

National defense and the public budget in times of great danger

Europeans must significantly increase defense spending to ensure their security; this is probably the main conclusion of the Munich conference, which focused on the Trump Administration's vision regarding a ceasefire, peace in Ukraine, and the relationship with Russia. Additional defense spending would amount to several percentage points of GDP, which could destabilize public budgets in the absence of appropriate measures. And Europeans would still need military support from the U.S.

Ensuring military (and not only) security in Europe must be considered in a highly complex economic, social, and political context. The financial crisis was devastating, fueled by excesses in the financial industry and the negligence of governments and regulatory and supervisory authorities; that crisis deepened tensions and social fractures, generating dissatisfaction with the "elites" (establishment), while the cost to public budgets was overwhelming. This was followed by the Pandemic, which entailed a new wave of unconventional operations by central banks and increased government spending, further burdening public budgets. The energy transition and climate change have also impacted both public and private balance sheets, and Russia's invasion of Ukraine has amplified negative economic effects, intensified the cost-of-living crisis, and escalated hybrid confrontations.

In politics, there is a rise in radicalism, in the (ultra)conservative movement (also as a reaction against the woke movement), while democratic benchmarks are being questioned. Artificial intelligence (AI) opens up limitless opportunities but also brings about immense uncertainties; AI is fueling the race for new weapons. Finally, China's economic and technological rise has made it the great geopolitical rival of the U.S.

A new geopolitical vision/paradigm?

The succession of major adverse shocks, crises, has occurred against the backdrop of the failure of unrestrained globalization, which has led to a resurgence of protectionism. These crises are accompanied by a weakening of the multilateral framework and the increasing salience of "realpolitik" in relations between major powers and between them and other states. There is now both implicit and explicit discussion about "spheres of influence" and the importance of "hard power" in international relations.

The realpolitik vision from across the Atlantic, including with regard to the war in Ukraine, has been evident in academic circles, strategic think tanks (e.g., Samuel Charap from Rand Corporation; Heritage Foundation), and leading foreign policy journals (e.g., articles in *Foreign Affairs* by Richard Haass and Andrew Bacevich). This perspective has also been echoed by some

politicians, such as the current U.S. Vice President, J.D. Vance, who articulated it in his op-ed "*The Math on Ukraine Does Not Add Up*" (*New York Times*, April 12 of last year).

The world is multipolar, and the most powerful countries seem to be relativizing—or even ignoring—the rules and legal norms that have guided international relations, more or less, since World War II. The Munich Security Conference brought “shocking” announcements for Europeans, who see the transatlantic relationship as the foundation of the collective defense organization NATO.

It is true that for many years—since Robert Gates was U.S. Secretary of Defense—the Americans have criticized their European partners for not spending enough on defense (as “free riders”). During his first term, President Trump strongly emphasized this discontent, and it has now been reinforced. The new Trump Administration is demanding that Europeans allocate significantly more to defense, setting a target of 5% of GDP. Currently, only Poland is approaching this figure, while other EU countries in NATO spend between just over 1% of GDP (Spain, Belgium) to between 3% and 4% (Baltic States, Greece).

Even a partial disengagement of the U.S. from Europe (potentially motivated by the global rivalry with China) would deal a serious blow to NATO and place significant economic pressure on EU nations. How and under what conditions a ceasefire and peace in Ukraine will be achieved remains to be seen; there are many uncertainties and dilemmas. However, one certainty is that the EU needs a far stronger defense capability to deter future aggression. Furthermore, cooperation with the U.S. remains essential, as America continues to dominate militarily and technologically NATO from far away.

President Trump’s initiated direct dialogue with the Russian leader—beyond the declared objective of ending the war in Ukraine—can also be interpreted as an attempt to create a rift in BRICS, to decouple Russia from China. There are high-stakes geopolitical maneuvers that could leave European countries (EU) in a peripheral position. President Trump has also announced upcoming meetings with the Chinese President. From the perspective of nuclear arms control, pandemics prevention, and how to use of AI, such discussions make perfect sense. However, Europe (EU) must be involved in these discussions, as it already maintains an ongoing dialogue with China and India.

A major problem for Europeans is who—which person or institution—is most authorized to speak with President Trump, with the US Administration, and participate in potential negotiations. For example, at the meeting convened by the French President in Paris on Monday (February 17), only six EU countries plus the United Kingdom (which left the EU in 2016) participated. As Henry Kissinger famously asked decades ago: “Who do I call when I want to speak to Europe?” The reality remains that the EU is not a federation.

Increased resources for defense

A superior and effective defense capability requires considerably more resources allocated to the military sector in EU member states, as well as deeper military cooperation

between them. The pandemic was a kind of war in itself, but now it is about real military weapons and the ability to respond to cyber and hybrid attacks. National budgets and the EU budget will need to undergo restructuring to allocate new resources for defense; trends towards a “war economy” were already visible. Specialized European financial institutions have an important role to play in this regard (e.g., the European Investment Bank).

Allocating significantly higher resources for defense in the EU will put pressure on public budgets, especially as the sustainability of public finances was and still is severely tested. Many EU countries have medium-term fiscal sustainability programs, aimed at reducing public deficits and stabilizing public debt.

The EU’s average defense spending is around 2% of GDP. Reaching 5% of GDP, if we consider the U.S.’s maximalist demand, means more than doubling these expenditures on average for EU countries. This is a real shock to public budgets, even if one could argue that, when it comes to defense and security, second thoughts are not an option.

The public budget and national defense in romania

Last year, Romania allocated just over 2% of GDP to defense, while running a budget deficit of 8.64% of GDP—which, in reality, exceeds 9% when considering the annualized impact of pension recalculations. Romania’s target is to bring the deficit below 3% within seven years. Under unchanged conditions, if defense spending were to increase (be it gradually), the required macroeconomic correction would not be around 6% of GDP, but over 8% of GDP. A compromise within NATO may be reached, setting the minimum defense spending target at between 3% and 4% of GDP. However, even this would represent a major shock to public budgets across the EU.

Romania’s weak public budget position, with very low tax revenues (including contributions) at 26-27% of GDP—compared to the EU average of over 40%—is a significant structural handicap. This situation is the result of short-sightedness and economic policy mistakes. Implementing a large-scale fiscal correction under highly unfavorable international conditions, while also being forced to allocate significantly more resources to defense, seems like an impossible mission. And yet, it must be accomplished in one way or another. Romania must increase tax revenues, cut unnecessary spending, and spend resources more efficiently while making the most of available EU funds.

The way EU funds absorption has been handled—particularly in recent years—is incomprehensible, with much talk and little action. The prospect of losing billions of euros from the Recovery and Resilience Facility (PNRR) is more than regrettable. Given that the PNRR program ends in 2026, absorbing EU funds should have been an absolute priority for successive governments, but there has been no real sense of urgency. The next Multiannual Financial Framework (MFF) will likely allocate fewer resources to Romania, given the EU’s growing challenges related to competitiveness and defense/security.

Political disputes, parliamentary and presidential elections are diverting attention and energy, but they must not paralyze effective governance. As is noted both domestically and internationally, Romania suffers from weak institutional capacity and ineffective public policies. While other countries are seeking additional EU funding, Romania risks losing a significant portion of its allocated resources for various reasons.

A second PNRR will likely not happen, and the next MFF will be revised in response to evolving EU priorities. Romania must now do everything possible to recover lost time and prioritize investments that can be financed with EU funds. The visit of the European Commission delegation to Bucharest in February 2024 was a warning sign. Additionally, Fiscal Council reports (including its opinion on the 2025 public budget proposal) have highlighted the risk of losing substantial amounts from the PNRR.

The absorption of EU funds is a key factor used by external investors and credit rating agencies to assess Romania's sovereign risk. The country must avoid worsening its credibility gap and increasing financial market nervousness regarding its economic outlook.

Even if proposals from senior EU officials—including Ursula von der Leyen—to exclude defense spending increases from budget deficit calculations were approved, Romania's public budget situation would remain extremely challenging. It also remains to be seen whether the EU will approve the issuance of joint defense bonds, which could help countries with high budget deficits.

In Romania, defense spending could also be increased through contributions from citizens and businesses. A similar mechanism could be considered for the EU budget as well. The alternative would be to cut spending in other areas, which would require difficult economic and social policy choices.

Security in Europe: where to?

The increase in defense spending is necessary, as the world is becoming much more dangerous and seemingly devoid of rules. The loss of the "peace dividend" has been evident for some time. There is a historically validated expression relevant to our times: when "elephants wrestle," woe to the grass, to the small beings.

It is in Romania's interest, as well as that of other European countries, for the EU to become more cohesive and develop its own defense capabilities (including its arms industry) while ensuring that NATO remains strong. Romania's defense industry must grow, and offset agreements would support this goal.

Romania must join forces with other countries to prevent a fatal erosion of the transatlantic relationship; a trade war between the U.S. and the EU must be averted as it would cause significant damage. The relationship with the United States must be carefully maintained, just as Romania must ensure strong ties with France, the UK, Germany, Italy, and, importantly,

Poland. Turkey also deserves attention in this regard, as it is a regional power with growing influence. Naturally, neighboring countries are part of Romania's security equation.

In this new geopolitical context, diplomacy will become increasingly complex, operating both through collective interests and bilateral relations. NATO must remain a relevant organization, providing security guarantees for its member states.

The EU is fundamentally important for Romania, as the Union was primarily born as a peace project—not only as a vehicle for economic reconstruction after World War II. A more divided and fragile EU would be a bad omen for European security. The same holds true for NATO. Moreover, the EU must not be absent from major discussions and negotiations regarding global security.