EGMONT POLICY BRIEF 370

– MARCH 2025 –

Tanks Versus Pensions? How European NATO Countries Fund Defence and What Belgium Can Learn

Haas, Haesebrouck and Balcaen

"On average, European countries easily spend up to a quarter of their national income on pensions, health, and social security systems, and we need only a small fraction of that money to make defence much stronger" (Rutte, 2025).

INTRODUCTION

Speaking before the European Parliament, NATO Secretary-General Mark Rutte urged national representatives to reassess their spending priorities to strengthen defence budgets. He specifically highlighted the financial burden of social welfare states, arguing that even a small reallocation of funds could significantly bolster European military capabilities, suggesting that European governments are faced with a tanks versus pensions dilemma. But is this trade-off real or merely rhetorical framing?

As the Russian threat endures and Washington escalates its demands on its allies, European NATO countries face increasing pressure to enhance collective deterrence. This requires the reconstruction and modernization of their armed forces, an effort that comes with substantial financial demands. However, for many countries, these demands arise in a challenging economic context, marked by inflation, energy price instability, high debt, and sluggish growth. Numerous European countries have developed a structural reliance on benefiting from the peace dividend. Meanwhile, NATO's 2% GDP defence spending target is increasingly seen as outdated, with the upcoming 2025 NATO summit expected to introduce a new benchmark.

Amid escalating transatlantic tensions over support for Ukraine and the United States' commitment to collective defence, Europe is determined not to delay in pursuing this new target. On the 4th of March, European Commission President Von der Leyen has unveiled the "Rearm Europe" plan, which seeks to mobilize a collective additional €800 billion in defence spending. While a common defence fund would provide €150 billion, the largest part – €650 billion – must come from national defence spending efforts, encouraged by policy changes such as an escape clause of the EU's Stability and Growth Pact and possibilities for EU countries to use cohesion programmes to boost defence spending.

These challenges are particularly demanding for countries that have chronically underinvested in their own defence and now have considerable ground to cover. Belgium is a prime example. More than three decades of budget cuts have weakened its armed forces, leaving them ill-prepared to respond to the worsening European security order. Moreover, the impact of the 2022 war in Ukraine on Belgium's defence policy has been minimal. Initially, Belgium stuck to its plan to reach NATO's 2% GDP defence spending target by 2035, lagging behind even other free riders such as Spain, Slovenia and Luxemburg, which pledged to reach the target by 2030 at the latest. It was only in 2025, under a new federal government, that Belgium decided to accelerate its timeline to 2029.

Financing this relatively modest ambition turns out to be a serious political challenge. Headlines such as "pensions or tanks?" have ignited public debate and most political parties have been reluctant in truly supporting greater defence efforts. As a result, budget restructuring alone

EGMONT Royal Institute for International Relations

was not enough for the centre-right government to create fiscal space for the new growth path, so they had to get creative. Consequently, they introduced a 'Defence Fund,' financed through the sale of state obligations. While the details of the plan remain unclear, Defence Minister Theo Francken has stated that it is expected to generate €2.4 billion in revenue.

However, journalists and analysts are currently debating the true nature of these plans, leaving it uncertain whether the Defence Fund represents a short-term fix or a lasting solution. Moreover, it is already clear that the government's efforts will be insufficient, as mounting security pressures demand even greater increases in defence spending. The coalition partners acknowledge this urgency and are currently considering aiming to reach the 2% norm as early as 2025. They are particularly relieved with the possibility to exempt defence from EU limits on government spending. However, the funds must still be sourced and issuing new debt might not be the most viable option.

This raises the question of how other European countries are tackling this challenge and what lessons Belgium can take from their approaches. In his speech to the European Parliament - likely aimed at free riders like Belgium - NATO Secretary-General Mark Rutte implicitly revived the long-standing *'guns versus butter'* debate, highlighting the trade-off between social spending and military investment. But is this really the core dilemma that European states face? This policy brief explores the strategies European countries have used to finance increased defence spending since Russia's full-scale invasion of Ukraine in 2022 and identifies key lessons for Belgium.

FINANCING DEFENCE SPENDING HIKES

In 2022, numerous European countries faced the challenge of rebuilding their armed forces after decades of underinvestment. Although the decision to increase defence budgets to 2% of GDP was made as early as 2006 and reaffirmed in 2014, only 7 out of 30 NATO member states - the United States, Estonia, Greece, Latvia, Lithuania, Poland, and the United Kingdom - had met this target when Russian aggression escalated on the continent. By 2024, this number had risen to 24 out of 32 NAT0 member states, marking substantial progress. However, discussions on revising NATO's defence spending benchmark have intensified, with expectations that the NATO Summit in The Hague will set a new target of at least 3% by 2030. Currently, only Estonia, Greece, Latvia, Lithuania, Poland, and the United States meet this threshold. As a result, many countries will once again face significant challenges in closing the gap.

Financing increased defence spending, and more importantly, sustaining it over the long term, requires difficult political choices. Governments have three broad options to fund higher defence expenditure: (1) raising taxes, (2) issuing additional debt, and (3) reducing spending in other areas and reallocating the freed-up funds to defence. Each of these choices involves trade-offs, with distinct advantages and drawbacks.

Increasing taxes provides a steady source of additional funds, without having to worry about the repayment of extra debt. However, there are several drawbacks. Higher taxes can hinder economic growth and competitiveness, especially in the EU where taxes are already relatively high compared to other parts of the world (Dorn et al., 2024). Moreover, citizens are highly aware and sensitive to these measures, as they directly affect their available income. Additionally, increasing taxes could spark debates about distributional effects, particularly if they disproportionately benefit or impacts certain segments of the population (Jaeger, 2024). Hence, this measure is only expected to be taken when a government can count on popular support. Looking at historical war finance, taxation has therefore only comprised a small percentage of a country's war finance strategy (Zielinski, 2016).[1]

Issuing more debt avoids citizens and economic growth being affected directly. This financing option can further be categorized into foreign debt (money borrowed

1 Although Zielinski's work specifically looks at how states finance wars, several of her conclusions are applicable to the research question addressed in this work, as we are wondering how we can substantially increase defence spending on a relatively short notice and over an extended foreseeable time-period.

from foreign markets or through interstate loans) and domestic debt, which consists of government-issued bonds purchased by the country's own citizens and firms. Historically, there have also been other forms of domestic debt such as the 'war bonds' (e.g. during World War 2 in the US). These 'defence bonds' offer several advantages: they naturally garner public support for increased defence spending, and they can be issued at a lower interest rate due to the perceived 'public cause' they serve. These types of bonds could even be expanded multilaterally, leading some EU member states to express support for European defence bonds to finance increased EU defence efforts, like the Recovery and Resilience Facility (RRF) established during the COVID-19 crisis (EU Parliament, 2024). However, the concept of EU defence bonds continues to face significant opposition from key economies such as Germany and The Netherlands, making it uncertain whether sufficient political backing can be secured for this proposal (Scazzieri and Tordoir, 2025).

As government debt does not directly burden citizens or immediately hinder economic growth, it has historically been one of the preferred methods for financing substantial increases in defence expenditures, especially during times of war (Zielinski, 2016). Of course, there are also drawbacks associated with this financing method. Since debt must eventually be repaid, it can only serve as a viable solution for a temporary increase in defence expenditures.

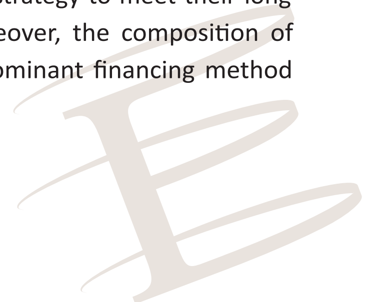
However, relying on debt to maintain a consistently higher level of defence spending could pose challenges in the long run. Pending on the evolution of the real interest rate (i.e. the nominal interest rate adjusted for inflation), countries might be faced with increased 'debt burdens' as they need to renew their debt. In certain scenarios, such as when a country faces a high real interest rate on new debt due to a combination of high nominal interest rates and low inflation, interest payments could even compete with defence spending for available funding (Dorn et al., 2024). Therefore, a country's creditworthiness plays a crucial role in its ability to use debt as a financing method, as more creditworthy nations benefit from lower interest rates when issuing debt, reducing the long-term cost of borrowing (DiGiuseppe, 2015).

Moreover, many EU member states are already grappling with high debt-to-GDP ratios, with more than half failing to meet the EU's 60% benchmark. Therefore, further increases in public debt could provoke opposition from the EU, unless regulations related to defence expenditures are relaxed in response to the evolving geopolitical environment. Current discussions within the EU indicate this option is likely to become viable soon (Reuters, 2024).

The third option involves austerity measures, which require a reassessment of current spending decisions to prioritize defence over other policy areas. These decisions often relate to the well-known 'guns vs butter debate', referring to the trade-off between military spending (i.e. 'guns') and social spending (i.e. 'butter'). Many European countries have significantly expanded their welfare states over the past decades, making it challenging to reduce these budgets and reallocate funds to defence. The strong electoral appeal of social spending makes it even more challenging to shift priorities from welfare to defence. Hence, strong public support and widespread awareness of the need to strengthen national security should be considered essential prerequisites for a state to adopt this type of financing. Interestingly however, budget reallocation can impact all areas of government spending, for example public finances and infrastructure projects. Nevertheless, the debate around austerity measures is often framed primarily as a trade-off between social and military expenditures, in other words: tanks versus pensions.

Related to this, several countries facing the need to increase defence expenditures appear to be extending the "guns vs. butter" dilemma to the composition of their foreign policy budgets. Countries such as Belgium, the UK and the Netherlands have decided to cut foreign aid budgets to finance higher defence spending, effectively shifting the "guns vs. butter" dilemma onto the nations they support.

States typically do not rely on a single method to finance their defence expenditures. Instead, they try to develop a comprehensive financing strategy to meet their long-term financial needs. Moreover, the composition of this strategy and the predominant financing method



may evolve over time in response to changes in socio-economic variables. The next section explores the key components of European states' contemporary financing strategies to better understand how our main allies have sustained increased defence expenditures in recent years.

HOW HAVE EUROPEAN COUNTRIES APPROACHED THIS CHALLENGE?

While the dilemma of securing adequate resources for defence spending became less pressing after the Cold War ended, it has resurfaced since Russia's full-scale invasion of Ukraine. Decades of underinvestment in defence, combined with Russia making its threat to European security unmistakably clear, forced European countries to make swift decisions on their defence policies. A brief survey of European policy experts reveals that governments have adopted mixed approaches, often combining elements of the three financing strategies outlined above.[2]

Some European governments have chosen to finance increased defence spending by **issuing new debt (1)**. Poland, Germany and France exemplify this approach, prioritizing immediate investment in military capabilities while deferring the fiscal burden to future budgets.

Poland stands out as a key example of a country that has significantly increased defence spending in response to Russia's full-scale invasion of Ukraine, raising its allocation from 2.23% of GDP in 2022 to a targeted 4.7% in 2025. This sharp increase more than doubles the country's defence budget within just three years. Poland has mainly financed this effort by issuing additional debt. This has sparked debates regarding the nation's financial future. Critics warn of a potential surge in public debt, with one projection even suggesting that Poland's debt-to-GDP ratio could climb from 50% in 2024 to 77% by 2034.[3]

A similar debate has unfolded in Germany. Shortly after Russia's full-scale invasion in Ukraine, Germany established a €100 billion special fund for defence raised by issuing new debt, which even required a constitutional amendment. This has allowed the country to procure advanced weapons systems, including F-35 fighter jets, Patriot missile defence systems, and frigates. However, with these funds nearly depleted, uncertainty looms over how future defence spending will be sustained. This challenge has been a key topic in the lead-up to the federal elections on February 23, 2025, and will be one of the first thorny issues the new governing parties will need to address. On March 4, 2025, the CDU/CSU and SPD have put forward a groundbreaking plan to invest €1 trillion in defence over the next decade. This would be achieved by reviewing Germany's constitutional deficit limit and creating an additional off-budget special fund. If approved, it would signify a major shift in Germany's defence strategy.[4]

France, one of the most indebted countries of the EU, also relied on additional debt to finance its increased defence spending. However, facing mounting fiscal pressure, the government has since introduced a mix of spending cuts and temporary tax increases - targeting high-revenue companies and wealthy households - to curb the deficit.[5] Italy, another highly indebted country, faces even greater constraints. Given its already high debt levels, the government has limited flexibility to finance defence spending through additional borrowing, leaving it in a particularly challenging position.

Rising debt has also sparked debate in smaller economies such as Bulgaria and the Czech Republic. While Bulgaria has not been fully transparent about its budgetary decisions, its state debt is projected to increase significantly alongside a rapidly growing defence budget. This has drawn criticism from institutions like the National Bank of Bulgaria, which has raised concerns about financial

2 Our findings are mainly based on the response of defence experts of the EU member states, Norway and the UK on the following question: "How does your country finance increased defence spending (issuing new debt, increasing taxes or cutting other expenses e.g. social security)?"

3 https://www.euractiv.com/section/politics/news/poland-on-track-to-face-explosion-of-public-debt-commission-expert-warn/

4 https://www.euractiv.com/section/politics/news/germanys-centrist-parties-plan-to-unlock-billions-for-defence-and-infrastructure/

5 https://www.wsj.com/world/europe/frances-crippled-finances-strain-macrons-new-government-c0e4bd23

stability.[6] Similar concerns exist in the Czech Republic, where a sharp rise in public debt—partly driven by increased military spending—has fuelled debates over the country's economic outlook and long-term fiscal sustainability.[7]

The cases of Germany, France, Poland, and other European nations illustrate that financing increased defence spending through new debt is a double-edged sword. While it enables rapid military investment, it also raises concerns about fiscal sustainability and financial stability. In several countries, this approach has sparked political debates and scrutiny from economic institutions. As European defence commitments grow, countries relying on debt will need to balance military priorities with long-term economic responsibility, while highly indebted states like Italy have little choice but to seek alternative solutions.

Other European governments have opted for a different approach to finance increased defence spending: **direct taxation (2)**. Estonia, for example, implemented a temporary 'comprehensive defence tax', which will remain in effect until 2028. Interior Minister Lauri Läänemets defended the measure, emphasizing the need to maintain pension growth and sustain high-quality healthcare services - the 'butter' in Estonia's welfare state - while ensuring adequate defence funding. Similar initiatives in Lithuania and Latvia further highlight this trend. Lithuania has introduced a defence tax package, raising corporate income taxes and excise duties on alcohol, tobacco, and fuel, while extending special bank contributions to support military spending. Meanwhile, Latvia has implemented a temporary tax on financial sector profits to help fund its growing defence commitments.

However, governments are generally reluctant to introduce new taxes to fund increased defence spending unless there is clear public support. This support, in turn, is heavily influenced by the perceived threat from Russia. In Estonia, for instance, additional taxation encountered little resistance, largely because of widespread concerns about the Russian threat.[8] Raising taxes for paying for increased defence spending is more difficult for countries located farther away from Russia. Denmark, for example, has considered introducing a 'war tax', but has yet to implement this. Critics argue that existing funds should be reallocated rather than imposing additional taxes, highlighting a more contentious debate in Denmark compared to countries bordering Russia, where threat perception has made such policy changes more widely accepted.[9] Similarly, the Swedish Social Democrats recently proposed a temporary tax on bank profits to support military spending, the current centre-right government opposes the idea.[10] While this opposition may also be ideologically driven, it underscores the broader difficulty of raising taxes in countries with a lower perceived territorial threat from Russia.

Countries farther from Russia that have avoided issuing additional debt have largely pursued a third approach to financing defence: **reallocating resources (3)**. Despite its low national debt, Sweden has opted not to borrow, instead funding its defence budget primarily through internal reallocations. A similar trend is evident in the Netherlands, a country known for its strong tradition of fiscal responsibility. Increased defence spending has been financed mainly through direct budgetary allocations, with political discourse framing these expenditures as long-term structural investments rather than short-term financial adjustments. Denmark took a more unconventional approach by eliminating a public holiday, a move the government justified as necessary to fund defence commitments.[11] However, the limits of resource reallocation are becoming apparent, with growing debates over whether tax increases or raising the retirement age will be required.

6 https://www.intellinews.com/bulgaria-s-central-bank-slams-spending-hike-in-2025-budget-358008

7 https://mfcr.cz/en/fiscal-policy/macroeconomic-analysis/fiscal-outlook/2024/fiscal-outlook-of-the-czech-republic-november-2024-57690

8 https://kaitseministeerium.ee/sites/default/files/public_opininon_and_national_defence_2024_spring.pdf.pdf

9 https://www.epicenternetwork.eu/blog/we-can-easily-boost-defence-without-taxing-danes-further-8554/

10 https://www.aftonbladet.se/nyheter/a/B0JjM0/kristersson-kraver-tuffa-prioriteringar

11 https://www.reuters.com/world/europe/denmark-scraps-public-holiday-finance-higher-defence-spending-2023-02-28

In short, while countries like Denmark, Sweden, and the Netherlands have the fiscal capacity to take on new debt, they have deliberately chosen not to do so. Likewise, they have avoided introducing new taxes specifically for defence, a contrast to the approach seen in countries bordering Russia, where such measures are more politically accepted.

In general, European countries have used mixtures of the different measures discussed above to finance increased defence spending. Clearly, each of these measures has its own trade-offs. Issuing debt has allowed countries like Germany, France, and Poland to rapidly strengthen their militaries, but as seen in Germany, this is only a temporary fix. Once special funds run out, tough fiscal choices remain that are leading to challenging political discussions. For highly indebted countries like Italy, borrowing is not even an option. Raising taxes has proven politically difficult, except in countries with a very high territorial threat, like the Baltic States Reallocating existing budgets offers another solution, used by countries like Sweden and the Netherlands. While this avoids new debt or tax hikes, it forces cuts in other areas, which can be politically and economically challenging. With a new NATO benchmark on the horizon, the focus on how European countries will finance increased defence spending gains further relevance.

THE BELGIAN CONTEXT

While many European countries significantly increased their defence spending after Russia's 2022 attack on Ukraine, or even earlier following the 2014 annexation of Crimea, Belgium has long remained detached from geopolitical realities. Neither Trump's first presidency, the terrorist attacks in Brussels, nor Russian territorial aggression were enough to prompt the Belgian political establishment to significantly reinvest in defence. Only three years after the war in Ukraine began - and as one of the last NATO allies - a newly formed Belgian government finally decided to accelerate its timeline for meeting NATO's 2% GDP target, moving the deadline forward to 2029 instead of 2035.

Under the current plan, Belgium aims to increase its defence budget from 1.3% of GDP in 2024 to 2% by 2029, requiring an additional €4.5 billion. However, the general budget only provides room for €1 billion, leaving a €3.5 billion gap that must be financed with external sources. To bridge this shortfall, the government plans to establish a Defence Fund as early as 2025, with an initial allocation of €2.4 billion, sourced from the state's stakes in companies such as Belfius, BNP Paribas, and Brussels Airport. However, the details of the fund remain unclear.

Moreover, the decision to reach 2% by 2029 does not align with current geopolitical realities. The 2% target set at the Wales Summit in 2014 is outdated in light of the United States increasingly radical pivot away from Europe. This shift reinforces the need for European nations to take greater responsibility for their own defence. Given that the government agreement states that the 2% norm must be met "at the latest by 2029," discussions are already emerging about further accelerating the budgetary timeline. Recent political statements increasingly suggest that the government may take swift action to achieve the 2% target as early as 2025.

Successive Belgian governments have avoided making clear decisions on how to fund increased defence spending. However, tough decisions cannot be postponed indefinitely. Belgium's long-standing reliance on a peace dividend - despite Europe's deteriorating security environment - has placed it in a particularly difficult position. The country must now finally confront the same tough choices other European countries have been making for years.

Examining how other European allies have addressed similar challenges provides valuable insights into both best practices and potential pitfalls for Belgium's approach to defence financing. However, Belgium's institutional and budgetary constraints make it particularly difficult to scale up defence spending using the traditional methods outlined earlier. The combination of high public debt with a relatively low perceived threat, translating into lower public support for difficult decisions, complicates efforts to secure the necessary funds.

Belgium's high debt burden significantly limits its ability to finance increased military expenditures through additional debt. With an estimated government debt to GDP ratio of 104.1% in 2024 (NBB, 2024), Belgium is one of the worst students in the European class. Only Greece, Italy, France, Spain, and Portugal record even worse results. Levying additional taxes does not appear to be a better option either. Belgium has one of the highest tax burdens in Europe, with a tax revenue-to-GDP ratio of 43.4% - the second highest in the EU, just behind France (European Commission, 2024). Moreover, Belgium's high tax burden is a frequent topic of debate. Taxation is already a contentious issue in Belgian politics, and further increases would not only risk slowing economic growth but also face strong public and political opposition. The current government has even prioritized tax reductions, making tax hikes for defence spending politically unfeasible.

Because of these economic realities, it seems that reallocating resources is the most viable operation for Belgium. The public opinion often resorts to oversimplified comparisons, linking increased military spending directly to cuts in social expenditures. Headlines like *"Tanks or our pensions?"* frequently appear in the media, reflecting the political and public tensions over budget priorities. As a result, political parties struggle to justify increased defence expenditures. Yet, an analysis of the EU COFOG (Classifications of Government) data paints another picture. Compared to other European states, Belgium is located at the bottom of the ranking in terms of defence expenditures, below the EU average. Looking at the categories of 'social protection' and 'health' (measured in % of GDP) yields the opposite result: this time Belgium is ranked at the top of the list, above the European average (Eurostat, 2024). Nevertheless, Belgium's relatively low perceived threat level will make reallocating funds from other policy areas almost equally challenging as raising taxes.

KEY TAKEAWAYS FOR BELGIUM

Based on Belgium's situation and lessons from its allies, four key takeaways emerge.

First, Belgium does not have to choose between security and social spending, they can adopt a balanced approach that combines tax adjustments, strategic borrowing, and expenditure reallocations to fund defence while maintaining social priorities. Given Belgium's fiscal constraints, a mix of these strategies is necessary rather than reliance on a single solution. When considering expenditure reallocations, the government could seek ways to improve efficiency within its own systems, identifying potential savings that could be redirected toward defence. Additionally, revising the Special Financing Act -which regulates federal grants to communities and regions - could contribute to a fairer distribution of the defence burden within Belgium by requiring regions to shoulder part of the costs of increased defence spending. A recent debate in the Flemish Parliament over subsidies for energy-efficient household appliances, referred to as the "refrigerator subsidy," highlights the significant room for improvement in budgetary efficiency at the regional level.

Another innovative approach to defence financing could involve issuing a "domestic defence bond." This model - building on the success of Belgium's 2023 government bond issuance - could allow citizens to contribute voluntarily to national security, providing an alternative to tax hikes or deep spending cuts. However, bonds must eventually be repaid, meaning they should be seen as part of a broader strategy, not a stand-alone solution. In short, while the government faces significant budgetary challenges, it is not compelled to choose between preserving the social system and strengthening defence.

Second, defence financing must be structural, not temporary. One-off financial measures may help cover immediate military needs. However, Belgium cannot indefinitely postpone the debate on sustainable long-term funding, as seen in Germany's struggle to sustain defence investments beyond its initial special fund. It is highly unlikely that defence needs or allies' expectations will decrease after this legislative period, making it essential for Belgium to plan beyond short-term fixes. This also means that it is not a good strategy to fully rely on the likely future flexibility of EU budgetary rules as a long-term solution.

Third, European measures can assist but not replace national investments or alleviate the need for tough decisions. Relaxing the EU's fiscal rules will be necessary to allow Belgium to borrow money to fill in the most urgent needs for its military. However, looser fiscal rules do not imply that debt does not need to be repaid, so this is not a miracle solution. Likewise, a European defence fund can definitely help Belgium rebuild its armed forces, but it is already clear that European funding will need to be supplemented with national resources. European countries that do make difficult fiscal decisions, will probably not tolerate countries using this fund without making also making investments themselves. Similarly, while European defence cooperation is crucial for cost-effective investments, it cannot serve as an excuse for underinvestment. Belgium must abandon the myth that European integration alone will guarantee security without domestic defence spending.

Fourth, clear political leadership and proactive political communication are crucial. The era when Belgium could prioritize other policy areas while neglecting security is over. The 'butter' of the welfare state still exists, but it now requires protection. Security is the foundation of a stable economy, and the cost of failing to deter threats far exceeds the price of prevention. Belgium's low public threat perception - compared to Nordic and Baltic states - means that political leaders must proactively communicate the necessity of increased defence spending. Leadership should not pretend that security comes without difficult trade-offs. Lessons can be drawn from the 1990s, when the Dehaene government implemented austerity measures to meet the Maastricht criteria and join the Euro. This period demonstrates that public support for difficult reforms is possible, provided that political leaders explain their necessity clearly and maturely.

CONCLUSIONS

After decades of neglect, Belgium now faces hard political and financial decisions regarding its defence policy. Other NATO allies show that increased defence spending can be financed through a mixture of measures, most importantly borrowing, taxation and budget allocations, suggesting that the tanks vs pensions dilemma oversimplifies debates on defence spending Belgium's high debt burden and low public threat perception makes many of these measures particularly challenging. However, Belgium cannot afford to delay difficult choices any longer. The geopolitical environment has changed, and security is not a discretionary expense - it is a core function of the state. The question is no longer whether Belgium should invest in defence, but how it will fund this commitment in a way that is both financially viable and politically sustainable.

The experiences of other European nations demonstrate that no single financing strategy is perfect - each approach involves trade-offs. Yet, Belgium's continued reluctance to engage in this debate only worsens its position. Other European countries have already taken decisive action, and as NATO moves toward a new spending benchmark, Belgium risks falling even further behind.

Ultimately, how Belgium funds its defence commitments is a political choice, but choosing to invest in defence should not be. As European security deteriorates and allies demand greater responsibility, Belgium must finally match its commitments with action.

Michelle Haas is a PhD researcher at the Ghent Institute for International and European Studies, and an Associate Fellow in the Europe in the World programme at the Egmont Institute. She is also a board member of the Royal Higher Institute for Defence.

Tim Haesebrouck is Assistant Professor at Ghent University. His research focusses on European defence policy, military burden sharing and military interventions.

Dr. Pieter Balcaen is a defence economist and a 2025 Irregular Warfare Initiative (a collaboration between Princeton and the Modern War Institute at West Point) Fellow.

Bibliography

Carter, J., Ondercin, H. L., & Palmer, G. (2021). Guns, butter, and growth: The consequences of military spending reconsidered. *Political Research Quarterly*, 74(1), 148-165.

Christie, Edward H. (2017). The Demand for Military Expenditure in Europe: The Role of Fiscal Space in the Context of a Resurgent Russia. *Defence and Peace Economics* 30 (1).

DiGiuseppe, M. (2015). Guns, butter, and debt: Sovereign creditworthiness and military expenditure. *Journal of Peace Research 52* (5).

Dorn, F., Potrafke, N., & Schlepper, M. (2024). *European defence spending in 2024 and beyond: How to provide security in an economically challenging environment*.

European Commission. (2024). Annual Report on Taxation 2024. https://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/swd/2024/0172/COM_SWD(2024)0172_EN.pdf

Eurostat. (2024). General government expenditures by function (COFOG). https://ec.europa.eu/eurostat/databrowser/view/gov_10a_exp/default/bar?lang=en

EU Parliament. (2024). Introduction of European Defence Bunds. https://www.europarl.europa.eu/doceo/document/E-10-2024-002814_EN.html

Jaeger, M. (2024). How a "Defense Tax" Can Finance Europe's Higher Defense Expenditure. How a "Defense Tax" Can Finance Europe's Higher Defense Expenditure | Internationale Politik Quarterly

Reuters. (2025). Paying to defend Europe - the options under discussion. https://www.reuters.com/world/europe/europes-options-paying-bolster-its-defence-readiness-2025-02-18/

Rutte, M. (2025). Remarks by NATO Secretary General Mark Rutte at the European Parliament's Committee on Foreign Affairs and Subcommittee on Security and Defence. In.

Scazzieri, L. & Tordoir, S. (2025). Can EU defence bonds strengthen Europe's defences? https://www.cer.eu/in-the-press/can-eu-defence-bonds-strengthen-europe%E2%80%99s-defences

National Bank of Belgium, "NBB Economic Review: Economic projections for Belgium," National Bank of Belgium, 31Jan2024, https://www.nbb.be/doc/ts/publications/economicreview/2024/ecorevi2024_h12.pdf

The opinions expressed in this Publication are those of the author(s) alone, and they do not necessarily reflect the views of the Egmont Institute. Founded in 1947, EGMONT – Royal Institute for International Relations is an independent and non-profit Brussels-based think tank dedicated to interdisciplinary research.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the permission of the publishers.

www.egmontinstitute.be

© Egmont Institute, March 2025
© Author(s), March 2025