

Introduction to the Issue on

# How to Ensure Defense Capabilities for Europe? Economic and Fiscal Consequences

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Recent stunning geopolitical events have triggered a wave of initiatives and proposals aimed at entrusting the European Union with tasks that are currently performed at the national level. In particular, the Russian invasion of Ukraine has given new impetus to EU defense integration, while defense is traditionally seen as a public good that can ideally be provided by the government. In addition, it is argued that the EU should take on a greater role in this policy area, where it provides greater value than its member states can do individually, as economies of scale are important here and/or the results of policies in one country have a strong impact on others. Furthermore, Europe can no longer rely on the US for its defense. The US criticized NATO allies for free riding on US military power and pushed for them to reach the 2 percent of GDP target for their defense spending.

Most EU members increased their defense spending last year or plan to do so in the near future. However, the political feasibility of the EU defense union remains controversial, as it may entail both additional financial costs and a loss of sovereignty. How can higher defense capacity be financed? Will this be at the expense of social spending (“weapons” vs. “butter”) or of public investment and a green transformation? Moreover, the design of defense integration is inherently multidimensional and differs in terms of scope and level, governance, and sources of funding, among others, while also taking into account aspects of fiscal federalism.

The European Union is in the process of building a robust and powerful industrial defense base. However, European defense production has so far suffered from national fragmentation and chronic underfunding. In parallel to the European Defence Industrial Strategy, which is looking for ways to address this shortfall, the European Defence Fund supports companies in the member states to develop competitive and collaborative defense projects that will produce innovative and interoperable defense technologies and equipment. In this context, the important question of the future role of the European armament industry arises: will it play a leading role in R&D and technological progress, and be a strong growth factor for Europe?

This issue of EconPol Forum contains six articles on securing European defense capabilities as a European public good. They not only take a critical look at the needs of the common EU defense policy, but

also shed light on the ways and challenges of how it should be efficiently financed and coordinated at the EU and national level. They also provide valuable insights into the role of the European defense industry in a single market and its strengths and weaknesses in a global context, and examine the potential impact on EU growth, productivity, and competitiveness expected from the promotion of R&D and technology through the EU’s coordinated defense policy.

*Roel Beetsma, Marco Buti and Francesco Nicoli* argue that defense is a European public good par excellence. Despite the reluctance of a number of EU governments to share defense sovereignty, there is growing support for a common EU defense policy. Building a stronger EU commitment to defense should be based on a combination of delivery and funding at the national and EU level. Moreover, this will inevitably be a gradual undertaking. Concrete steps should be taken through the implementation of new EU fiscal rules, the planning of a successor to Next Generation EU, and the preparation of the new Multiannual Financial Framework. An EU defense policy should operate within the NATO framework and the EU’s defense policy decisions would then be subordinated to those of NATO.

In the view of *Lucas Hellemeier and Kaija Schilde*, the EU is not yet a buyer of public defense goods, but generally a provider of public goods in the form of the internal market, which also includes security goods. Moreover, the provision of public defense goods involves a functioning defense market, but the European defense equipment market remains insufficiently integrated. EU regulation can reduce uncertainty in the defense market and incentivize R&D spending, ensuring the competitiveness of companies in the future. The EU should extend its regulatory powers in the defense sector and indirectly provide Europe with a defense market as a public good.

While there is broad agreement on the overall goal of strengthening European defense, both in terms of capabilities and industry, the ways and means to achieve this remain controversial. According to *Niklas Helwig and Tuomas Iso-Markku*, the lack of a unified vision for European defense is partly due to the division of the EU defense effort into different modes of governance, reflecting the varied interests of member states that have driven EU defense cooperation over the years. In the short term, there are tensions among

the different modes of EU defense policy: (1) the “legislative mode” focusing on market efficiency; (2) the “coordination mode” concentrating on the capability requirements of the armed forces; and (3) the “financial mode,” which is geared toward the development of the defense industry. To overcome internal divisions and ensure that plans to strengthen the European defense industry meet the capability requirements of the member states’ armed forces, the European Commission, the European Council, and the European Defence Agency must work hand in hand.

*Nicholas Marsh, Bruno Oliveira Martins and Jocelyn Mawdsley* argue that European states are not aligning their military spending priorities. For this reason, a simple increase in national defense spending does not automatically lead to a higher joint industrial and operational capacity of the EU but increases the risk of wasting the growing military resources. They emphasize four main defense risks arising from this context: increased fragmentation of the European defense industry, competition between different European companies for components and raw materials, the mismatch between operational needs and industrial supply, and the challenges of defining a common strategic autonomy.

Regarding the strategic thinking of European states, both individually and collectively, to prioritize the development and maintenance of future military capabilities, *Mikkel Vedby Rasmussen* highlights, among other things, that (1) European countries are investing in heavier, platform-centric forces that rely on technology rather than personnel; (2) Europe needs to expand military research and development to avoid investing in existing technologies; and (3) European governments should focus on acquiring the capabilities needed to achieve strategic goals rather than focusing solely on the percentage of GDP spent on defense.

According to *Lucie Béraud-Sudreau*, the “New Defense” – a diversification of private players in the defense market and a transformation of companies and business practices in the defense industry – is challenging the traditional defense industry with innovative, agile, and software-oriented companies. However, the lack of a European equivalent to the US tech giants raises serious concerns about future military capabilities and strategic credibility, as evidenced by the fact that military support to Ukraine from the European tech sector remains limited compared to that of the US.

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