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EUROPEAN DEFENCE AS A PUBLIC GOOD: ECONOMIC, POLITICAL AND STRATEGIC DIMENSIONS

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Abstract. This article analyses defence as a pure public good within the context of the European Union, arguing that its provision transcends the capabilities of individual states due to the inherent properties of non-excludability and non-rivalry. Adopting a multidisciplinary framework, the study employs a content and qualitative analysis of scholarly literature and policy documents, alongside a conceptual synthesis of economic, security, and political science approaches. The findings highlight persistent collective action problems—notably the "free-riding" phenomenon—the fragmentation of the European defence industry, and significant asymmetries in Member States' capabilities and expenditure. The paper demonstrates that political and institutional constraints, including subsidiarity, national sovereignty, and divergent strategic cultures, continue to hinder the transformation of defence into a genuine European public good, despite the introduction of frameworks such as the Strategic Compass and Readiness 2030. Furthermore, the economic analysis indicates that increasing defence spending without supranational coordination and targeted investment in research, development, and innovation fails to yield long-term security or economic dividends. The author underscores the necessity of strengthening collective financing, institutional consolidation, and strategic autonomy as essential prerequisites for the effective and efficient provision of defence in a multipolar and competitive global environment.

Keywords: Defence economics; European public good; collective action; fiscal federalism; EU defence policy

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1. Introduction

The provision of defence is one of the fundamental functions of the state and is historically considered one of the purest forms of a public good. The concept of a public good, as defined by Samuelson (1954), is based on two core characteristics: non-excludability and non-rivalry. This implies that if a specific public good is provided, it is impossible to exclude any individual or group from its consumption; simultaneously, consumption by one individual does not reduce the availability of the good for others. Defence as a public good strictly satisfies these criteria. When a state ensures protection against external threats, all residents benefit from this security, and it is impossible for anyone to be excluded or for the increased security of one citizen to diminish that of another (Buti & Papacostantinou, 2022; Ivančík & Nečas, 2023).

Within the context of the European Union, this discussion acquires a new dimension. Given ongoing integration, the increasing interconnectedness of Member States, shared borders, and increasingly complex threats, defence is more frequently being identified not merely as a national public good, but as a European public good (Trifunović et al., 2021; Beetsma, Buti & Nicoli, 2024). This suggests that its provision and financing transcend the capacity and logic of individual states, requiring collective coordination, solidarity, and integration across the entire European area.

Defence holds a unique position among public goods. Unlike other public goods, such as education or healthcare, defence is indivisible and inherently collective (Atkinson & Stiglitz, 2015). Either the defence of a territory and its population is successfully guaranteed as a whole, or it fails for everyone. Consequently, its provision is associated with significant collective action problems. A quintessential example is the "free rider" phenomenon, where certain actors benefit from defence provided by others without contributing proportionately themselves (Olson & Zeckhauser, 1966). This issue is manifest not only at the level of individual states but also within alliances and integration blocs such as NATO or the EU.

A further specific feature of defence is its strategic and existential character. While other public goods enhance the quality of life or promote economic development, the absence of defence threatens the very survival of the state and its population. For this reason, the provision of defence carries a profound political and moral dimension that often transcends purely economic considerations (Atkinson & Stiglitz, 2015; Bergmann et al., 2022). The current geopolitical environment significantly reinforces the need to examine defence as a public good. Russia's armed aggression against Ukraine has revealed that the post-Cold War "peace dividend" led to a long-term underfunding of defence in Europe and a loss of capabilities and capacities that are now proving indispensable (López Vicente et al., 2024; Ivančík & Andrassy, 2025). The conflict in Ukraine clearly demonstrates that the security environment in Europe is not only unstable but also highly competitive and multipolar. In an environment where major powers such as Russia and China seek to assert their interests, the question of Europe's ability to collectively guarantee defence becomes an existential one (European Commission, 2024).

Furthermore, the significance of examining this issue is underscored by the fiscal and economic context. European states are simultaneously facing pressure to increase expenditure in areas such as energy transition, digitalisation, and an ageing population, while their public finances are already burdened by high levels of debt (Beetsma et al., 2024; Dušek, 2025; Ivančík & Dušek, 2026). Increasing defence spending, therefore, presents a dilemma: how to balance the necessity of strengthening defence with limited fiscal capacity?

Ultimately, defence as a public good is coming to the fore in the context of Europe's strategic autonomy. While NATO remains a key pillar of European security, uncertainty regarding the future engagement of the United States in the European theatre raises the question of the extent to which the EU should assume greater responsibility for its own defence (Hellemeier & Schilde, 2024; Jurčák & Ivančík, 2023). This shift requires not only political will but also new institutional and financial mechanisms.

Scientific discourse on defence as a public good has a long tradition, with its roots found in classical economic theories that addressed the role of the state in providing goods essential for social survival and stability. As early as 1954, Samuelson pointed out that certain goods, most notably defence, cannot be provided through market mechanisms because private actors lack the incentives to finance them (Samuelson, 1954). Samuelson's work was followed by several authors who highlighted the specific nature of defence as a good whose production is inherently linked to collective action and the redistribution of costs through public budgets (Olson & Zeckhauser, 1966; Kennedy, 1975; Stiglitz, 2000; Medved' & Nemec et al., 2011). Modern literature further emphasises new dimensions, such as the issues of efficiency, externalities, and the optimal level of financing within a multipolar geopolitical environment (Mikušová Meričková & Stejskal, 2014; Buti & Papacostantinou, 2022; Beetsma et al., 2024a).

In recent years, the concept of the "European public good" has become a significant contribution to the debate on this subject. Drawing on the theory of fiscal federalism, it asserts that, in the case of defence, national policies are not only insufficient but potentially counterproductive, as they lead to duplication and the inefficient use of

resources (Wyplosz, 2024; Beetsma et al., 2024b). Numerous empirical analyses indicate that the fragmentation of the European defence industry and inconsistent decision-making by Member States result in both economic losses and the strategic weakening of Europe relative to other powers such as the United States, Russia, and China (Draghi, 2024; López Vicente et al., 2024). This discussion is further complemented by a growing interest in interdisciplinary approaches that combine economic, political science, and security studies, allowing for a more comprehensive understanding of defence as a public good.

This interdisciplinary approach serves as the foundation for the present article. Examining the issue of defence necessitates the integration of multiple perspectives: the economic dimension explains financing mechanisms, resource allocation efficiency, and issues of externalities; political science provides a framework for analysing institutional arrangements, coordination mechanisms, and political constraints; and security studies clarify the nature of threats, the dynamics of military power, and the strategic dilemmas facing Europe. Methodologically, the text relies on the content and qualitative analysis of existing scholarly literature and policy documents, the conceptual and theoretical synthesis of knowledge from various scientific disciplines, and the comparative and critical analysis of selected cases. This framework enables the identification of not only the strengths and weaknesses of current defence provision in Europe but also the formulation of recommendations for future development.

The introductory framework thus suggests that examining defence as a public good is not merely an academic exercise but a matter of exceptional practical and political relevance. The European Union faces a fundamental dilemma: it must either translate its declared will for deeper cooperation into concrete institutional and financial mechanisms, or remain reliant on fragmented, inefficient, and insufficiently effective systems that fail to provide an adequate level of defence. Consequently, this article seeks to contribute to the ongoing professional and academic debate through a systematic analysis of the economic, political, and strategic dimensions of defence as a public good within the context of the European Union, considering historical experience, current geopolitical challenges, and prospects for future development. Simultaneously, it identifies the key limitations of its collective provision.

2. Theoretical Foundations of Examining Defence as a Public Good

The discourse on defence as a public good holds a firm position in the history of economic thought, and its significance for understanding the roles of the state and the functioning of society is fundamental. Even classical economists such as Adam Smith pointed out that one of the primary functions of the state is the protection of the population from external threats and the maintenance of internal order—areas that cannot be left to spontaneous market mechanisms (Smith, 1776/2024). This perspective evolved gradually, and during the 19th and 20th centuries, theoretical concepts of public goods began to take shape as a specific category of goods that the market cannot efficiently provide. A decisive milestone was the work of Paul Samuelson (1954), who analytically defined the properties of public goods and laid the foundation for the modern understanding of defence as a pure public good. In his model, Samuelson demonstrated that, unlike private goods, which are rivalrous and excludable, public goods are characterised by the indivisibility of consumption and the impossibility of excluding individuals from consumption. Defence is a quintessential example of a public good; if a state is capable of guaranteeing protection against external threats, this security is enjoyed by all residents, regardless of whether they contributed to its financing (Samuelson, 1954).

During the second half of the 20th century, theoretical approaches to defence began to differentiate. On one hand, efforts emerged to classify defence among so-called pure public goods—goods that strictly satisfy the conditions of non-excludability and non-rivalry. On the other hand, some authors pointed out that defence also possesses certain elements of so-called mixed goods or club goods, as its provision may vary in quality and intensity depending on geographical location or specific population groups (Cornes & Sandler, 1996). Despite these nuances, the understanding of defence as a paradigmatic example of a pure public good has become established in the literature, its provision being associated with particular problems of collective action and political coordination.

From the perspective of economic theories, it is significant that defence has become a model example for the analysis of so-called market failures. Since there is no effective way to exclude an individual from the consumption of defence, private actors have no incentive to produce this good. Conversely, there is a strong incentive to act as a "free rider"—to benefit from the defence provided by others without the individual or state sharing the costs of its provision (Olson & Zeckhauser, 1966). This phenomenon is particularly important in the context of international relations, where it is evident that smaller states within defence alliances tend to rely on the capabilities and capacities of larger states while limiting their own defence expenditure. Empirical studies of NATO repeatedly confirm that this dynamic leads to an uneven distribution of costs and tension between allies, which in recent decades has been manifested primarily in the relationship between the United States and its European allies.

The elaboration of the theoretical aspects of defence as a public good has also introduced new concepts within modern defence economics. For instance, Sandler and Hartley (1995) analysed the limited possibilities for collective action and proposed mechanisms through which coordination between states can contribute to a more efficient provision of defence at a supranational level. Their models demonstrate that with a higher degree of integration and joint financing, the total volume of provided defence can be greater than if individual states were to rely exclusively on their own capacities. This argument is particularly salient in the current European context, where defence is being discussed as a European public good (Beetsma et al., 2024a). From this perspective, defence becomes not only a national but also a collective responsibility, necessitating new institutional arrangements and financing mechanisms.

Special attention should be paid to the characterisation of defence as a pure public good within the context of theoretical debates on efficient resource allocation. Samuelson's model of public goods was based on the premise that the optimal level of provision for such goods is determined by the equilibrium between the marginal benefit to individuals and the marginal costs to society. In the case of defence, however, this relationship is complicated by the fact that the assessment of the marginal benefit of defence is subjective and depends on threat perception, the geopolitical situation, or historical experience. For example, states on the EU's eastern flank, which directly border Russia, perceive a higher value in the marginal contribution to defence than countries in Western Europe, where these threats are viewed as less urgent (Malet & Hegewald, 2025; Krotz et al., 2025). This difference in perception leads to asymmetries in financing and political tensions, which complicate the establishment of a unified European defence policy.

One of the most fundamental issues associated with defence as a public good is the aforementioned "free rider" dilemma, which Olson and Zeckhauser elaborated upon in detail during the 1960s. According to their analysis, smaller states within defence alliances are motivated to contribute less, knowing that they will benefit from collective defence provision regardless. The costs of increasing capabilities and capacities are disproportionately borne by larger states, which have a greater interest in maintaining the stability of the system (Olson & Zeckhauser, 1966). Empirical evidence from NATO confirms this problem, particularly in the post-Cold War period, when European allies systematically reduced their defence expenditure while the United States continued to bear the burden of maintaining a global military presence and modernising defence capacities (Oma, 2012; Bogers et al., 2020).

This phenomenon is also manifest within the European Union, where significant differences exist in how individual Member States approach the issue of defence. Countries such as Estonia, Latvia, Lithuania, and Poland, located in the immediate vicinity of Russia, allocate defence expenditures exceeding 2% of GDP, while several Western European states still remain below this threshold (European Defence Agency, 2025). The free rider problem is, therefore, not merely a theoretical abstraction but a practical phenomenon that undermines solidarity and the effectiveness of collective security mechanisms.

The problem of collective action in the field of defence has further dimensions. From an economic perspective, it manifests as a reluctance of states to invest in joint projects if they are uncertain that other actors will contribute proportionately. The result is fragmentation, duplication, and the inefficient use of resources. The European Union currently possesses over 170 different weapon systems, whereas the United States uses approximately 30, illustrating immense losses in terms of economies of scale and interoperability (European

Commission, 2024). The fragmentation of the defence industry is a direct consequence of insufficient coordination and collective action, resulting in a higher dependence on external suppliers—most notably the United States, which has become the dominant provider of arms and technology for the European area (McGerty et al., 2022).

The issue of public financing for defence, therefore, plays a pivotal role. Given that defence is not provided by the market, it is financed primarily through tax revenues and public budgets (Mikušová Meričková et al., 2017). This mechanism has several implications. Firstly, it entails constant political competition for the allocation of limited resources between defence and other public goods, such as healthcare, education, social affairs, and infrastructure. Secondly, it exerts pressure on fiscal discipline and public debt limits, particularly in Europe, where Member States are bound by the rules of the Stability and Growth Pact (European Union, 2012). In this regard, the European Commission, within the framework of the "Readiness 2030" initiative, has proposed a relaxation of fiscal rules to allow Member States to temporarily increase defence spending beyond prescribed fiscal paths (Clapp et al., 2025). This step clearly indicates that the provision of defence is regarded as a priority public good to which other budgetary rules must be subordinated.

Defence as a public good is simultaneously associated with significant externalities. If one state increases its defence expenditure, thereby strengthening collective defence capabilities, its allies benefit indirectly. However, this positive external effect leads to the aforementioned free-rider dilemma, as it motivates others to reduce their own contributions. Conversely, insufficient investment by a single state can generate negative externalities in the form of weakened collective security. Within the European Union, these externalities operate bidirectionally: countries that invest heavily in defence bear disproportionate costs, while those relying on the "protective umbrella" of others undermine the overall efficiency and effectiveness of the defence system (Beetsma et al., 2024c).

From the perspective of optimal resource allocation, it is problematic that, unlike private goods, no market mechanism exists to signal the "correct" level of defence. Political decision-making is therefore often derived from subjective threat perceptions, domestic political priorities, and the geopolitical context. This results in uneven spending levels and constant disputes over what constitutes a "fair" contribution to collective defence provision. Economic models suggest that increasing defence expenditure in the EU may have a positive impact on GDP but simultaneously increases pressure on public debt and fiscal sustainability (Bokan et al., 2025). Consequently, the question of efficient resource allocation in the field of defence is not merely a theoretical discussion but carries fundamental practical and political implications.

In this context, there is an increasing debate regarding the need to strengthen the European defence industry, which is currently fragmented and often inefficient (Andersson & Britz, 2025; Ivančík & Andrassy, 2025; Besch, 2025). Consolidation of production, joint investment in research and development, and the deepening of cross-border cooperation could lead to economies of scale and reduced dependence on external suppliers. From the perspective of economic theory, this is a mechanism that would enable more efficient resource allocation and a higher return on investment, as collective defence provision would replace uncoordinated and duplicative national initiatives. This approach is also consistent with the concept of defence as a European public good, which advocates for joint financing and shared responsibility (Beetsma et al., 2024b).

3. Political and Institutional Dimensions of Defence Provision in the European Union

The discourse on defence as a public good in Europe has naturally shifted from purely economic and theoretical frameworks towards political and institutional questions. While at the national level, the provision of defence is understood as an inherent component of state sovereignty, in the European context, this issue acquires new dimensions linked to the integration process, a multipolar geopolitical environment, and increasing demands for collective action. Over the past decade, the concept of defence as a European public good has been developed with increasing intensity. This approach emphasises that a fragmented approach to defence provision leads to inefficiencies, duplications, and a loss of strategic autonomy (Beetsma et al., 2024c). Hellemeier and Schilde (2024) point out that in an environment of escalating competition between major powers, the EU must decide whether to remain a merely complementary actor within NATO or to become an independent pillar of collective

security. The debate on defence as a European public good has thus become not only an academic concept but also a political agenda directly linked to the future of the integration project.

A key framework for this discussion is the relationship between NATO and the European Union. Since its inception, NATO has been considered the primary provider of collective defence in Europe, with Article 5 of the Washington Treaty serving as the foundation for guaranteeing the security of Member States (Nečas & Kollár, 2018). However, following the end of the Cold War, it became evident that European states were gradually reducing their defence expenditure, relying instead on the military and technological superiority of the United States. This resulted in a deepening transatlantic asymmetry, which culminated in repeated calls from American leaders for Europe to assume a greater share of responsibility for its own security (Ivančík & Nečas, 2023). Meanwhile, the EU gradually developed its own instruments, such as the Common Foreign and Security Policy (CFSP) and the Common Security and Defence Policy (CSDP); however, these remained long in the shadow of NATO, limited by a lack of military capabilities and capacities.

The relationship between NATO and the EU is, therefore, ambivalent. On the one hand, the EU declares that it does not wish to create duplications and that its defence initiatives are intended to complement NATO capabilities. On the other hand, there is growing pressure to build so-called strategic autonomy, particularly in the context of uncertainty regarding future US engagement in Europe. Documents such as the EU Strategic Compass (2022) or the White Paper on European Defence – Readiness 2030 (2024) clearly highlight the need to strengthen European capacities so that the Union can act autonomously when the situation demands (European External Action Service, 2022; European Commission, 2024). However, this trend encounters political and institutional barriers, primarily the issues of subsidiarity, sovereignty, and coordination among Member States.

Subsidiarity in the field of defence implies that decisions should be taken as close to the citizens as possible—namely, at the national level—unless it is clearly demonstrated that more effective solutions can be achieved at the EU level. Yet, defence as a public good possesses a transnational character that transcends the capacities of individual states. This creates tension between the principle of subsidiarity and the need for centralised coordination. Furthermore, sovereignty in the realm of defence is one of the most sensitive areas of national policy. For several Member States, any transfer of competences in this sphere is perceived as a threat to their autonomy. This conflict between national sovereignty and European solidarity complicates the creation of common mechanisms, such as joint defence funds or the common procurement of military equipment (Lefebvre, 2021; Hellemeier & Schilde, 2024). Consequently, coordination problems represent one of the greatest obstacles to the effective provision of defence as a European public good.

Recent EU strategic documents illustrate a shift in the conceptualisation of defence. The Strategic Compass, adopted in 2022, defines defence as a key pillar of European security and sets specific objectives for building joint capabilities, including the establishment of a Rapid Deployment Capacity by 2025 (European External Action Service, 2022). Furthermore, the *Readiness 2030* document highlights the necessity for massive investment in European defence, the strengthening of the industrial base, and coordinated measures to replenish stockpiles and capacities that proved insufficient following the war in Ukraine (European Commission, 2024). These documents reflect the gradual assertion of the concept of defence as a European public good and represent an effort to overcome the historical constraints that have hindered European integration in the sphere of security and defence.

Current debates clearly demonstrate that guaranteeing defence in Europe is not merely a matter of economic rationality but, above all, a question of political will and institutional arrangements. Europe faces a dilemma: whether it can translate declarations of solidarity into concrete policies and mechanisms or remain in a state where its security is largely dependent on an external actor, specifically the United States (Fiott, 2023; Feng et al., 2025). The deepening of the political and institutional dimensions of defence provision is therefore an indispensable prerequisite for defence to truly become a European public good rather than a mere abstract concept (Brøgger, 2024).

Finding a balance between levels of decision-making in the field of defence represents one of the greatest political and institutional challenges of the contemporary European Union. On one hand stands the national level, which retains a strong identity and competence in defence matters; on the other hand, is the need for collective action arising from the transnational nature of security threats. Classic examples include hybrid threats, cyberattacks, and disinformation campaigns, which transcend national borders and cannot be addressed in isolation. These new forms of threat underscore that defence has become a matter of European interest and that its provision can only be addressed effectively and efficiently through coordination at the supranational level (Van Der Togt, 2024; Kavan et al., 2025; Maher, 2025). Nevertheless, Member States repeatedly hesitate to transfer decision-making powers to Brussels, perceiving this as a limitation of their own sovereignty.

Another significant barrier is the differing political cultures and strategic traditions of the Member States. While France has long advocated for the idea of European strategic autonomy and the strengthening of shared European capacities, countries in Central and Eastern Europe rely more heavily on NATO and the United States as the guarantors of their security. These differences complicate the establishment of a unified line on issues of common procurement, joint planning, or the coordination of defence expenditure. This lack of unity is also evident in the implementation of strategic documents: while some states welcome ambitious plans like the Strategic Compass or *Readiness 2030*, others view them as a threat to national sovereignty or as unrealistic in terms of fiscal capacity (Vigilant, 2025; Scazzieri, 2025).

A fundamental problem remains the institutional architecture of the EU, which, in the field of defence, continues to be limited by the intergovernmental nature of decision-making. Unlike other EU policies where supranational powers and legislative instruments exist, decisions in the realm of defence require the consensus of Member States (Besch, 2020; Kompan & Hrnčiar, 2021). This mechanism often leads to the "lowest common denominator" and prevents the adoption of ambitious steps. Despite several attempts, such as the creation of Permanent Structured Cooperation (PESCO) or the European Defence Fund (EDF), the question of effective coordination remains open, and the results of these initiatives have, thus far, been limited.

Strategic documents aimed at overcoming these barriers serve as a vital signal of a shift in political discourse. The 2022 Strategic Compass was the first EU document to explicitly identify defence as a European public good and define specific measures to strengthen the Union's defensive capabilities. Its key objectives include the aforementioned creation of an EU Rapid Deployment Capacity, increased investment in research and development, and the strengthening of partnerships with NATO and the UN (European External Action Service, 2022). The *Readiness 2030* document, introduced in 2024, goes even further, emphasizing the need for a fundamental consolidation of the European defence industry, the introduction of common financing instruments, and the establishment of mechanisms for the effective management of supply chains within the defence sector (European Commission, 2024). Both initiatives aspire to transform how defence is discussed in Europe, shifting it from a national to a truly European level.

From a political perspective, these steps are a response to two fundamental realities. Firstly, the unprecedented deterioration of the security environment following the Russian aggression against Ukraine, which demonstrated that European defence capabilities and capacities are insufficient and that Europe cannot rely indefinitely on American support. Secondly, the increasing pressure from the public and political elites for the EU to assume greater responsibility for its own security and defence, becoming a global actor capable of acting autonomously when necessary (Hackett & Schreer, 2025). This shift reflects a broader trend in global politics, where multipolarity and great-power rivalry reduce predictability, increase uncertainty, and reinforce the need for regional blocs to secure their own defence.

At the same time, it is evident that realizing these ambitions requires overcoming long-standing barriers. These include not only the issue of financing but also the need to adapt the EU's institutional framework to enable rapid and effective decision-making. If the EU remains bound by unanimity on key defence issues, its ability to respond to crises will remain limited. In this context, proposals have emerged for a gradual transition toward qualified majority voting (QMV) in at least some areas of security and defence policy, which could enhance flexibility and strengthen the Union's capacity to act (Navarra et al., 2023; Blockmans et al., 2025).

The political and institutional dimensions of defence provision in Europe thus represent a complex set of issues that transcend purely technical or economic levels. They lie at the core of the European integration project and serve as a test of its viability in an era of escalating threats. If Europe succeeds in translating the concept of defence as a European public good into concrete policies and institutional measures, it can become a stronger, more autonomous, and more respected security actor on the global stage. If not, the risk of persistent fragmentation and dependence on external security providers will remain high, undermining not only its pursuit of strategic autonomy but also the credibility of the integration process itself.

4. Economic Dimensions and Challenges of Defence Financing

The economic dimensions of providing defence as a public good are currently acquiring increasing significance, as they are inextricably linked to the sustainability of public finances, long-term economic growth, and the stability of the European Union's integration project. Defence expenditure represents a substantial item in public budgets, and its structure, dynamics, and efficiency have become subjects of extensive professional and political debate. Trends in recent years clearly indicate that the war in Ukraine marked a fundamental turning point in the European approach to defence (Genini, 2025; Jurčák & Ivančík, 2023; Ünalldilar et al., 2025). While prior to 2022, several EU Member States invested less than 1.5% of GDP in defence, the outbreak of the conflict prompted a significant increase in defence budgets.

According to data from the European Defence Agency (EDA), the total defence expenditure of the 27 EU Member States reached €343 billion in 2024, representing a 19% increase compared to 2023. As a percentage of Gross Domestic Product, defence spending rose to 1.9% of GDP—the highest level in history (EDA, 2025). Nevertheless, this remains a significantly lower amount compared to the United States, which invested nearly \$1 trillion in defence in 2024, accounting for almost 3.5% of GDP (SIPRI, 2025). Furthermore, comparisons with other powers, such as China and Russia, demonstrate that European spending is fragmented and fails to exploit the full potential of economies of scale. While China possesses a relatively concentrated defence industry and a coordinated investment system, Europe remains divided into a multitude of national systems that unnecessarily duplicate capabilities and reduce overall efficiency.

In connection with the above, it is necessary to mention the phenomenon of the so-called "peace dividend". Following the end of the Cold War, most European states decided to reduce defence spending and redirect the saved resources into other areas, such as social policies, infrastructure, and economic modernisation. This trend was bolstered by the belief that, following the collapse of the bipolar world order and the fall of the Iron Curtain, Europe resided in a relatively secure environment where no imminent conventional military conflict was likely. Throughout the 1990s and the first two decades of the 21st century, a systematic underfunding of European armed forces occurred, manifesting in personnel reductions, the postponement of modernisation programmes, and a reliance on the United States for strategic capabilities and capacities (Bergmann et al., 2021; Ivančík & Nečas, 2023; López Vicente et al., 2024). The war in Ukraine demonstrated that this strategy was highly short-sighted and that the peace dividend has, in reality, become a deficit in security and defence readiness. Today, European governments are attempting to bridge this deficit; however, they face formidable fiscal constraints.

From a macroeconomic perspective, increasing defence expenditure is associated with a dilemma between short-term fiscal burdens and long-term positive effects. European Commission model estimates, based on the QUEST dynamic stochastic general equilibrium (DSGE) model, show that a 1% of GDP increase in defence spending in the EU can stimulate economic growth in the short term by boosting domestic demand and supporting industrial production; however, it simultaneously leads to an increase in public debt (European Commission, 2025). In the long run, the effect will depend on the expenditure structure: if resources are invested in research, development, and modernisation, they can generate positive externalities in the form of technological innovation and enhanced competitiveness. Conversely, if funds are predominantly used for operational costs, personnel maintenance, and the acquisition of off-the-shelf systems from abroad, the effect on economic growth is limited, and fiscal costs will dominate (Draghi, 2024).

The question of the efficiency of defence expenditure is therefore paramount. Europe currently faces significant fragmentation within its defence industry. As previously noted, EU Member States employ over 170 different

weapon systems, resulting in duplication, low interoperability, and high maintenance costs. Simultaneously, a large proportion of European defence spending is directed towards acquisitions outside the EU, particularly to the United States, which provides technologically advanced weapon systems and guarantees compatibility with NATO. This dependency undermines Europe's strategic autonomy and ensures that a substantial portion of financial resources does not remain within the European economy. Initiatives such as the European Defence Fund (EDF) or common procurement programmes represent an attempt to reverse this trend, though their current scale is insufficient for a fundamental transformation (Koenig et al., 2023).

The efficiency of expenditure also depends on the extent to which investments are oriented towards research and development (R&D). Innovations in the defence sector often yield a significant multiplier effect, as new technologies are transferred to the civilian sector. Historically, the internet and satellite navigation can be cited as products of military research that have had a profound impact on the global economy. If the EU fails to increase the share of investment in innovation and remains dependent on importing off-the-shelf technologies, it risks not only economic losses but also the weakening of its strategic position within the global order (Cabelkova et al., 2021; European Defence Agency, 2025).

A vital aspect of the debate on the economic consequences of defence provision is the question of sustainability. In an environment where the public finances of Union Member States face mounting pressures due to population ageing, climate challenges, and the costs of energy transition (Dirma et al., 2024; Okunevičiūtė Neverauskienė et al., 2025a), defence enters into direct competition with other public goods. Policymakers must thus confront dilemmas regarding the allocation of limited resources between the necessity to invest in higher levels of defence and public demands for social security, healthcare, and education. In this context, the issue of "opportunity costs" is revisited—every euro invested in defence is a euro that cannot be invested in another area of public interest (López Vicente et al., 2024; Cepparulo et al., 2025). This heightens the requirement for transparency and efficiency in spending, as the public is only willing to accept a higher budgetary burden if they perceive concrete results in the form of enhanced security.

From a macroeconomic perspective, it is crucial to distinguish between the short-term and long-term effects of increased defence spending. In the short term, such spending can act as a stimulus for economic growth through increased demand for goods and services, particularly within the arms industry. However, this effect is largely dependent on whether these investments are made within the domestic market or directed abroad. If EU Member States purchase the majority of their military equipment from American suppliers, the positive multiplier effect on the European economy is significantly diminished. In the long term, the effects of defence expenditure depend on its structure. If a greater portion of funds is invested in R&D and industrial innovation, it may yield secondary positive externalities in the form of technological progress and increased competitiveness in civilian industry. This mechanism is well-established in the American context, where Department of Defense research programmes have generated innovations that subsequently found applications in the civilian economy. Europe has yet to exploit similar potential to a sufficient degree (Bokan et al., 2025; Wolff et al., 2025).

The question of spending efficiency is therefore inherently linked to the necessity for deeper integration of the European defence industry. Current fragmentation entails not only high costs but also insufficient interoperability and delayed crisis response. Several EU initiatives seek to address this issue. Permanent Structured Cooperation (PESCO) enables Member States to undertake joint projects, such as the development of new weapon systems or the sharing of logistical capacities. The European Defence Fund (EDF) provides financing for research and development, thereby aiming to bolster the Union's technological autonomy. Despite these steps, progress remains slow, and the scale of joint projects is limited (D'Aprile et al., 2025; Wolff et al., 2025).

A significant theme is Europe's dependence on the import of critical raw materials and components essential for a modern defence industry. The conflict in Ukraine and tensions within supply chains have demonstrated that Europe is insufficiently prepared for protracted crises and that its industry is vulnerable to trade disruptions with third countries. This dependency undermines not only economic efficiency but also the Union's strategic autonomy. Experts, therefore, highlight the need to develop domestic capacities in ammunition production,

sophisticated weapon systems, and cyber technologies, as well as the necessity to diversify sources of critical raw materials (Draghi, 2024).

The current economic debate simultaneously emphasises the need for a fundamental shift in the structure of defence expenditure. Increasing the volume of spending is insufficient if it is not accompanied by a change in allocation and coordination methods. Without deeper integration and consolidation of the European defence industry, efficiency will remain limited, and Europe will continue to face problems associated with fragmentation, duplication, and import dependency. From a macroeconomic perspective, it is therefore essential to link increased defence spending with broader EU economic policy strategies, including innovation, digitalisation, and the green transition (Okunevičiūtė Neverauskienė et al., 2025b). Only then can defence as a public good contribute not only to enhanced security but also to the long-term competitiveness and prosperity of the European economy.

From an economic standpoint, defence in the European context is not merely a security issue but also a question of the integration project's future. Collective financing and joint investments represent not only a tool for increasing efficiency but also a symbol of European solidarity and the capacity to face common challenges. If the EU succeeds in establishing an effective system for providing defence as a public good, it can simultaneously strengthen its economic base and political cohesion. However, if these ambitions are not met, there is a risk of persistent imbalances, fiscal pressures, and continued dependence on external security providers.

Conclusion

The discourse on defence as a public good within the European context reveals a complex set of economic, political, security, and institutional factors that influence how the European Union and its Member States approach the guarantee of their security. From a theoretical perspective, it is evident that defence satisfies the fundamental characteristics of a pure public good, as defined by Samuelson; consequently, its provision cannot be efficiently ensured through market mechanisms. The absence of rivalry and the impossibility of exclusion imply that without state or collective intervention, a "free rider" problem emerges, undermining the incentives for individual actors to contribute to common defence. Within the European context, this dilemma is manifested not only in disparate spending levels among individual Member States but also in the asymmetry between the United States and its European allies within NATO.

From an economic standpoint, a key finding is that the question of defence financing cannot be reduced merely to the volume of allocated funds but must also account for their structure and efficiency. Analyses demonstrate that although European states have increased defence expenditure in recent years, the fragmentation of the defence industry and dependence on external suppliers significantly diminish the multiplier effect. Investments directed towards research, development, and technological innovation have the potential to generate long-term positive externalities, whereas a unilateral focus on the acquisition of foreign weapon systems and technologies increases the fiscal burden without providing an adequate benefit to the European economy. In this regard, the provision of defence as a public good is shown to be inextricably linked to the issues of economic competitiveness and technological sovereignty.

The political and institutional dimensions of the debate indicate that European security remains torn between a dependence on NATO and the ambition to build its own strategic autonomy. While the United States has long played a decisive role in guaranteeing the defence of the European continent, the war in Ukraine has once again reopened the question of the extent to which the Union is capable of acting independently. EU strategic documents, such as the *Strategic Compass* and *Readiness 2030*, signal a significant shift in the conceptualisation of defence—from a national to a European public good. However, this shift encounters barriers in the form of national sovereignty, the principle of subsidiarity, the differing strategic cultures of Member States, and the varying levels of capabilities and capacities they possess.

Reflecting on these findings shows that the provision of defence within the European Union cannot be analysed in isolation from the broader geopolitical context. A multipolar world, characterised by increasing great-power rivalry and a rise in hybrid threats, necessitates a new approach in which defence is not merely a national but,

above all, a collective responsibility. Theoretical models of collective action and economic analyses demonstrate that joint action yields higher benefits than uncoordinated national initiatives; however, its implementation requires political will and institutional innovation. The practical implications are therefore unequivocal: if the Union is to prevail in a competitive global environment, it must overcome the dilemma between sovereignty and solidarity and embrace defence as a genuine European public good.

The future of defence as a public good in the European Union will, therefore, depend on the ability to overcome long-standing barriers and adapt to a dynamically changing environment. The greatest challenge in this regard remains the question of political will and the readiness of Member States to share responsibility and sovereignty in an area traditionally considered the core of national identity. Without the strengthening of solidarity mechanisms and collective financing, there is a risk that declarations of European strategic autonomy will remain merely on paper. Another key challenge is the consolidation of the defence industry and its capacity to generate innovations that ensure not only military readiness but also the competitiveness of the European economy on a global scale.

In conclusion, it can be stated that providing defence as a public good is not merely an economic, political, or strategic concept, but a complex project that tests the European Union's ability to act collectively in an environment of increasing competition, rivalry, uncertainty, and instability. Although the challenges facing Europe are substantial, they simultaneously represent an opportunity to strengthen the Union's mutual solidarity, innovative potential, and political cohesion. Ultimately, whether the European Union can move beyond declarations towards the genuine provision of defence as a shared public good will be of fundamental importance—not only for the future of European integration but for the very security architecture of the 21st century.

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