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NATO Defence Spending: The Irrationality of 2%

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NATO's future is again under scrutiny as President Trump casts doubts on US protection for those members unwilling to pay their fair share. Suddenly failure to meet a target of 2% GDP in defence expenditure, as was pledged by NATO members at their 2014 Summit in Wales, becomes the litmus test on which Alliance solidarity and unity depends. The first visit of President Trump to Europe for the NATO "special meeting" of 25 May focussed almost entirely on his contention that the allies should be paying more for their own defence, and the US less. Under the weight of intense US expectations, Allied leaders signed up dutifully, but in many cases hesitantly, to developing specific national plans for achieving the 2% target by the due date. They agreed to develop or update their national plans to indicate their intent to implement the Defence Investment Pledge and to report annually on its achievement, the first such report being required by the end of 2017.

Yet discordant voices have questioned the logic of the 2%. German Foreign Minister Gabriel has even denied that there is a 2% commitment as such, adding that there was more to security than military spending. "It's totally unrealistic to believe that Germany would increase its defence spending from €35bn now to €70bn," which would be the effect of Germany's reaching the 2% target agreed in NATO.[2]

This apparent impasse points to a basic flaw in NATO collective defence policy: the insistence on taking a narrow and arbitrary target, linked to overall economic output, as the sole measure of Allied solidarity and burden sharing.

In one sense, it is understandable to use defence spending as a share of GDP as an *indicator* of the level of effort devoted to defence, and, historically, a 2% level is not unreasonable.[3] But a fixed percentage of defence spending of GDP has serious limitations, and can even distort and pervert the process of achieving adequate capabilities to match the real threats and challenges that NATO is meant to address.

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2 Financial Times, March 31, "German foreign minister hits out at Tillerson's demand for more NATO spending"

3 In 1990, for example all European members of NATO exceeded the 2% GDP share, except Luxembourg and Iceland. SIPRI Military Expenditure Database.

The 2% takes no account of the ebbs and flows of economic fortunes;[4] is vulnerable to changing circumstances and domestic pressures, both in terms of the security requirements and the economic base; encourages creative accountancy to satisfy targets; and provides zero guidance concerning what precisely what capabilities are needed to counter the threats and challenges that NATO faces.

Most significantly a fixation on a certain percentage of GDP serves as a distraction from the serious business of identifying capability shortfalls. The 2% target is of little practical help and has the potential to be more divisive than unifying. Particularly in public and parliamentary opinion the demand is frequently perceived as being imposed by the United States and opposition could be all the stronger when perceived as demanded by Donald Trump.

In the NATO context, even when endorsed by European leaders at NATO's special meeting, the 2% has the disadvantage of being perceived as imposed from outside. This disadvantage is compounded by the fact that the Alliance has never agreed a definition of what constitutes a national "fair" share by identifying specific national factors - economic, historic, other non-NATO contributions to stability - which could influence NATO members' ability to contribute to the narrowly defined NATO target. Some allies have flagged the relevance of other contributions, for example development aid, or specific constraints.[5]

Elevating the 2% to a test of defence fidelity and solidarity is ultimately counter-productive.

But NATO already has a system for setting capability targets to its members

There is a process, surprisingly little known, in which NATO sets its requirements, not as financial targets, but in hard and concrete capabilities. The target for each NATO member emerges from close consultation between Defence Ministries and NATO defence planners known as the NATO Defence Planning Process (NDPP). This is a four-year cyclical process which starts with Political Guidance for defence planning approved by allied Defence ministers. NATO's military staff define what they need to fulfil the politically agreed target of NATO being capable concurrently

4 Greece, to take an extreme example, has already reached the 2% because its economy has shrink due to austerity.

5 "To make sure our efforts are adequately funded, we should consider introducing a new foreign policy guideline such as a 'three percent criterion' for more international commitment: we should spend at least 3 % of our GDP for crisis prevention, development assistance, and defense," Munich Security Chairman Wolfgang Ischinger has argued (securityconference.de dated 17 February 2017).

of mounting two major joint operations and six smaller joint operations. NATO's defence planners then set specific targets to each ally. The process reconciles the military requirements for collective defence with the national contributions made available by members. Capability goals are set, monitored and national contributions critiqued by allies, albeit gently.

The result of the defence planning process is an aggregate set of contributions allocated by nations for the collective defence of the Alliance. The link between this process and the target of 2% is tenuous, if any. In looking at the limited utility of the 2% GDP target two aspects should be noted:

First, it is misleading to equate the aggregate total of national defence expenditures with the amount needed or spent on NATO. While for most members their contributions are almost wholly related to their NATO commitment, this is not so for the US or even for the UK and France. This lack of differentiation has been a frequent source of misunderstanding in the burden sharing argument.

Second, there is no baseline cost on which to assess which percentage of GDP is appropriate to meet NATO requirements. NATO's force plans and capability goals reflect military requirements and all members are challenged to do more to improve the capability shortcomings.

A Short History of Failure

The dilemma of fair burden sharing that NATO currently faces is not new. From NATO's origins, the US was persistently preoccupied that its allies were not doing enough and therefore pressured them to provide more resources. Because financial inputs are measurable, while capability and outputs are matters of judgement, then as now, burden sharing was too often reduced to financial input.

In 1952 the Lisbon force goals were the high point in NATO's attempt to build up the conventional forces defending Western Europe following the outbreak of the Korean War.[6] The inadequate responses to the goals concerned the US as it meant an

6 NATO called for the creation by the end of 1954 of a total of forty-two ready divisions and forty-five (increased to forty-eight by the North Atlantic Council) reserve divisions mobilizable within thirty days. Soon after these goals were adopted, however, it became clear that they could not be achieved, primarily because the economic assumptions on which they were based were over optimistic See also "Lisbon Agreement on NATO Force Levels." The Oxford Companion to American Military History. .Encyclopedia.com. 14 May. 2017 <http://www.encyclopedia.com>.

unacceptably low nuclear threshold. In the words of Senator Sam Nunn a "tripwire" strategy.

Having failed on outputs, the US continually pressed its Allies to provide the *resources* for credible conventional defence. Burden sharing became a permanent feature of NATO life. Congressional pressure, including threats to reduce the US contribution and presence (the Mansfield, Nunn, Bartlett Amendments etc.) resulted in the development of a comprehensive annual Department of Defense report to Congress which rated Allied contributions on burden sharing according to an exhaustive range of parameters.

The traditional response of Allies to US burden sharing pressure was to emphasise deterrence as NATO's core aim, point out that the US expenditure reflected its global responsibilities, and insist that the US NATO commitment and European presence was no gift but served US interests.

Furthermore, US efforts to urge allies to raise their spending ran into the fundamental Alliance principle that expenditure is a national decision; that all members at some stage encounter problems meeting the NATO goals set for them; and the unspoken rule that members may chide their allies but not "point fingers" in the name of unity and cohesion, seen as the most important aspect of credible deterrence and defence.

Nevertheless, US pressure succeeded in producing several initiatives by the Alliance to improve NATO conventional defences. The most comprehensive of these was in 1977 - the Carter Administration's Long Term Defence Program (LTDP) which assessed the deficiencies in ten areas and recommended major improvements. No costings were attached but 3% emerged as a general guideline for real increases, year on year, in defence expenditure.[7] In fact, this was close to what most members were spending. Remarkably, it was the US that was lagging. The concept of a fixed multiyear obligation to spend more on defence met initial resistance (including from the UK) but was reluctantly endorsed, with the usual caveats – it was an "aim" and "circumstances will affect what can be achieved".[8] (The same weasel wording

7 Force planning in the 1980's set a 3% annual real increase in national defence expenditure as a reasonable challenge. It was not linked to a share of GDP. Ironically, in 2016, European allies as a whole increased their defence expenditure by 3.7% in real terms - without it having an impact on the burden sharing debate.

8 Déjà vu all over again. On the effectiveness of the LTPD and the value of the 3%, a Congressional study on four of the initiatives noted: "Progress is slow and disappointing. What progress there has been has generally occurred in the no-cost/low-cost measures, while measures

appears throughout NATO's attempts to get allies to "do more": in Wales the allies agreed to "aim to move towards the 2% guideline within a decade").[9]

The 1978 pledge of a 3% annual real increase lingered as a general guideline but then foundered on the reluctance of allies to spend on what came to be seen as arbitrary challenge, unrelated to actual required outputs.[10] Since then members have fought shy of efforts to commit to a fixed promises or commitments to financial inputs, until the 2% pledge was decided at the Wales Summit in 2014.

Given the tendency, based on bitter experience, of allies pushing back against fixed targets how did we get arrive at the Wales and Warsaw 'pledges'? Where did the figure of 2% come from?

In essence, the 2% emerged in the early 2000's as a measure to help guide potential new members of the Alliance. As most of the aspirants were in the region of 1.7 or above, a goal of 2% was a logical target.[11] However, this was not a formal NATO position; rather the result of informal bilateral discussions. In 2002, the senior NATO defence planning official concerned confirmed that "there is no NATO agreed policy that aspirants should spend 2% or any other figure, on defence".[12] He added "but once an idea has taken hold it is difficult to shake off". Three years later 2% was adopted as a guideline but representing no actual costings based on need, merely what was considered possible, and desirable, to provide a restraint against the freefall in defence expenditures as a result of what was then termed the "peace dividend".

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requiring increased financial resources have lagged. Only when necessary have there been financial commitments to defence," It also noted "that NATO lacks reliable cost estimates of the LTDP."

9 Paragraph 14 of the Wales Summit Declaration, 05 September 2014. Interestingly, despite the subsequent description of this commitment as a pledge, the word "pledge" does not appear in the text of the Wales Summit Declaration.

10 Also in the mid 1980s the prospects for conventional arms control became more realistic as allies began seriously to factor in the prospects for the Conventional Forces in Europe (CFE) Treaty, providing Governments a welcome alternative to increasing year on year expenditure on military hardware.

11 The Czech Republic fleetingly achieved the level of 2% defence expenditure share of GDP in 2000. SIPRI Military Expenditure Database.

12 Assistant Secretary General for Defence Planning Edgar Buckley in a letter to co-author Simon Lunn. In the 1990s officials still wrote letters to each other.

Where Does This Lead?

Now that the 2% has received blessing at the highest level, what should be the future course of action? US pressure is unlikely to go away given that Congress is as critical of European inadequacies on this score as the Trump Administration. Moreover, new circumstances demand new reflections. The current strategic environment and the new US administration, with its priority on the fight against international terrorism, means that for NATO the traditional distinction between global and regional responsibilities will not wash. This is even more true for the EU with its acknowledgement of its wider regional responsibilities.

For NATO the implications are substantive but yet to be fully absorbed. Having soaked up years of US tactical threats, it could be that the US strategic commitment to NATO is genuinely diminishing. The risk of a dubious or conditional US security promise is not tolerable for an Alliance of collective security. It will be for Alliance leaders to discuss how to respond to this latest US pressure – to increase spending as called for, or in their own time, or resist.

For most Allies their ability and their willingness to respond will be determined by pressures and priorities at home. So, the options will be to abide by the pledge, question its logic, or shift the focus to real improvements in capability. As noted above, at the NATO special meeting on 25 May, those allies who have so far not met the 2% agreed to drawing up national plans for fulfilling their pledges by 2024. Those allies who were already above the 2% will aim to continue to do so.[13] The historical record suggests that these plans will prove hollow.

The message is even clearer for the EU. US declarations on NATO's relevance (or obsolescence) represent a call to European members to take responsibility for their own security and lessen dependence on the US. The starting point has to be that all decisions on defence are national and must reflect domestic priorities and command public support. The critical difference for the EU will be to organise these national efforts in the interests and pursuit of the EU's ambition for strategic autonomy.

In short, the EU's strategic autonomy means, at the very least, the development of a coherent European defence based on the normal pillars of defence policy – analysis of strategic threats and requirements; credible defence plans; a rational distribution of tasks; a European level of ambition and the matching of capability needs with available resources. This can possibly be achieved by providing for a

13 Estonia, Greece, Poland, UK and US in 2016 all were above the 2% as a percentage of GDP based on 2010 prices (NATO Communique PR/CP(2016)116 of 4 July 2016.

tighter European political-military entity within a looser NATO, providing the essential link between European-owned military assets and political EU authority.

Europe collectively already has a good story to tell. It is little known, but important, that in most EU countries defence expenditure is on the rise. According to NATO figures,[14] excluding Canada and the US, 22 allies increased their defence expenditures in 2016 over 2015. Significantly, in the burden sharing context, where the US demands more of all Allies, there was an overall increase of 3.7% in real terms among non-US allies. So, the time is right for another look at the 2%. It is too late to avoid it becoming this year's single headlining measure of alliance credibility, solidarity and cohesion. It is also too late to prevent those allies who have met the 2% smugly pointing the finger at the laggards.

However, there is still time, given that national plans for achieving the 2% will project to 2024, for a broader and less arbitrary reckoning of what constitutes a fair share of the trans-Atlantic burden and responsibilities, including what was not a factor in the Cold War, the rise and effectiveness of the EU in ensuring the peace of Europe and beyond.

This is a debate which European leaders cannot and should not ignore. It is not for NATO alone. As the 2% exists, effectively by default, it could provide the basis for a more substantial European pillar within NATO that serves the European ambition of strategic autonomy, and responds specifically to new European demands,[15] is more attuned to the politics of the moment and is grounded in a more practical planning for defence. Very importantly, the substantial increases in defence expenditure implied by the 2% target require spending plans and a rationale that can be supported by national parliaments and publics – which a narrow technical debate on burden sharing within NATO cannot achieve.

14 NATO Communique PR/CP(206)116 0f 4 July 2016.

15 As reflected, for example, in "A Global strategy for the European Union's Foreign and Security Policy", published in June 2016, which "nurtures the ambition of strategic autonomy for the European Union…"

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