Trends in the Political Economy of Military Expenditure.
The Case of Europe

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Abstract. *In real terms, global military spending increased by 3.7% in 2022 to a record $2240 billion. The invasion of Ukraine by Russia played a significant role in the increase in spending, with military spending in Europe rising by 13% in the year – the highest yearly increase in total European spending since the conclusion of the Cold War. Significant increases in spending by Russia and Ukraine were primarily responsible for the remarkable gain, but several other European nations also increased their military budgets in 2022. This essay examines the impact of national choices regarding sovereignty, industrial issues, and strategic needs on procurement strategies, and then measures and discusses the changes and continuities in the European procurement process.*

Keywords: military spending, conflict, economic, expenditure data, military trends

Introduction

The countries of Europe are moving towards militarization. According to NATO criteria and data, military expenditures of EU member states have climbed by about 50% in the past ten years, from €145 billion in 2014 to a budget prediction of €215 billion in 2023 (measured in constant 2015 prices). This sum exceeds the yearly GDP of a nation like Portugal. It is anticipated that 2023 expenditures will rise by over 10% in real terms compared to the previous year due to the conflict in Ukraine. NATO EU nations together currently allocate 1.8% of GDP to their armed forces, nearly meeting the 2% threshold established by the US and NATO.

This research examines the increase in military spending in Europe, specifically focusing on Germany, Italy, and Spain. Germany has raised its actual military expenditure by 42% over the past ten years, whereas Italy has climbed by 30% and Spain by 50%. In every country, this growth is solely attributed to increased purchases of weapons and gear. In 2023, arms expenditure in NATO EU members averaged €64.6 billion, with total employment increasing by 9% and military expenditures rising by 270% over a decade. Germany's spending tripled to €13 billion, Italy reached €5.9 billion, and Spain spent €4.3 billion. EU imports of weaponry, as reported by SIPRI (the Stockholm International Peace Research Institute), have tripled from 2018 to 2022. 50% of imports originate from the US.

The European Union has also embraced this movement towards militarization. The EU has recently initiated the European Defence Fund with €7.9 billion for new weaponry research and production from 2021 to 2027, as well as the European Peace Facility with €12 billion for military aid and supplies outside the EU over the same timeframe.

The increase in military spending and acquisition of weapons sharply contrasts with the lack of growth in the EU economy. Between 2013 and 2023, the combined real GDP of NATO EU members climbed by 12%, with an average annual growth rate of just over 1%. Total employment rose by 9%, but military expenditures surged by 46%, which is four times faster than national income. In the realm of new investment, capital formation has climbed by 21%, whilst arms acquisitions have surged by 168% in NATO and EU countries, marking an eightfold rise in

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comparison. The growth rate discrepancies in Germany, Italy, and Spain are largely comparable. Countries are allocating a growing amount of resources towards arms rather than investing in new manufacturing capacities, technologies, and infrastructures.

During a period of financial worries, an increase in military spending results in a reduction in other public expenditures. Over a decade, overall government spending in the combined NATO EU countries rose by 20% in real terms, averaging an annual rise of around 2%. Military spending increased by 46%, while education, environmental protection, and health had smaller increases of 12%, 10%, and 34% respectively.

Arms acquisition is akin to the capital investment spending in state budgets. In NATO EU countries, armaments purchase surged by 168% over a decade, which is almost five times faster than the 35% increase in the latter. Germany and Spain closely follow EU spending trends, however Italy exhibits a slower increase in expenditure due to limitations in its public finances.

What are the economic impacts of military spending on growth and employment? How does it compare to public spending on education, health, and the environment? A €1 billion expenditure generates demand for intermediate goods and services across all industries. Some of this demand is met by imports, which do not contribute to domestic production. Therefore, the value of imports should be deducted from the initial €1 billion expenditure when calculating the anticipated economic effects. Input-output tables can chronicle these flows, enabling us to estimate the consequent changes in national output and employment.

A €1,000 million investment in armaments procurement in Germany leads to a €1,230 million rise in domestic output. In Italy, the rise is just €741 million due to a higher proportion of the budget being allocated to imports. Spain experienced a €1,284 million rise in domestic output. The impact on employment results in an increase of 6,000 full-time jobs in Germany, 3,000 in Italy, and 6,500 in Spain.

The economic and employment impact is more significant when €1,000 million is allocated to education, health, and the environment. The most significant impact is shown in environmental protection, with an increased output of €1,752 million in Germany, €1,900 million in Italy, and €1,827 million in Spain. The additional output for education and health varies from €1,190 million to €1,380 million. In Germany, an investment of €1,000 million might generate 11,000 new jobs in the environmental sector, nearly 18,000 jobs in education, or 15,000 jobs in health care. In Italy, there are over 10,000 positions in environmental services and nearly 14,000 in education. Spain would have an employment impact of 12,000 additional jobs in the environmental sector and 16,000 in education. The employment impact is two to four times greater than what was anticipated from increased armament procurement.

The findings emphasize the problematic nature of the current increase in Europe's military spending. A more militarized Europe may struggle to resolve existing disputes and increased spending could trigger new arms races, potentially disrupting the international order in the vicinity of Europe.

Literature review

Four theoretical perspectives have been established to analyze the economic impacts of military spending: Neoclassical, Keynesian, Institutional, and Marxist. This allows for the potential identification of many processes via which military spending impacts economic growth (Dunne and Coulomb 2008). Recent empirical studies have primarily concentrated on various types of the neoclassical growth model, whether exogenous or endogenous. However, due to the lack of consensus among economists about a growth theory, there is no established framework for military expenditure (Dunne, Smith, and Willenbockel 2005).

Several studies have analyzed the factors influencing military spending components. Bove and Cavatorta (2012) studied the correlation between conscription and personnel share, while Becker and Malesky (2017) examined the link between Atlanticist strategic culture and O&M costs, crucial for military preparedness, training, and operational activities. Becker (2019, 2021) found that fiscal pressure and unemployment led states to reallocate their defense budgets from equipment to personnel. Droff and Malizard (2019) used detailed EDA data from 2005 to 2014 to study how EU nations share the burden. This paper proposes that various categories of military expenditure may yield diverse economic advantages, however no previous research has investigated these consequences.

The empirical research investigating the economic impacts of military expenditure have failed to yield a definitive conclusion. In certain nations and time periods, there has been a correlation between it and increased economic growth. However, other studies have found that it has had negative effects on economic performance, no influence on unemployment, and a decrease in the resources allocated for other public expenditures (Dunne and Smith, 2020).

Methodology

This research examines the changes and effects of military spending in the past decade among NATO nations that are part of the European Union, with a focus on Germany, Italy, and Spain. The three countries mentioned are the major EU economies with a moderate level of military engagement, which is less than that of France and the UK, both nuclear powers with a history of neocolonial military actions abroad.

We refer to NATO's definition of military expenditure, which is also utilized by SIPRI. This definition offers a thorough overview and is linked to an accessible database.

Military expenses are mostly part of the Ministry of Defence's budget. Additionally, military-related expenses can be identified in the budgets of various government departments such as the Prime Minister’s Office, the Ministry of the Economy, the Ministry of Industry (for arms development and procurement, assistance to military industries), the Ministry of Research (for research and development related to military uses), and other governmental entities. NATO's definition encompasses some, but not all, of these extra costs.

Ministries of Defence budgets typically cover expenses for domestic public security functions that are separate from total military expenditures.

One challenge in evaluating military budgets is the discrepancy between projected forecasts, budget allocations, and the verified post-facto expenditures. In several countries, there is a consistent rise in expenditures as they progress through the budgetary process, with Italy experiencing an increase of up to 15%. The data mentioned pertains to budget allocations and is based on NATO budget predictions for 2022 and 2023.

Results and discussions

About Military Expenditures

Military spending is influenced by the military structure, domestic politics, and economic factors. The term refers to the amount of economic resources that a country's government assigns to its national military system, including the armed forces, armament procurement, military infrastructure, and military activities.

Four primary factors influence military spending (Nascia and Pianta, 2009):

A. The military system devises spending programmes according to strategic priorities, considering security objectives, military alliances, and external threats. Emphasizing military might can trigger arms races and alliances, leading to increased military expenditures. Military bureaucracies may require increased resources to enhance their influence.
B. In the political system, governments utilize the military as a tool for foreign and security policy. Additional methods for ensuring security encompass regional political integration, global economic collaboration, diplomatic efforts, trust-building initiatives, disarmament agreements, human rights advocacy, and developmental assistance. Such approaches can diminish the likelihood of international tensions and conflicts, hence decreasing the significance of the military system.
C. In the economic system, military spending is financed through tax income or government debt and vies for resources with other public expenditures such as education, health, welfare, research, and the environment. Government policies determine the significance of the military in comparison to other economic, social, or environmental goals. Various categories of public spending have different impacts on economic growth and influence the direction and standard of a nation's progress.
D. Military spending stimulates demand for products from both private and public firms and contributes to research, development, manufacture, and export of weapons. Profits in arms manufacturing tend to exceed the norm, and a nation's 'military industrial complex,' a term introduced by General Dwight Eisenhower in his final address as US president, significantly influences the increase in military spending.

The discussion on how military spending affects economic growth and employment highlights their conflicting characteristics. Military expenditure, along with other public expenditures, can stimulate the economy by boosting public sector demand based on Keynesian ideas. This could address issues of underconsumption and stabilize business cycles. Since World War II, the United States has allocated significant funds towards research and development of new technologies through military spending, which has led to the growth of new economic sectors (Baran and Sweezy, 1968; Krell, 1981; Dunne and Tian, 2013).

Close links form between governments and the arms industry during arms manufacture and procurement. Public procurement is the primary source of demand for enterprises, whether private or state-owned, that operate in the military industry. These companies are structured inside a small number of major corporate conglomerates that have significant control over the market, which heightens the risk of inefficiencies, inflated prices, pricing manipulation, excessive profits, collusion, and corruption. A typical practice known as the 'revolving door' involves politicians, generals, and business leaders frequently transitioning between positions of authority in government, the military, or industry. This practice blurs boundaries, creates conflicts of interest, and diminishes public accountability.

States prioritize the preservation of armaments production capability by safeguarding national enterprises, even if they are inefficient. The decisions pertaining to the export and import of weaponry are influenced by both corporate economic factors and government political strategies. Within the framework of arms races, military manufacturing prioritizes the development of advanced weaponry, resulting in extensive research endeavors focused on arms. These risks are primarily assumed by governments rather than private firms. This strategy diminishes the capacity of military companies to effectively compete in commercial marketplaces where the significance of efficiency and creativity in practical products is paramount.

The top global military spenders in 2022

In 2022, the total military expenditure of the 15 biggest spenders amounted to $1842 billion, which represents 82 percent of the global military expenditure. Significant shifts in rankings occurred among the top 15 positions between 2021 and 2022, primarily due to the commencement of the Ukrainian conflict in February 2022. In 2022, Russia experienced a significant increase in its military spending, estimated at 9.2 percent. As a result, it moved up from the fifth position to become the third largest spender globally. Additionally, Ukraine made its debut in the top 15 countries, ranking 11th, following a remarkable 640 percent surge in its military expenditure. Among the top 15, Saudi Arabia surpassed the United Kingdom, Germany, and France to become the fifth greatest spender, moving up from its previous position as the eighth largest spender.

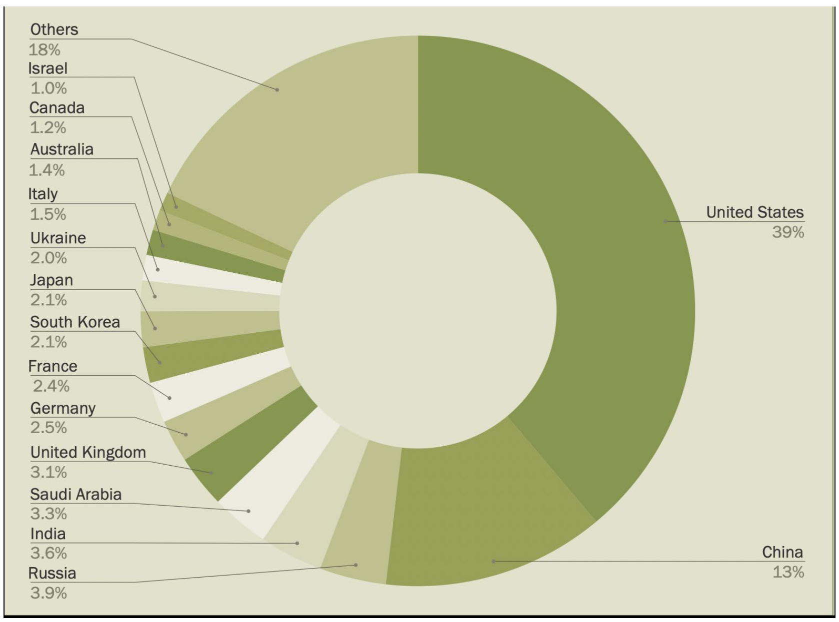

Figure 1. The share of world military expenditure of the 15 countries with the highest spending in 2022

Source: SIPRI Military Expenditure Database, Apr. 2023.

In 2022, the United States accounted for 39 percent of global military spending, making it the greatest spender. China followed with 13 percent, while Russia, India, and Saudi Arabia ranked third, fourth, and fifth respectively, with spending percentages of 3.9, 3.6, and 3.3 (see Figure 1). Collectively, these five nations represented 63 percent of the whole worldwide expenditure on military activities in the year 2022.

In 2022, six nations in the top 15, namely France, Germany, Japan, Russia, Ukraine, and the UK, experienced an increase in their military burdens. This refers to the proportion of military expenditure in relation to their gross domestic product (GDP). Ukraine has the highest military burden among all countries in the world in 2022, accounting for 34 percent of its GDP. The military burden in Ukraine increased by 30 percentage points due to a significant decline in its economy and a more than sixfold rise in its military expenditure.

The conflict in Ukraine resulted in a rapid escalation of military spending, as numerous nations in Central and Western Europe declared significant budgetary expansions following the invasion. The commitments to increase expenditure fluctuated from nation to nation, and the schedules for execution frequently varied. Although several pledges were planned to take effect in 2022, the majority extended across multiple years. Slovakia made a short-term commitment by changing its planned military expenditure from an initial goal of 1.8% of GDP in 2022 to 2.0%, in accordance with NATO's target. In contrast, Denmark took a longer-term perspective and declared its intention to gradually raise its military spending to 2.0% of GDP by 2033.

Countries' commitments also varied in terms of expenditure objectives. As an illustration, Austria, a country that is not a member of NATO, declared its intentions in 2022 to raise its military expenditure to a minimum of 1.0 percent of its Gross Domestic Product (GDP), whereas Lithuania and Poland, both of which are NATO members, established greater targets for military expenditures. Lithuania has committed to raising its military expenditure to 2.5 percent of its Gross Domestic Product (GDP) by 2022, whereas Poland aims to achieve a target of 4.0 percent of its GDP by 2023.

EU military spending countries in the NATO alliance

This paper examines the changes and effects of military spending in three EU nations – Germany, Italy, and Spain, within the framework of trends in NATO EU countries – from 2013 to 2023.

The military expenditures of EU NATO members increased from €145 billion in 2014 to €215 billion in 2023, representing a real-term surge of 48%. Expenditures have increased rapidly since the beginning of the conflict in Ukraine in 2022.

In 2014, a significant shift in policy occurred for NATO EU members during the NATO summit in Wales. A declaration was made highlighting the need to stop the decrease in military spending and raise it to 2% of GDP, with defense equipment accounting for at least 20% of the budget.1 NATO documents cited Russia's 2014 annexation of Crimea as a reason for an increase in military spending.

NATO EU members experienced a 4.7% real term increase in spending from 2019 to 2020. Subsequently, there was a slight rise during the pandemic in 2021, and a significant surge during the Russian invasion of Ukraine in 2023, resulting in a 9.5% increase that encompassed military supplies, arms, and munitions for Ukraine. The Kiel Institute reported that spending on military, financial, and humanitarian aid for Ukraine in the first year of the war accounted for 0.38% of the GDP of EU member states and 0.33% of the US GDP.

Germany, Italy, and Spain have all experienced an upward trend similar to other NATO EU members, each with varying durations influenced by their national conditions.

In the European Union, the increase in military spending is linked to NATO's push for higher defense contributions and efforts to enhance Europe's strengths in crucial technology and defense-related manufacturing. The 2022 'EU Strategic Compass' emphasizes a policy of close EU alignment with NATO and the US, requiring more military investment for its implementation due to the Ukraine crisis and the US's heightened involvement in European issues.

Figure 2 illustrates a significant increase starting from 2014, the year that NATO countries committed to investing 2 percent of their GDP on collective defense. Prior to this commitment, European nations had only allocated 1.47 percent of their GDP towards defense spending.

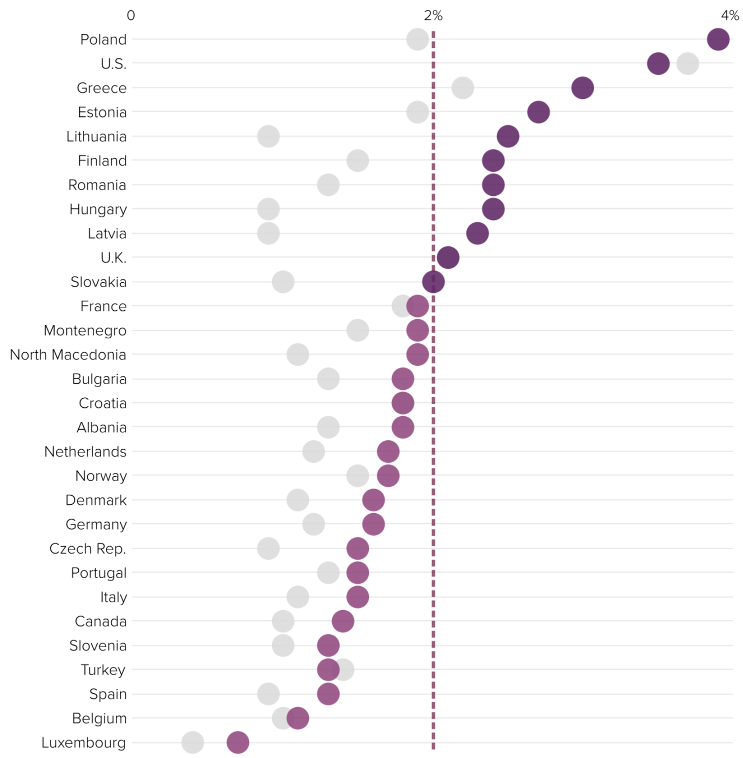

Figure 1. Defense expenditure as a share of GDP in 2014 and 2023

Source: NATO.

Military spending diminishes the resources that can be used for consumption and productive investment. It consumes a substantial portion of a nation's restricted resources in research, technology, human expertise, capital accumulation, and finance. In the United States, this has resulted in commercial practices that have increased costs, prices, and profits, while decreasing efficiency (Melman, 1988). Some say that in the United States, military spending serves as an unofficial industrial policy, and the economy's underperformance is believed to be caused by the distortions resulting from this dependence on military-driven investment and innovation (Markusen 1986: 496).

Empirical research on the economic impacts of military expenditures has not produced a definitive conclusion. In certain nations and time periods, it has been linked to increased economic growth. Other studies have shown negative effects on economic performance, little influence on unemployment, and a decrease in resources for other public spending sectors (Dunne and Smith, 2020).

Long-term focus on the military limits the potential for exploring alternative development paths. The phenomenon may lead to authoritarian impacts on a nation's institutions, political cultures, and society, perhaps resulting in a decline in democracy (Galtung, 1985; Thorpe, 2014).

The economic effect of military expenditure

The significance of the rise in military spending and weapons acquisition in Europe must be evaluated within the framework of overall economic performance. This section compares variables with changes in gross domestic product (GDP), total investment (gross fixed capital formation, GFCF), and employment. We compare military spending with other public expenditures, taking into account environmental and social goals.

This investigation will determine if the increase in military spending has been linked to sustained economic growth in Europe over an extended time. Military spending contributes to a country's GDP, whereas investments in weaponry and equipment are included in the country's gross fixed capital formation. We can determine if the economy's overall growth has enabled military expansion or if the latter has occurred at the expense of resources allocated to social and environmental goals by comparing these two sets of indicators.

The data sources utilized in this analysis are sourced from Eurostat. We will once again focus on NATO EU members, specifically Germany, Italy, and Spain. We analyze the period from 2013 to 2023 and determine the percentage change in real terms for the entire time. The NATO data for 2023 consist of budgetary predictions for overall military spending and for expenditures on armaments and equipment. Eurostat does not have statistics for the gross domestic product (GDP), gross fixed capital formation (GFCF), and employment for 2023. These values have been approximated by extrapolating the linear trend observed from 2013 to 2021. We have computed alterations for the 2013-2021 timeframe using complete data without the need for estimations. The trajectories show significant similarities, and the substantial disparities between the increase in military spending and overall economic performance are verified.

Conclusion

Europe has increased its military budget during the past decade. This has significantly increased since the beginning of the war in Ukraine in 2022. In 2023, NATO EU members spent €215 billion on the military, adjusted for inflation to 2015 values, compared to €145 billion in 2014, representing a 48% increase in actual terms. Germany, Italy, and Spain collectively represent over 40% of these expenses and have seen growth rates between 30% and 50% in the past ten years.

Europe's security needs do not justify the trend of militarization. Security in Europe is primarily ensured through political and diplomatic agreements, conflict prevention and resolution efforts, arms control, and disarmament procedures. Implementing a militarization policy may trigger new weapons races, ultimately exacerbating the instability of the international order in the vicinity of Europe. Security should not be limited to military aspects. The United Nations approved the idea of "human security" in Resolution 66/290 on September 10, 2012. Civil, political, economic, social, and cultural rights must be upheld to establish and sustain peace. Funding is necessary to defend these rights, and the increase in military spending is decreasing the available resources. The UN Institute for Disarmament Research (UNIDIR) and SIPRI (Kuimova et al., 2023) have highlighted the development of new ideas about security, such as ecological security and human security. They argue that military spending does not support these new viewpoints.

Our study results indicate that militarization is economically disadvantageous. Increased military spending in Europe is causing a decline in economic prosperity, reduced job opportunities, and inferior quality of national development.

Investing more in the environment, education, and health would have a greater beneficial impact on the economy in terms of output and employment. Primarily, they would provide significant advantages in both quality of life and environmental conditions. European countries are deciding between a more militarized economy or focusing on sustainability and welfare. We have the decision to make.

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