

Europe is haunted by its (past) complacency

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Europe faces a huge task rebuilding adequate military industrial capabilities of its own. Significant private sector innovation and investment will be absolutely necessary to succeed.

“It was always clear the US would force Europeans to take on more of a burden of their own security. The question was whether the shift would be agreed and orderly or whether it would be chaotic and dangerous. Europe missed the opportunity to prepare for the former and is now faced with the latter. ... Trump’s return to power and the antagonism of his administration have shattered Europe’s complacency”, so a recent, painfully stark comment by The Editorial Board of the **Financial Times** went.

Complacency trap

Though far from the only area in which this is true, in defense matters European politicians lost themselves in what political scientist David Runciman defined as *“the complacency trap”* in the period after the Second World War. The trap runs as follows: let’s **ignore** the basic issue at hand (we Europeans cannot vouch for our own defense without American support), some kind of **temporary and vague compromise** will be enough to keep on going (half-hearted promises

to prop up defense efforts) and that's how it will always will work out for us (the US will at the end of the day rise to the occasion when European safety is endangered). Western European democracies became convinced this complacent attitude was risk-free as far as defense was concerned.

The manifest complacency so typical of the basic attitude of Western European leaders towards defense over the last decades led to what I described in my recent book as ***The Icarus Curse***. Over-confident, we started to behave recklessly and now we're crashing into the reality, not of the reality of the sea that Icarus crashed into in the Greek mythological tale but of the turbulent world of 2025. That is a world characterized by the presence of Russian military aggression on the European continent, of Chinese attempts at economic and geopolitical dominance, of China, Russia and Iran spearheading an autocratic assault on the Western democratic order and of a volatile, transactional American president who shows complete disregard of the security deals of yesteryear.

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Incentivize private investment

If Europe wants to be an entity that can play its (rightful) role on the international geopolitical scene **many things will have to change**. Foremost among them is the **rebuilding of European capacities for effective defense**. Practically every responsible European politician recognizes the need to prop up defense spending. What is however less clear is how that increased spending should look. The crucial question is not so much about whether levels of spend reach 2% of GDP or 3% of GDP, or even more, but *on what and by whom the spending has to be effected*.

---- *“What is however less clear is how that increased spending should look”*----

Just spending billions of euros on more military hard- and software is not the solution to Europe’s security long-term problem. **Immediate, or even intermediate spending, will inevitable be primarily felt in the coffers of non-European companies**. What is needed for the longer horizon is first and foremost the build-up of **European military industrial capacity**. Most urgent among European military needs are, amongst others, the development of pan-European defense shields and satellite systems, drone and anti-drone technologies, efficient transport systems, long-range strike capabilities, mass military logistics platforms and, most unfortunately, also tactical nuclear weapons. Modern military entities will also depend on *connectivity*. We will have to develop systems that allow the multitude of robots, tanks, drones, missiles, jets, satellites,

etc that will form the modern battlefield to continuously talk to each other and to a central “brain” making decisions in real-time individually and collectively across the entire system.

To launch such developments, public policies should be oriented towards incentivizing the private sector to invest massively in cyber- and defense-related endeavors. Four elements are necessary to fire up such investment and innovative activity. First, innovation starts with **academia** and **fundamental research**. European universities are too dispersed, a feature standing in the way of focused and specialized research. Appropriate curriculums and intelligent funding of research are much needed.

Second, investing companies need to be assured of **sufficient demand** (that is, sufficient demand if their products meet the targets set by the authorities in terms of military capabilities). That assurance depends crucially on the room created in **national and European budgets** for such demand to be effectively “freed”. National budgetary space depends in its turn on the ability of authorities to get their budgetary house in order and on the European deficit and debt rules. **The latter rules need to be adjusted to reflect the urgent military needs Europe has.**

European financing of defense outlays could also be reinforced by a new **European Defense Fund**. The argument that the **RRF-model** (RRF stands for Recovery and Resilience Facility, better known as the 735 billion euro corona fund) can be copied for the Defense Fund rests on shaky ground. Reports from the European Court of Auditors (ECA) increasingly question the quality of the RRF-spending. Similarly, the EPPO (European Public Prosecutor Office) and OLAF (European Anti-Fraud Office) show growing uneasiness about RRF-spending. Any

Defense Fund will have to be carefully designed to avoid inefficiencies and outright fraudulent misuse.

Tax Break

The third element necessary for an investment boom in military industrial capacity relates to **regulatory and tax incentives**. Regulation inhibiting or complicating such investments must be thoroughly revised, even scrapped. A simple measure to stimulate investments is a significant **tax break**. For example, it could be envisioned to allow companies investing in military industrial capacity enhanced write-downs. Investment of, say, 100 could lead to a write down in their books of, say, 130. Such a measure would reduce their tax base, reduce the taxes to be paid, reinforce their cash flows and hence improve the profitability and attractiveness of the investments (yes, we should recognize the positive role private profits can and should play in this massive defense effort). **An even more powerful mechanism** would be to allow the company investing 100 to deduct the 30 referred to above immediately from the tax bill owed to the government.

It makes no sense to argue that such a measure negatively impacts public finances since without such tax incentives such investments would either not take place or be greatly reduced in scale. It is moreover self-evident that investments in military industrial capabilities will not only stimulate employment and human capital creation but most often also lead to related applications in non-military fields.

It speaks for itself, so it seems to me, that the creation of a strongly incentivizing innovation and investment climate should be recognized as considerable contribution to the military effort delivered by the country in

question. Accordingly, it should be included in the 2% or 3% or whatever GDP-norm is accepted as the new target for military spending. The exact calculation of this contribution is obviously open to some discussion but that quantitative question does not in any way diminish the reality of the quality of this type of contribution to the military effort.

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Fourth, the **European Investment Bank (EIB)**, by balance sheet total the largest bank in the world, **should be relieved of all shackles to co-finance military industrial investments**. Important steps have already been taken in this direction, but more is needed. The EIB-machine can be a powerful engine in the drive for more, and better, European military capabilities. We should not underestimate the impact increased involvement of the EIB in military industrial ventures will have on the behavior and policies of other major financial institutions. An alternative to this EIB-oriented approach is the creation of a specific rearmament bank. For reasons of efficiency and speed I think the EIB approach should be preferred.

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Do not relent

It will take considerable time to build up real European military industrial capacity. Five years is unrealistically optimistic, ten years maybe not, but only on the condition that action is not delayed. Part of the political action needed in that meantime is that **we do all we can to keep NATO and the relationship with our American partner as intact as possible**. Not only do we in the short term (five years) still largely depend on them for our military protection, in the longer term we (and they) will absolutely benefit from joint military capabilities.

Finally, **endurance** must remain. Whatever the outcome of possible peace negotiations as envisaged by American president Trump, Europe cannot relent in its effort to build up structurally its defense capabilities in the broadest sense of the word. We shall not recommit the mistake of the period after the first Trump presidency when we thought everything would go back to “normal”. **There is no longer an old normal to return to**, but only the new normal of Europe’s obligation to take full responsibility for its own defenses.

Vladimir Putin’s Russia has manifestly shown itself to be a totally untrustworthy party. No peace agreement of whatever nature or content can make this ugly reality go away. Even if Putin would somehow disappear from the scene, the imperative to rebuild our defense capacity remains exactly the same. **Never again should Europe arrive in a situation of having to stand bare naked in front of an aggressive, anti-democratic foe.**