

A Public Finance Perspective on Defense Spending

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How much defense spending should we provide, and how should we finance it? How much political support among citizens for defense spending should we expect? These are pressing questions to address as defense spending is set to go up substantively in the coming years with the goal of achieving self-sufficiency and EU sovereignty. National defense is the textbook example of a pure public good. We review insights from the theory of pure public goods to identify challenges for an efficient provision and financing of national defense. Key insights are: (i) The citizens' willingness to pay taxes for national defense depends on the design of distributive policies (ii) Pareto efficiency requires responsiveness to the preferences of citizens who pay for public goods via the tax system, (iii) An increase of national defense spending may go hand-in-hand with additional redistribution and (iv) uncertainty about the citizens' willingness to pay for increased defense spending implies uncertainty about the political feasibility of reform packages.

- A long term increase of defense spending requires large support among citizens.
- National defense is a pure public good and we draw insights for a large literature studying these goods.
- Political support among citizens of the additional provision of defense spending and the financing of it cannot be taken for granted: Conflicts between efficiency and equity are inherent to the financing of national defense.
- The availability of information on preferences for defense spending is important for the efficient provision and financing of defense spending.
- An increase of national defense spending may go hand-to-hand with with additional redistribution.



The theory of pure public goods

National defense is the traditional textbook **pure** public good example. In economic theory, a pure public good is defined by two properties: non-rivalry and non-excludability. The relevance of this theory has often been challenged on the ground that there are few empirical examples of pure public goods, with one notable exception, national defense, understood as the protection of a country's borders against external threats. Non-rivalry holds because the country's citizens are all protected to the same degree, the protection of one citizen does not come at the expense of other citizens' protection. Non-excludability holds because any person inside the country is protected, irrespective also of whether or not the person wants to be protected. Political priorities in the EU have shifted. Defense spending will go up substantively in the coming years with the goal to achieve self-sufficiency and EU sovereignty.

We review insights from the theory of pure public goods to identify challenges for the efficient provision and financing of national defense. As we show below, the political support for such an increase cannot be taken for granted: Conflicts between efficiency and equity are inherent in the financing of national defense. Limits on defense spending and its financing depend on citizens' willingness to pay for it. Making sure that the planned increase is aligned with citizens' preferences is crucial to a sustainable effort in military spending.

Efficiency conditions

Efficiency conditions for a pure public good have in common that they construct a measure of the citizens' *collective willingness to pay* for increased public goods provision and relate it to the cost of paying for that increase. If, in a given situation, the collective willingness to pay exceeds the cost, this indicates that there is an underprovision of public goods. If the cost exceeds the collective willingness to pay, there is an overprovision of public goods. Thus, efficient public goods provision requires that the collective willingness to pay is equal to the cost. There are different versions of this efficiency condition. Specifically, they differ in what is assumed about individual preferences and also about the available tools of public finance. We revisit results from this literature below with the objective to substantiate one important observation: *The determination of an efficient public goods provision level requires to take a stance on issues of distribution.* It is not possible to give an answer to the question "how much should we spend on national defense?" that is consistent with the above efficiency conditions, without being specific about the desirability of redistribution between "the rich", "the

poor" and "the middle class." We will then use this insight to comment on whether or not an increase of defense spending requires a roll-back of the welfare state. This idea is frequently articulated in the public discourse, in particular by those who have reservations against an excessive use of public debt. According to this view, there should be a change of priorities on the expenditure side of the public budget. If expenditures on national defense go up, other expenditures need to come down. Thus, according to this view, the size of government should not increase one-by-one with military expenditures. This view builds on the historical evolution of social spending versus defense spending (Figure 1). There has been a decline in military spending, accompanied by an increase in social spending, with a notable shift at the end of the Cold War. This trend illustrates the "peace dividend," where defense spending has been replaced by social spending.¹

First-best public goods provision. Consider an increase of spending on national defense by, say, 500 million euros. An individual's willingness to pay for this expansion of public spending equals x if the individual is indifferent between the status quo and a hypothetical new situation in which public spending increased by 500 million euros and the own disposable income decreased by x euro. An increase of public spending by 500 million euros is first-best efficient if the sum of all individuals' willingness to pay for this increase exactly equals 500 million euros.²

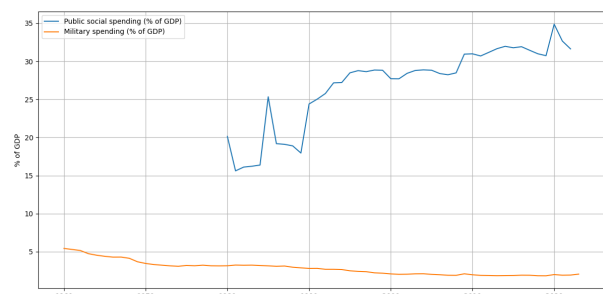
This criterion for first-best public goods provision is obtained by solving an optimization problem that is known as a *Pareto-problem*.³ Find the allocation that maximizes the payoffs of individuals in a subset of the population subject to the constraints that the allocation is physically feasible and that all other individuals reach a predetermined target payoff. To derive the efficiency condition, it does not matter whether we maximize the payoff of "the poor" subject to the requirement that "the rich" and "the middle class" reach predetermined payoffs, or whether we maximize the payoff of "the rich" with analogous constraints, it does not matter whether these predetermined payoffs are set at high or at low values, in any case, efficiency requires that the collective willingness to pay for a public good such as national defense equals the overall

¹Ilzetzki (2025) shows that this peace dividend was not accompanied by an increase in GDP, but as rightly pointed out, the welfare of a nation does not merely consist of maximizing the size of its output.

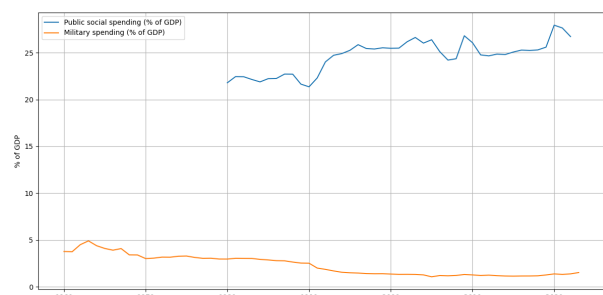
²For simplicity, we describe a situation where the 500 million euros do not generate additional benefits on top of defense spending. This is an overly pessimistic outlook regarding the economic consequences of additional defense spending. We return to this point in the Conclusion.

³Economic outcomes are called Pareto-efficient if it is not possible to deviate from them in such a way that no one is worse off and some are better off. Pareto-efficiency is defined relative to a set of allocations. For first-best Pareto-efficiency, the relevant allocations are those that are physically feasible. We discuss alternative notions of Pareto-efficiency below. An example of a characterization of the Pareto-frontier in a simple optimal income taxation and public good setup is found in Bierbrauer and Boyer (2014).

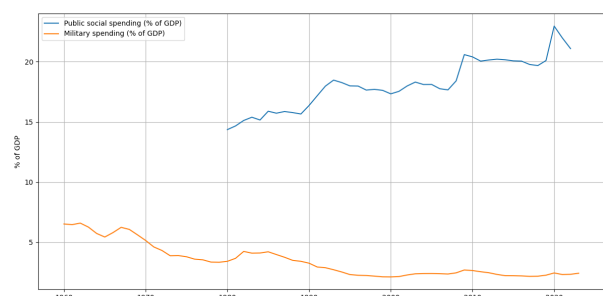
Figure 1: The “Peace Dividend”: Defense Spending and Social Spending



(a) France



(b) Germany



(c) OECD countries

Notes : This figure plots the evolution over time of social expenditure (blue line) and military spending (orange line) as a percentage of GDP.
Sources: OECD (2025) and World Bank (2025).

resource requirement associated with an expansion of the provision level.

While the optimality condition “collective willingness to pay equal to cost of provision” holds for every Pareto-efficient allocation, the provision level does typically change as one moves from one Pareto-efficient allocation to another one.⁴ Suppose that an individual’s willingness to pay for a given increase in public defense is lower if the person’s disposable income is lower, simply because giving up disposable income is more painful if one has little disposable income to begin with. As a consequence, “the poor’s” willingness to pay for national defense depends on the ability of “the poor” to buy private goods. A Pareto-efficient allocation that treats “the poor” very well, therefore, goes together with a relatively high will-

ingness of “the poor” to pay for public goods. By contrast, “the poor’s” willingness to pay will be lower at a Pareto-efficient allocation that treats “the middle class” very well, whereas the willingness to pay of middle class individuals will be higher at such an allocation. Thus, if, for political or normative reasons, one wants the support of individuals from the bottom half of the income distribution for increased public goods provision, one must make sure that these individuals have sufficient disposable income.

Public finance and public goods provision. First-best criteria for public goods provision are derived under an assumption which does not hold in political practice: Public good provision can be accompanied by individualized transfers. Thus, as one moves from a Pareto-efficient allocation that gives a high weight to “the middle class” to one that gives a higher weight to “the rich” while leaving “the poor” unaffected, one transfers disposable income from one group to the other by means of individualized transfers. While such transfers affect disposable income, they do not affect the economy’s incentive structure: the return on productive activities is not affected.⁵

In practice, the tools of public finance (e.g., income and capital taxes, VAT, property taxes) are used to pay for public goods and they all have the property that they change incentives. If an income tax schedule is reformed so that marginal tax rates move up, people get less disposable income out of their income-generating activities. If capital incomes are taxed at a higher rate, people get less future income for their savings. If value added taxes go up, people get less consumption out of their disposable income. If public debt goes up, the effects are the same, except that they are shifted into the future when taxes are needed to pay the interest. If that’s the case, how does it affect the efficiency condition for public goods provision?

The answer depends on whether or not preferences for private goods and preferences for public goods satisfy a condition of separability. If separability holds, then the individuals’ incentives to generate income do not depend on how much of a public good is made available. The condition is subtle. It does not require that public goods are unproductive (e.g., pyramids). Possibly, the provision of the public goods improves the earnings incentives of all individuals, say, because better infrastructure reduces the cost of commuting. What is crucial for the separability condition to hold, is that the ranking of available options does not change. If an individual prefers, say, a high-paying job that requires a lot of effort over one that yields

⁵ If people have a high disposable income, they may no longer be willing to incur effort costs and choose to work less. This is an *income effect* in the jargon of microeconomics. Such income effects are no impediment for reaching first-best efficiency. To maintain efficiency, it is crucial that the additional income that people can realize when exerting effort does not change; i.e. there must not be a *substitution effect* that pushes people away from productive activities.

⁴ In a special case without income effects, all efficient allocations give rise to the same public goods provision level.

more work-life-balance, then this ranking must not be reversed when the quality of the infrastructure changes.

Whether a public good is separable or not is, at least in principle, an empirical question. Plausibly, the availability of high-speed internet is more valuable in some occupations than in others. The economy's digital infrastructure therefore is a public good for which the separability assumption does not seem to hold. For national defense, separability looks more plausible. For a vast majority of the population, the size and the equipment of the army, should not make a difference for the ranking of the income-generating activities that are available to them.

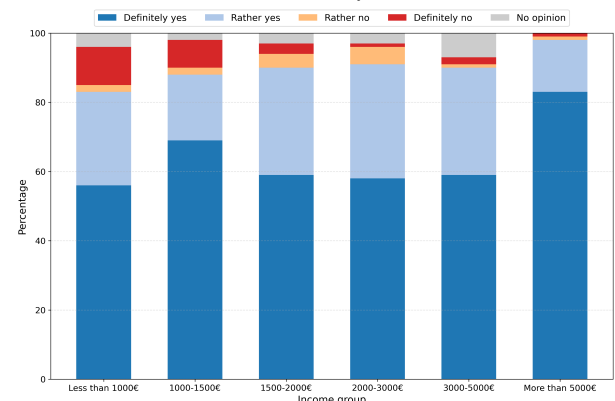
Now, suppose that individualized transfers are not available and that disposable incomes can be altered only through the tools of public finance. This changes the set of allocations that can be reached. It is no longer the first-best set. It is a set that is second-best. If one seeks to increase the disposable incomes of "the middle class" at the expense of "the rich" one has to adjust the tax system and this will be accompanied by efficiency losses, by tax distortions of productive activities. These efficiency losses do not arise in a hypothetical first-best world. As a consequence, the second-best frontier is interior to the first-best frontier. The payoffs available to individuals are smaller.

If the separability assumption holds, then the condition "collective willingness to pay equal to cost of provision" also holds for every allocation that is Pareto-efficient in this second-best set.⁶ If the separability assumption does not hold, then the condition has to be modified to take account of the welfare implications that come from the change of the economy's incentive structure. This said, and given our interest in national defense, we note this in passing and impose the separability condition in what follows.

To reiterate, even though the condition "collective willingness to pay equal to cost of provision" holds at every point on the second-best frontier, whether the condition stipulates spending 500 million or 750 million euros depends on where one is or wants to be at that frontier. Moves along the frontier are associated with changes of disposable incomes for the different groups of society. If an individual's willingness to pay for a public good changes with disposable income, then the efficient public goods provision level also changes as one moves from one second-best allocation to the next.

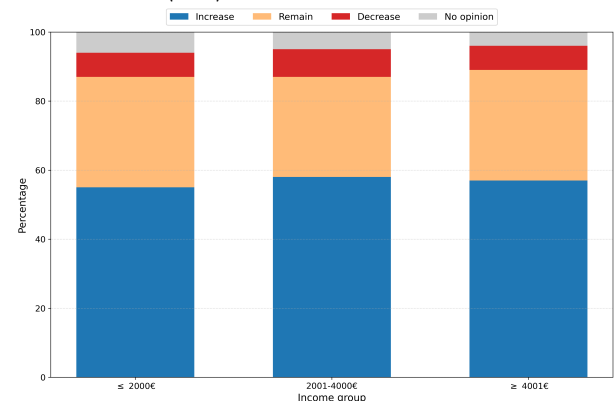
Challenges of preference aggregation. Differences in disposable income are not the only source of heterogeneity in the willingness to pay for public goods. Even among people with the same position in the income distribution, there may be diverse political preferences. Some may regard additional defense spending as urgent, while others are more skeptical, or even oppose it (see Figure 2 below). If one seeks to reach an efficient level of defense spending, then all these individual preferences have to be aggregated to see what the "collective willingness to pay" actually is.

Figure 2: Support for defense Spending in France and Germany



(a) France - Should Europe strengthen its own military capabilities to reduce its dependence on the United States? - breakdown by income.

Notes: This figure presents a breakdown of preferences on strengthening military capabilities by income in France. The survey was conducted between February 25th and 28th 2025 with 1 518 respondents. Source: Cluster 17 (2025).



(b) Germany - Should defense spending be increased in the future, should it be reduced or should it remain the same? - breakdown by income.

Notes: This figure presents a breakdown of preferences on increasing defense spending by income in Germany. The survey was conducted between May 18th and June 23rd 2024 with 1 956 respondents. Source: ZMSBw-Bevölkerungsbefragung 2024, Graf (2024).

⁶See Boadway and Keen (1993). This separability result is similar to those by Diamond and Mirrlees (1971) and Atkinson and Stiglitz (1976) which, respectively, provide conditions under which differential taxes on factors of production or on consumption goods are not part of an optimal policy mix. All these separability results have in common that they provide conditions under which *first-best principles of policy design* apply even though policy choices are only second-best as they invoke distortionary taxes, and hence are only second-best.

Instruments: Debt, VAT, capital and income taxes

If this is taken literally, one has to come up with a mechanism for preference aggregation that takes as an input all

the individual willingnesses to pay and outputs a public goods provision level. This mechanism has to be designed in such a way that individuals have no incentive to make exaggerations or understatements to make sure that the mechanism gets the correct input.

There is a rich literature on this problem, approaching it from a mechanism design perspective and under the assumption that the utility loss from paying extra taxes is identical across individuals.⁷ Here, we seek to emphasize a complication that can arise when individuals not only have different political views, but also different positions in the income distribution: Suppose one has settled on a point on the second-best frontier. There is now a shock, e.g., the risk of a war in Europe intensifies. To address this, there is a proposal to set aside additional public funds for national defense. Suppose that extracting these public funds is more painful for individuals further down in the income distribution: Tax revenue can either be spent on national defense or on various transfer programs. Hence, if the proposal is enacted, then either transfers need to come down or taxes need to go up. In any case, this is more painful for people at the bottom of the distribution who have a harder time generating market income and paying taxes and who are also more frequently dependent on transfers.⁸

In this situation people from the bottom may be inclined to understate their willingness to pay for national defense because they fear that the adjustment of the tax and transfer system will be too painful for them. Analogously, people at the top who are not facing these adverse consequences may be inclined to exaggerate when communicating their willingness to pay for public goods. Learning the true willingness to pay may therefore require a correction, a departure from second-best public good provision and financing. This departure makes spending on national defense and additional benefits for “the poor” more complementary than they would otherwise be. If enacting the proposals comes with higher transfers, then “the rich” are less inclined to exaggerate their willingness to pay and “the poor” are less inclined to understate theirs.

Mid-term summary. Efficiency conditions for public goods provision and financing are derived from solving different classes of Pareto-problems. The discussion above transited from first-best public goods provision to second-best public goods provision and finally to a notion of third-best public goods provision. In the first best, the set of allocations is only constrained by available resources and technologies, so that individualized transfers are possible. In the second-best, the tools of public finance have to be used to pay for the cost of provision

and for transfers. Finally, in the third-best, willingnesses to pay for a public good are taken to be private information of individuals. An additional requirement of incentive compatibility is then needed to make sure that the aggregation of public goods preferences works and that the “collective willingness to pay” can actually be determined.

In any case, an individual's willingness to pay for a public good such as national defense has two drivers: The political preferences of individuals are one driver, their views on the international order, the Russian invasion of Ukraine, the future of NATO, or the goal to build up European defense capabilities. These views are outside the domain of the economic analysis sketched above. They are taken as given. What we emphasize here is that the *willingness to pay for increased defense spending is also an endogenous object*. It depends on how individuals are positioned in the income distribution and on how the way of financing the extra spending is going to affect them.

Even if the status quo is a fair tax system, one that balances distributive gains and efficiency costs of taxation according to the principles of optimal tax theory, an increase of defense spending may transmit through that system in such a way that “the poor” are more burdened than “the rich” by the need to generate additional resources for defense spending. This leads to the presumption that the willingness to pay for national defense is negatively correlated with an individual's position in the income distribution. As we discuss in the subsequent section, this may have consequences in political practice, i.e. for the challenge to generate sufficient public support for an expansion of defense spending.

Political economy of public goods provision and financing

Public support. We now set aside the admittedly academic discussion of Pareto-frontiers and become practical. Put yourself in the position of a politician with the power to set the agenda. Suppose you propose a reform that involves an increase of defense spending alongside an adjustment of the tax and transfer system to pay for this extra cost. What public reaction can you expect? Will this be supported by a majority of the population?

A median voter theorem can provide an answer.⁹ Order individuals according to their willingness pay for the increase in spending – where the measure of willingness to pay takes account of how individuals are affected by the reform via the changes in the tax and transfer system. Go to the median position in that order. If people with a willingness to pay close to the median like the reform, there

⁷Important references include Clarke (1971), Groves (1973), Green and Laffont (1977), d'Aspremont and Gérard-Varet (1979), Mailath and Postlewaite (1990), and Hellwig (2003).

⁸This argument is formally developed in Bierbrauer (2014).

⁹Arguments developed in this section are formally derived in Bierbrauer, Boyer, and Peichl (2021).

will be majority support. Otherwise, there will be majority support for letting the reform package fail.

Now, the median willingness to pay will depend on the reform of the tax and transfer system that is part of the overall package. If that package involves a cut of transfers (say, to avoid curtailing “the economy” with tax increases), there is one; and if the package involves a shift towards higher and more progressive taxes (say, to avoid trade offs between the welfare of “the poor” and national security), there is another one. In any case, majority support will be achieved only if a sufficiently large part of the population does not regard the tax increases or spending cuts as excessive.

More concretely, when additional defense spending is financed by value added taxes, then this affects everybody since everybody has consumption expenditures. In a stylized scenario, where all people have similar views on the desirability of defense spending, the person who needs to be convinced to achieve majority support in the population at large is the person with median disposable income. Since income distributions are right-skewed (see Table 1), this means that one needs the approval of a person with a disposable income that is below average.

Table 1: Mean and median disposable and taxable income in Germany and France

		Germany	France
Disposable income	Mean	3,841.5	3,544.3
	Median	3,209.9	2,807.7
Taxable income	Mean	4,150.9	3,295.2
	Median	2,888.8	2,076.7

Notes: This table shows mean and median disposable and taxable income in Germany and France in 2023. Source: Euromod Statistics 2023, based on EU-SILC data.

By contrast, when additional defense spending is financed with higher taxes on income, then most pensioners, students, and more generally people with taxable incomes below the exemption threshold have no reason to oppose the reform, at least not for tax reasons. The person pivotal for majority support is now the person with a median level of taxable income. Again, this is a person with an income significantly below the average income.

Is the financing via public debt an “easier” alternative, i.e. one that provokes less opposition? The answer is yes if citizens are present biased relative to a Ricardian benchmark under which opposition or support for reform packages depends on the present value of future tax obligations. Present-biased agents, by contrast, are more supportive if tax payments are back-loaded. This observation does not upset the basic logic of the median voter theorem. The median voter may be more supportive if value added taxes or income taxes go up tomorrow rather than today, but it is still the median voter who counts when the objective is to secure majority support in the population

at large.

Above, the endogeneity of the willingness to pay for national defense was discussed in the context of efficiency conditions for public goods provision. Here, we do not have efficiency conditions, we only want to get things done politically, i.e. political feasibility only is required. The endogeneity matters nevertheless. Irrespective of the desirability on normative grounds, it may be necessary to accept an increase of the size of government – i.e. extra taxes rather than expenditure cuts – for political reasons.

Party politics. Sufficient public support is a necessary condition for a shift towards higher defense spending. Viability under the conditions of party competition is another one. In many countries, parties opposing the military buildup have gained strength in recent elections. In the long run, additional defense spending will remain politically feasible only if it is possible to form governments that do not rely on the support of these parties.

The financing package therefore should not be designed in such a way that it spurs support for these parties even further. The support for populist parties tends to be larger among people with lower income, among people with less formal education, or among people who live in areas that have been scarred by structural transformations of the economy. Citizens who might swing their vote to populist parties should not end up with the impression that they pay the price for the reform package while there is business-as-usual for the more privileged parts of the population.¹⁰

Systems of party competition face the risk that efficient policies are crowded out by unfettered special interest politics, referred to as *pork-barrel-spending* in research on political economy (Bierbrauer and Boyer, 2016). Populist parties live off the narrative that “the system” is run by “elites” and against the interests of “the people”. Thus, in this narrative, “the system” itself is just a vehicle for a special interest, the special interests of “the elite.” The more prevalent these narratives become in public discourse, the less support we can expect for the provision of public goods at the national or European level.

Findings. The way in which public goods are financed is important for a normative reason, to have a fair system of taxation. It is also important for political reasons. Support and opposition to reforms such as an increase in defense spending depend on how the financial burden is distributed amongst citizens. We have reviewed some of the normative and the political economy literature on the provision and financing of public goods. Based on this

¹⁰Seminal references for party competition with swing voting are Coughlin and Nitzan (1981) and Lindbeck and Weibull (1987), see Bierbrauer, Tsyvinski, and Werquin (2022) for an extension that includes voter turnout.

review, we conjecture that people at the bottom of the income distribution will show more opposition to an increase of defense spending. A tentative look at some data confirms this conjecture for France, but not for Germany, see Figure 2. We have argued that, for political reasons, it may therefore be necessary to increase the size of government – as opposed to having drastic spending cuts – if the goal is to move forward with a substantial increase of defense spending, irrespectively of whether or not such an increase is considered desirable from a normative viewpoint.

In the discussion above, we did not specify which instrument of the tax and transfer system should be used to finance an increase of defense spending. In addition, real-world increase of defense spending often have revenue implications that are not felt in the same period in which spending occurs. For instance, extra defense spending may yield budget deficits that necessitate an adjustment of public spending or tax increases in later periods.¹¹ If the benefits from the defense spending affect all taxpayers similarly whereas the future change of the tax schedule or spending cuts affects people depending on their incomes, median voter theorem for tax reforms presented above holds. In this case, it is enough to look at the individual with median income and measure the gains/losses from the tax change proposed for any instruments possible. If this individual supports the extra defense spending and associated tax change, a majority of the population is also in favor. A scenario where defense spending affect some taxpayers more than other correspond to an extension in which additional tax revenues are spent on public goods and preferences for public goods are heterogeneous. As shown in Bierbrauer, Boyer, and Peichl (2021), our median voter result extends to this case with an important caveat: it is not the individual with median income who is decisive, but the individual with the median willingness to pay higher taxes for increased public spending in the status quo. Again, higher taxes can come from income taxation, indirect taxes, or taxes on capital income. What is important is the ability to compute the gains and losses from these tax changes. Microsimulation models, regularly used during annual parliamentary discussions of the budget to provide ex ante evaluations of the winners and losers of certain tax reforms, are able to do these computations. However, they need to be augmented: They should account for preferences regarding defense spending to deliver political support for tax and spending reform packages.

A complication arises when there is uncertainty about preferences for defense spending. In such cases, there will be uncertainty regarding the political feasibility of re-

form packages. A decision-maker who wants to be on the safe side and ensure political support for any realization of the preferences will have to build a reform package that requires larger support than a strict majority. The important insight is that an input needed to determine the support for a reform package is the computation of the median willingness to pay higher taxes for increased defense spending.

Supra-national defense capacities

Should extra defense spending be provided at the national or supra-national level? This question relates to a large literature on fiscal federalism examines which functions and instruments are best centralized and which are best managed at decentralized levels of government (Oates, 1972; Oates, 1999). Current debates in the EU on common defense spending can be reformulated along these lines.

Decentralized levels of government have an advantage by tailoring the provision of public goods to the specific preferences and circumstances of their constituencies. A centralized entity typically is less responsive to local preferences, but can reap benefits from economies of scale by sharing the cost of provision among a larger population. The trade-off between realizing economies of scale, on the one hand, and the satisfaction of heterogeneous preferences, on the other, shapes the “size of a nation” (Alesina and Spolaore, 2005). Heterogeneous preferences don’t pose problems in the allocation of private good, but pose a challenge for the collective actions that are required in the provision of non-rival goods and non-excludable goods. Consequently, diverse preferences for types of governments and public goods present a significant challenge for supra-national institutions. In the context of the EU, these arguments have been brought forward to justify why there is a European single market, but not a common defense or foreign policy (Spolaore, 2015). However, this does not mean that public good provision at the EU level is doomed to fail: in the EU the level of preference heterogeneity is comparable to the US, and Europeans seem ready to accept a transfer of sovereignty to the center in the provision of some global public goods like security and defense (Alesina, Tabellini, and Trebbi, 2017).

Against this background, suppose that the European Commission takes the lead and proposes a mechanism that raises some contributions from the Member States, in exchange of some EU defense capacities, a transnational public good. This mechanism determines the countries’ contributions and the use of these resources. Is it desirable that the European Commission simply coordinates these activities or should have its own powers of taxation, for the purpose of financing defense expenditures? Mechanism design approaches to public goods provision have shown that approaches relying on voluntary contri-

¹¹Another rationale for using debt to finance an efficient defense spending is to provide incentives for political candidates in electoral campaigns to provide this public good, see Boyer, Roberson, and Esslinger (2024).

bution may be less efficient than approaches which assign taxation rights to a central authority (Mailath and Postlewaite, 1990; Laffont and Martimort, 2005). Approaches relying on voluntary contributions generate problems of free-riding that even the “best” mechanism will not be able to overcome. In the given context, this means the full potential of a European defense strategy will not be exhausted if it just relies on a coordination of national policies. To really exhaust that potential, there has to be a delegation of power to a supra-national institution.

Supra-national institutions, however, do not always act in the interests of all their participants and may even follow an own agenda, i.e. there is an agency problem. This may lead to a demand in Member States “to take back control.” Taking back control has two effects: On the one hand, it implies that the potential gains from collective, supra-national actions are not exhausted. On the other hand, one can ensure that one gets “a larger piece of a smaller cake.” If, from the perspective of Member States, the potential benefits are not realized anyway – because they are unevenly distributed, or because of agency conflicts between the supra-national institution and its Member States – then the coordination of national policies is the more attractive option.¹²

What is clearly an impediment to a European defense strategy is that – even in the absence of agency problems – attitudes towards the Russian invasion are very different in the different EU Member States. One seems to be a more viable strategy is that countries who are more aligned in their political preferences move forward. This would require the build-up of a new supra-national institutions, a core European defense union.

Conclusion

There are important aspects of defense spending that are not covered in our discussion. These include the efficiency of defense spending,¹³ financing tools,¹⁴ the multiplier effects at local and national levels of an extra euro of defense spending,¹⁵ and the crowding-in of private R&D spending.¹⁶

This note highlights that the current debate should not overlook the fact that long-term, sustained financing of

defense spending must align with citizens’ preferences for such provision.

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¹²On these issues, see Bierbrauer (2011) and Bierbrauer (2009).

¹³See Foucault (2003) and Boyer (2025) on this point.

¹⁴See Wolff, Steinbach, and Zettelmeyer (2025) for a proposal and discussion of European financing instruments.

¹⁵Additional government spending on defense might lead to extra GDP (see Ilzetzki (2025) for a comprehensive recent survey of the short-run and long-run implications of military buildups).

¹⁶Moretti, Steinwender, and Van Reenen (2025) find that defense funding provides a major subsidy for innovation in many OECD countries. Other spillovers have been found in military applications. For example, Thornton and Thompson (2001) find that learning spillovers in World War II shipbuilding were a significant source of productivity growth.

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