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## **TENDENCIES IN THE DEFENSE SPENDING IN THE NEW EUROPEAN STRATEGIC ENVIRONMENT**

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**Abstract:**

The dissolution of the Soviet Union has given a way to a long period of peace and stability for the European nations. The European Union (EU) has been the key to the development. It has transformed the relations between our states, and the lives of our citizens. Our countries were committed to dealing peacefully with disputes and to cooperating through common European institutions. The United States has played a critical role in European integration and European security, in particular through North Atlantic Treaty Organization (NATO). The extensive reduction of defense expenditure has created serious difficulties for force development and preparation as well as the ability of the armed forces to deliver on expectations. But the ghosts of war in Europe are back.

**Key words:** *Europe, Russia, defense, spending, security, budget*

### **1. Introduction**

This study is focused on the defense spending in 2015 and 2016 in Europe and outlines current trends in European defense spending, following the challenging security developments that took place in the immediate environment of Europe, with a significant impact on European security.

Russia plans on restoring Russian leadership and influence in the former soviet space and perceives NATO and the EU as threats to its project and appears to be no longer interested in preserving a cooperative relationship with the EU and the West in general.

What happened almost twenty years ago with the Balkans conflicts, happened again with the war in Ukraine – a total surprise too many Europeans who thought themselves rid of it forever.

This explains why since the end of the Cold War and prior to the Ukraine crisis, they were two trends in the way most European countries had been dealing with defense. The first trend was to show little interest in defense matters. It meant that they were not interested in maintaining capable armed forces or to invest in future capabilities because they did not see the need to do so. This trend, together with the economic crisis that started in 2008, conducted to the second large trend: a rapid decline in defense budgets across Europe because the defense budget has served as an easy target to restrain public spending.

or a number of years, in the most of the European NATO - member states, 2% benchmark has been abandoned for various national reasons, be it so-called peace dividend (economic benefit of a decrease in defense spending), recent financial crisis or social and demographic pressures. Above all, in the majority of the countries, there has not been enough political support for reinforcing defense capabilities and in most situations there has been a large support to optimize and find more efficiency in capability development, equipment maintenance and employment of the forces. In many cases, that has resulted simply in decreasing defense output.

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Between 2006 and 2013 within the European Union member states, defense expenditures have declined by 15%. Defense investments (procurements and R&D) were lower in 2013 than they were in 2006. It is clear now that these cuts have and will have significant and long-term effects on European defense capabilities and on its capacity to act and react.

### **2. Today's Europe**

With the Ukrainian crisis, the European saw again the return of war. But is more than that. The political organization of the EU, its normative power promoting the rule of law, democracy and transparency (within member states and in relation with other nations) is perceived as a political challenge by other powers, such as Russia, that develops and promotes an alternative model.

The Arab Spring deeply transformed the Middle East and North Africa (MENA). Both regions have entered a phase of long-term turbulences and instability, combining the rise of new forms of religious fundamentalism with an increasing terrorist threat affecting not only the region, but also EU countries, as we could see by the recent attacks in Belgium, France and Denmark. Despite the fact that after the wars in Iraq and Afghanistan there was indecision on political leaderships in Europe to engage in military operations in MENA region and also the public seem unwilling to do so, security developments in the region caused Western military responses in Libya and in the Levant (Syria and Iraq). Further South, terrorist threats and weak states in the Sahel region create additional challenges for Europe. Russia's aggressive posture exemplified by Moscow's illegal annexation of Crimea and the crisis in Ukraine, recent terrorist attack on Europe and illegal migration proved the basic assumption that the EU was spreading peace beyond its immediate borders and that Europe faced no threats on its borders is no longer valid.

All those have reopened the debate over "collective defense", a concept that has been more or less forgotten after the 9/11 attacks and a new concept- "expeditionary warfare" was enhanced, which became the main operational target and the main motive to reform Allied armed forces. For the politicians, the commitment to NATO's Article 5 was considered to be an "acquis" and in most capitals, especially in Western Europe, there were no serious considerations about how they actually will do this. The capability requirements focused on flexibility and ability to operate in Iraq, Afghanistan, and other theatres. In fact, the annexation of Crimea caused many NATO states to query whether NATO is ready and capable of facing an Article 5 scenario in its territory.

But NATO has understood the need of collective defense as the most important of its core tasks, not only in political declarations but in actual day-to-day capability and operational planning activities. In 2014, at the September Wales Summit of the NATO 28 Allied Heads of State and Government, among other significant decisions, made a pledge to halt declining defense spending and work towards its increase up to 2% of their Gross Domestic Product (GDP). The NATO leaders confirmed that Allies who currently spend less than 20% of their annual defense spending on major new equipment, including related Research & Development, will aim, within a decade, to increase their annual investments to 20% or more of total defense expenditures. The decision was also made to review and discuss the accomplishments on the annual basis [1].

Since then, several countries have indeed increased their defense budget. In most of the cases, the main trigger has been the perceived Russian threat. Nevertheless, as shown below, in 2015, only four of NATO Europe's members – United Kingdom, Poland, Greece and Estonia presently meet the 2% of GDP target for the defense-budgetary allocations set by the Alliance

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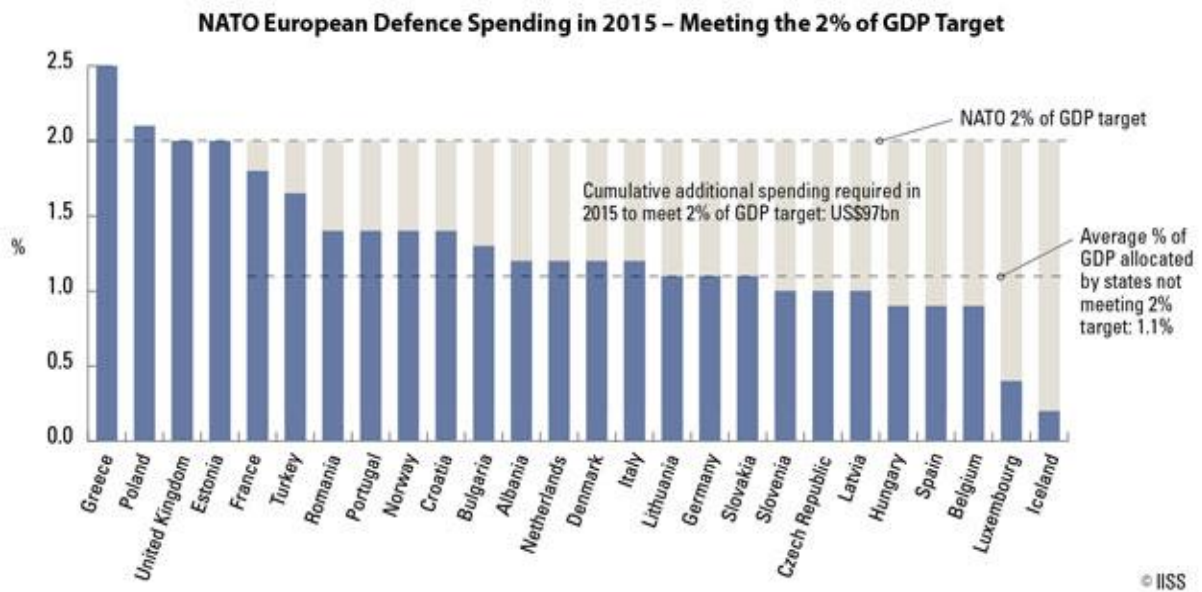


Fig. 1

\*Data source: *International Institute for Strategic Studies (IISS)*,  
<http://www.iiss.org/en/militarybalanceblog/blogsections/2015-090c/july-f6a2/href=>

In the remaining 22 European NATO - member states, the average percentage of GDP allocated to defense was just 1.1%. To meet the 2% of GDP target these countries would need to raise their defense outlays by almost 45%, or, with another word, \$100 billions of dollars. Having in consideration the ongoing fiscal pressures faced by the EU as a whole, the social problems, even in the face of magnified EU regional threats, fully commitment to agreed defense expenditures seems improbable.

### 3. Defense spending in Europe in 2015-2016

#### 3.1 Reversing of the old trend

For a long time in most European countries, when the governments balanced their budgets between budgetary cuts and economic crises, the defense plan was not to spend more but to spend less and more wisely. In these days, when we are facing the renaissance of almost forgotten threats on the European continent, threats to territorial integrity or to political solidarity caused the above refrain is no longer applicable. New intelligence and security officers were hired, surveillance equipment within the EU and the EU borders were extended and upgraded, and the planned cuts of the armed forces were forgotten.

For the European security 2014 and 2015 have not been good years. The resurgence of threats on the European continent caused a new approach. The declining trend that has affected European defense budgets for over twenty years, especially after 2008, has stopped. With its immediate proximity security environment in turmoil, the European countries began to spend “more”. The question is if the money will be spent “more wisely”.

In these days, following the deteriorating security situation in the Europe neighboring regions (Eastern Europe, MENA) and in another region of interest for Europe, such as Afghanistan and Sahel region with direct repercussion back home in the EU, there are proofs that EU states are making adjustments to their strategic calculations. As shown in the annual assessments of global military capabilities and defense outlays, made by the

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International Institute for Strategic Studies (IISS), the continuous reduction of military expenditures which was the characteristic of the Europe's budgets spending policies after the time period following the dissolution of the Soviet Union is slowing down, with a weak trend to recover.

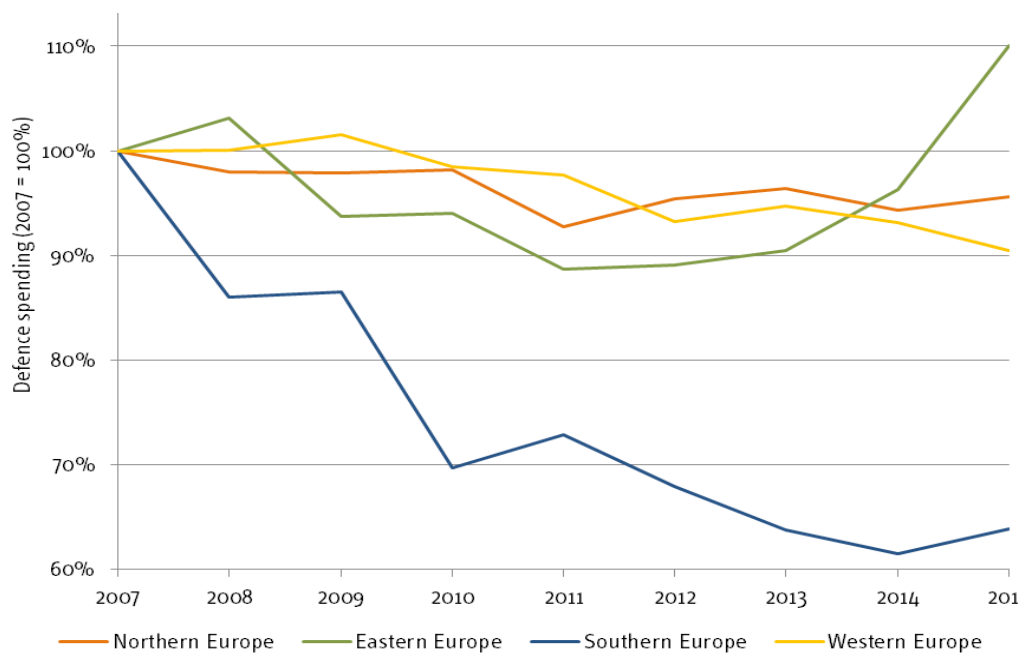
According to the data published by the IISS's Military Balance [2] all the EU members spent on defense in 2015 a total of 203.143 billions of euro. In comparison with 2014, the numbers still indicate a fell at an annual rate of 0.4%, but the decrease is slowing and the official target is to begin growing again, in accordance with the political engagements from the September 2014 Wales Summit of the NATO. The 2015's reductions represent an obvious contrast to the severe cutting in expenditures encountered at the height of the financial crisis when the EU national governments trimmed the defense budgets at annual rates of 4%-6%.

Another significant aspect to consider is the going up defense spending in Russia and Asia. As mentioned in the 2014 SIPRI released publication *Trends in the World's Military Expenditure*, military spending dropped in the NATO - North America, Western and Central Europe - while it increased in all other regions of the world. China, Russia and Saudi Arabia are among the 23 countries that have more than doubled their military expenditure since 2004 [3]. Russia, for example, has increased its military expenditures by 108% since 2004 while its GDP growth was only 39%. It's obvious that the economic growth is not the trigger factor to the counties to increases the defense spending. In the same time, China's defense spending has increased by 170% while its GDP growth was 140% [4]. The final important factor to mention is the recent dramatic changes in the European security environment which do not seem to be better [5]. As a result, in 2012 Asia become the world's second-biggest regional defense spender after the North America overtaking Europe, furthermore in 2015 outspent Europe by 36.4%. The consequences are to be determined in the future.

Thus – many factors together worked in making this defense spending pledge a high-level public commitment. But despite the fact that the free fall of the European defense budget has stopped to the point of reverse, as shown bellow, in 2015 Europe's defense spending corresponds to almost 85.5% of the 2007 level – the pre-financial crisis level.

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**Comparative regional defense spending in the EU (2007-2015, 2007 = 100%)**



Northern Europe: Denmark, Estonia, Finland, Latvia, Lithuania, Sweden  
Eastern Europe: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia  
Southern Europe: Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, Spain  
Western Europe: Austria, Belgium, France, Germany, Ireland, Luxembourg, Netherlands, UK

Fig. 2

*\*Data source: IISS Military Balance 2009-2016*

### **3.2 Ups and downs**

Today's security in Europe is perceived with a different level of intensity by the member states. The increased security threats in Europe's east and south caused a high level of attention in some EU countries, others appear less worried. Russia's disruptive activities and interference in Ukraine have raised concerns in the majority of the eastern European countries which have increased defense budgets in response, by 22% over the last three years. This upward trend is driven by Poland, which increased spending from 1.7% of GDP in 2013 to 2.1% in 2015. Slovakia and Romania followed suit, though starting from much lower baseline levels [6].

Facing the dissolution of Libya, the civil war in Syria and the resulting refugee crisis, the countries from the Europe's south are beginning to concern on security investments despite the ongoing austerity measures in place. But, the 4% increase in spending due the renewed focus on the military is much smaller when compared to Eastern Europe 22%.

Moreover, pressed by the financial crisis, the governments enforced brutal cuts to defense budgets so the effective reinforcement of the defense sector will be a long way.

As for Europe's northern member states, growing discomfort caused by the aggressive Russia military presence near their borders, caused a visible increase in the defense budget allocations. In 2015, compared to the previous year, increases in defense budgets totaled a 1.4% increase on average. But, compared to 2007 outlays, northern

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Europeans' defense budgets never fell with more than 10% on average, with the exception of Latvia and Lithuania [6].

Finally, and in contrast to apparent trends in most of the Europe, the defense budgets of western European states did not display a change in strategic calculations in 2015. In reality, budgets fall again by 2.9% in real terms and for the second year in a row. Four states (Austria, Belgium, Germany, Luxembourg and the UK) applied (minor) cuts to their defense budgets in 2015 [6]. The two dramatic terrorist attacks on France dropped out planned defense cuts and made the government increase spending again. Also, the Netherlands allocated extra funding to the country's defense budget, which rose by 2.5% in real terms compared to 2014. Ultimately, a 69% of Europe's total defense spending is budgeted by the western European countries, a percent that has risen in relative terms with 4% since 2007 (65%).

### **3.3 What's next?**

According to a recent a study analyzing European defense spending and cooperation in a changing international environment, published by The French Institute for International and Strategic Affairs, the data gathered indicates that in 31 European countries defense spending will grow by an estimated average of 8.3% in 2016, compared to 2015 [7]. This represents a break with the structural trends of previous years and an inflection in defense budget patterns across Europe.

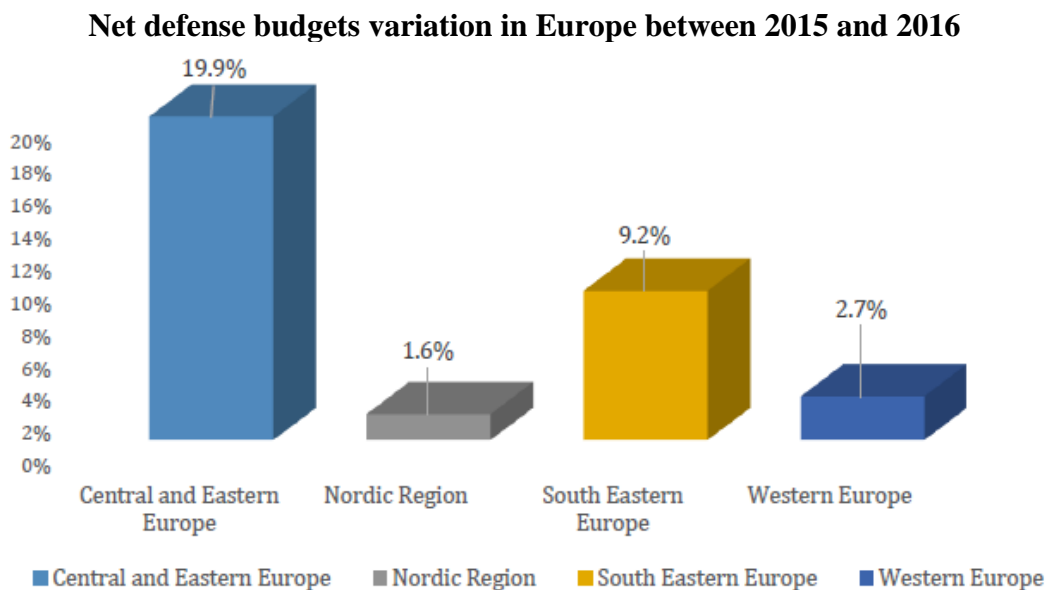


Fig. 3

*\*Data source: International Institute for Strategic Studies (IISS)*

The 2016 defense budgets will increase in real and nominal terms in all European countries, except Italy – plans a stable budget in nominal terms; Greece – because of the pressure regarding public debt and public finances; Luxemburg – the budget volume is small compared to other European partners; and Sweden will increase its military expenditures between 2016 and 2019 according to an 3 year plan.

Following the threat to security level of intensity perceived by the member states, the budget variation from 2015 to 2016 is positive across European regions. It amounts to +19.9% in Central and Eastern Europe (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia), +9.2% across South-Eastern Europe (Bulgaria, Croatia,

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Cyprus, Greece, Romania, Serbia and Slovenia), +2.7% across Western Europe (Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Spain, Switzerland and the United Kingdom), and +1.6% across the Nordic region (Denmark, Finland, Norway and Sweden) [7]. This trend is likely to increase the Europe's military capabilities and defense output.

When we think about what's next after 2016, there are three main ways of describing the possible consequences of the current international security environment for defense spending, which are useful to put trends into perspective, and to outline the security environments within which the defense policies of the EU countries may have to act/ react: a status quo/business as usual scenario; a political reaction scenario; and a game-changing scenario.

Business as usual, or status quo, is an outcome which supposes that in the long-run, recent challenges will not have fundamentally compromised Europe's underlying vital or strategic interests [8]. According to this scenario, terrorist attacks and turmoil in immediate EU security environment are not perceived as posing an existential threat to territorial integrity or the livelihoods of their citizens. As a result, the 'demilitarization' of Europe will continue motivated by the end of the Cold War, no direct threats, the financial crisis and the economical stagnation that followed.

The second outcome sees European states react in a predominantly political way. In this scenario, the events from 2014 and 2015 are not perceived as posing an existential threat to states' interests. As a consequence, they do not affect the military calculus, but they are seen as a threat to strategic interests. Politicians send a visible signal that they intend to reverse the falling trend in budgets which has prevailed since the end of the Cold War, at least temporarily. It is more a political statement more than a plan for military investments, showing that recent events catch the governments' attention, and they start to reconsider defense more seriously.

The third scenario is that the events of 2014 and 2015 turn out to be a genuine game-changer, which has a lasting impact on both the political and military calculus of European countries. The deteriorating security environment is perceived as a threat to strategic and vital interests, triggering a response that has both political and military implications. Not only is the trend of declining budgets halted: it is reversed, and unlocks a level and/or a manner of defense spending which is likely to have a tangible effect on the military. In turn, this contributes to making European armed forces more effective and more credible [3].

### **3.4 Quality versus quantity**

After the pledge from September 2014 NATO Wales Summit to halt declining defense spending and work towards its increase up to 2% of the member states GDP and the commit to increase the annual investments to 20% or more of total defense expenditures, question is now whether spending more is a replacement for or a complement to spending better.

According to recently published data from NATO, the EU – NATO member states are slowly moving towards meeting their pledge of spending 20% on equipment [6]. The military budgets are facing a relative imbalance between personnel and the other components of defense spending: equipment, infrastructure, and 'other' (operations and support, maintenance and R&D). The personnel costs continue to claim for the largest slice of defense expenditure. The EU – NATO member states spend, on average, more than 60% on. Nowadays, recruiting and maintaining personnel has become more expensive, especially as private sector jobs offer increasingly attractive salaries and benefits relative to military sector positions.

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## **3. Conclusion**

The September 2014 NATO Wales Summit was a turning point for the European defense: governments began to increase defense spending in reaction to the manifold challenges threatening Europe's security.

The military outputs of this new budgetary trend are as yet uncertain. Increased budgets are not a guarantee that the countries will spend their money wisely than they did before and the budget tendency to increase will conduct to a similar trend in security. The greater significance should be on the military output, not on the nominal sums allocated to defense.

On a national level, a significant budget rise risks to make no difference for the country security if the acquisitions system is too complicated, if the services are too unbalanced in financing, if the equipment are out of date and expensive to maintain, or its Armed Forces are too personnel-heavy. Also maintaining impractical and costly capabilities will make the military more inefficient, whilst diverting resources from investments for the future. National security means more than military power. To sustain a secure nation, each country budget must be balanced among military defense, diplomacy, and programs that provide the country development and economic security, such as education, healthcare and job creation

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