



To the point!

Cross-Asset- and Strategy-Research

No additional debt for defense

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The costs of rearmament must be distributed fairly

Team Trump 2.0 leaves no doubt: The U.S. has become an unreliable military ally. This inevitably means that Europe will have to spend much more on its own defense. Exactly how much more is still uncertain. The expectations dictated by the White House fluctuate between just over two and five percent of GDP, depending on the Don's daily mood.

Recently, the EU's defense expenditures were [around 2% of GDP](#). Let's assume they need to rise to 3.5% – comparable to the share the U.S. has spent over the past decade. Numerically, this would mean an increase in collective military spending by 1.5% of EU GDP, or roughly 300 billion euros. This poses a significant challenge. Across the EU, overall budget deficits already exceeded 3% of GDP in 2024, which is higher than allowed under the Maastricht criteria.

The convenient solution: borrow now, worry later

Unsurprisingly, it didn't take long for calls for EU-wide debt, the infamous Eurobonds, to arise. The European Commission had already introduced EU-wide bonds with the Next Generation EU program after the coronavirus crisis to help the pandemic-stricken economy get back on its feet. So why not for defense as well? Alternatively, European Commission President Ursula von der Leyen suggests once again loosening the Maastricht rules, disregarding defense expenditures when calculating allowable deficit limits.

How convenient! But both proposals – joint defense bonds and special rules for national deficit limits – are flawed. Defense is

Europe suddenly stands alone

Two bad ideas

the ultimate consumptive expenditure. And as every entrepreneur knows, you don't finance consumptive expenditures with loans. Rearmament generates no revenue to service the debt. Despite the common refrain, "We must invest in our security", defense is not an investment.

A plea for intergenerational justice

So, how should Europe proceed? I believe the answer lies in the principle of causation: it is my own baby boomer generation, born until the late 1960s, who have let our defense capabilities slip. Instead, we cheerily consumed the peace dividend. In the 1980s, before the fall of the Berlin Wall, defense spending in Germany averaged 2.9% of GDP. In the three decades since 1993, it stood at only 1.2% (see figure).

Restoring our defense capabilities should be borne as much as possible by the generation that caused the military shortfall in the first place. If we do not pay, our descendants will have to, and that would be profoundly unjust. Germany's Boomers are already bequeathing to the younger generation an unsustainable social security system and escalating climate risks. And if, God forbid, a defense emergency should actually occur, it won't be us Boomers dying on the front lines in the trenches.

It would be better to cover the costs from the regular budget rather than incurring new debt. If this cannot be achieved through reallocation of expenditures due to political resistance, the financing could also be raised through a form of "emergency levy for the German army." It is time to stop shifting the cost of our failings onto future generations who can (still) barely defend themselves. It's our turn to grow up and take responsibility.

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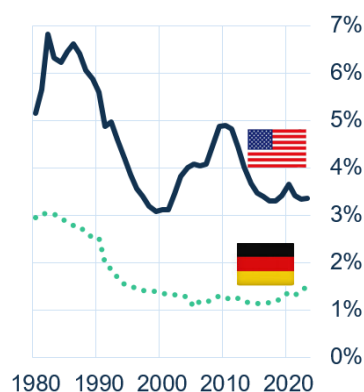
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Defense spending is not an investment

Defense spending (% of GDP, 1980-2023)



Source: SIPRI, LBBW Research

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