO expansion would be about $70 billion. And the U.S. portion of $7 billion could grow even higher “if, as is likely, the new member states were unwilling or unable to pay a more realistic estimate of the expenses that would accrue to them ($34 billion). In that case, the European allies would probably expect the United States to pay more of the new members’ bill because expansion was a U.S. initiative and because European defense spending is under severe constraints induced by the fiscal austerity needed to join the European Monetary Union.”

And if the administration’s assumptions indeed prove false, the cost could go as high as $167 billion in a worst-case scenario involving Russia. And Eland notes that it’s not hard to imagine a lesser, though significant conflict involving one of the new member countries. “Three potential flashpoints exist that could force a new NATO to take action in Europe: Hungary’s tension with the belligerent Serbia over the Hungarian minority there, Poland’s border with the erratic regime of Belarus, and Poland’s border with the isolated Russian enclave of Kaliningrad. The second and third flashpoints could involve a confrontation between NATO and Russia,” Eland said.

“Congress has a right to a reasonably accurate and methodologically rigorous analysis of how much expanding the alliance is likely to cost,” Eland concluded. “The administration’s cost estimate is woefully inadequate in that regard.”


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THE HIGH COST OF NATO EXPANSION
Clearing the Administration's Smoke Screen

BY IVAN ELAND

Executive Summary

The Clinton administration's estimate of the costs of NATO expansion is fatally flawed. Even if the dubious major assumptions—that the current benign threat environment will continue and that no NATO forces will need to be permanently stationed in new member states—are accepted, the administration's estimate that the total cost of expansion will be only $27 billion to $35 billion is much too low. Its paltry estimate of $1.5 to $2 billion for U.S. costs is even more incredible.

The U.S. Department of Defense, which made the cost estimate for the administration, did not develop a detailed list of military enhancements needed for expansion, estimate the cost of each enhancement, and add those costs up for a total. Instead, in many cases DoD analysts used a "macro" approach to select a level of spending (what they termed "level of effort") for a particular category of military improvement, with little or no military rationale or analysis to back it up. In other cases, where DoD made microassumptions, they were very questionable and designed to hold costs down. In addition, DoD analysts felt constrained in how much military infrastructure they could assume would be built on the territories of new member nations. All of those dubious methods were needed because the DoD's estimate resulted from negotiations within the administration; it was not a valid estimate of costs based on military requirements.

In this study, a detailed critique is offered of the administration's assumptions and method of estimating the costs; and an alternative cost estimate, which uses the DoD's major assumptions but is based on more realistic microassumptions and better methodology, is presented. That estimate projects the total costs of expansion at about $70 billion (although they could reach $167 billion), of which at least $7 billion would accrue to the United States.

Ivan Eland is director of defense policy studies at the Cato Institute.