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Brief

Defence Spending

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Russia's war in Ukraine has highlighted Europe's military weakness. But the changes to threat assessments that followed Russia's brutal full-scale invasion have also created an opportunity for European Allies to reassess their defence spending. If they are serious about defence, they will need to address the impact of decades of persistent under-investment, not least because higher defence spending will be key to the credibility of the new defence plans to be agreed at the Vilnius Summit. Allies should thus review and revise their defence investment pledge. If they do not do this now, it will be more difficult once the war in Ukraine ends.

The Perennial Problem

European defence spending has steadily declined since the 1990s, creating "a security vacuum in Europe" and uneven burden-sharing between the US and the European Allies.[1] In 2022, the NATO countries together spent a total of USD 1 051 billion on defence, of which the Europeans and Canadians spent only USD 328 billion.[2] Long-term under-investment has negatively impacted the capacity of Europe's armed forces. The crises in the Balkans demonstrated Europe's inability to respond effectively, and its severe deficits in, for example, strategic intelligence, air and missile defence, strategic transportation, air capabilities, and precision-guided missiles. This wake-up call, however, did not lead to substantial increases in defence budgets, but instead to discussions about how to better use existing defence budgets through initiatives such as the Defence Capabilities Initiative and (later) smart defence and pooling and sharing. At the same time, NATO's emphasis on out-of-area operations essentially allowed the European Allies to follow the US lead, but with limited contributions and niche capabilities that did not require significant investments. The US has, unsurprisingly, regularly criticised Europe's under-investment in defence, more recently employing NATO's 2% defence spending pledge as a tool to do so.

The start of Russia's war in Ukraine in 2014 should have been another wake-up call for the European Allies. The 2% defence spending pledge, agreed at the Wales Summit and to be achieved by 2024, was applauded as an important political step forward.[3] Still, it did not produce substantial change. Despite warnings from the Baltic states and Poland about the need to invest more in defence in the face of Russia's increasingly aggressive foreign policy, there was a high degree of complacency in the rest of Europe based on the belief that Russia could be appeased by acquiring Crimea and the eastern flank countries could be reassured by military reinforcement. But the deployment of over 10 000 Allied troops did little to shift the NATO-Russia military balance in the Baltic region.[4] The enhanced forward presence battalions stationed in the Baltic states and Poland were essentially a tripwire force. But political considerations aside, the Allies were simply incapable of generating the necessary manpower and equipment for a larger presence on the eastern flank—a challenge that persists today as NATO discusses

Long-term under-investment has negatively impacted the capacity of Europe's armed forces options for additional deployments in response to Russia's full-scale invasion of Ukraine in February 2022.

The deteriorating security situation, the formal commitments at the Wales Summit, and the brusque interventions of Donald Trump, who threatened to withdraw the US from NATO, were not enough to convince most of the European Allies to invest more in defence.[5] Significant increases in military spending before 2022—in percentage of GDP terms at least—were visible only on the Alliance's eastern flank.

Russia's War

Europe's response to Russia's full-scale invasion of Ukraine was one of extraordinary unity and robustness, including in its political reaction and imposition of economic sanctions. Within four days of the invasion, the EU member states had collectively made unprecedented decisions to send military aid to Ukraine through the EU's Peace Facility instrument, as well as bilaterally. Some governments also managed to convince their political opponents and societies of the urgent need to invest more in defence: in 2022, total spending by European countries was up by 13 % to USD $345 billion.[6]

Most NATO countries have now announced increases in their defence spending

Amongst the most remarkable developments was German Chancellor Olaf Scholtz's *Zeitenwende* speech.[7] After decades of conciliatory strategic culture and a reluctance to invest more in defence (the subject of much criticism from Germany's Allies) this U-turn may mark a new role for Germany in European defence. With a one-off additional 100 billion euros allocated to its defence budget, Germany will become the most prominent defence spender in Europe and a leader among the world's military powers.

Germany, though, is not alone. Most NATO countries have now announced increases in their defence spending.[8] In 2022, the UK was Europe's largest defence spender (USD 68.5 billion) followed by Germany, France, Italy and Spain.[9] However, in percentage of GDP terms, the year-on-year increases announced by these countries were quite small. More substantial increases in defence spending were announced in the countries most exposed to the threat from Russia, for example: Lithuania (27%), Finland (36%), Sweden (12%) and Poland (11%)—although, with the slight exception of Poland, the real spending of these countries remains relatively small.[10] Much larger increases in total European defence spending would be possible if the larger states, such as Germany, Italy, and Spain, would join the (only) seven Allies that currently meet NATO's 2% target. Equally important in redressing Europe's military shortfalls is that the current increases need to be sustained over the longer term.

2% as a Floor

NATO Secretary General Jens Stoltenberg has spoken of NATO's 2% defence investment pledge as "a floor and not a ceiling."[11] Several of the eastern flank Allies, including summit host Lithuania, are pushing for a more explicit recognition of this at the Vilnius Summit to make the Alliance's 360-degree approach to deterrence and defence credible. For Vilnius to break the pattern of defence under-investment, Allies will need not only to commit to spending at least 2% of GDP, but also to ensure that this commitment is sustainable by putting in place the necessary political, legal, and budgetary provisions at the national level.

Yet, there is no consensus on this among Allies. One of the main factors is differences in threat perception. While Allies agree that Russia poses a direct threat to NATO, the further they are from Russia's borders, the less they tend to think about how to deter Russia in the long run.[12] This impedes the political will of many Allies to commit more to defence. The Baltic states and others, meanwhile, are trying to convince these Allies that Russia will soon reconstitute its armed forces and be a threat for decades, requiring a significant boost in defence spending.[13] Even in the last year, security on the eastern flank has deteriorated with Russian troops and nuclear weapons deployed to Belarus.

Another factor is the economy. For the Allies that spend the smallest percentages of their GDP on defence (Belgium, Canada, Luxembourg), meeting the guideline would require very substantial budget revisions. These Allies often insist that more efficient spending and the pooling of resources is a viable alternative to increasing total spending. Turkey, meanwhile, which currently spends only 1.3% of GDP on defence, will find it very difficult to raise defence spending any time soon due to its deteriorating economic situation.

Other Allies question the metrics of defence spending. Luxembourg, for example, would be more willing to agree to a pledge that measures defence spending as a percentage of GNI rather than GDP due to the structure of its economy. Denmark and others argue that defence spending should include military aid for Ukraine. Additionally, Allies differ on the question of timeline, depending on their own assessments of when they will be able to reach the target (e.g., the Czech Republic and Bulgaria (2024), France and Germany (2025), Belgium (2035), Denmark (2030)).[14]

Together, these factors will likely limit the ability of the Allies to find consensus on a more ambitious defence investment pledge at Vilnius. Furthermore, there seems to be little appetite in the US to put pressure on the European Allies. After the transatlantic chill caused by Donald Trump's actions and rhetoric, including on defence investment, the Biden administration appears keen not to push too hard.

A further consideration is that any pledge agreed at the Vilnius Summit would not be legally binding and implementation would depend on the political will of the Allies. To take the case of Germany, Parliamentary Commissioner for the Armed Forces Eva Högl concluded in her latest annual report that "not a single cent from the special [100-billion-euro *Zeitenwende*] fund made its way to our servicewomen and -men in 2022."[15] In any case, analysts warn that this fund will not be a game changer, but will be eaten up by inflation, taxes, plugging loopholes and fulfilling promises to the EU and NATO.[16] Furthermore, Germany's new national security strategy is rather vague on defence spending plans and contains no clear commitment to spend 2% of GDP for the longer term.[17]

Similar trends are observable in other countries. The UK currently spends more than 2% of GDP, but no increases are expected in the near future due to the UK's economic challenges.[18] In France, a permanent defence budget increase is foreseen until 2030, but the significance of this annual 3-billion-euro uplift is drastically reduced once inflation is accounted for. The war in Ukraine and the Madrid summit mobilised the Spanish government, which has pledged to reach 2% by 2029. In 2023, the defence budget should grow by 26% to reach 12.3 billion euros.[19] However, it is difficult to say how sustainable this trend will be once the war ends in a country that has typically spent only 1% of GDP on defence.

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Overall, with the threat level still relatively high, defence spending across the whole of Europe has seen only sluggish growth, even falling in some countries. NATO's collective military spending in 2022 (1 119 billion euros) was only 0.9% higher than in 2021.[20] Meanwhile, national budgets are being undercut by inflation and challenged by increasing levels of debt.

Conclusions

Europe's commitment to invest more in defence is essential for the region's future. First, it is vital for strengthening the defence of the eastern flank and for helping Ukraine militarily, particularly in arming it after the war. Second, it has deep impact on the role that Europe will play in the world in the coming decades. If Europe cannot become a credible military actor and defend itself, this will signal to Russia, China, and other international actors that it might be challenged. Third, a failure to boost defence spending will further increase Europe's dependence on the US. The next presidential election may dramatically change the US position on its commitment to European security through a combination of a desire to end perceived free-riding, rising sovereign debt, and competing security priorities in the Indo-Pacific.

Increasing defence spending is vital for Europe's security. But achieving a real breakthrough also requires spending this money effectively. In addition to greater levels of international defence cooperation among themselves, European states will need to be creative in their search for potential partners outside state structures, including private investors.

Several new instruments to ramp up defence have been introduced in NATO and the EU, including the NATO Innovation Fund, the European Defence Fund, the European defence industry reinforcement through common procurement act, the Act in Support of Ammunition Production, and the European Defence Industrial Development Programme. These instruments will need to be coordinated to produce the most value added. At the same time, strategic communication with European societies about the security challenges facing the continent will be essential if sufficient defence spending is to be sustainable in the long run.

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