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CHAPTER 3

Transparency in the defense budget

Every public resource administrator must be accountable for his/her acts and the use of public funds. Transparency must be viewed not only as a requirement of control bodies but also as a social demand on the administrator. This situation is equally applicable to the defense budget. Defense system administrators must render accounts of their acts as any other State resource manager.

Insufficient transparency in the national defense sector may be the result of an attempt to reject or delay reforms in its structure, a lack of consistency between defense plans and national plans, the wish to protect corporate or individual interests, technical incapacity or a culture of secrecy.

The *attempt to reject or delay reforms in the defense structure* refers to the desire to conceal from the public the need for reforms, especially those affecting the budget structure. One of the reasons to act like this is the fear that a new structure may reduce available resources and prevent the continuation of programs and projects that have not been openly discussed with society or the Legislative branch.

The *defense plans' lack of consistency with national plans* refers to the gap between the actions conducted in the defense sector and the Nation's higher interests which the defense area must adhere to.

It will probably be difficult to foster a higher degree of transparency in this regard if the sector involved suspects it may be subject to strong criticism.

The *desire to protect corporate interests* may also be a reason for the limited level of transparency in the sector, especially as regards the budget. This is a defensive attitude on the part of a professional body when faced with issues that may restrict their advantages, especially financial ones. It may be associated with the refusal to reform the sector and is different from the protection of particular interests due to its collective nature.

The *wish to protect individual interests* has to do with the guarantee of personal and individual interests, whether associated with professional interests or not. It may be connected with the interests of people within the defense sector itself or alien to the sector but who share interests, such as companies supplying materials and services.

Lastly, the *culture of secrecy* may be defined as unduly applying the secrecy concept to issues that should be known to the public. The confidential nature of many subjects may lead to an exaggerated degree of secrecy with respect to ordinary issues.

As regards the establishment of rules of behavior and institutional arrangements regarding budgetary actions, transparency undoubtedly is the most important characteristic. In general, a clear definition of institutional arrangements and access to information are key elements for success in public policy implementation. In the specific case of the defense sector, this issue relates to the balance (or imbalance) between the transparency requirement and the need for secrecy. For example, some studies point to poor data availability as a factor hindering a proper analysis of the national defense budget. Indeed, secrecy is typical of many military affairs. But we should not forget that transparency is essential to guarantee efficiency in the use of public funds and legitimacy of public actions.

With respect to the United States Congress, in 2002 the GAO (General Accounting Office), the country's external control body, identified transparency problems in the defense budget. According to GAO, about US\$ 101M were spent wrongfully or inefficiently in non-conventional operations in the Balkans and in Asia. According to the audit, the main reasons for these events were oversight failures and a low level of awareness by the administrators themselves. In its report, GAO recommends a stronger oversight of military expenditures in

order to enhance transparency.

Tensions between the need to preserve secret information from public knowledge and the requirements of democratic practice, calling for transparency in defense sector decisions, are normal. But it is neither normal nor acceptable that, in a democracy, the common citizen may be deprived of information about the various areas of government activity. Excessive secrecy in military affairs can be perceived as the result of the absence of clearly defined criteria and procedures aimed at a multidisciplinary integration of defense issues.

The crucial problem is to define a point of equilibrium between transparency and secrecy. One way to tackle this problem is, as a first step, to replace the treatment of State information as a discrete variable where transparency and confidentiality are mutually exclusive. In order to represent information more adequately, use may be made of a continuous model carrying infinite options, from maximum confidentiality to the opposite extreme, i.e. maximum transparency.

Although transparency is a fundamental premise for the State to serve public objectives cost-effectively and efficiently, the State tends almost naturally to be closed, to conceal information and increase spaces of power in its decision-making process. It is necessary to break away from this trend, define the point of equilibrium between transparency and secrecy and improve access to national defense information. Society must be provided with the means to participate in determining the goods and services financed with public funds. This can only be achieved by improving transparency in the administration and ensuring that oversight bodies be effectively involved in the effort of showing the taxpayers where their money actually goes. If transparency is poor, society lacks the main tool to make proper choices.

3.1 Independence in defense budget development and oversight

The bodies involved in budget elaboration and oversight must be able to act without any political, personal, external or organizational impediments. They must be unbiased in the conduct of their activities. It is important for the Legislature to strengthen its role in the budgeting process and to effectively exercise its function as a counterweight to the Executive actions. Especially in the defense area, the organs approving and overseeing the budget must be capable of operating without any corporate pressures from any specific sectors of the military. Budget work should

have as its core element the guarantee of providing true and adequate information to society, i.e. ensuring that objectives are achieved efficiently and in a transparent manner. Budgetary information must be true, because if it is unrelated to management actions it will lose value; it must be adequate because its aim is to facilitate or enable the analysis of its trends and implications.

The issue of independence in budget work is critical and affects the Legislative branch and control bodies, as well as the internal offices of the defense sector itself. Especially in new democracies, corporative pressures of specific military sectors on budget approval and oversight are still observed. Such pressures may occur in environments external to the armed forces but are much more intense inside the military.

One widely accepted reason explaining the influence of corporate sectors of the armed forces on the role played by the Legislative branch and by control agencies in the budget process is *information asymmetry*. Perhaps more than in any other field of public policymaking, there is a need for a systematical understanding of issues and for improved knowledge of the subjects on the part of such bodies external to the defense sector. The strong information asymmetry between political decision makers and the members of the armed forces may be explained, in part, by the high specificity of this area, the importance of capabilities and means for policy implementation and by the low degree of transparency evidenced by military corporations.

As a result of this strong information asymmetry, the agents executing the defense policy have a strong influence on decision makers and, therefore, on policymaking. This phenomenon contributes to a low legitimacy of the defense policy and to an increase in the tension between military and civilians, and between the government and society. To overcome this situation, the effective *definition and development of institutional arrangements* capable of guaranteeing transparency is a crucial challenge. In the sphere external to defense, independence in Parliament's budget activity (as regards budget elaboration) and in oversight bodies (as regards budget control and oversight) should be the result of a development consistent with democratic political ideals.

The same should be said of the sector's internal budgeting and audit offices. These offices work under the direct command of the sector heads, and it is difficult to conceive their functional independence. As sectoral budgeting and audit bodies are part of the organic structure of defense, there is a dilemma between the duty of independent action and the personal duty to back up the authority. However, to consider independence as incompatible with loyalty is also a fallacy stemming from non-

transparent practices and non-democratic institutional arrangements. In this sense, there is a need for institutional arrangements fostering the independence of internal agents and protecting them against the personal characteristics of the supervising agents. To discuss this issue is an essential part of the defense sector's pending debate on transparency. Society and the Legislative branch need to count on the *guarantee of independence* for the defense sector's personnel working on budgeting and supervising the use of public resources.

3.2 Reliability

Reliability is an essential characteristic that enables both the budgeting and audit bodies to ensure positive results for the administration, for the political environment and for society at large. Together with independence, it is a fundamental value as regards budget transparency and the proper use of public resources.

The reliability of the actions undertaken by the budgeting and audit sectors, whether external to defense (legislative branch and the civil society) or internal to defense (organic offices), may be broken down into three parts:

- The overall technical capabilities of the institution.
- The access to authentic data.
- The public image of the budgeting or audit institution.

The technical capability of the budgeting and audit bodies is crucial to consider information as a tool to enhance public management. To achieve this purpose, technical skills must be multidisciplinary. It is not necessary that only professionals endowed with a certain technical training lead the budgeting and audit work for a specific sector. Rather, institutions as a whole should be capable of performing a technical evaluation of the budget and the results attained by the management activities.

Specifically in the area of defense budgeting and auditing, it is not necessary that only professionals with previous military training conduct these processes. The budgeting and audit bodies related to the sector, whether internal or external, need a joint competence of their technical sectors, which must comprise a variety of skills. The multidisciplinary nature of the members and procedures of budgeting and audit offices is presently one of the major institutional characteristics necessary for an

effective exercise of the budgeting and audit activities in any government sector.

Access to *authentic data* is another essential aspect resulting in budgeting and audit reliability. Information will be of no value if it is isolated from the reality of management acts. There is no reliability in budgetary information if it arouses doubts as to the authenticity of its contents. This is a sensitive issue in the defense sector, which exhibits a typical imbalance between the requirement for transparency and the need for secrecy. Thus, available data may fail to reflect the reality of events occurring in national defense.

Lastly, the third component of budgeting and audit bodies' reliability to consider is the institution's public image. This is of primary importance for society to trust the information provided to it. There is a direct relationship between public image, reliability and the degree of independence of the budgeting and audit organizations.

3.3 Need for civilian control and transparency of the defense sector

The contribution of internal budgeting and audit bodies to the enhancement of efficiency and transparency is the possibility to act free from any restrictions by other sectors. Their work is to plan and evaluate the efficiency and effectiveness of the sector as a whole. For a proper operation of the internal bodies, independence and reliability continue to be the main characteristics required to achieve positive results.

If we apply the general concepts of budgeting and auditing to the defense sector's internal organs, two main conclusions may be drawn. The first is that defense internal bodies must be dedicated to improve the sector's budgetary and supervision practices. The second conclusion is that discussions on this issue must set aside formalities and create an exhaustive debate on the issues of efficiency, effectiveness and transparency.

At least two problems may be identified in the internal budgeting and audit bodies of the defense establishment: *hierarchical subordination* and *continuous personnel rotation*. The first problem can compromise the independence and reliability of available data and of any evaluation performed. The second problem may compromise, the quality of information produced, with negative effects on

independence and reliability. The same problems may occur within civil sector internal bodies, but it is important to discuss them in relation to the defense sector, because the particular traits of the military tend to augment their effects.

In the armed forces, hierarchical subordination is more rigid than in civilian areas. This feature is related to the armed forces' combat mission. But when the question is having a critical attitude regarding budgeting and audit activities within this sector, subordination becomes a difficult problem. It is not likely that an internal budgeting and audit unit under a lieutenant colonel will, for example, make a critical evaluation of the budget demands and management decisions of a General. And since budgeting and audit work in the military sphere is basically considered not a command activity but as an advisory assignment, the auditor's rank will normally be lower than that of the personnel being audited.

Likewise, continuous personnel rotation, typical of almost any country's armed forces, may reduce the work quality of the internal budgeting and audit bodies. Even the best professional cannot do much if his assignments change just when he has acquired the experience he needs to carry out his activities. Budgeting and auditing are essentially activities where quality is a direct result of the consolidation of a person's knowledge and practices.

Transparency is essential for civilian control of the armed forces and for the development of confidence-building measures between countries. In the first case, transparency is key to gain an effective control by society over weapons acquisition. In the second case, transparency contributes to establishing stable diplomatic relations.

The recognition of the need for civilian control of the military is a fact. With the evolution of societies, isolated fields of knowledge have been brought together. This phenomenon, known as "multidisciplinarity", brought about significant changes in the various areas of government activity, including national defense. Defense is no longer a discipline known by the military; rather, it should be part of every citizen's life. Today, debates on national defense go beyond the issues strictly related to military activity and deal with other subjects, such as the country's industrial base. Modern defense is a complex subject involving strategy, economy, law, sociology, psychology and other fields of knowledge.

The present characteristics of armed conflicts do not allow to conceive planning and military actions in isolation from the national context. Globalization and the generalization of information have emphasized the dramatic need for multidisciplinary knowledge. The involvement of civilians in this matter is no longer rare, but has become an essential aspect. Discussions on joint commands have also contributed to the idea of civilian control. Another factor that prompted civilian control over the armed forces, even more than globalization, was the experience left by dictatorships.

Today, there is little doubt as to the need of civilian control over the armed forces. Whether as a result of an understanding of their multidisciplinary nature, the fear of dictatorships, or the need to integrate their efforts, civilians and the military usually agree on the need to keep the armed forces subordinated to the national interests through civilian control. This can only be achieved through transparency of defense actors.

Transparency is also crucial to build confidence among countries in order to reduce the possibility of conflict. Some years ago, Argentina and Chile, with the participation of the Economic Commission for Latin America and the Caribbean (CEPAL) established a standard methodology for estimating defense spending. This initiative contributed to consolidate stable relations between both countries, which have in turn brought about the consolidation of peace in the region.