



A credible military deterrent is economically feasible

Description

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The need to accelerate defense spending is now inescapable. This is both feasible economically and will boost domestic demand in the short run, which will help the EU economy come out of the past two years of poor growth.

How much the EU spends on defense

According to the [European Defense Agency](#), the EU spent 326 billion euros on defense in 2024, equivalent to 1.9% of GDP and a 30% increase since 2021. It has also committed another 100 billion euro still 2027 which amounts to another 30% increase in three years. Despite the rapid increase in defense expenditures however, this is not enough to provide a credible deterrent to Russia's aggression.

A [recent study](#) shows that in order to have sufficient military capacity, the EU would need an extra 300,000 troops and an increase in annual defense spending of at least €250 billion. This is the equivalent of about an extra 1.4% of GDP increase per year on top of the 1.9% spent today which is directly comparable to what the US spends (3.4% of GDP according to the [World Bank](#)). This is a big amount, but it is well within the economic power that the EU has both at the member state level and especially at the EU level. What it requires is tight coordination.

This is comparable, if not smaller, to other crisis responses

In previous crises the EU economic firepower has been much bigger than that. During the energy crisis in 2022, EU member states allocated anything between [0.5% and 7% of GDP](#) to shield households and firms from the economic fallout. In the COVID19 pandemic in 2020, the immediate national fiscal impulse ranged from [0.4% to 8.3% of GDP](#), with much bigger funds and liquidity guarantees pledged. Next to that, the EU created the [Recovery and Resilience Fund](#) (RRF) that amounted to close to 5% of GDP for a period of seven years, an instrument that was financed by the issuance of common EU debt, first time ever at such scale.

The EU has both the means and the power to respond decisively and immediately. What it needs is the willingness to do so and agree to coordinate to maximize efficiency.

A combination of financing means

There are different ways of reaching this extra 1.4% of GDP. In a recent [op-ed](#) in the Financial Times, the Greek Prime minister argued for three ways:

1) Remove defense expenditure from the fiscal rules to allow an increase of deficit spending in national budgets without triggering the excessive deficit procedure. However, he acknowledges that this alone is neither enough nor necessarily without problems to some nations' fiscal health. So, it should be done with caution.

2) Include security and defense in the European Investment Bank's (EIB) list of strategic priorities. There have been many calls for the EIB to play a more active role in financing growth in the continent, not least, in the Draghi report on European competitiveness. Doing that would attract private money, which is necessary to distribute the burden of financing such an undertaking.

3) Create a 100 billion euros European instrument for collective defense requirements, to be financed by debt, similar to RRF design.

The relevance of domestic demand for Europe's growth

The European Union having barely grown in the past couple of years is again estimated to [continue on this poor growth trajectory](#) in 2025. Beyond the number of reforms the Draghi report outlined to increase productivity sustainably, Draghi himself also emphasized the [need to boost domestic demand](#), away from reliance on exports as a driver of growth.

Increasing military expenditure at the rate of an additional 1.4% of GDP per year, in the short term, will provide a big stimulus. If this is done in a coordinated way that exploits efficiency gains and includes all stakeholders, private and public, then it will provide a big boost in the economy in the short run. On top of that, investments will accelerate [innovation in dual use technologies](#) that will inevitably close some of the innovation gap identified by Draghi.

This is not the growth model of choice

Is this the future growth model of Europe? The answer is no especially because defense spending and growth are [not necessarily correlated in the long run](#). Regrettably, however, in the short run, the answer must be yes. It would have been much better to invest in education and the much-needed acceleration of the green transition. But we do not choose the problems we face. The EU and other European countries must now protect the continent as the only way to maintain freedom to choose how we live.

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