

# THE EU AS A 3-D POWER: SHOULD EUROPE SPEND MORE ON DIPLOMACY, DEVELOPMENT AND DEFENCE?

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## SUMMARY

In international security affairs, the European Union (EU) often presents itself as a champion of the comprehensive approach with the ability to combine a broad range of civilian and military instruments and policies. This presupposes intra-European coordination, a balanced portfolio of material resources and the political will to use them collectively.

In this policy paper, we focus on the second aspect and analyse how much the EU member states currently invest in their collective comprehensive power. We then assess whether and how they could do more. The analysis focuses on three key policy areas of the comprehensive approach: diplomacy, development and defence (the three Ds). It is based on recent member states expenditure data on the one hand, and analyses estimating the efficiency gains stemming from European cooperation on the other.

The EU as a whole spends 1.9% of GDP (€307 billion) on the three Ds and almost three quarters thereof on defence. It is thus a less substantial but more balanced spender than the United States (US), which spends around 3.6% of its GDP (€632 billion) with military expenditure accounting for 93% of the total sum.

Headline numbers conceal important differences between EU member states. We distinguish between four spending profiles:

- 3-D laggards with a focus on soft power;
- 3-D laggards that prioritise hard power;
- 3-D leaders that concentrate their resources on soft power; and
- 3-D leaders with a strong focus on hard power.

These different profiles have historical, cultural, economic and strategic roots that are unlikely to change in the short to medium term.

There are three reasons why the EU member states should invest more in comprehensive security. First, Brexit means that one of the EU's 3-D leaders leaves the club. Second, the US is increasingly reluctant to invest in stabilising Europe's troublesome neighbourhood. Third, the Trump administration foresees substantial cuts to civilian foreign affairs spending. These will reduce the US's global soft power impact on important European aims such as poverty reduction and conflict prevention.

EU members have two options to bolster their collective comprehensive power profile: spending more or spending better. The first could be translated into a flexible European GDP-based spending target for the three Ds. A flexible allocation between the three Ds would respect the diversity in EU members' spending priorities, and encourage a division of labour. Spending better would imply creating economies and efficiency gains through increased cooperation or even integration. According to higher-end estimates (with partly unrealistic assumptions), the member states could halve their current 3-D spending and reinvest in collective power resources.

In practice, both options have limitations due to non-compliance, opportunity costs and national sovereignty reflexes. To make up for Brexit, live up to internal and external expectations, and confront multifaceted security challenges, Europeans have little choice but to pursue them in parallel.

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## INTRODUCTION: THE CONTESTED THREE-LEGGED STOOL

**F**ormer Secretary of State Hillary Clinton famously described US foreign policy as a three-legged stool based on defence, diplomacy and development. The Obama administration viewed the so-called three Ds as a “central framework for American strength and influence”<sup>1</sup>. Indeed, comprehensive or whole-of-government approaches, combining civilian and military means in a synergistic fashion, have become “the gold standard in international security affairs”<sup>2</sup>. Based on the recognition that military means alone cannot achieve sustainable peace, they suggest increased and more refined inter-institutional coordination as well as a more joined-up use of resources.

US President Donald Trump is clearly shifting away from the three-legged stool approach by proposing a 10% increase in defence spending and a 32% cut in civilian foreign affairs spending for 2018. The White House justified these budgetary cuts arguing that global civilian foreign affairs spending was imbalanced and that others have to do more: “It is time to prioritize the security and well-being of Americans, and to ask the rest of the world to step up and pay its fair share”<sup>3</sup>.

“Stepping up” is often measured against numeric targets (see Box 1). Since the 2016 US election, NATO’s 2% defence spending goal has received particular attention. Trump underlined the need for more European defence spending. At the NATO Summit in Brussels in May 2017, he scolded the European Allies for years of underpayment and said that the 2% were the “bare minimum for confronting today’s very real and very vicious threats”<sup>4</sup>. Unlike his predecessors, he adopted a transactional approach to the Alliance and repeatedly called Article 5 into question.

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### BOX 1 ► International GDP/GNI-based spending targets

#### The 0.7% GNI aid spending target

The pledge to raise official development assistance (ODA) to 0.7% of GNI was initially formulated in the framework of the Development Assistance Committee (DAC) of the Organisation for Economic Development and Cooperation (OECD). The UN General Assembly formally recognised it in 1970. The US supported the metric’s general aims without subscribing to specific numbers or timetables. The EU first committed to the 0.7% target in 1970 and repeatedly reaffirmed it, including in the June 2016 Global Strategy. The United Kingdom (UK) is the only EU member that enshrined this commitment in law.

#### NATO’s 2% GDP defence target

In 2006, NATO members agreed to spend at least 2% of GDP on defence, and 20% thereof on research and development (R&D) and procurement. At the 2014 Wales Summit, the Allies pledged to meet both goals within a decade. The 2% goal is a symbolic and political commitment to greater transatlantic burden sharing with a focus on European NATO members. There is no collective EU commitment to the 2% target. It thus excludes Austria, Ireland, Finland, Sweden, Malta and Cyprus.

#### A comprehensive 3% GDP spending target

Ahead of the 2017 Munich Security Conference, its Chairman Wolfgang Ischinger formulated a 3% GDP spending target for more international engagement<sup>5</sup>. The proposed target includes defence, diplomacy, and development aid. It is based on the understanding that these policies have to work hand in hand for effective conflict prevention and resolution.

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Both Trump’s pivot towards defence spending and his calls for greater burden sharing have received a mixed reaction from his European partners. In Germany, they sparked a debate on the usefulness of numeric targets on the one hand, and alternative measures spending that go beyond military budgets on the other. In January 2017, the Chairman of the Munich Security Conference, Wolfgang Ischinger, advanced the suggestion of a

1. U.S. Department of State, “Sidebar on The 3Ds - Diplomacy, Development, and Defense”, 2010.

2. Gebhard, Carmen and Norheim-Martinsen, Per M., “Making sense of EU comprehensive security towards conceptual and analytical clarity”, *European Security*, 20(2), 2011, pp.221-241.

3. Executive Office of the President of the United States, “America First: A Budget Blueprint to Make America Great Again”, March 2017.

4. Remarks by President Trump at NATO Unveiling of the Article 5 and Berlin Wall Memorials, Brussels, 27 May 2017.

5. Ischinger, Wolfgang, „Mehr Eigenverantwortung in und für Europa“, Deutschlands neue Verantwortung, 2017, see also: Bunde, Tobias, „Neue Lage, neue Verantwortung: deutsche Außenpolitik nach dem Ende der Gewissheiten“, Deutschlands neue Verantwortung, 2017.

European 3% target combining expenditure on the three Ds<sup>6</sup>. Then Federal President Joachim Gauck endorsed the proposal. The question of expenditure on the three Ds continued to stir the debate in the run up to the 2017 general election. All of Germany's more established parties included a reference to foreign affairs, development or defence spending in their electoral programs. The Liberal Party (FDP) even explicitly included the 3% spending target.

A comprehensive spending target would fit neatly with the EU's self-proclaimed role as a global 'comprehensive power'. EU documents and representatives constantly stress that the EU's ability to combine a broad range of civilian and military instruments is its key added value as an international security actor. Beyond declarations, the EU's effective 'comprehensive power' depends on its ability to gear its supranational and national, civilian and military tools and resources in a synergistic fashion towards collective objectives. This presupposes that the member states have the necessary resources and are willing to use them in a joined-up fashion.

This paper analyses whether and how the EU should pursue the role of a 3-D power based on three questions: How much do EU member states already spend on the three Ds respectively (section 1)? Should they invest more in comprehensive security (section 2)? What options do they have to enhance their collective comprehensive power (section 3)?

A review of recent data for diplomacy, development and defence spending reveals that the EU member states have very different spending profiles. These differences can be traced back in part to engrained historical, cultural, economic or strategic factors. Collectively, the EU is far below the proposed 3% goal and only a few member states meet other international spending targets. There are at least three good reasons to do more: the material losses stemming from Brexit, the questionable reliability of the transatlantic security partnership, and the likely reduction in the US's global soft power footprint. We suggest two options for the member states to enhance their collective comprehensive power: spending more through a common European spending target, or spending better via closer cooperation and economies of scale. As both avenues have limitations in the short term, they have to be pursued simultaneously to have a tangible impact.

## 1. A typology of 3-D spenders in the EU

” 1.9% OF EU GDP IS SPENT ON THE THREE DS, AND ALMOST THREE QUARTERS THEREOF ON DEFENCE.”

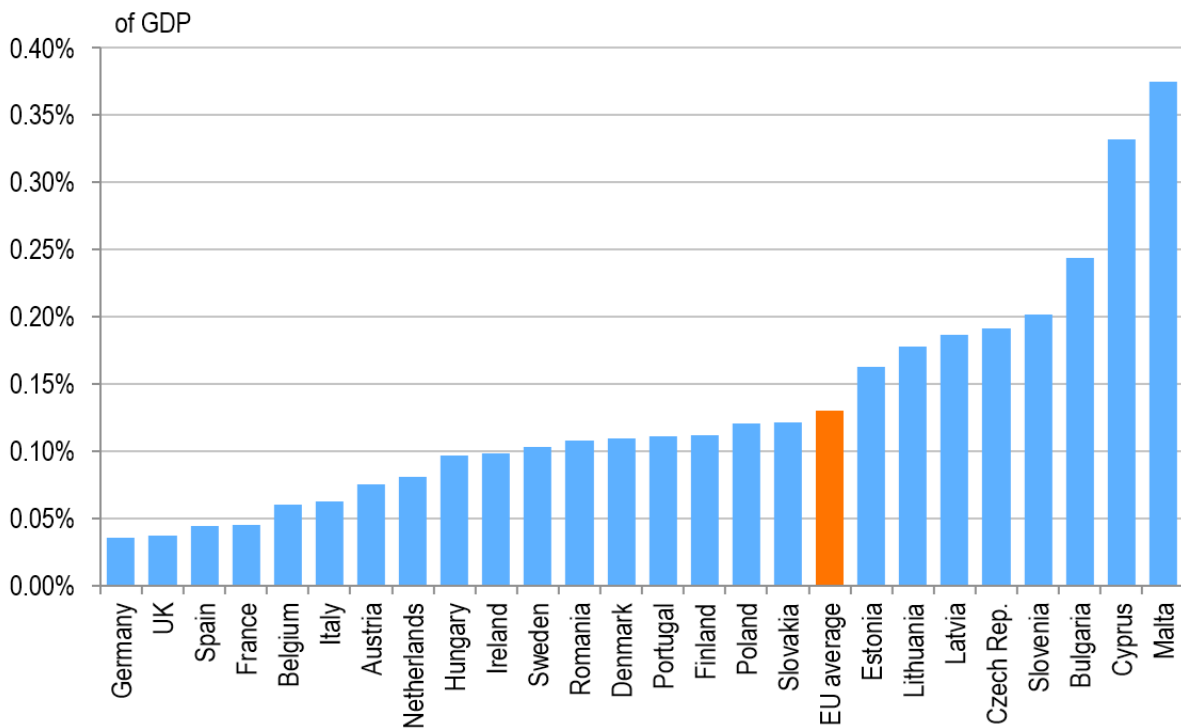
As a whole, 1.9% of EU GDP is spent on the three Ds, and almost three quarters thereof on defence. In absolute numbers, 3-D spending in the EU totalled €307 billion in 2016. In comparison, the US spends around 3.6% of its GDP (€632 billion), although military expenditure accounts for 93% of the total sum. However, the headline numbers conceal considerable discrepancies between EU countries. So we must first compare spending levels in each individual policy field, and then consider the picture that emerges when viewing spending in all three areas jointly.

6. Ibid.

## 1.1. Spending on diplomacy

While few would doubt that a well-funded diplomatic service is key to succeeding in foreign policy, it is hard to find comparable data on countries' diplomatic spending. Often, foreign ministries' budgets include elements of military assistance and economic aid. Therefore, spending on diplomacy is hard to separate from spending on defence and development. To our knowledge, the only available dataset on "pure" diplomacy expenditure dates back to 2009-10<sup>7</sup>, and can therefore only serve as an illustration<sup>8</sup>. Figure 1 shows that spending on diplomacy accounts for a very small share of GDP in EU member states: on average 0.13%, or around one fifteenth of total 3-D spending. It also seems that larger and richer EU member states spend relatively less on diplomacy, which may reflect savings due to economies of scale.

**FIGURE 1** ▶ Large EU members tend to spend less on diplomacy in relative terms



Budget expenditure of EU member states on diplomacy in % of GDP, 2009. Source: Own calculations, based on Eurostat and Emerson et al. 2011. No data available for Croatia, Greece, and Luxembourg.

7. The data includes spending "on the administration of the foreign service at home in the capital and in embassies abroad. This includes all running expenditures (salaries, rent, office expenses, representational allowances, infrastructural expenses, telecoms, cultural programmes (sic!), etc.); i.e. all expenditures, but excluding major operational programmes such as humanitarian and development aid, cultural programmes and trade promotion." (Emerson et al. 2011, p. 142, footnote a). This is similar to the definition of "external affairs" in Eurostat's Classification of the Functions of Government, for which unfortunately no data is available at present. See Eurostat, *Manual on sources and methods for the compilation of COFOG Statistics*, Luxembourg: Publications Office of the European Union, 2011, p. 157.

8. However, there is no compelling reason to assume that expenditure on diplomacy as a share of GDP has radically changed over time. Indeed, it seems highly unlikely that a country suddenly doubled its number of diplomatic staff or saw its rent payments halve since 2010.

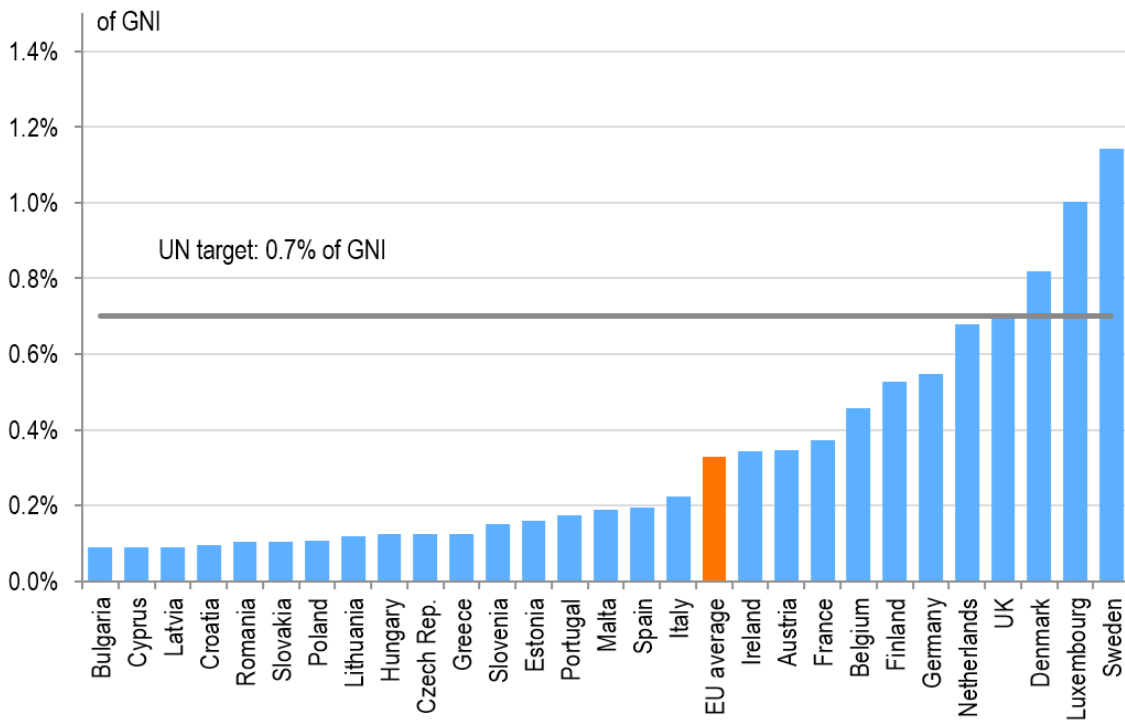
## 1.2. Spending on development aid

On average, EU member states spend 0.33% of GNI on official development aid (ODA). That is less than half the UN target of 0.7%. However, that average conceals large differences within the EU. Four countries (Sweden, Luxembourg, Denmark, and the UK) fulfil the UN objective, while sixteen members spend 0.2% or less.

Between 2014 and 2016, ODA spending increased markedly in many EU countries, notably Germany (+66%) and Spain (+154%), but also in Poland (+44%). This change was at least partially driven by the European refugee crisis and is likely to wane soon.

Generally, poorer EU members tend to spend less on ODA, but the relationship is not always straightforward. For example, per capita income in the Czech Republic stands at 88% of the EU average, but the country spends the same GDP share on ODA as Greece, where income is a mere 67% of the EU average. On the other side of the spectrum, Finland and the UK only have a slightly increased GDP per capita (108% and 109% of the EU average) but are among the largest donors in relative terms. Some scholars have proposed that domestic institutions play an additional or even a leading role in determining a country's aid effort. In this line of reasoning, countries with a strong welfare state tradition are more likely to spend money on ODA. Generally, the empirical evidence for this hypothesis is mixed, but it seems to describe the situation in the EU well<sup>9</sup>.

**FIGURE 2** ▶ Most EU members spend less than 0.3 per cent of GNI on development aid



ODA spending of EU member states in % of GNI, 2014-16 average. Source: Eurostat<sup>10</sup>.

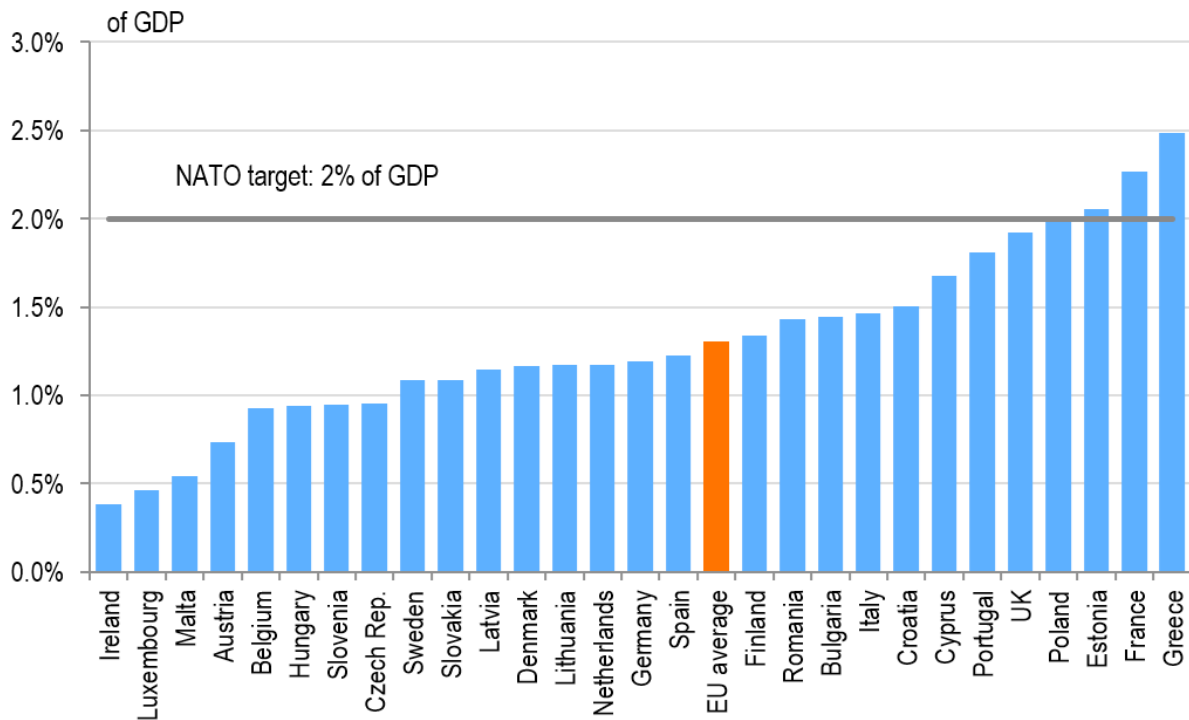
9. Zimmermann, Robert A., "The determinants of foreign aid: do socialist welfare states give more foreign aid than others by conditioning public opinion?" Les Cahiers de CEDIMES 2(2), 2008, pp. 139-154. Round, Jeffrey, and Matthew Odedokun, "Aid effort and its determinants", International Review of Economics and Finance 13(3), 2004, pp. 293-309.

10. Data for 2016 are provisional. As Bulgaria and Cyprus have yet to provide data for 2016, we have used the 2014-15 average for them.

### 1.3. Spending on defence

In all EU member states except Luxembourg and Sweden, defence is the largest of the three Ds. At 1.31% of GDP on average, military expenditure is more than four times higher than spending on development and fifteen times higher than the budget for diplomacy, although it is still lower than the NATO objective of 2%. Again, intra-European differences are pronounced. History and geography seem to matter: In Ireland and Austria, small countries with a tradition of neutrality, military expenditure accounts for less than 1% of GDP. In several countries on the EU's eastern border, such as Greece, Estonia and Poland, it is above 2%. The former European great powers, France and the UK, are also among the top spenders. This appears compatible with scholarly research pointing out that threat perception and past participation in conflicts are correlated with higher military expenditure levels, while government ideology does not seem to be a decisive factor in OECD countries. More generally, it has been argued that the overall low spending levels in the EU represent free riding on the security guarantees provided by the US<sup>11</sup>.

FIGURE 3 ▶ Defence spending ranges from 0.3 to 2.4 per cent of GDP in the EU



Defence spending of EU member states in % of GDP, 2014-16 average. Source: SIPRI<sup>12</sup>.

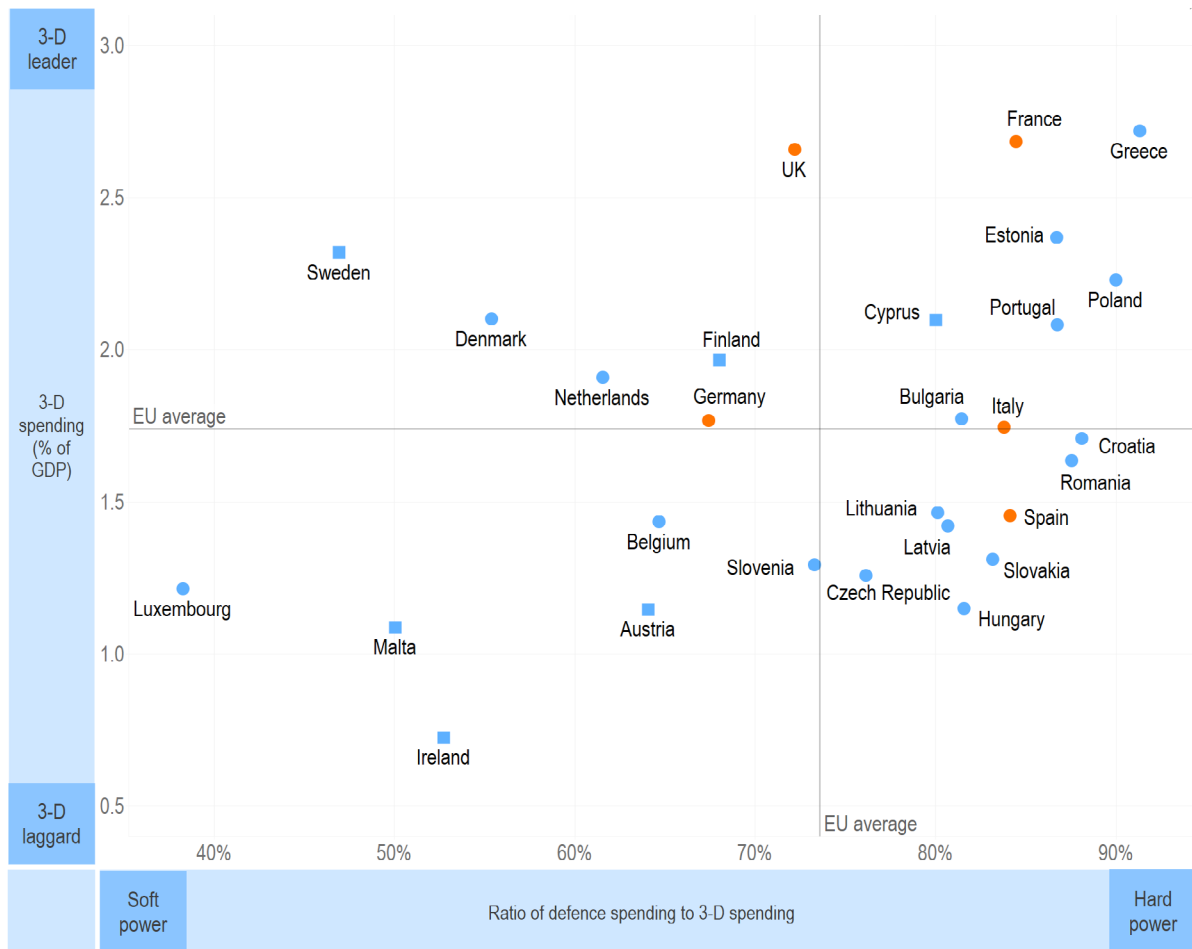
11. Collier, Paul, and Anke Hoeffler, *Military expenditure: threats, aid, and arms races*, World Bank Policy Research Working Paper no. 2927, November 2002. Potrafke, Niklas, 2011 "Does government ideology influence budget composition? Empirical evidence from OECD countries", *Economics of Governance* 12(2), 2011, pp. 101-134. Becker, Jordan M. "The correlates of transatlantic burden-sharing: revising the agenda for theoretical and policy analysis", *Defense & Security Analysis* 33(2), 2017, pp. 131-157.

12. We have used SIPRI data because Eurostat data is currently only available until 2015 and NATO data is not available for all EU member states. SIPRI estimates of military expenditure sometimes differ from NATO figures, for example because the latter "exclude expenditure on paramilitary forces if they are not 'realistically deployable'" [Perlo-Freeman, Sam, *Monitoring military expenditure*, SIPRI Commentary, January 2017]. For example, SIPRI figures are 0.5 pp higher than NATO figures for France, but 0.3 pp lower for the UK.

### 1.4. Are there different spending profiles?

By analysing EU members' expenditure on the three Ds jointly, we can get a sense of the different spending profiles that exist. Figure 4 shows how much a country spends on diplomacy, development and defence (y-axis) and what share of the money is spent on defence (x-axis). There is a significant amount of heterogeneity. We can identify 3-D leaders, that spend a large share of their GDP on foreign policy, and laggards, that do not. Furthermore, some countries focus on soft power by spending mostly on development and diplomacy, while others prefer hard power and concentrate their expenditure on the military.

**FIGURE 4** ▶ The EU member states represent highly diverse approaches to 3-D spending



Cumulative spending on diplomacy, development and defence in % of GDP (y-axis) and military expenditure as a share of overall 3-D expenditure (x-axis). Data for development and defence are 2014-16 averages. Data on diplomacy is from 2009/10. For Croatia, Greece, and Luxembourg, data on diplomacy spending is missing and was replaced by the EU average. Circles denote NATO members, rectangles denote non-members. Source: Own calculations based on Eurostat, SIPRI, Emerson et al. 2011.

Overall expenditure as a percentage of GDP is as high as 2.7% in Greece, France and the UK, while it is only 0.7% in Ireland. Also taking into account expenditure priorities, we can differentiate between four types of spenders:

1. 3-D laggards with a focus on soft power. Ireland, Luxembourg and Malta fit well into this category.
2. 3-D laggards that prioritise hard power. This applies with some qualifications to Hungary, but also to Slovakia.
3. 3-D leaders that concentrate their resources on soft power. Sweden and Denmark are examples of this rather uncommon combination.
4. 3-D leaders with a strong focus on hard power. Greece comes very close to this ideal type, with military spending worth more than 90% of its overall 3-D budget.

It is worth noting that the EU's five largest countries are also relatively diverse when it comes to 3-D spending. Among them, the UK might come closest to the ideal of a comprehensive power, with a high overall expenditure of 2.6% of GDP and a share of defence spending close to the EU average. Germany, Italy and Spain lag behind.



Summing up, there is no such a thing as a typical EU 3-D spending profile. Member states vary considerably in their spending levels and in their balance between soft and hard power. Considering that factors such as geography, history and culture seem to play an important role in determining spending profiles, this seems unlikely to change in the short run. On a global scale, the EU is an important provider of comprehensive security and a leader in terms of soft power. Yet, compared to the US, its member states spend relatively small sums on the three Ds. If being a comprehensive power means not just balancing military and civilian spending, but also high overall expenditure on foreign policy, the great majority of EU member states fall short of their ambition.

## 2. Why invest in comprehensive security?

There are at least three reasons why Europeans should invest more in comprehensive security.

Firstly, Brexit will deal a heavy blow to the EU's comprehensive power aspirations. As figure 4 demonstrates, the EU will lose one of its 3-D champions. With 238 representations and 14,000 diplomats, it has one of the world's largest diplomatic networks (see Table 1). Brexit will reduce the EU's collective military expenditure by a fifth. Although the EU will remain the world's largest donor club, its economic weight will be reduced by a quarter. Combined, the EU's spending on the three Ds will decrease by 20% (or €61.2bn). Of course, Britain only put a small share of its resources at the EU's disposal<sup>13</sup>. Only around one tenth of the British development aid was channelled through the EU budget and the European Development Fund, and the British contribution to the EU's military and civilian missions and operations was not commensurate to its weight. Nevertheless, even potential access to these resources amplified the EU's global influence. Moreover, despite often being a difficult partner in the Common Foreign and Security Policy, Britain has undoubtedly played a leading role.

**TABLE 1** ▶ Britain's diplomatic weight compared

	FRANCE	THE UK	GERMANY	EEAS
Number of missions abroad	269	238	227	139
Diplomatic staff (incl. local staff)	14,800	14,000	11,231	3,484

Sources: [Ministère des affaires étrangères](#), [Foreign and Commonwealth Office](#), [Auswärtiges Amt](#) (2016)

Secondly, the EU can no longer rely on unconditional US support when it comes to ensuring stability and security in its troublesome neighbourhood. The US's military footprint on the European continent has shrunk during the past decade. The Obama administration shifted its strategic focus towards Asia. The US reluctance to play a leading role in the NATO-led intervention in Libya in 2011 was an illustration of this pivot. The Libyan air campaign also illustrated European capability gaps: it heavily depended on US support in intelligence, surveillance and recognition, air-to-air refuelling, and precision ammunitions. Calls for greater transatlantic burden sharing have loudened since and the Trump administration has adopted a transactional approach to Alliance solidarity. The EU will therefore have to live up to its ambition to become a more autonomous military actor.

Lastly, Europeans might have to compensate for a significant reduction in the US's global soft power footprint. The US Federal Budget 2018 proposed by the Trump administration foresees a 10% increase in defence spending (+€43.8 billion) and a 32% cut in civilian foreign affairs spending, including diplomacy and development aid (-€15.8 billion). The proposed cuts would, amongst other things, imply<sup>14</sup>:

- Scrapping the US's principal food aid account;
- Cutting international disaster assistance by roughly a quarter;
- Reducing refugee assistance by almost a fifth;
- Reducing US contributions to international peacekeeping activities by more than half.

Thus, it is clearly in Europeans' interest, as well as being their international responsibility, to strengthen the EU's comprehensive power profile.

13. See Koenig, Nicole, "EU external action and Brexit: relaunch and reconnect", Jacques Delors Institut – Berlin, Policy Paper No. 178, December 2016.

14. U.S. Department of State, "FY 2018 Congressional Budget Justification: Department of State, Foreign Operations, and Related Programs", May 2017.

### 3. Living up to the promise of comprehensiveness

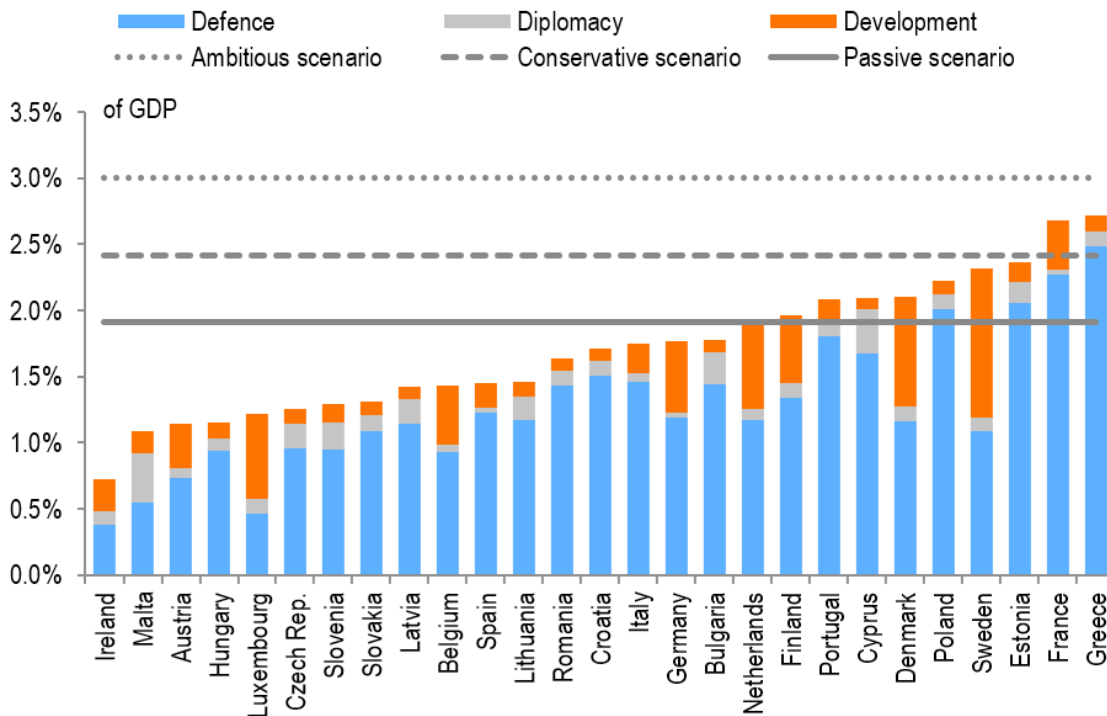
There are two general options as to how the EU and its member states could strengthen their collective comprehensive power profile. In line with US expectations, they could agree to spend more based on numeric spending targets. Alternatively, they could spend better and more efficiently by strengthening cooperation. These options are not mutually exclusive, but for the sake of clarity, we have analysed them along with their advantages and disadvantages separately.

#### 3.1. Spending more: a flexible European target

The EU member states could agree on a European metric target combining expenditure on the three Ds. GDP-based spending targets represent simple and easily comparable indicators for national contributions to global public goods. The underlying assumption is that input will increase output and, arguably, impact as well. A European metric would add substance to the narrative of the EU as a comprehensive power. It would also provide Europeans with a more credible response to US demands for greater international burden sharing, in line with their distinct understanding of comprehensive security.

As the above analysis shows, spending profiles differ significantly across member states. These differences have historical, cultural, economic and strategic roots that are not likely to change in the short to medium term. A European metric could accommodate these differences by allowing for a degree of flexibility. While the member states would commit to a GDP-based contribution to Europe’s collective comprehensive power, the composition of national spending portfolios could differ. This would allow for intra-European specialization and division of labour: some member states could strengthen their profiles as key donors and civilian powers, while others could enhance defence spending in line with relevant strategic considerations.

FIGURE 5 ▶ Three 3-D spending scenarios



Cumulative spending on diplomacy, development and defence in % of GDP. Data for development and defence are 2014-16 averages. Data on diplomacy is from 2009/10. For Croatia, Greece, and Luxembourg, data on diplomacy spending is missing and was replaced by the EU average. Source: Own calculations based on Eurostat, SIPRI, Emerson et al. 2011.

The key question is, of course, which numeric value Europeans should commit to. Three different scenarios could be envisaged (see Figure 5).

- The **passive scenario** would imply maintaining current levels of spending. EU member states would thus oscillate around the post-Brexit average of 1.9% of collective GDP for the three Ds. Carrying on would be the easiest option but it would imply that a vast majority of member states continue neglecting the 0.7% aid spending target and the 2% defence spending goal. The EU as a whole would be a smaller comprehensive power, would neglect the material implications of Brexit, and would remain reliant on US hard power.
- With a 2.4% target (a total of €307 billion), the **conservative scenario** would compensate for the loss of material resources caused by Brexit. All member states except for France would have to raise spending levels significantly. On average, they would still not meet NATO and UN targets. However, the EU would credibly reaffirm its ambition to be a global player.
- In the **ambitious scenario**—a 3% goal (equivalent to €376 billion)—EU members would overcompensate for Brexit and the reduction in US soft power. Both international spending targets could be met and EU-specific elements could be added (see below). Reaching the 3% target is very challenging in the short term. Assuming the distribution among the three Ds remains the same, France for instance would face the following increases: defence from 2.3% to 2.52% of GDP, development from 0.4% to 0.42% of GNI, and diplomacy from 0.05% to 0.06% of GDP. It would thus have to raise annual defence spending by roughly €5 billion. At a time when savings plans have led the French President to cut the annual defence budget by €850 million, such increases seem unlikely. What applies to one of Europe's leading 3-D spenders is certainly also true for smaller and less prosperous member states.

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On the whole, the passive scenario would imply neglecting external pressures. The conservative scenario could be a medium-term benchmark, while the ambitious scenario could only be a medium to long term goal.

A European metric would have to be underpinned by common criteria and a sound methodology. This would include more transparent and comparable indicators for defence expenditure and diplomacy costs<sup>15</sup>. The EU would also have to agree on whether or not to include migration-related spending. The OECD-DAC classifies refugee-related spending as ODA, and a quarter of the increase in the EU's collective ODA between 2015 and 2016 stemmed from domestic refugee-related costs<sup>16</sup>. Critics point out that this detracts from the primary goal of development assistance, namely poverty reduction in developing countries. The EU could consider adding migration-related costs, including national expenditure for search and rescue operations in the Mediterranean and intra-European humanitarian assistance, as a separate European spending category.

GDP-based metrics usually raise two types of questions. Firstly, as with other internationally agreed benchmarks without tangible sanctions or incentives, there are compliance problems. Would a European 3% target really have more traction than NATO's 2% or the UN's 0.7% targets? The second question is whether GDP-based metrics really have the desired effect. NATO's 2% goal is regularly dismissed on the basis of the Greek example<sup>17</sup>. While it is one of the few EU member states to regularly exceed NATO's 2% target, the efficiency of its spending is questionable. Greece spends more than 70% of its defence budget on personnel costs. If this share were reduced to the NATO average of roughly 50%, Greece would fall below NATO's 2% target<sup>18</sup>. Using the share of the GDP as an indicator can thus encourage inefficient spending. Similar arguments can be put forward in the fields of development and diplomacy.

### 3.2. Spending better: efficiency and economies of scale

The typical counterargument to GDP-based metrics is that we do not need more, but rather better or smarter spending. This can imply modifying input indicators, focusing on output indicators, or creating economies

15. Eurostat's Classification of the Functions of Government database foresees an exclusive "External Affairs" category (item 1.13) but, to the knowledge of the authors, this data has not been collected so far

16. European Commission, "EU Official Development Assistance reaches highest level ever", Press Release, 11 April 2017.

17. De France, Olivier and Besch, Sophia, "Nato needs a European 2%", *EU Observer*, 27 May 2017.

18. NATO, "Defence Expenditure of NATO Countries (2010-2017)", June 2017.

or politics of scale<sup>19</sup> through coordination and collective prioritisation<sup>20</sup>. The question is whether corrected or amended performance benchmarks remedy compliance problems. Another question is whether efficiency gains make up for lower spending, i.e. will they enhance the EU's comprehensive power by enabling it to do more with less? The following overview briefly addresses these questions, along with relevant European debates and mechanisms, by policy area.

### 3.2.1. Diplomacy: creating politics of scale

Diplomacy is the least costly of the three policy areas and the relationship between input and output is arguably the hardest to quantify. The EU's Common Foreign and Security Policy rests on the assumption that a more unified diplomatic voice enables the EU to be a more effective player on the international stage. Yet, this politics of scale argument is not usually equated with a call for strong centralisation in the form of a single European diplomatic service. In a study on European added value of EU spending, the Bertelsmann Foundation estimated that the creation of EU embassies with 27 flags and centralised administrative and consular services would lead to cost savings between €420m to €1.3bn annually<sup>21</sup>. However, as the authors note, there is an important caveat: these figures are based on the assumption that existing wage differentials would remain in place. "Thus, the results are invalid if for the EU missions EU salaries become relevant"<sup>22</sup>. The latter are simply much higher than the member state average.

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There has been a gradual increase in co-location (sharing of premises) between the member states' diplomatic representations as well as with EU delegations. According to a study from 2015, 16 member states had a least one co-location between one of their diplomatic representations and an EU delegation, with 36 cases in total<sup>23</sup>. While reducing costs is a relevant driver behind co-location, the absence of immediate national interests in the third country is another<sup>24</sup>. As these findings indicate, national sovereignty considerations tend to prevail over efficiency concerns in the domain of diplomacy. The widespread establishment of super-EU embassies with 27 flags is thus unlikely.

### 3.2.2. Development: enhancing economies of scale

In the field of development assistance, the potential efficiency gains are more substantial. A European Parliament report estimated that EU members could save €800 million annually through the reduction of transaction costs and collective prioritisation. An extra €8.4 billion per annum could be saved if member states fully coordinated aid-recipient country allocation. Full communitarisation of development aid, currently a shared competence, would maximise gains. However, this seems unrealistic, as member states continue to view development assistance as an instrument for the pursuit of national interests and influence.

Instead, the EU has attempted to enhance aid efficiency and effectiveness through joint programming and implementation. According to an evaluation from 2015, the results of joint programming have been mixed<sup>25</sup>. On the one hand, it led to a more harmonised approach based on common objectives and country strategies. On the other, it "has in most cases not yet reduced transaction costs"<sup>26</sup>. The impact was limited since the exercise was restricted to a few sectors where several EU member states were active and shared interests. Although the EU became more visible collectively, there were few cases where visibility transformed into effective impact in line with a common policy purpose. Cooperation at country level works relatively well, but the EU and the member states would have to broaden the scope of joint programming and coordinate at headquarters level for more synchronised national programming cycles.

19. The term "politics of scale" refers to the multiplying effect stemming from collective EU and member state action as well as synergies between various external policies (Ginsberg, Roy H., *Foreign policy actions of the European Community: the politics of scale*, Boulder, CO: London: Adamantine Press, 1989).

20. For a good overview of instruments and mechanisms for better spending in the EU context see: Amélie Barbier-Gauchard, Eulalia Rubio, "Spending Better Together: Analyses and Recommendations", Synthesis, Jacques Delors Institute, November 2012.

21. Bertelsmann Foundation, "The European Added Value of EU Spending: Can the EU Help its Member States to Save Money", 2013.

22. Ibid.

23. Schneider, Sophie, "European Diplomacy through co-locations between Member State missions and EU Delegations in third countries", Erasmus Universiteit Rotterdam, MA thesis, 2015.

24. Dermendzhiev, Dimitar, "The Emergence of a Network of 'European Embassies': Increasing Cooperation between EU Delegations and Member State Diplomatic Missions", College of Europe, EU Diplomacy Paper 10/2014.

25. Analysis for Economic Decisions, "Evaluation of EU Joint Programming Process of Development Cooperation (2011-2015)", study carried out on behalf of the European Commission, 2015.

26. Ibid.

### 3.2.3. Defence: untapping economies of scale

Spending better and more efficiently has been an important topic in European defence cooperation<sup>27</sup>. EU representatives keep underlining that, while Europeans collectively invest half as much as the US in defence, the output of this investment only amounts to roughly 15% of the US output. Less than one third of Europe's 1.4 million land forces are deployable (NATO's usability target is 50%). EU High Representative Federica Mogherini stressed during a speech in July 2017 that tackling the investment gap is a "national sovereign choice", but that the EU can help in addressing the output gap<sup>28</sup>.

” IN DEFENCE,  
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To quantify how much the EU can help, several studies estimate the efficiency costs stemming from defence market fragmentation, duplication, and the lack of interoperability. Depending on the assumptions, the estimated annual costs range between €25 billion and €130 billion<sup>29</sup>. Higher-end estimates tend to be based on the rather unrealistic scenario of full integration: EU member states would have a single defence structure operating under the same conditions and in the same environment as that of the US. Even the more conservative estimates expect cumulative efficiency gains in different fields, including through the reduction of land forces, standardisation, and industrial collaboration in key capability areas. Despite methodological question marks, these estimates indicate that in defence, the potential for savings exceeds that of diplomacy and development.

The EU has undertaken a range of initiatives to untap economies of scale. In 2007, the members of the European Defence Agency (EDA) agreed on four voluntary benchmarks for better and more joined-up spending:

1. Equipment procurement (including R&D/R&T): 20% of total defence spending
2. European collaborative equipment procurement: 35% of total equipment spending
3. Defence Research & Technology: 2% of total defence spending
4. European collaborative defence R&T: 20% of total defence R&T spending

These refined input metrics did not eliminate compliance problems. On average, EU member states only met the first of the benchmarks between 2007 and 2014<sup>30</sup>. To compensate for uncoordinated member state defence budget cuts following the sovereign debt crisis, the EU launched several pooling and sharing initiatives. The resulting efficiency gains were estimated at €300m, and thus only 1% of the combined cuts<sup>31</sup>. The effects of voluntary benchmarks and bottom-up defence cooperation have thus been limited.

The EU renewed efforts at enhancing efficiency in 2016 by promoting:

- defence cooperation in a more top-down fashion through Permanent Structured Cooperation (PESCO) (the application of enhanced cooperation to defence)<sup>32</sup>;
- collaborative defence research, development and procurement via financial incentives from the European Defence Fund; and
- more synchronised national defence planning cycles and practices through the biennial Coordinated Annual Review on Defence (CARD).

At the time of writing, the EU member states were still negotiating relevant input and output criteria associated with PESCO while preparing a test run for CARD.

The most advanced of these initiatives is the European Defence Fund, launched in June 2017. After 2020, the Commission plans to provide €500 million annually for collaborative defence research, and €1 billion to co-finance (up to 20%) joint capability development projects from the EU budget. These financial incentives would be equivalent to roughly 1% of the EU budget. Negligible when compared to the Europeans' total defence expenditure, this amount would represent a substantial share of their combined investment in R&D including

27. See for example: Fabio Liberti, "Defence spending in Europe: Can we do better without spending more?", Jacques Delors Institute, Policy Paper No. 49, 2011.

28. Speech by the High Representative/Vice-President Federica Mogherini at the European Parliament plenary session on the European Defence Plan and the Future of Europe, Strasbourg, 4 July 2017.

29. European Commission, "Defending Europe Factsheet", 2016.

30. <https://europa.eu/globalstrategy/en/card-eu-defence-table>

31. European Parliamentary Research Service, "The cost of non-Europe in Common Security and Defence Policy", 2013.

32. According to informed sources, France and Germany agreed on a list of PESCO criteria in July 2017 including, amongst others, the gradual attainment of NATO's 2% spending and 20% investment targets (Gros-Verheyde, Nicolas, "Français et Allemands définissent des critères communs pour la coopération structurée permanente", Bruxelles 2 Pro, 13 July 2017). It remains to be seen whether other, in particular non-NATO EU members, accept these benchmarks.

R&T (€8 billion in 2015). The European Defence Fund would make the Commission Europe's fourth biggest investor in defence R&D. Its added value would lie in the identification of innovative projects that are directly linked to shared European interests.

The European Defence Fund provides incentives for better and more joined-up spending but there are still some questions on its effective impact. Firstly, will the co-financing really have a fivefold multiplying effect on member state investment as suggested? The Commission proposed additional incentives, including the use of project-related debt instruments and exemptions from the EU's deficit rules, but these remain highly controversial<sup>33</sup>. Some analysts suggested a more substantial EU-level contribution where each Euro from the member states is matched with one from the EU budget<sup>34</sup>. Such a substantial increase seems unlikely in light of the foreseeably controversial negotiations on the next Multiannual Financial Framework. Secondly, to what extent will efficiency gains be offset by the transaction costs associated with collaborative defence projects? Finally, can the EU really untap substantial economies of scale as long as the costly duplication of military structures and personnel persists?

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To summarise, the EU offers multiple avenues for better spending, but they are not straightforward. If we believe higher-end estimates, EU members could save almost half of their 3-D spending through greater cooperation and integration. These numbers are, however, based on the unrealistic assumption that member states place collective efficiency concerns above national sovereignty considerations. Diplomacy is an area where efficiency gains are comparatively low and hard to quantify. Despite efforts at enhancing the efficiency of collective aid delivery, the scope of joint programming and prioritisation remains bounded by national preferences and interests. The EU launched

promising initiatives to foster more efficient and synchronised spending in the very costly field of defence. It remains to be seen whether they will generate the expected efficiency gains and whether such gains will trigger broader and more far-reaching cooperation initiatives.

33. For a more comprehensive analysis see: Koenig, Nicole and Walter-Franke, Marie, "France And Germany: Spearheading A European Security And Defence Union?", Jacques Delors Institut – Berlin, Policy Paper No. 202, July 2017

34. Biscop, Sven, "Differentiated Integration in Defence: A Plea for PESCO", Istituto Affari Internazionali, February 2017.

## CONCLUSION: SPENDING MORE AND BETTER

If we recall the metaphor of the three-legged stool, we could say that the US is about to substantially cut two legs out of three, while Brexit will shorten all of the EU's three legs. In this paper, we argued that there is a clear rationale for investing more in the EU's comprehensive power. We presented two avenues towards achieving this aim: spending more and spending better. In light of the respective limitations, including non-compliance due to opportunity or sovereignty costs, both avenues have to be pursued simultaneously.

Spending more could be translated into a flexible European GDP-based 3-D spending target. This would represent a straightforward and comparable input benchmark. In the medium term, the aim should be to compensate for the material losses stemming from Brexit (a 2.4% target). In the longer term, EU member states could work towards a collective 3% target. The flexible and tailor-made allocation between the three Ds would allow them to contribute to the EU's comprehensive power while adhering to their cultural, economic and strategic specificities.

To spend better, the existing cooperation mechanisms should be developed further. Diplomatic co-location is one option, but much greater efficiency gains can be expected in development and defence. Europeans should refine coordination mechanisms such as Joint Programming and gradually broaden the scope of incentive structures, such as that provided by the European Defence Fund. A second step would be deeper and more formal integration in areas of European added value. This would entail more synchronised national defence and development planning, as well as more systematic agreement on joint priorities and key interests. After all, the EU's comprehensive power is not a simple function of collective resources. It depends largely on the common will to use them for jointly agreed objectives.

”MEMBER STATES SHOULD STRIVE FOR MORE AND BETTER SPENDING AS WELL AS MORE SEAMLESS COORDINATION.”

Europeans should not sit back and look on as Brexit reduces their collective weight and Trump scolds them for bandwagoning. In the passive scenario, consisting of a defensive attitude towards external expectations and repeated declarations glorifying the comprehensive approach, the EU will only have limited impact on its troublesome geopolitical environment. To shape the latter, the member states should strive for more and better spending as well as more seamless coordination. This might satisfy the current and future US administrations. More importantly, however, it would address the expectations of the majority of EU citizens who are calling for a Europe that protects.

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