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Who will pay for Europe's armament?



For most of the past three decades, political debates in European countries have focused on increasing social benefits, accelerating the green transition, financing health systems, or stimulating economic growth. Defence was largely a secondary issue.

The Russian invasion of Ukraine has shifted priorities, but only now is the extent of this change becoming clear.

Ahead of the NATO summit in Ankara at the beginning of July, European governments face a question that is not only military, but also political and economic: how much will new European armament cost, and who will pay the bill?

NATO members' commitment to gradually increase **defence and security spending** to 5% of GDP represents the most ambitious financial target since the end of the Cold War.

More important than the figure itself is what it implies. Europe is at the beginning of a process that will reshape **budgetary priorities**, fiscal policy, industrial strategy, and political relations within almost all NATO member states.

The end of the era of cheap security

After the collapse of the Soviet Union, European countries enjoyed what economists called the "peace dividend."

Military budgets were reduced, armies reorganised, and funds redirected to social programmes, infrastructure, and development.

At the same time, the security umbrella provided by the United States remained intact.

The defence debate is no longer about whether military budgets should be increased; that question is practically settled

European states were able to maintain relatively low **military expenditure** because most deterrence was financed by Washington. That model worked for decades, but it no longer works today.

The war in Ukraine has revealed that European armies have limited ammunition supplies, insufficient production capacity, and significant difficulties in sustaining long-term military operations.

Meanwhile, Donald Trump's return to the White House has heightened concerns that Europe can no longer automatically rely on the same level of American security commitment as in the past.

For this reason, the defence debate is no longer about whether military budgets should be increased; that question is practically settled. The scope of the increase and its consequences are now being debated.

The numbers that change policy

The difference between 2% and 5% of GDP is not merely a technical issue of budget planning; it is a political decision that shifts a country's priorities.

For the largest **European economies**, such an increase means tens of billions of euros in additional expenditure each year.

For the European Union as a whole, this amounts to hundreds of billions of euros that will need to be found in the coming years.

No government has unlimited resources. Any additional euro for defence must come from one of three sources: new borrowing, higher taxes, or cuts to other expenditure. Each option carries serious political consequences.

The first possibility is an increase in public debt. This is currently the most popular solution among European politicians because it does not require immediate confrontation

with voters. However, it does not resolve the problem but merely postpones it.

European voters generally support increased defence spending as long as the cost remains abstract

France is already struggling with a growing deficit. Italy remains one of the most indebted economies in the developed world. Even **Germany**, a symbol of fiscal discipline for decades, has decided to relax constitutional borrowing limits to finance defence and infrastructure.

Another possibility is higher taxes. This is economically feasible but politically much more difficult.

European voters generally support increased defence spending as long as the cost remains abstract, but support drops significantly when it appears on a tax return or monthly bills.

Finally, there is the option of redistributing existing funds. This is where the main political problem lies.

A clash with the European social model

The European political system is based on the assumption that the state provides a wide range of **social services**. Pensions, health care, subsidies, education, and social security form the foundation of political stability across most of the continent.

This model was developed in circumstances where security was not a dominant budget priority.

If European countries genuinely move towards the allocation levels currently discussed within NATO, it will become increasingly difficult to finance all existing obligations simultaneously without significant adjustments.

In the coming years, European governments will face much more uncomfortable budget decisions than in previous decades

This does not mean that Europe will abandon the welfare state. However, it does mean that governments will have to allocate more money to defence and less to other priorities. The more military budgets grow, the harder it will be to finance everything to which European citizens are accustomed.

In the coming years, European governments will face much more uncomfortable **budget decisions** than in previous decades.

This is precisely why the issue of defence becomes an internal political matter. It is not difficult to imagine a situation in which citizens support aid to Ukraine, the strengthening of NATO, or an increase in military capacity, but at the same time reject reductions in health programmes or increases in the retirement age.

Such political contradictions will become much more common than they are today.

Where does the money actually go?

There is another issue that European politicians generally avoid highlighting: higher military budgets do not automatically strengthen European industry.

In recent years, European countries have purchased large quantities of American weapons, ranging from air defence systems to fighter jets.

The reason is simple: the American military industry has capacities that currently do not exist in Europe or are not available to a sufficient extent.

The larger the military budgets, the greater the political pressure to keep as much of that money as possible within Europe

This creates a paradox. Europe seeks greater strategic autonomy, but part of the money intended to strengthen it will end up with American manufacturers. For this reason, the debate on defence will increasingly become a debate on industrial policy.

Paris, Berlin and Brussels are already insisting on developing European production capacities for ammunition, missile systems, satellite technology and critical components. The reason is not only military; it also concerns money, jobs and technological competitiveness.

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The continent's new industrial policy

One of the most significant consequences of European armament will probably not be military. Defence is becoming the engine of **industrial policy**.

In recent years, Europe has learned how dangerous dependence can be – first through the energy crisis caused by Russian aggression, then through increasing reliance on Asian supply chains in key technology sectors.

The line between military and economic policy is becoming more blurred

A similar logic now applies to defence. Munitions, explosives, missile systems, satellites, cyber capabilities and military logistics are no longer seen solely as **security**

issues; they are now part of a broader economic resilience strategy.

This is why railways, ports, roads, energy networks and digital infrastructure are increasingly mentioned in new NATO plans. The line between military and economic policy is becoming more blurred. That process will continue, whether the final figure is 5%, 4% or something in between.

A political debate set to last for years

Many European leaders today present an increase in military budgets as an immediate response to the Russian threat. That is part of the story, but not the whole story. The real change is taking place within Europe itself.

The continent that for three decades built a political model based on relatively low military expenditure is now entering a period in which security will once again become a main budget priority.



The key question is how many European governments are willing to change the budget priorities they have maintained for the past thirty years

Such changes are never purely financial; they alter political coalitions, relations between states, industrial strategies, and citizens' expectations.

That is why the discussion taking place today ahead of the NATO summit is not about a single budget figure. It marks the beginning of a much broader debate about what European

countries will look like over the next decade.

Europe can probably finance new armaments; its economy is large enough for such an undertaking. The much more difficult question is: which priorities will need to be adjusted to fund this?

That is why the main debate is no longer about how many tanks, missiles or brigades Europe should have.

The key question is how many European governments are willing to change the budget priorities they have maintained for the past thirty years.

The speed and scope of European armament will depend on this.