

Charlemagne

## Europeans are hoping they can buy more guns but keep their butter

Reports of a “war economy” are much exaggerated

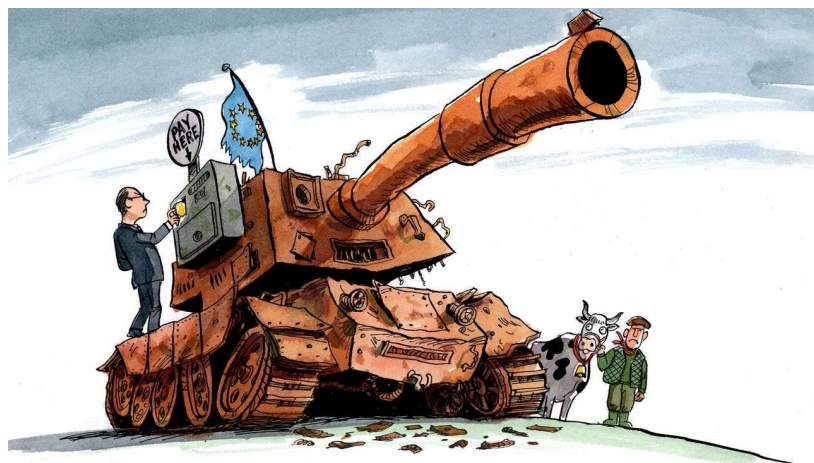


Illustration: Peter Schrank

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Russia produces enough military kit to build an army the size of Germany’s every six to 12 months. Under its revanchist president, Vladimir Putin, it is busy invading one European country while meddling in the affairs of several others. Western intelligence officers seem to think a Ukraine-style attack on a NATO ally by 2030 is a distinct possibility. Faced with this sobering analysis, Europeans might have been forgiven for panicking into splurging on all things military, and doing real harm to the continent’s economy in the process. But worry not. With politicians bickering about pensions and social spending, and loth to raise taxes, the reality is of a continent unwilling to inconvenience itself for something so trifling as fending off a potential invader. Europeans want more military spending, sure; some churn out ludicrous soundbites about building a “war economy”. But God forbid that anyone make voters endure the cost of it.

Scrimping on defence is nothing new for Europeans. After the cold war ended, cutting military budgets became the norm, like taking August off or retiring in one’s prime. By 2014 today’s 27 European Union members were spending under 1.4% of their collective GDP on defence—less than on alcohol and tobacco. The military figure has since increased at a steady, if unspectacular, pace (just as booze and fags have gone out of fashion). This year the EU’s members will together finally meet the 2% target set by NATO, to which most belong, after Mr Putin first had a crack at Ukraine a decade ago. A few big countries, notably Italy and Spain, are still far below that level. And the 2% figure looks measly now that Russia dedicates two-fifths of its budget (and over 8% of GDP) to defence and security. Adjusted for the cost of paying troops, it is spending more on its armed forces than Europe’s four main military powers—Britain, France, Germany and Poland—combined, notes Guntram Wolff of Bruegel, a Brussels think-tank.

Donald Trump, as he prepares to return to the White House, has made clear he will no longer tolerate Europe spending roughly a third of what America does on defence. On December 8th he reiterated that he was willing to stay in NATO only as long as Europeans “pay their bills”. To appease the incoming blusterer-in-chief and dissuade Mr Putin, Europe knows it must find more money. The trouble is, many national exchequers are bare and politics across the continent is messier than ever. Chaos reigns in France; Germany is in the early throes of an electoral campaign that will probably result in a new chancellor only after months of coalition-building. Collective action at EU level is impeded by the fact that certain prime ministers, such as Hungary’s Viktor Orban, respect the Kremlin more than they do fellow European leaders.

Everyone knows their armies need more cash, not least to replenish stocks sent to Ukraine. So how might it be done? The simplest way is for national governments, who after all oversee their armed forces and spend most of the tax levied in Europe, to cut larger cheques. A few already do. Poland says it will spend 4.7% of its GDP on defence next year, the most of any NATO member. But others are constrained by having maxed out their national credit card: France, Italy and Spain all have debt-to-GDP ratios of over 100%, and are under pressure from both markets and EU wallahs to improve their public finances. Apart from countries bordering Russia, voters clobbered by covid and then by soaring energy prices are in no mood for less social spending or higher taxes. Do not deprive us of butter, is the gist of Europe's current politics.

Another way to boost defence expenditure is to do it at EU level. Co-ordinating military purchases among the 27 members would result in economies of scale when procuring weapons, notes Mr Wolff. Andrius Kubilius, who on December 1st became the bloc's first-ever commissioner for defence, has called for its upcoming seven-year budget to include €100bn (\$105bn) for defence. Modest as €14bn a year might seem for a bloc with a GDP of €18trn, even that might prove hard: it would require either a bigger overall EU budget (tricky, given hard-right governments not keen to send more money to Brussels) or shortchanging existing recipients of EU largesse (ie, upsetting mollycoddled farmers, who snag a third of the budget). Perhaps the money could be borrowed by EU members collectively instead, as it was to fund a €750bn pandemic-recovery fund in 2021? France has mooted such a joint bond, which would help skirt the issue of fiscal constraints. But more EU-level debt is unacceptable to "prudent" countries like the Netherlands that see common borrowing as a scheme to make frugal northerners pay for spendthrift southerners.

### **Butter the devil you know**

Europe thus needs clever tricks to fund military stuff without crossing various red lines. One idea is for a "coalition of the willing" in Europe to raise €500bn by creating a fund essentially backed by promises of higher future defence spending. Britain could pitch in to the kitty, which would be used to build up arsenals and divisions over a decade. Because it is joint debt it would not crimp national finances, but as it is outside the EU, frugal types can probably agree to it (and Mr Orban could not veto it).

Details of the plan are vague. Its main selling point is that it has not been shot down since the *Financial Times* reported it on December 5th. A big figure would help send Mr Trump the message that Europe is *doing something*. In practice an extra €500bn would push outlays to just 2.4% of EU GDP (meanwhile a new NATO target of 3% is being floated). And a squabble would ensue over spending. Who decides whether to buy Europe-made kit (as France prefers, to ensure the long-term "strategic autonomy" of the EU) or off-the-shelf weaponry from America (as many others would like, to ensure the stuff is delivered soon), say? Raising money for defence is hard, paying it out may be even harder. ■