



SECURITY POLICY BRIEF

Toward a meaningful metric: replacing NATO's 2% defence spending target

Leonard August Schuette

The confluence of Joe Biden's election to the White House, the likely ramifications of the pandemic for defence budgets, and unfolding EU and NATO strategic reflection processes offers a window of opportunity to replace NATO's flawed 2% defence spending target. Europeans should credibly propose an output-oriented metric to reconstitute the transatlantic bargain on burden-sharing.

NATO only just survived the presidency of Donald Trump. At the heart of his pathological disdain for the alliance was his conviction that other allies ripped off the US, with Germany the favourite target for his tirades. Transatlantic disagreements about burden-sharing are hardly new, however, and will not disappear with Trump's unceremonious departure from the White House. And some of Trump's instincts were not erroneous as several European allies indeed underspend on defence, leaving their armed forces ill-equipped to adequately contribute to NATO missions.

The principal problem with American accusations of unequal burden-sharing is not necessarily their substance – though it is at times overblown – but the benchmark against which allies' contributions are measured. At the Wales Summit in 2014, allies agreed to 'reverse the trend of declining defence budgets' and 'aim to move towards' spending 2% of GDP on defence and 20% of their defence budgets on major new equipment and research & development. Only half of the allies are currently on track to meet the 2% target by the deadline of 2024, and Donald Trump exploited this evident failure to relentlessly berate the Europeans.

THE FLAWS OF THE 2% TARGET

Beyond developing into public relations disaster for the alliance so keen on projecting unity, the 2% target suffers from at least three inherent flaws. First, fixating on defence spending per GDP leads to the absurd scenarios that countries with contracting economies increase their relative commitments even if their absolute spending stagnates or falls – Greece is a recent case in point – and vice versa. The adverse impact of the pandemic on economic growth could thus lead to more allies meeting the 2% target if their GDP

shrinks quicker than defence budgets, which tend to be time lagged. The [IMF](#) calculates that GDP of advanced economies contracted by 5.9% in 2020.

Second, the 2% target is based on the seductively simplistic assumption that greater spending inevitably translates into greater capabilities for NATO. This view neglects that not all military spending is actually directed at NATO objectives. While European capabilities, with the partial exception of British and French, by and large serve NATO, US capabilities also serve alliances and commitments in Asia and the Middle East. One [study](#) finds that the US spends merely 5% of its defence budget directly toward European security. Moreover, defence budgets contain extraneous items – like pensions – which do not profit NATO. In turn, [EU defence spending is also plagued by inefficiencies](#) resulting from excessive duplication and fragmentation. EU member states operate 178 major weapon systems (30 in the US), 17 types of tanks (1 in the US), 29 types of destroyers and frigates (4 in the US), and 20 types of fighter planes (6 in the US). Military readiness has suffered as a result as military spending has not yielded proportional capabilities. More spending without greater pooling and coordination would thus be at risk of just petering out.

Third, the 2% benchmark ignores allies' actual operational contributions to NATO missions (e.g. in Afghanistan or Iraq) or NATO's rotational forward presence to deter Russia from Eastern Europe. The case of Denmark is illustrative, as Copenhagen plans to only spend [1.5%](#) of GDP on defence by 2023 but is widely considered one of [the most active allies in contributing to coalition operations](#). The extremely narrow conception of burden-sharing also excludes other types of spending that contribute to NATO objectives such as

development assistance to create stability in NATO's neighbourhood.

In light of the deteriorating security environment in Europe's neighbourhood, Russian foreign adventurism in Ukraine and beyond, growing militarization across the globe, and incipient great power rivalry between the US and China, it is imperative for European NATO members to commit greater defence and security efforts. But pretending that transatlantic burden-sharing is simple enough for a crude 2% figure to capture it only plays into the hands of populists like Donald Trump. This begs two questions: 1) what should an alternative metric look like? and 2) how can Washington be persuaded of its merits?

THE ALTERNATIVE: AN OUTPUT-ORIENTED METRIC

The new metric should follow the logic of output, not input. That is, the new metric should focus on allies' [actual practical contributions to NATO](#) objectives in order to assess fair burden-sharing rather than vacuous macroeconomic figures. In fact, NATO itself uses not merely the two headline-grabbing spending targets to assess allies' contributions – 2% and 20% – but also output-oriented benchmarks including the percentage of national armed forces that are deployable and sustainable, the extent to which capability planning targets identified by NATO's Defence Planning Process (NDPP) are implemented, and actual contributions to NATO operations and its command structure. While these criteria have hardly any political traction in transatlantic debates on burden-sharing, they provide a good starting point.

There are two potential forms the new metric could take, which reflect competing visions for the future of NATO. First, it could be fairly narrow and be based on two pillars: allies' direct and measurable capability provisions and troop

contributions. Here, the NDPP would continue to identify capability requirements for objectives approved by the Defence ministers, apportion responsibilities, and monitor the implementation. For the first time since the end of the Cold War, all capability targets were actually apportioned among the allies in the last cycle of the NDPP (2014-2018) – a remarkable achievement drowned out by the 2% spat. Hence, NATO leaders need to make a concerted political effort to elevate the importance of the NDPP for effective transatlantic burden-sharing in public debates.

To reinforce the centrality of the NDPP, NATO should also further strengthen it. At present, the NDPP lacks an enforcement mechanism, which [renders the realisation of capability targets patchy](#). While the intergovernmental nature of NATO makes it unfeasible to bestow enforcement powers onto the International Staff, NATO could be more transparent, within the bounds set by secrecy requirements, in publishing its reviews of allies' progress on meeting their targets to name and shame underachievers (the NATO Capability Report). It should also be better linked to the EU's Coordinated Annual Review on Defence to create synergies and prevent duplications. Troop contributions could be measured by the extent to which allies already deploy troops for NATO objectives.

Second, should NATO's future lie in transcending its core tasks to also address new security challenges and foster resilience, the metric would need to be more expansive and include a third pillar: non-military contributions to Euro-Atlantic security such as development assistance, capacity building, fight against disinformation, or climate change mitigation spending. Avoiding the inherent flaws of input-based benchmarks would require the alliance to arrive at common objectives for these third-pillar

contributions. An expanded NATO Defence and Security Planning Process (NDSPP) could set targets for development spending in Afghanistan, climate change mitigation spending in Syria, or capacity building in Libya. Such a conceptual transformation would offer a holistic reflection of contributions to Euro-Atlantic security and thus a more sophisticated measure for burden-sharing, but it risks blurring NATO's *raison d'être* and entangling the alliance in tasks it is ill-equipped for.

Regardless of whether NATO's future will be as a narrow alliance or expansive security organisation, the main challenge of replacing the 2% benchmark with either of these metrics is political not technical. The US, alongside those few allies who consistently meet the spending requirements, will be sceptical, if not outright hostile, toward what they may perceive a self-serving ploy by European laggards to evade pulling their weight. The European proposal to replace the 2% benchmark must therefore go hand in hand with a discernible upping of their commitment to ease the American burden in Europe and its southern neighbourhood – for example by taking over the air defence of the Baltics – and allow the US to focus on the Indo-Pacific. And some European allies will still have to spend more on defence to correct operational deficits. Despite increases of its defence budget, [a recent report by the German parliamentary ombudsman](#) for instance laid bare significant gaps in personnel (20 000 officer positions are unfilled) and equipment in the German armed forces.

A UNIQUE WINDOW OF OPPORTUNITY FOR BURDEN-SHARING REFORM

While persuading the US will be difficult, there is currently perhaps a unique window of opportunity given the confluence of three conditions favourable to reform. First, Joe Biden's presidency offers new

room for transatlantic engagement. During the campaign, Biden has made clear that he intends to rebuild American alliances and his selection for the foreign policy team reflect this. He should be more willing to discard dogma and engage in actual deliberations with the Europeans on how to revamp NATO.

Second, the likely effect of the pandemic on defence budgets reinforces the logic of focussing on outputs rather than inputs. Not only will the 2% benchmark become less meaningful as economies contract. The financial costs of Covid will also put great pressure even on maintaining, not to say increasing, current levels of spending. As a result, allies will have to spend smarter and make more with less. Setting output targets would thus encourage allies to rationalise their highly inefficient defence spending by reforming procurement processes and providing additional incentives for EU member states to pool their defence efforts; at present, the lack of cooperation among EU member states is estimated to [cost between 25 billion Euros and 100 billion Euros annually](#).

Third, both NATO and the EU currently embark upon strategic reflection processes, which open the institutional space for debating a new spending benchmark. NATO Secretary General Stoltenberg has launched the NATO2030 process and is likely to push this year for developing a new Strategic Concept to develop common visions on strategic objectives, threat perceptions, and required reforms. In turn, the EU is in

the midst of the [Strategic Compass](#) exercise aimed at developing a mid-range strategy to translate EU priorities identified in the EU's Global Strategy of 2016 into tangible goals and capability requirements. The Strategic Compass should help clarify the divisions of labour between the EU and NATO and could thereby provide a clearer set of tasks for NATO as a foundation for a new output-oriented metric.

NATO therefore has a golden opportunity to devise a meaningful metric that will not only facilitate the alliance meeting the diverse security challenges of the 2020s but also reconstitute the transatlantic bargain.

Leonard August Schuette is a doctoral researcher at the University of Maastricht. He was previously a research fellow at the Centre for European Reform and holds a graduate degree from the University of Cambridge.