

Defense as a European Public Good: Delivery and Financing

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Defense as a European Public Good: Delivery and Financing

Following the Cold War, a peace dividend was enjoyed in Europe by cutting down on defense spending and dismantling large parts of the military infrastructure. However, recent geopolitical events, in particular the Russian invasion of Ukraine and the uncertainty injected by Trump about US protection of EU NATO allies, have driven home the urgency of the EU building up its own defense protection.

Although defense policy is largely a national prerogative subject to obligations toward NATO, increasingly calls are being made on the EU to take more initiative in this area, for example through joint procurement of military equipment. Availability of such equipment also requires rebuilding the EU's defense industry. Moreover, the strength of the EU's defense shield is to a large extent determined by its weakest parts. Hence, it is equally important to coordinate among member states as to who does what in terms of rebuilding defense capacity in order to avoid unnecessary duplication and fill blind spots.

In this contribution, we look at EU defense policy as a European public good (EPG). As we will argue below, from the perspective of the EU population, that an EU-wide defense policy fulfills the standard properties of a public good, being non-excludable and non-rivalrous. Furthermore, EU-level defense can provide considerable economies of scale, in principle allowing higher utility for the same amount of resources invested by reducing duplication, introducing standardization, centralizing procurement, and so on. From a subsidiarity perspective, it therefore makes sense to shift parts of defense policy to the level of the EU, in the form of tighter policy coordination and central financing, because at the national level the benefits from investing more in defense are underestimated as the positive spillovers in terms of more safety elsewhere are not internalized.

There *seems* to be widespread skepticism among parts of populations and governments about transferring more tasks to the EU level, while countries may perceive different benefits from a collective defense policy. For example, countries located far from Russia may perceive less of a threat than those further to the east. Overall, we still seem a long way from a fully-fledged financing of defense through EU resources. Nevertheless, survey evidence suggests that popular support for various forms of European defense integration is higher than one might expect based on the political discourse.

* The views expressed in this paper are the authors' personal views and do not necessarily coincide with those of the institutions they are or were affiliated with.

KEY MESSAGES

- **Defense qualifies as a quintessential European public good. It fulfills the standard properties of a public good, being non-excludable and non-rivalrous, and can provide considerable economies of scale and large positive spillovers**
- **Despite the reluctance of a number of EU governments to share defense sovereignty, opinion polls suggest strong support for common EU policies, including defense policy. Maybe somewhat surprisingly, support for the latter is roughly equal for Europeans living in the eastern and western parts of the EU**
- **Building a stronger EU involvement in defense should be based on the combination of delivery and financing at the national and EU level. These define genuine European public goods, where financing and delivery take place at the EU level, and other combinations, which define European public goods “by aggregation”**
- **While building a common defense policy will inevitably be a gradual endeavor, concrete steps via the implementation of new EU fiscal rules, the planning of a successor to Next Generation EU, and the preparation of the new multiannual financial framework should take place as a matter of urgency**
- **An EU defense policy should operate within NATO, and EU defense policy decisions would then be subordinated to NATO decisions. As not all EU member states may be willing to join from the beginning, a practical way to go forward would be to form a coalition of the willing and start with those building blocks for which the added value is obvious (air and missile defense, integrated logistics, some procurement)**

Progress in terms of centralizing defense policy is likely to take place only gradually. In the shorter run, alternative forms of incentivizing collective defense spending may need to be deployed, such as modifications to the EU fiscal rules and the availability of temporary funds, while in the longer run the multiannual financial framework would incorporate collective defense spending. As most EU member states are NATO members, a crucial consideration is how NATO will develop over time and, in particular, how much protection member states can expect from NATO. That said, a good alignment of EU defense policy with NATO will be crucial.

IS DEFENSE A EUROPEAN PUBLIC GOOD?

In line with the literature on fiscal federalism, we define an EPG as a public good (1) whose provision at the European level fulfills the standard criteria for a public good *when the public of reference* is the citizens of the EU, and (2) whose provision at the European level is superior, in at least some metrics, to decentralized provision at the national level, either because it internalizes some externalities of national provision, or because it results in efficiency gains from economies of scale.

This definition is broadly consistent with that of Buti et al. (2023), who define seven criteria to identify an EPG under three broad categories: economic (non-rivalry and non-excludability, economies of scale and scope, and positive externalities), institutional (mutual interest and cross-border dimension), and political (mission-oriented and beyond subsidiarity).

Collignon (2014) and Claeys and Steinbach (2024) argue that goods should be provided at the EU level when preferences are similar and there is a strong efficiency case. They provide criteria for deciding at which level of government public goods are best provided. To this end, Claeys and Steinbach (2024) use a four-step procedure, first assessing externalities and how these could be internalized, followed by an assessment of the economies of scale, then an assessment of differences in preferences (with regard to level of provision and level of government), and finally a weighing of these elements.

We deviate from Claeys and Steinbach (2024) in that we acknowledge that the degree of heterogeneity in political preferences is key to understanding the political feasibility of EU-level provision of a good but is less relevant in assessing whether the good in question should or should not, *in principle*, be provided at the EU level.

Defense is in fact a prime example of an EPG. It can be reasonably argued that, for the EU population as a whole, EU-wide defense fulfills the standard properties of a public good, being non-excludable and non-rivalrous, in line with our definition above

and Buti et al. (2023). Furthermore, EU-level defense can provide considerable economies of scale, in principle allowing higher utility for the same amount of resources invested by reducing duplication, introducing standardization, centralizing procurement, and so on, thus fulfilling our second criterion for defense to be an EPG. Finally, EU-level defense provides for some degree of internalization of externalities, which national defense provision fails to internalize when the community of reference is Europe: since parts of the benefits of defense spending are enjoyed abroad, as collective defense is more effective than each country defending itself on its own, defense spending will be under-provided at the national level because the utility gained by citizens abroad will not enter into the decisions of national governments.

Typically, arguments against the integration of European defense capabilities build around four possible criticisms. First, an integrated European defense would constitute a serious step toward the transformation of the EU into statehood, which some see as problematic and at any rate should not happen by “stealth” or as a policy afterthought. Second, opponents of integrated European defense often raise the issue of the lack of a legal basis to proceed. On the one hand, the EU treaties currently do not provide a fully-fledged legal basis for a proper EU defense; on the other hand, several national constitutions (including the German, Italian, Irish, and others) include clauses that limit what can be jointly achieved in terms of defense, and these constitutions might need changing to allow EU defense integration. In this regard, however, one should note that both Germany and Italy are part of NATO; even though NATO is short of having a common army, it includes many elements of joint forces and intensive cooperation, and it has been consistently shown to be compatible with national constitutions, suggesting that there is broad scope for expanding military integration in Europe within the existing national constitutional frameworks. Third, and relatedly, some fear a pointless replication of the capabilities already existing within NATO, or a paralysis should EU defense constitute



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a European pillar of NATO while including countries that are outside NATO (e.g., Ireland, Austria). In this regard, any EU defense that works as a European pillar of NATO would by necessity have to exclude these countries, while the potential relationship with non-EU NATO countries (such as UK, Norway, Iceland, Turkey) remains uncertain. Fourth, some fear that European defense would be dominated by the industrial interests of countries like France or Germany, which have pushed their domestic defense industries for reasons of strategic autonomy and not solely on the grounds of their capabilities; this would then limit the autonomy of other countries to procure their equipment elsewhere, for instance in the US.

DO EUROPEAN CITIZENS SUPPORT A COMMON DEFENSE POLICY?

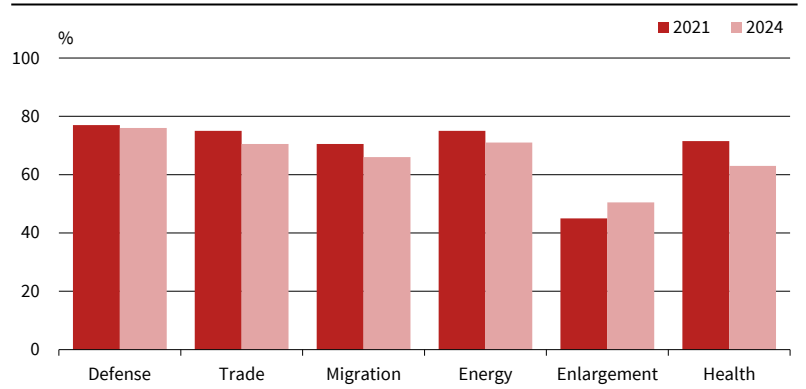
While the case for factoring in explicitly political preferences in the definition of defense as an EPG is doubtful in our view, it is nonetheless important to see whether the public would support a stronger involvement of the EU in its own defense, as that influences the likelihood that defense policy or part of it can be shifted to the level of the EU (Olson 1965).

The common perception is that, because having own defense forces is strongly linked to national sovereignty, the political appetite for transferring more powers in this area to the EU level is low. However, political and popular appetite are not necessarily equal. Figures based on the Eurobarometer in 2021 and 2024 suggest strong support for common EU policies, including defense policy (see Figures 1 and 2). Maybe somewhat surprisingly, support for the latter is roughly equal for Europeans living in the eastern and western parts of the EU.

It is interesting to see what the support for EU defense policy among the citizens of the different EU countries is. This question is important, as transferring decision-making power likely requires the consent of all member states. Table 1 provides a breakdown by member state, showing strong support for common defense and security policy in each of the individual member states. Moreover, the support seems to be stable over time. This stable support has also been reported in Mérand and Angers (2014), while Graf (2020) shows that perceiving threats from the military activities of Russia in Ukraine increases support for creating a common European army.

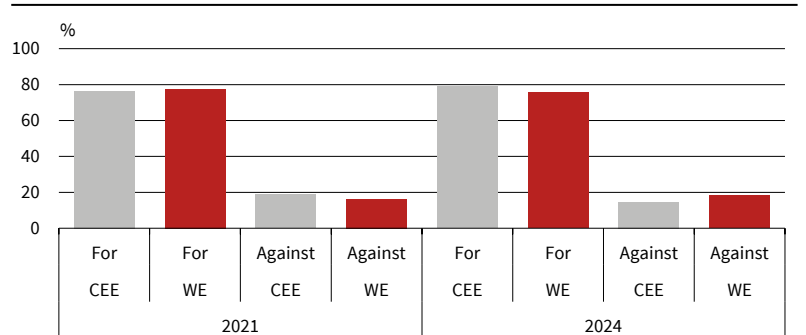
Of course, a common defense policy can come in many potential formats, and popular support is likely to depend on its specific design. One could envision many different components and variants of a European defense policy. In Figure 3, we report the results of an experiment that allows us to understand how public support increases or decreases when some of these features are added or removed from a specific defense cooperation proposal. This figure reports the results of a conjoint experiment (Burgoon et al. 2023) assessing

Figure 1
Share of Europeans in Favour of Having a Common Policy, by Type of Policy & Year



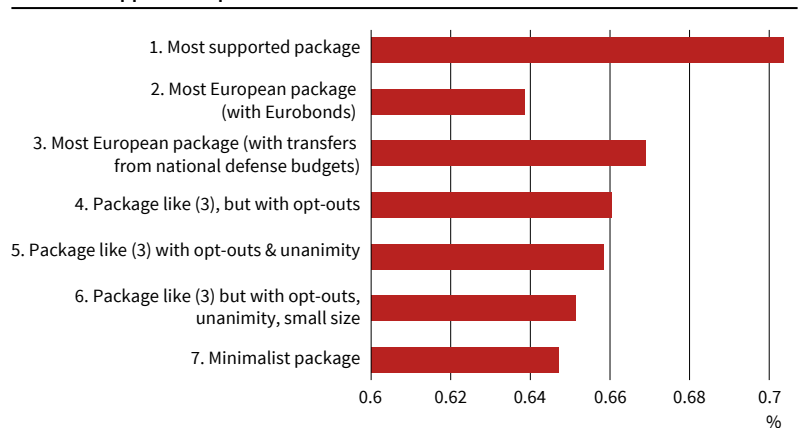
Source: Eurobarometer. © ifo Institute

Figure 2
Share of Europeans in Favour of Having a Common Security Policy, by Year and Region



Note: CEE: Central Eastern Europe; WE: Western Europe. Source: Eurobarometer. © ifo Institute

Figure 3
Levels of Support for Specific Defense Plans



Source: Burgoon et al. (2023). © ifo Institute

the level of support for or opposition to certain defense policy packages, excluding those respondents who are neutral about the package. The experiment was conducted on a representative sample of French, Dutch, German, Italian, and Spanish citizens in November/December 2022, hence during the Russian invasion of Ukraine.

To differentiate many different alternative versions of a defense cooperation agreement, such defense policy is “split” into a number of separate policy dimensions, each of which can be assessed separately

Table 1

Opinions on EU Defense and Security – Country Breakdown

	Spring 21 For	Spring 21 Against	Spring 24 For	Spring 24 Against
<i>Eastern Border</i>				
BG	70	16	83	14
PL	75	18	80	15
FI	73	27	82	10
HU	75	20	70	23
LT	90	10	87	6
RO	67	24	69	22
SK	80	15	77	15
SI	85	13	79	16
Eastern border average	76	19	79	15
<i>Western Europe</i>				
FR	74	16	71	20
BE	91	8	83	14
DK	71	24	78	16
DE	83	11	81	15
EL	79	19	79	17
ES	84	8	82	12
IT	75	21	78	17
AT	63	30	56	37
PT	73	18	65	22
LU	83	11	82	10
MT	73	13	68	27
NL	81	18	85	13
Western Europe average	77	16	76	18

Source: Authors' calculations based on Eurobarometer data.

in its effect on public opinion. The dimensions include a defense policy scope (proper EU armed forces or coordination of national armed forces), its financing (via increases in taxation, Eurobonds, or repurposing of national expenditure), the voting mechanism (unanimity, majority voting in the Council, majority voting in both Council and Parliament), whether opt-outs are allowed for some countries, whether there are joint procurement schemes, and whether it pertains to a small or large armed contingent.

The first row in Figure 3 reports the level of support for the package that is the most supported. This includes EU-level armed forces, of relatively large size, financed via transfers from national defense budgets. Governance is confederal (majority voting in the Council), there are no opt-outs, and there is joint procurement. The second row reports the level of support for the most European package. This is like Row 1, but with Eurobonds as a source of financing rather than transfers, and with federal (rather than confederal) governance (majority voting in both Council and Parliament). The third row is like Row 2 but foregoes Eurobonds for transfers from national defense budgets. The fourth row is like Row 3 but allows countries to opt out. The fifth row is like Row 4 but allows countries to express vetoes. The sixth row is like Row 5, but the joint armed forces are small in size. Finally, the last row includes

small size, coordination of national armed forces, vetoes, opt-outs, no joint purchases, and financing via transfers from national budgets.

When it comes to the specific issue of procurement of ammunition and other armaments, Figure 3 suggests that there is generally substantial support for a European defense policy (around 65 percent and 70 percent of respondents express support), whether or not it involves the joint procurement of ammunition. In fact, nearly all packages with joint procurement of ammunition (Rows 1 to 6) exhibit slightly higher support than a minimalist package without (Row 7); and, even then, removing joint procurement reduces support even for the package included in Row 2.¹

The bottom line is that there appears to be substantial popular support for lifting important parts of national defense policies to the EU level. However, decisions on centralizing defense policy are taken at the political level. If there is such a strong popular interest in centralizing defense policy, then why has this not materialized? There are number of potential, non-exhaustive reasons for this. First, politicians may be insufficiently aware of their populations' support for a

¹ In particular, the neutrals are counted as opposed, which is the most conservative position taken; it is likely that a fraction of them would support the policy packages if forced to make a choice between supporting and not supporting.

European defense policy. Second, more than their populations they may be aware of the practical and financial complications. Coordination efforts at the central level may be substantial and designing an appropriate financing framework is complicated. Third, politicians may be under pressure from their own defense industry, which fears the greater distance to EU-central decision-makers who would be more inclined to organize competition at the EU level. Nicoli and Beetsma (2024) provide leads for organizing procurement at the EU level that may help to overcome this obstacle.

FINANCING AND DELIVERING ON EUROPEAN DEFENSE

Currently, both delivery and financing of defense take place overwhelmingly at the national level. However, the degree of protection against external threats depends not only on the strength of a country's own defense, but also on that of neighboring countries, implying that, from a purely national perspective, the benefits of investing in defense will be insufficiently internalized. Hence, the question is how these benefits can be better internalized. In this respect we distinguish between the financing and the delivery of defense goods – see Table 2. The different entries of this table can co-exist, while their relative importance may change as an increasing part of defense policy is undertaken at the EU level.

A way to increase the incentives to allocate more national resources to defense within an agreed EU framework is through the revised EU fiscal rulebook. This would correspond to quadrant (A) in Table 2. The new fiscal rules require countries to devise medium-term fiscal-structural plans for a period of four years, which may be extended to seven years conditional on reforms and investments fulfilling certain conditions. The new rulebook emphasizes debt sustainability and is centered around the net primary expenditure indicator. One possibility would be to exclude defense spending from the indicator, possibly on the ground of it being an investment in protection against external aggression. However, such a possibility was explicitly excluded during the negotiations on the reform of the fiscal rules.² A second possibility is that defense spending forms part of the package giving countries an extension of their adjustment period from four to seven years. The potential objections to the former solution are well-known: (i) governments may have an incentive to disguise other types of spending, in particular government consumption, as defense spending; and (ii) any elements taken out of the net primary expenditure measure will further obscure the integral budget trade-offs – assessments of debt sustainability would require all spending items to be taken into account. The second route is also a bit of a stretch. Investment in the

² The new regulation on excessive deficits mentions the increase in defense as a “relevant factor” when assessing an excess of the deficit over the 3 percent of GDP reference value.

Table 2

Classification of Defense as an EPG

		Delivery	
		National	EU
Financing	National	(A) Incentivizing national defense spending via the new EU fiscal rules	(B) Joint procurement to buy ammunition and defense capabilities
	EU	(C) Fund outside the multiannual financial framework to finance specific national defense projects	(D) EU budget to finance “genuine” defense EPGs (air defense, nuclear deterrent, space access)

Source: Authors' elaborations.

defense industry as such would expand an economy's productive capacity, but it is not clear how this would improve the economy's growth potential or fiscal sustainability. However, while defense was not mentioned explicitly among the examples of eligible reforms, the regulation refers to delivery on EU priorities as a general criterion. Hence, stepping up investment in defense appears to be eligible for an extension of the plans.

Joint procurement would correspond to quadrant (B) in Table 2. As already discussed in the previous section, it would enjoy the strong support of EU citizens. The concept of jointly developing and purchasing military goods has a long history in joint weapons programs and associated framework contracts – both within Europe, such as the Eurofighter program, and transnationally, as in the case of the F-35. Joint procurement is one of the missions of the European Defence Agency (EDA). It has its legal basis in Article 39 of Directive 2024/24/UE (Caranta 2023). However, its impact and size remain limited – see Nicoli and Beetsma (2024) for a discussion.

The disadvantage with national financing of defense spending is that the beneficial externalities of spending on defense are unlikely to be fully internalized. Also, the composition is unlikely to be optimal – see Beetsma et al. (2020), for related criticism on Next Generation EU (NGEU).

Another option, corresponding to quadrant (C) in Table 2, is to finance defense spending through a separate fund, not formally part of the EU budget. The design of NGEU, in particular the conditionality attached to the design of the plans and the disbursement of the money, may provide leads for the design of the fund. Elsewhere, in a series of contributions (Bakker and Beetsma 2023; Bakker et al. 2024a and 2024b), we have proposed a collective fund (the “Fund”) financed by EU member states that finances public investments with positive cross-border spillovers conditional on countries adhering to the fiscal rulebook. Each country has its own envelope in the Fund, and if it is unable to fulfill these conditions, then its compartment in the Fund will be distributed among the other countries' envelopes. The legal foundation for the Fund would be provided by Article 122 of the TFEU, whereby the Council, upon a proposal by the Commission, “may decide, in a spirit of solidarity between member states, upon the measures appropriate to the economic situation,

in particular if severe difficulties arise in the supply of certain products, notably in the area of energy.” The conditionality would be derived from the Conditionality Regulation introduced January 2021 in the context of NGEU. Its objective is to protect the financial interests of the European Union and, in doing so, it may lead to the suspension of payments to member states that do not respect the principles of the rule of law. In the context of the Fund, the conditionality regime would be redefined to link access to the Fund to fiscal discipline at home based on the idea that EU resources, as an expression of solidarity, are to be used in compliance with the obligations under the EU Treaty, including the new economic governance framework. Conditionality would then cover respect of fiscal targets, and reform and investment commitments in the case of plans with an extended horizon. The logic of the Fund could in principle be extended to a fund for collective defense spending. However, it deviates in two ways from the investment projects. First, the defense spending financed by the envisaged new fund should be complementary to existing military facilities. Second, it may be in the interest of the entire EU not to be too strict on conditionality if it is desirable that each country is able to contribute to defense.

The final possibility, corresponding to quadrant (D) in Table 2, is to include (a substantial amount of) defense spending in the EU’s multiannual financial framework (MFF). This would be politically the most difficult to realize, but also the most durable one if it succeeds. It would either mean reducing other allocations in the MFF or raising the EU budget (or both). From a subsidiarity perspective, the case for including defense spending in the MFF should be compelling. It would facilitate the provision of genuine EPGs that benefit the entire EU, but that also require large investments with long lead times, and regular maintenance and upgrading. Examples are a common air defense, common nuclear deterrent, and military applications of space technology. Centralization of both delivery and funding facilitates an EU industrial policy for defense, with sufficient distance between EU procuring bodies at the EU level and national producers of defense systems (Nicoli and Beetsma 2024), allowing for more competition when compared to procurement at the national level and allowing for public-private collaborations that involve the more suitable private partners from the entire EU.

POLICY CONCLUSIONS

This contribution has argued on several grounds (externalities, efficiency, effectiveness, etc.) that a defense policy has the natural features of an EPG and, as such, it should be organized at the EU level. However, a national defense policy is often seen as a core element of national sovereignty. Treating defense policy as an EPG does not mean transferring all responsibilities to the EU. We have put forward a conceptual framework

that entails different combinations of EU delivery and financing, going from a stepping up of national coordination efforts, notably using the opportunities offered by the new EU fiscal rules, all the way to the longer-run goal of direct involvement of the EU in defense policy by enshrining it in the multiannual financial framework.

While the arguments for considering defense as an EPG are, in our view, compelling, political resistance to elevating defense to the EU level is likely to be stiff. A practical way to move forward would be to form a coalition of willing EU member states to start a common defense policy and to gradually build up the common defense policy starting with those building blocks for which the added value is obvious (air and missile defense, integrated logistics, some procurement).

As most EU member states are also members of NATO, an EU defense policy should operate within NATO. A possibility to go about this is to view the set of those EU countries that were to participate in an EU-level defense policy as a single NATO member (like, for example, the UK). Non-EU NATO countries could become observers and, for example, participate in joint procurement with the EU bloc.

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