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Rearmament with a Purpose

KEY MESSAGES

- **European countries are investing in heavier, platform-centric forces that rely on technology rather than personnel**
- **Europe must develop military R&D to avoid investing in existing technologies at the expense of future capabilities**
- **European governments should focus on acquiring the necessary capabilities to realize strategic objectives rather than focusing solely on the percentage of GDP spent on defense**
- **European governments must invest in armed forces that can be sustained after future funds for rearmament are redistributed**
- **European governments must develop strategic thinking, individually and collectively, to prioritize the development and sustainment of future military capabilities**

The first phase of the Ukraine war – from the Russian invasion in the spring of 2022 to the renewed Russian offensive in the winter of 2023 – seemed to reconfirm the power and purpose of the EU and NATO. The anticlimax thus hit European politicians particularly hard as that purpose began to falter, when the US Congress delayed supplies to Ukraine and the Russian army pressured Ukrainian forces on the frontline in eastern Ukraine and threatened to break down Ukrainian infrastructure by means of missile bombardments of Ukrainian cities.

The first phase of the war was defined by a renewed European commitment to defense spending; the second phase was defined by the realization that European governments might spend even more because American politicians might leave them to foot the entire bill for the continued campaign. The European governments also have to face another fact: not only might they need to pay for the defense of Ukraine but, for the first time since the Second World War, they may have to foot the entire bill for their own defense because the next American president might withdraw some or all of the US's security commitment to Europe.



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The political economy of European defense has been utterly transformed by the Ukraine war. This article deals with some of the consequences of that transformation, arguing that European governments must adopt an innovative and strategic approach to defense if their rearmament is to create real security benefits. In other words, the European governments must avoid the logic of the soft budget constraint that contributed to the lack of purpose in the decades after the end of the Cold War.

SOFT BUDGET CONSTRAINT

European governments have taken an accountant's rather than a strategist's view of defense spending: they are focused on the percentage of GDP spent on defense rather than on the capabilities needed to prevail on future battlefields. To understand why it is so, one must appreciate how defense spending has been debated among the NATO countries since the turn of the century.

In Europe, reinvestment in defense has been about the numbers rather than the strategic aims that better equipped armed forces are to serve. One reason for this is that the Russian invasion of Ukraine in February 2022 settled a discussion between the European NATO members and the US about how much to spend on defense. In budget terms, German Chancellor Scholz's *Zeitenwende* was an admission that Germany needed to spend at least 2 percent of GDP on defense (Scholz 2022). When Germany turned defense spending around, a number of smaller NATO-member countries hiding in Germany's shadow also increased their defense budgets. This effectively ended almost twenty years of debate within NATO on how much the allies should spend on defense.

NATO allies debated defense spending so heatedly because the US stopped its post-Cold War defense cuts in 2000. European countries either continued to reap the "peace dividend" or continued defense spending at the low level it had reached after defense cuts in the 1990s. Much of the increase in the US defense budget went to financing the wars in Iraq and Afghanistan. Still, one result of these conflicts was innovation in signals intelligence and the use of military drones. In the wake of the 2001 terrorist attacks, the Europeans spent much more on domestic intelligence and could thus, to a certain extent, argue that they did not neglect to invest in security; they just preferred not to invest in their armed forces. European politicians would say that they were not neglecting defense but rather focusing their resources on a globalized world, where the threat from globalized

crime syndicates and terrorists loomed larger than armed conflict. Not investing in defense reinforced a difference in worldviews between the US and the European allies, including the Canadians, a difference that might not have been so great if it had not been reinforced by budgetary logic. Perhaps the difference in money spent was always larger than the real difference in geopolitical analysis. In any case, the result was that the gap between European and American defense investment began growing from 2000 onward.

Thus, the European defense debate has been defined by the percentage of GDP spent on defense rather than on the capabilities needed to prevail on future battlefields. With good reason, perhaps, since debating futuristic capabilities might seem frivolous when 20 years of underinvestment in defense means that most European armed forces are in dire need of basics like artillery and tanks – not to mention that the barracks need a paint job. Playing catch-up, European governments risk defining success based on how much money they spend on defense rather than how well they spend it. During the NATO debates, the Europeans argued that the Americans were far too focused on the number of euros spent on defense instead of on the quality of the forces. This focus on quality was a rhetorical device rather than a defense strategy, evident from the fact that this argument was wholly forgotten when budgets rose. It was a good argument, however, and it deserves to be revisited if the Europeans want to avoid investing in the capabilities the Americans bought 15 years ago, and instead invest in the capabilities the Americans will buy in five years.

By focusing on the budget, the European governments are giving their armed forces a “soft budget constraint.” The Hungarian economist János Kornai coined the term in the 1970s to describe how state-run companies in the planned, state-run economy of communist Hungary had no incentive to spend within their means because they did not know precisely what those means were (Kornai 1986). Unable to know how much money the state would take out of the company and how much it would reinvest in it, the firm’s best strategy was to present lavish plans to secure higher funding. But there was little incentive to realize the plans, because failure to live up to them would not mean the drop in earnings you would expect in a free market. The government would pick up the bill and thus end up paying for the lofty ambitions as well as the failure to realize them.

European armed forces have a similar soft budget constraint. When the focus is on how much to spend, the generals’ job is to provide a shopping list of military hardware that adds up to 2 percent of GDP. The generals know that budgets may fall, so their incentive is to make the list as long as possible to secure equipment as long as the budget is there. The armed forces have little incentive to provide a comprehensive plan for how to use the forces in the future, nor to spend money on R&D initiatives that might produce

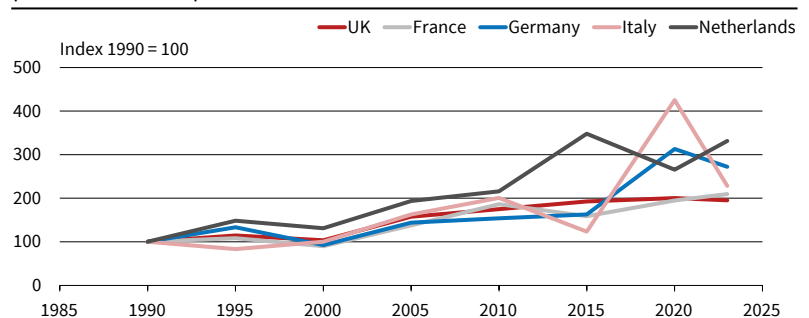
more effective capabilities at some future point, by which time funding may have disappeared.

Because the Europeans are playing catch-up, investing in capabilities needed to compensate for many years of underinvestment makes sense. In May 2024, NATO concluded that the alliance had 5 percent of the air defense capabilities required to defend its eastern flank (Foy and Rathbone 2024). To invest in these capabilities is an obvious necessity. However, European politicians must stop treating defense budgets as a number and instead view them as an investment in a certain strategy. In Kornai’s terms, the armed forces need a hard – or at least a harder – budget restriction. For armed forces, this means a political engagement with the strategic ends that the armed forces are to serve. In the context of these strategic ends, the armed forces add the punch to a number of national capabilities which, taken together, provide security. This broad-spectrum approach to security used to be a European hallmark. Still, as a part of the argument for small defense budgets, it was mobilized as an argument against investing in military power. Thus, it was left behind when the defense budgets rose. It is time to reinvent this broad-spectrum approach while recognizing the crucial importance of armed forces in European security policy after the Russian invasion of Ukraine.

PERSONNEL RATHER THAN PANZERS

To catch up with the US, the Europeans are investing in platforms – the military’s way of distinguishing between the things (planes, ships, tanks) that deliver weapons and the software that guides them. At the same time, European countries are producing more ammunition to maintain Ukraine’s war effort and replenish their own stockpiles. One might think this would revert the European armed forces to look something like the large, armored formations they could field during the Cold War. In fact, these investments reinforce the tendency for the European armed forces to become “heavier.” By “heavy,” we mean that

Figure 1
Selected NATO Countries: Ratio Between Total Defense Expenditure (Constant 2010 USD) and Armed Forces Personnel



Source: NATO, Financial and Economic Data Relating to NATO Defence, Press Release PR/CP(2011)027 and Press Release PR/CP(2015)093-COR1, Table 1 and Table 6. Defence Expenditure of NATO Countries (2014-2023), Table 2 and Table 7. Deflator: http://stats.areppim.com/calc/calc_usdldrdeflator.php. © ifo Institute

the European armed forces rely on platforms rather than personnel.

Figure 1 shows the ratio between the number of military personnel and the overall defense budget in selected NATO countries – in other words, how many euros or pounds are being spent per soldier. It is an easy (but by no means perfect) way to demonstrate how much of the defense budget goes to buying tanks and ships rather than paying salaries to the soldiers or sailors staffing them. It is thus a measure of how reliant a military is on technology as opposed to a force that generates firepower through massed troops.

Figure 1 demonstrates that the increase in defense spending has yet to translate into a large recruitment drive. The selected NATO countries, and this is true of the allies in general, still have much heavier forces in 2023 than in 1990. In fact, the British army is the smallest it's been since 1714. In most countries, the number of soldiers is half of what it was in 1990. France was able to field more than half a million soldiers, airmen, and sailors in 1990; in 2023, it was some 207,000. Since recruitment has not increased significantly, the money invested in military hardware has increased. Some of the spikes in Figure 1 come from sudden increases in investment. The Italian investments in equipment doubled from 2014 to 2023, whereas the German equipment budget went from 12 percent of the federal defense budget in 2014 to 25 percent in 2023. France and Britain have increased their equipment percentages and to the same degree. Both countries cut back on defense spending, but as of 2020 and 2021, respectively, they are back at 2014 levels (NATO 2023). Since materiel contributions to Ukraine count in NATO defense budgets, part of this investment in materiel is for the Ukrainian armed forces and should not be measured against the number of personnel in certain NATO countries. This reflects that, in the beginning at least, rearmament is precisely that: investments in new platforms rather than hiring more personnel.

The European countries are not recreating their Cold War militaries; they are investing in heavier, platform-centric forces that rely more on technology and less on personnel. With a soft budget constraint, there is a risk that this investment in heavy forces will leave the Europeans with many platforms and well-stocked arsenals without having the funds to train and deploy these forces. Since the 1970s, when the US opted for a smaller, all-volunteer force that achieved firepower through technology rather than massed troops, operations and maintenance have been the largest single item in the US defense budget. That item totaled USD 323,418 million in the Defense Department budget for 2024 – almost double the cost of procurement and salaries for military personnel, respectively (US Department of Defense 2024). European armed forces might not expect to deploy troops overseas to the extent US forces do. However, the heavier they become, the more costly expeditionary forces become

and the more money they will need to maintain high-tech platforms. Beyond the current investments in new capabilities, European armed forces should thus expect to pay more for the upkeep of the forces, which means that European taxpayers will be presented with higher defense budgets. This is an illustration of the consequences of the soft budget constraint: much depends on the ability to invest in platforms that will serve the Europeans well on future battlefields.

THESE ARE NOT THE DRONES YOU'RE LOOKING FOR

The Ukraine war has demonstrated the capabilities of drones and missile defenses. Since these are technologies in which Europeans have neglected to invest over the last twenty years, while the US used its increased budgets to make these investments, Europeans are naturally focused on buying drones, Patriot air defense batteries, and similar capabilities. While procuring these systems is necessary, this focus on catching up means that the Europeans might invest in current capabilities at the expense of future capabilities. To avoid this, a robust R&D effort is needed. The European Commission has established the European Innovation Council as a part of its research funding body and, together with Germany, France has launched JEDI (Joint European Disruptive Initiative). JEDI is modeled on the American DARPA, which has invested in defense innovation for decades (Loeskrug-Pietri 2018). The European version of DARPA is civilian and military, but that means focusing on solving large-scale societal problems, which is a worthy pursuit but takes the focus away from developing military capabilities.

In this context, the JEDI mind-trick seems to be diverting attention away from military innovation and into innovations that serve either civilian purposes or contribute to basic research. Thus, the European innovation effort is also a victim of soft budget constraints. A strategic focus is needed to avoid defense investment funds being used as an excuse to fund research and civil innovation. If the task is to innovate, it is little wonder that researchers will pursue their agenda and expand on projects they are working on already. If the task is based on providing the means to achieve a certain strategic end, the relationship changes, and it will be possible to support European security.

With European armed forces becoming heavier, technology-based establishments, their societal role will change. Military personnel will increasingly work on operating and maintaining high-tech platforms, increasing demand for these skills and putting the military in competition with tech firms for people to employ. Demand for military tech will also stimulate European R&D. One lesson of the Ukraine war is how closely the US government has worked with private companies to support Ukraine, because these com-

panies could offer the software Ukraine needed to maintain communications, etc., during the Russian onslaught (Time 2024). An essential element in European rearmament will be the development of this public-private cooperation on security.

POLICY CONCLUSIONS: THE 10-FOOT BONSAI IN THE ROOM

Over the twenty years where the Europeans saved money on defense while the Americans reinvested in defense, the European armies grew so small that they became, in Christian Mölling's apt phrase, "bonsai armies" (Mölling 2011). That is, the European armed forces had all the elements of modern armed forces equipped with armies, navies, and air forces. However, they had so few tanks and ships that the European armed forces had the same relationship to a real fighting force as a bonsai has to a real tree. Now that the Europeans are finally rearming, the question is whether they are spending money on creating large bonsais or proper trees. To avoid paying billions of euros on repeating past mistakes on a larger scale, one must consider what strategic ends the armed forces will serve and appraise future technological development to avoid investing in legacy technologies.

The Europeans can use their lethargic approach to defense spending for the last twenty years to their advantage if they aim to invest in future technologies and capabilities instead of merely playing catch-up with the US. In this way, the Europeans might skip a generation and end up with state-of-the-art military forces because they have little legacy. Yet the European "bonsai forces" might rebel against this innovative approach, because if you have a few tanks, you might believe you'll have genuine capability if you

buy a few more. This increase in the number of tanks matters less if they are not integrated into a system of capabilities with the software and hardware to deliver firepower at the right place at the right time. Developing such capabilities is beyond the capacity of individual European countries, and thus, rearmament opens up a new avenue of European cooperation. Projects on next-generation fighters, tanks, and other capabilities constitute the beginning of such cooperation, but they are platform-centric projects. Strategic innovation is of equal importance. Developing the concept of using armed forces as one element in national security capacity will decide whether the Europeans will get their euros' worth.

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