

Section 4 Defense-Related Expenditures

1 Defense-Related Expenditures and Changes

Defense-related expenditures include spending for maintaining and managing the SDF, improving living conditions in the neighborhoods of defense facilities, and supporting U.S. forces in Japan.

In FY2014, in light of the increasingly harsh security environment, defense-related expenditures were increased for the second consecutive year in a row in order to reinforce preparedness aimed at protecting the lives and property of the populace and the nation's land, sea, and airspace.

In comparison with the previous fiscal year, defense-related expenditures including expenses related to SACO (Special Action Committee on Okinawa) and the U.S. Forces realignment-related expenses (the portion allocated for reducing the burden on local communities), defense-related expenditures increased by 131 billion yen to 4.8848 trillion yen. If the SACO-related expenses and the U.S. Forces realignment-related expenses (the portion allocated for reducing the burden on local communities) are excluded from the above amount, defense-related expenditures increased by 103.5 billion yen from the previous fiscal year to 4.7838 trillion yen.

Additionally the supplementary budget for FY2013 contains an appropriation of 119.7 billion yen for improving SDF's disaster response capabilities, securing stable operations of the SDF, and necessary expenses for SDF operations.

See ► Fig. II-5-4-1 (Comparison Between FY2013 Budget and FY2014 Budget); Fig. II-5-4-2 (Trend in Defense-Related Expenditures Over the Past 15 Years)

2 Breakdown of Defense-Related Expenditures

Defense-related expenditures are broadly classified into "personnel and food provisions expenses," which cover such items as pay and meals for SDF personnel, and "material expenses," which finance the repair and maintenance of equipment, purchase of oil, education and training of SDF personnel, procurement of equipment, and others. Material expenses are further classified into "obligatory outlay expenses¹," which are paid under contracts concluded in previous fiscal years,

¹ In the build-up of defense capabilities, some things span multiple years. In these cases, the fiscal year in which the contract is concluded is different from the fiscal year in which the payment to the contractor is made. Then, based on such budgeting, in principle, in the fiscal year that construction is completed or that equipment is procured, expenses necessary for payment are allocated as budget expenditure (budget

and “general material expenses,” which are paid under current-year contracts. Material expenses are also referred to as “operating expenses,” and since general material expenses include repair costs for equipment, education and training expenses for personnel, and the purchase of oil, they are referred to also as “activity expenses.” The MOD terms this classification method as “classification by expenses.”

See ▶ Fig. II-5-4-3 (Structure of Defense-Related Expenditures); Fig. II-5-4-4 (Relationship Between Annual Expenditure and Future Obligation Due to New Contracts)

Personnel and food provisions expenses and obligatory outlay expenses, both of which are mandatory expenses, account for 80% of the total defense-related budget. A breakdown of general material expenses shows that mandatory costs account for a significant portion of the total, including cost-sharing for the stationing of the U.S. Forces in Japan, and expenses related to measures to alleviate the burden on local communities hosting U.S. bases in Japan².

Personnel and food provisions expenses increased by 103.4 billion yen (5.2%) from the previous fiscal year due to the end of the cut to the remunerations of national servants. Obligatory outlay expenses for the year increased by 56.2 billion yen (3.4%) from the previous year, while general material expenses decreased by 56.1 billion yen or (5.5%) from the previous year³.

Besides being classified by type of expense, the breakdown of FY2014 defense-related expenditures classified by organization, such as the GSDF, MSDF, and ASDF, and also by use, such as maintenance costs and equipment and material purchase expenses, is shown in Fig. II-5-4-5.

See ▶ Reference 19 (Changes in Composition of Defense-Related Expenditures (Original Budget Basis))

authority to incur obligations and make payment is granted, i.e., the MOD is able to conclude contracts and allocate budget expenditure). Budget expenditure for payments incurred under contracts concluded in previous fiscal years is called “obligatory outlay expenses,” while expenditure for which the payment period has yet to come is termed “future obligation.”

² A typical cost under this category is expenses for installation of soundproofing in residences.

³ The comparison with the previous year is made excluding the SACO-related expenses and the U.S. Forces realignment-related expenses (the portion for the reduction of burden on local communities). The same applies hereinafter in regard to this section.

In addition to the budget expenditure, the amount of new future obligation also indicates payments for the following year and beyond. In the build-up of defense capabilities, it is common for multiple years to be required from contract to delivery or completion, in areas such as the procurement of vessels, aircraft, and other primary equipment, as well as the construction of buildings such as aircraft hangars and barracks. However, the budget of Japan must gain Diet approval each fiscal year, and therefore, as a general rule, the spending of national expenditures prescribed in the budget is limited to the applicable fiscal year. Consequently, for the things which require multiple years between contract and delivery or completion, a procedure is undertaken whereby a contract that extends for multiple years is arranged, and it is promised in advance at the time of the agreement that payment will be made at a fixed time in the future (within five years, in principle). The sum of money to be paid in the following fiscal year and beyond, based on such contracts that extend for multiple years, is called the “future obligation.” The amount of new future obligation arising in FY2014 (future obligation concerning new contracts) increased from the previous fiscal year by 294.8 billion yen (17.8%).

Furthermore, if looked at on a contract basis⁴, which shows the scale of operations, there is an increase from the previous fiscal year of 238.6 billion yen (8.9%).

3 Comparison with Other Countries

Understanding the defense expenditures of each country using a single standard is not possible in view of differences in the socioeconomic and budgetary systems. There is not an internationally unified definition of defense expenditures, and breakdowns of defense expenditures are often unclear even in many countries where such data is publicly disclosed.

Furthermore, in comparing the defense expenditures of each country, though there exists the method of converting their defense expenditures into dollar for comparison by foreign exchange rate, their dollar-based defense spending calculated by this method does not necessarily reflect the precise value based on each country’s price levels. Consequently, there are limits to the comparisons that can be made simply by comparing Japan’s defense-related expenditures with those of other countries in dollar terms. Nevertheless, for reference, their official defense expenditures converted in dollar, using the purchasing power parity⁵ of each country as published

⁴ The sum total of general material expenses and future obligation concerning new contracts, which shows the amount of the material expenses (operating expenses) that are to be contracted in the applicable fiscal year and to be paid in the same fiscal year and beyond. The amount is 2.9199 trillion yen in FY2014.

⁵ A gauge that measures each country’s ability to purchase assets or services by taking into account their respective price levels.

by the Organisation for Economic Co-operation and Development (OECD), are shown in Figure II-5-4-6.

See ► Part I, Chapter 1 (Defense Policies of Countries); Reference 20 (Trend of Defense Expenditures of Major Countries)

In addition, Fig. II-5-4-7 shows the changes in defense expenditures of Japan's neighboring countries over the past ten years.