



Rethink and Replace Two Percent

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NATO's two percent metric is reductive and politically fraught but offers lessons for better ways to measure burden sharing.

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The frustrations of NATO's burden-sharing debate are well-worn. US Defense Secretary Mark Esper is the eighth consecutive Pentagon chief to prod allies to do more. Yet over six years after NATO allies formalized their commitment to spend at least two percent of GDP on defense by 2024, only nine of the thirty member states meet the target, with bleak prospects for adding many more. As this debate rages on, we should ask: is this benchmark still serving its fundamental purpose to make the Alliance stronger and better able to address the threats of the future?

The answer, on balance, is no. Looking to 2021, the time has come to retire two percent as the principal metric for measuring NATO burden sharing.

This does not mean conceding total failure. There has been clear progress since 2014 on increasing defense spending and in getting US allies to carry more of NATO's operational burden. Nevertheless, the two-percent target has also undermined Alliance credibility and solidarity. That not even a third of NATO members have lived up to the pledge is a black eye to NATO's public image. And that the Trump administration has weaponized this fact to denounce European governments has frayed the solidarity so critical to NATO's identity and effectiveness. For the sake of the Alliance's future, we need to do something different.

Deficiencies and Perverse Incentives

Spending targets for NATO members date to the height of the Cold War, but the specific debates around two percent began after 9/11. As US defense spending rocketed upwards in the early 2000s, much of Europe continued to reap the post-Cold War peace dividend, drawing down armed forces and reducing defense

budgets. The disparity between US spending levels and those of other allies became too stark to ignore, leading to calls for a specific spending target to recapitalize dwindling budgets. At the time, half of NATO allies were spending above two percent of GDP on defense and half below, making it a reasonably attainable measure.¹

At NATO's 2014 Wales Summit, allies pledged "to move towards the 2 percent guideline within a decade."² Policymakers at Wales understood the benchmark was imperfect, even unachievable for many, but believed it was a necessary public call to action to create accountability, especially in light of Russia's recent invasion of Ukraine and the unfolding crisis involving the Islamic State of Iraq and the Levant (ISIL).

This made sense at the time. Unfortunately, politicians in democratic countries making budgetary promises for successors a decade down the road without any sort of binding mechanism is a poor recipe for success.

While the two-percent metric is a perennial bipartisan talking point in the United States, the grievances over burden sharing resonated with US President Donald J. Trump's political style in a way few anticipated. Combined with a basic misunderstanding of NATO (which is not like a club where members owe dues as he has asserted on multiple occasions), Trump uses the fact that most member states have not yet met the two-percent target as proof that the United States is being taken advantage of by its allies. This perception is now commonplace in US political discussions and is at the center of what is widely viewed as a damaged transatlantic relationship.³

Beyond the political challenges, the metric remains an arbitrary and inefficient tool for defense planning. It

1 As Sten Rynning notes: "... [T]he 2/20 yardsticks were intended to be easily reachable. When looking at defence spending 1991-2003, staff at NATO headquarters in Brussels noted that the median was 2.05%—so half the allies already spent over 2%. The 2% target was thus a soft target intended to get the bottom half to make a greater effort." Sten Rynning, "Why NATO's Defence Pledge Matters," Friends of Europe, July 29, 2015, <https://www.friendsofeurope.org/insights/why-natos-defence-pledge-matters/>.

2 NATO, Wales Summit Declaration, press release, September 5, 2014, https://www.nato.int/cps/en/natohq/official_texts_112964.htm.

3 It is worth noting that the intensity of this political debate is disproportionate to its actual importance. Approximately eighty-five percent of NATO defense spending is done by the four largest allies (France, Germany, the United Kingdom, and the United States), of which the United Kingdom and the United States meet the two-percent target and France is just below.

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US President Donald Trump meets with NATO Secretary General Jens Stoltenberg at the London Leaders' Meeting in December 2019. (Source: White House Flickr)



does little to indicate the effectiveness of the output it enables, even if the NATO Defense Planning Process is in place to do exactly that. Relying on the two-percent metric to measure NATO's health is tantamount to eating an apple a day to keep the doctor away—it's not a bad idea, but neither is it a good indicator of fitness nor the key to lasting health.

The fatal flaw of the two-percent target is laid bare by the economic devastation wrought by COVID-19.⁴ Tying spending measures to GDP comes with enormous downside risk. This fact was borne out pre-pandemic by Greece, whose ability to surpass the two-percent threshold—in 2019, Greece spent 2.28 percent of its GDP on defense—was tied to its absence of economic growth and its high spending in areas like personnel.⁵ As the economic crisis deepens, this problem will be multiplied across NATO member states where total euros spent on defense is likely to decline

while nations move closer to the two-percent target. For instance, Germany now expects to be at 1.6 percent of GDP in defense spending in 2020 after peaking at 1.38 percent in 2019, due mostly to its shrinking GDP, not an increase in spending beyond previous projections.⁶

Moreover, the moral high ground on which the United States stands to shame allies on defense spending is partly an illusion. There is no question Washington spends significant resources on defense, but likening total US defense expenditures to those of its allies is not an appropriate comparison. Unlike most other NATO nations, the United States is a global actor with commitments extending to the Middle East and Indo-Pacific as well as Europe. Most European defense capabilities are expended in theater or in direct support of NATO missions like in Afghanistan, whereas only a portion of the US defense budget is dedicated to

4 "Combined European defense spending dropped by about \$27 billion in the six years following the Great Recession. Jane's now forecasts that European defense expenditure will amount to \$270.9 billion by 2025, down nearly 20 percent from the pre-COVID-19 estimate of \$324.4 billion." James Goldgeier and Garret Martin, "NATO's Never-Ending Struggle for Relevance," *War on the Rocks*, September 3, 2020, <https://warontherocks.com/2020/09/natos-never-ending-struggle-for-relevance/>.

5 NATO Public Diplomacy Division, *Defence Expenditure of NATO Countries (2013-2019)*, press release, 13, November 29, 2019, https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2019_11/20191129_pr-2019-123-en.pdf.

6 *Defence Expenditure of NATO Countries (2013-2019)*, NATO, November 29, 2019, https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2019_11/20191129_pr-2019-123-en.pdf.

transatlantic security.⁷ Parsing an exact number is difficult given the benefit to European allies of US global investments (e.g., the US strategic nuclear umbrella), but the common pretense in US policy circles that the entirety of US defense spending is counted toward European security is logically unsound.

Lastly, it is important to realize that unlike NATO allies like Germany—which is legally obligated to pass a balanced budget each year—the United States funds its defense expenditures by running massive budget deficits. The US defense budget in 2019 was \$686 billion, while the deficit stood at \$984 billion.

A Shifting Geopolitical Context

To the extent transatlantic defense spending has been increasing, it is less about meeting some political commitment on paper than it is driven by the need to adapt to a changing geopolitical landscape—namely a European security environment that has rapidly deteriorated since 2014 and an increasingly assertive China, countering which is requiring attention and resources from Washington.

It is doubtful leaders would have signed onto the Wales pledge absent Russia's invasion of Ukraine and illegal annexation of Crimea earlier in 2014. These events made Alliance discussions of defense capabilities, which sometimes could seem theoretical, much less so. As a result, it is hardly surprising that the greatest increases in defense spending have occurred in nations that feel directly threatened by Russia.⁸ The nature of that invasion mattered as well, as NATO allies were forced to build new aptitudes for an era of hybrid warfare. Moreover, China's rise as an economic and military heavyweight led directly to the Obama administration's "rebalance" to Asia and the Trump administration's focus on "great power competition."

In both cases, there is an evident consensus to prioritize US military resources for the Indo-Pacific.⁹

So the burden-sharing debate is not simply about fairness and principle. With growing threats in Europe's east and south, new types of warfare to address, and a preoccupation in Washington with deterring China, European security will increasingly require European resources and leadership. In no way does this equate to the United States abandoning NATO or transatlantic security; it is against its interests to do so. But neither can Washington afford to be primarily focused on transatlantic matters.

This is where there is some good news. Europeans are working to do more through NATO, the European Union (EU), and ad hoc arrangements like Nordic Defence Cooperation (NORDEF), the French-led European Intervention Initiative (EI2), and other regional security formats. Avoiding duplication and prioritizing coordination through NATO remains important, but there is tangible evidence that European allies (and Canada) are stepping up—from leading battlegroups in NATO's enhanced Forward Presence (eFP) mission, to the training mission in Iraq, to important roles in the global counter-ISIL mission, to addressing security issues in the Sahel and the Maghreb.

These activities are forms of burden sharing too. While not all the arrangements are explicitly conducted through the Alliance, NATO creates a high standard for operations and interoperability, enabling European nations and partners to tackle security challenges outside of explicitly NATO frameworks. What we see is an interest-driven reaction to emerging geopolitical realities, not an obligation to spend a certain amount of GDP. The United States should continue to urge NATO allies in this direction.

7 Lucie Béraud-Sudrea and Nick Childs, "The US and its NATO Allies: Costs and Values," Military Balance Blog, July 9, 2018, <https://www.iiss.org/blogs/military-balance/2018/07/us-and-nato-allies-costs-and-value>.

8 According to NATO's national defense expenditures report, Bulgaria, Estonia, Romania, Lithuania, Latvia, and Poland are among the nine NATO allies currently meeting the 2 percent spending guideline, and the only allies to have moved from below the threshold to above it. See, NATO Public Diplomacy Division, Defence Expenditure, November 29, 2019.

9 Even in the immediate aftermath of Russia's invasion of Crimea, the United States supported NATO allies through emergency funding in the form of the European Reassurance Initiative, all the while debating the removal of troops from Europe to address threats in Asia. The most recent decision to remove 12,000 troops from Germany chiefly highlights the tension in US-German relations under the Trump administration, and the president's continued confrontational approach toward Berlin.

New Principles for Sharing Burdens

During the past two decades, there has been meaningful progress on European contributions to deterrence and defense. Yet, much remains to be done. For this, we need to move beyond two percent. Scrapping the metric altogether may prove counterproductive or politically infeasible in the short term, but it is no longer much use as the principal yardstick for Alliance burden sharing as it exists today.

NATO has other metrics, such as the “Three Cs”—cash, capabilities, and commitments—that seek to broaden the focus beyond defense spending. NATO also conducts internal assessments as part of its defense planning process to get a more granular sense of the outputs of allied defense spending as compared to the inputs. Presenting some of this information publicly so there is a form of accountability should be considered.

Indeed, the two-percent target’s greatest virtue is that it is easily understandable. As a pass-fail metric, it lends itself to a quick and accessible assessment of achievement. But such simplicity is also its flaw. Too often, it obscures the meaningful progress Alliance members have made to enhance and modernize their forces. When most countries fail to reach the goal, public faith in the institution is disproportionately undermined and credibility problems compound.

In many ways, the two-percent era has been a lesson in how not to make policy or do public relations. As NATO rethinks its formula for burden sharing, the two-percent experience can lend itself to the following principles that should inform any serious effort at reform:

Don’t set up for failure. Any public metric for NATO burden sharing must be one most allies can realize. NATO should not dumb down burden-sharing expectations for the sake of public consumption, but neither should it consciously choose goals that are unachievable. We need something more than a simple pass-fail standard.

Establish burden-sharing metrics analytically. Choosing two percent because it was a median

measure of allied spending was a choice of political expedience. An analytically based metric or set of metrics derived through rigorous examination will result in better policy.

Measure output as well as input. If increased spending does not result in meeting actual NATO requirements, there is little point. Examples abound of allies that spend relatively little but spend it efficiently and for necessary purposes. Those allies are more valuable than allies who meet the benchmark but are incapable of or unwilling to contribute to Alliance missions.

Standardize the definition of defense spending. That different allies can count different defense expenditures, including personnel and pensions, toward their balance sheets is analytically unsound and allows for accounting shenanigans. Every ally must count the same things in the same way if measuring burden sharing is ever to be a serious enterprise.

Credit more valuable contributions. High-end or exquisite capabilities that provide unique value to NATO—such as surveillance drones, precision-guided munitions, mobile air and missile defense, and aerial refueling tankers—should count for more in burden-sharing calculations than, say, another infantry company. As cyber and hybrid threats increase, lower-threshold coding skills or know-how to counter disinformation make uniquely valuable contributions accessible to all allies.¹⁰

Emphasize trendlines rather than headlines. Measuring contributions at a point in time has utility, but it misses more valuable information like whether those contributions are increasing or decreasing. For example, the fact that Germany has increased defense spending by more than thirty-five percent since 2014 should be celebrated but is overlooked because of the concomitant rise in German GDP.

Reconsider what counts for burden sharing. In an era of new and expanding threats, investments in emerging tech or even pandemic preparation might

¹⁰ Allies like the United States, the United Kingdom, and France will always provide the Alliance with the preponderance of its high-end capabilities, but other allies should be duly credited where they are able to contribute to high-end war fights or uniquely difficult challenges.

reasonably be included in NATO burden-sharing figures. Investments in railways, ports, and other transportation infrastructure, while not normally funded through defense budgets, are critical to ensuring the mobility of allied reinforcements to the eastern flank.¹¹ Nonmilitary issues like the COVID-19 pandemic and climate change are actively changing the concept of security for many NATO allies. It will be a difficult discussion, but NATO should reconsider the nature of twenty-first century security.¹²

Introduce proportionality. NATO membership must come with responsibilities for all allies, but pretending the same standards that apply to the United States should apply to Croatia is logically disingenuous. Tiering allies by the size of their economies or militaries and selecting burden-sharing standards proportional for each tier is likely to produce better results, even if it comes with political challenges.

Promote solidarity. NATO's legitimacy and power stems from thirty nations speaking and acting in unison. Any burden-sharing metric must do more to strengthen cohesion than to unravel it.

Conclusion

In an ideal world, NATO could keep discussions about burden sharing out of the public eye altogether, granting that any organization with thirty democratic members will inevitably have disparities. This would require the US public and political community to recognize what is self-evident to much of the policy community—that the benefits the United States accrues from NATO are worth the costs.

To be clear, NATO's effectiveness requires capable militaries, and this will be expensive. Tough decisions will always be required. Real work needs to be done to expand defense investment in equipment, readiness, emerging technologies, digitalization, and research and development. Substantial and targeted spending to create effective deterrence, particularly by large European countries like Germany, must remain a priority. We need to do all this in a way that avoids the pitfalls of oversimplification and acrimony that have too often defined the two-percent debate over the last decade.

The point of two percent was to get Europe to do more. That is happening. Now the discussion must move forward in a different way, and 2021 is the time to start.

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¹¹ Former commanding general of US Army Europe, Ben Hodges, has argued on multiple occasions that dual-use infrastructure investments should count toward the two-percent defense spending goal. See, Octavian Manea, "A Tour of Horizon Interview with Lieutenant General Ben Hodges on NATO Adaptation and the Russian Way of Warfare," Small Wars Journal, August 7, 2018, <https://smallwarsjournal.com/jrnl/art/small-wars-journal-interview-lieutenant-general-ben-hodges-nato-adaptation-and-russian-way>.

¹² Karen Donfried and Wolfgang Ischinger, "The Pandemic and the Toll of Transatlantic Discord," Foreign Affairs, April 18, 2020, <https://www.foreignaffairs.com/articles/united-states/2020-04-18/pandemic-and-toll-transatlantic-discord>.