

Europe's New Reality: Defence Spending After the Invasion

Article by Alexandra Marksteiner

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As Russia attempts to redraw Ukraine's borders by force, defence spending is going up around Europe. For decades, European governments were happy to enjoy the "peace dividend" and pretend that conflict was, in Europe at least, a thing of the past. What is the political economy of Europe's new military spending? Where will the money go? What will it mean for European defence cooperation?

***Green European Journal:* In the days after the Russian invasion, Germany announced an extra 100 billion euros of new defence spending. It's been talked of as a turning point. How significant is this shift?**

Alexandra Marksteiner: It's quite a consequential shift. While it's true that Germany's military spending has been increasing gradually for quite some time since the annexation of Crimea in 2014, an increase of this scope would have been unimaginable before the Russian invasion of Ukraine. It took many of us by surprise and captures just how seismic a shift German foreign and security policy is currently going through even though it might not always look like it from the outside.

Public opinion has shifted overwhelmingly in the direction of favouring arms exports to warzones and backs the massive increase in military spending. This special fund was thought up, created, proposed and now passed through the legislature in just three months. That's incredibly quick for German policymaking. While much of Europe is still somewhat frustrated with the ambition and speed of German foreign and security policy, it's a huge shift.

Have we seen similar decisions in other European countries as a reaction to the war?

Absolutely. Between February and March, there was an onslaught of announcements from European heads of state promising to increase defence spending. Sweden wants to allocate 2 per cent of its GDP to defence in the coming years. Poland is going beyond that and wants to spend 3 per cent from 2023 onwards. The Netherlands is budgeting an extra 5 billion euros to reach the NATO 2 per cent of GDP goal. Similar announcements have been made in Austria, Belgium, Denmark, Estonia, Norway, Romania, and Spain. It's across the entire European continent and is a sign of the times. European threat perceptions have increased dramatically.

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How will the money be spent? Are there any patterns between countries?

It's difficult to say because most countries haven't concretised their plans yet. Of those countries which have offered some insight, the focus seems to be on procurement rather than personnel and maintenance spending. Many countries are focusing on gaps in cyber, air defence, and combat aircraft. Estonia, for example, now wants to buy 40 medium-range air defence systems and Germany announced that it wants to buy F-35 fighter jets. Much is concentrated on the air domain. The other gaps that have been identified are ammunition stockpiles. The German ministry of defence has realised that the cost of just replenishing their ammunition stocks will be 20 billion euros.

Which industries and firms will benefit most from this spending and who are the main players?

The European defence industry has been growing before the Russian invasion of Ukraine. Whether it will be the main beneficiary of these military expenditure increases remains to be seen. It depends on the exact procurement plans and which companies get awarded contracts. That will become clearer in the coming months and years.

So far, stock exchange investors have been placing their bets on traditional defence companies such as Rheinmetall in Germany, BAE Systems in the UK, Lockheed-Martin and Raytheon in the US, and Leonardo in Italy. These are companies that focus specifically on arms. Companies that have a more diversified portfolio, such as Boeing and Airbus, have not benefitted from this rise in stock prices.

What we've also seen in the arms industry in the last couple of years is the rise of software and IT technology companies providing digital solutions to many defence ministries. The sector is going to continue to grow alongside the traditional defence companies.

Is there a relationship between defence spending and arms exports? The major military powers in Europe such as France and the UK also sell a lot of weapons around the world. Is there a dependency between the two?

It's complicated. In most countries, the domestic demand for military equipment is not large enough to sustain a financially-viable domestic arms industry. The obvious exceptions are the USA and China, the two largest military spenders in the world. When that's the case, companies look to exports to generate economies of scale to recover their development and manufacturing costs. That's also why the US government has such a massive interest in selling the F-35 jet abroad.

The Russian arms industry has also been instructed by the Kremlin to diversify its portfolios, meaning that it should prioritise civilian sales over the next couple of years. Russia invested heavily in a military build-up in the 2010s and the Kremlin, aware that another modernisation drive might be needed in the next couple of decades, is looking to keep the Russian arms industry alive until then.

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What's the relationship between defence spending and other areas of public spending? Is it a legitimate concern that if European countries invest more in weapons systems there will be less money for hospitals, public housing, and renewable energy?

It depends on how the increases in military spending are financed. Countries usually have three options. Either they raise taxes, take out loans, or they have to cut other types of spending to push money into defence. Most European countries have a good credit rating and can raise funds quite easily on the market. So they won't be forced to raise taxes or cut funds from other government programmes such as healthcare, education, and housing.

That said, every euro spent on defence is a euro that isn't being spent on other government programmes. Even if governments take out loans to circumvent the need to make cuts elsewhere, those loans could have also been used for other non-defence government programmes. The money has to come from somewhere. Even though you might not see a direct "crowding out" effect right now, increased military spending might mean cuts elsewhere in the long term.

We often hear the idea that European countries spend plenty of money on defence but that they spend it inefficiently by splitting it across a lot of relatively small militaries. What's your view on this point?

Interoperability between militaries is always going to be an issue within an alliance. NATO has 30 members and their ability to function cohesively determines whether the aggregate capabilities of the alliance are less than, equal to or greater than the sum of its parts. We call that coalition fighting calculus.

What is often overlooked is protectionism. Governments prioritise their domestic arms industry rather than cultivating European champions - larger European companies that might be able to deliver more efficient systems at a lower cost. Europe has so many different types of tanks, aircraft, naval vessels and missile defence systems because everyone is buying systems from their own companies and countries make different tweaks on different designs. You end up with a plethora of different systems that don't always work well together.

EU-based decisions, like the European Defence Fund, can succeed in producing more efficient systems at a lower cost. Europeanising the arms industry is extremely difficult of course because governments have an interest in making sure their domestic arms industry is taken care of and that jobs stay in their country and don't go abroad. But EU initiatives can be good for the European wallet because it minimises duplication and pools costs for expensive research and development programmes.

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risks.

After the Trump presidency and the botched withdrawal from Afghanistan, not to mention tensions with Turkey, it seemed like NATO was becoming less and less relevant in Europe. After the Russian invasion, NATO is back and Finland and Sweden are joining the alliance. What do you see as the future of European defence between NATO and the European Union?

A key reason why European countries are once again looking to NATO is that there is a passionate transatlanticist in the White House. In my personal opinion, Europe is damn lucky to have Biden in the White House right now. Europe knows that with the Biden administration, they can rely on the US defence umbrella. But that can change. You don't know who will be in the White House in 2024.

NATO started as a territorial defence alliance about keeping the Soviet Union out of Europe. After the collapse of the Soviet Union, NATO had an existential crisis. Without its old adversary in the same form, what was the purpose of NATO? We began to see out-of-area operations: the intervention in Yugoslavia, Afghanistan, and then Libya. NATO was trying to secure a purpose in the world. With the annexation of Crimea in 2014 and now the large-scale invasion of Ukraine, Russia is once again the main concern for European security. NATO has now been able to return to its roots and the existential crisis has been solved.

However, the extent to which the EU itself has stepped up since the invasion nuances this. Even during the Trump years with all the talk of strategic autonomy and moving away from NATO, the EU was always quite a reluctant actor in foreign and security policy. In this crisis though, the EU has been forced to display its strength. Three and a half months into the war, the EU is committing 2 billion euros worth of aid to Ukraine. It's the first time that the EU itself has authorised the delivery of weapons to a third party and it is in talks to find more ways to complement NATO on security matters.

Not many people knew that the mutual defence clause existed in the Lisbon treaty. Now people are talking about it and Denmark has done away with its defence opt-out policy. While NATO has made a comeback and will remain the principal actor in European defence and security policy over the next couple of years, the European framework within NATO is also going to involve the EU to a greater extent than ever before.

Are there tensions between the two? For example, a European defence industry runs against the interests of the US defence industry.

It depends on who you ask in the US policy sphere. The US government has an interest in promoting its arms companies abroad. So talking about a European arms industry rubs quite a lot of people in Washington up the wrong way. But many US voices have always called for Europe to step up to the plate and take responsibility for its security and defence. I think they know that Europeanising defence and security is the way forward.

We have heard much less talk about strategic autonomy since the invasion and Europe is very grateful that NATO and the US are still around. Now the focus is on maintaining a good relationship and also making sure that average Americans understand that NATO is a good thing. Europe has an interest in keeping the alliance together even if some members such

as Hungary and Turkey are difficult to handle.

**Beyond Europe, is defence spending also going up elsewhere around the globe?
Are there global mechanisms that can be invested in to stem the risk of
militarisation spiralling into war and conflict?**

This trend is absolutely a global one. The [SIPRI data](#) is clear for recent years, military spending on a global scale is going up. The US, China, Russia, and India are leading the way as the big spenders and many of the middle-tier military spenders are increasing their budgets too. The trend precedes the February invasion and it is a major concern.

Increased military spending proliferates weapons around the world and it brings many risks. Weapons systems and arms fall into the wrong hands. There are the risks that arms races ratchet up and eventually escalate. You have a higher risk of miscalculation and unintended consequences. If it then comes to war, the more weapons there are, the higher the damage potential.

The flip side is the logic of deterrence, which many European countries are holding onto right now. The thinking is that the more weapons there are, the less inclined the adversary will be to attack. There are many problems with deterrence, mainly because you can never know what the adversary is thinking. But European capitals are betting that by making sure they can repel a Russian attack is the best way to stop one from happening.

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I wish I had an answer about which institutions and mechanisms can minimise the risk of war and conflict. Transparency is a huge part of military confidence-building measures. When countries are open about their investments and defence plans, it decreases the risk of misunderstanding and miscalculations. This is what SIPRI tries to do and the UN and OECD also shine here. Apart from that, dialogue is never wrong but I'm not sure that it can always bring us back from the edge. Generally, the outlook is quite pessimistic right now.



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