

The Economics of NATO Expansion

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In his January 1997 State of the Union speech, President Bill Clinton lauded the expansion of the North Atlantic Treaty Organization (NATO) into Central and East Europe, saying America's "first task is to help to build...an undivided, democratic Europe."¹ However, the president also expressed a desire to expand NATO in the hope of fostering seamless military cooperation across Europe.



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Twenty-five years later, there has been little discernable improvement in NATO's military capabilities despite the addition of 12 new member nations, leaving the United States to provide most of the forces defending Europe, and to pay the tab.

The Formation of NATO. NATO began as a mutual defense pact between the United States, Canada and 10 European nations in 1949 as a guard against Soviet aggression. The collapse of the Soviet Union and its formal dissolution in 1991, however, ushered in a new era of independence for many in Eastern Europe. The organization has since grown to 28 nations, all pledged to mutual defense under Article V, which states that an attack on one NATO member is an attack on all. The North Atlantic Council, the governing body of NATO, invoked Article V for the first time in its history after the September 11 attacks on the United States.²

The Russian invasion of the Republic of Georgia in 2008 and the successful annexation of Crimea in 2014 demonstrated Russia's renewed interest in reclaiming certain territories. Putin continues to justify his annexation of Crimea and intervention in eastern European nations, claiming NATO was the first to breach the peace by moving eastward in violation of the 1990 negotiations over German unification. However, those agreements only promised that NATO would not deploy into East Germany until the Soviets had redeployed — a fact that even former Soviet President Mikhail Gorbachev confirmed.³

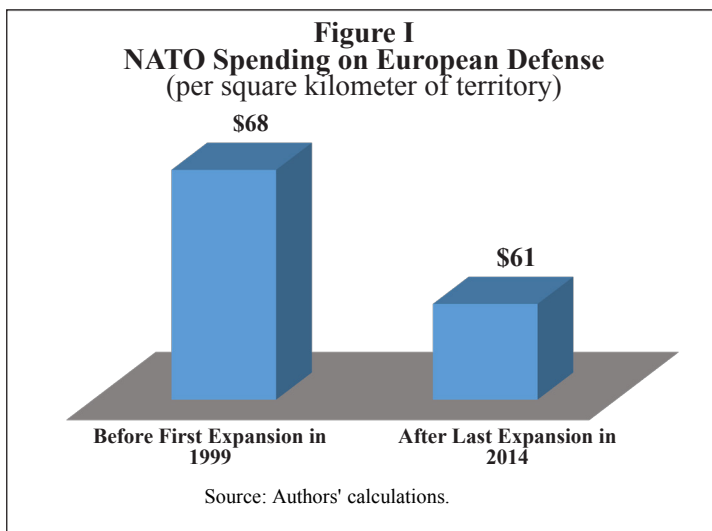
Cost-Benefit Analysis of NATO Expansion. Putin's push into parts of Eastern Europe has renewed talks of expanding NATO. But the United States remains at the forefront of NATO operations and funding, and acts as the default protector of the alliance. The logic behind NATO's post-1990 expansion assumed new countries would bring additional military assets and increased funding. However, many of those countries proved incapable of funding or

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fielding an effective fighting force. NATO must now cover a greater area with fewer resources.

After the last expansion in 2009, NATO's defense expenditures per capita increased 2 percent, and spending per square kilometer decreased by 11 percent:

- The organization currently has 50 cents to spend per person it defends, while it has \$61 to spend per square kilometer of the combined total area of European members of NATO.
- Before expansion, NATO had 51 cents to spend per person and \$68 per square kilometer, whereas after the expansion, it gained 1 cent more to spend per person, but lost \$7 in spending per square kilometer. [See Figure I.]
- In 1990, the 14 European members of NATO spent around \$314 billion on defense, but in 2015, the 28-member organization spent only around \$227 billion on defense (before adjusting for inflation).



According to the Carnegie Endowment for International Peace, while European membership in NATO nearly doubled, defense spending by member states decreased 28 percent.⁴ That means the United States picked up the tab. NATO says in a discussion of indirect funding that “the volume of the US defense expenditure effectively represents 73 per cent of the defense spending of the Alliance as a

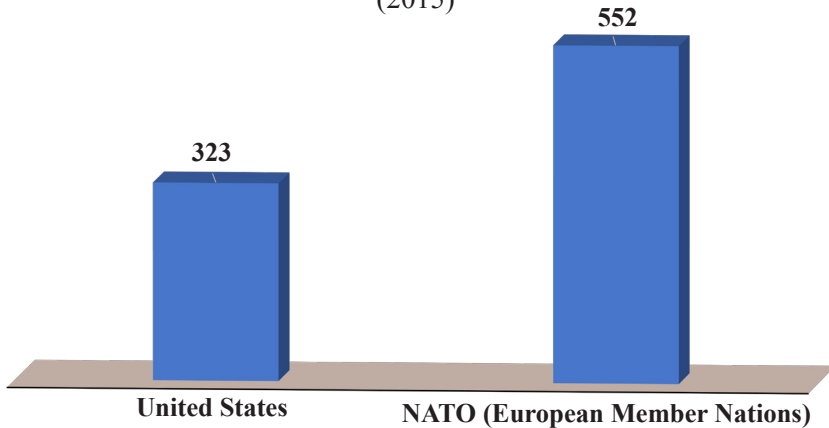
whole.”⁵ Furthermore, NATO relies on the United States to provide for an overwhelming share of its operational abilities: intelligence, electronic warfare and missile defense.

To combat its dependence on U.S. capital, NATO members agreed in 2014 to increase their respective defense spending to 2 percent of their gross domestic product by 2024.⁶ Most nations, however, showed clear shortfalls in their ability to reach such a threshold. Theoretically, if every nation were to achieve the 2 percent threshold, NATO would increase its financial and military resources by 16 times the increases it experienced in the 2004 and 2009 expansions combined. NATO would be able to increase both defense expenditures per capita and per square kilometer by more than 33 percent. That averages out to more than \$80 dollar per square kilometer and nearly 70 cents per capita.

Critics argue that the 2 percent rule is an arbitrary standard that measures only inputs and not outputs. However, the 2 percent threshold still allows for an economically and politically disproportionate commitment from Europe compared to the United States. Europe's combined GDP and population is \$19.79 trillion and 552 million, compared to \$17.95 trillion and 323 million for the United States [see Figures II and III].⁷ The United States has always contributed more than others, and that gap has only increased since 1999.⁸

Military Capabilities. Aside from the disproportionate financial burden-sharing, the United States also provides the bulk of NATO armed forces. The United States contributed nearly 14 percent of troops in Kosovo, as of February 2000.⁹ It also provided 64 percent of troops to the International Security Assistance Force (ISAF) in Afghanistan. The United States contribution dropped to 57 percent after 2014, when the ISAF follow-on mission, Resolute Support Mission, took its place as the main assistance program to Afghan security forces.¹⁰

Figure II
Population in Millions
(2015)



Central Intelligence Agency, "The World Factbook."

Even with the United States providing the bulk of NATO's armed forces, there are still not nearly enough forces to counter a Russian attack. If called upon to respond to a Russian incursion, the United States would theoretically need to fill 40 percent of NATO's 3.2 million-man force.¹¹

A 2016 Rand Corporation study found that "as currently postured, NATO cannot successfully defend the territory of its most exposed members."¹² The Heritage Foundation argues that the 150 U.S. soldiers in each of the Baltic States and Poland dispatched in May 2014, while strategic for communications, "would have very little tactical impact in the event of a Russian invasion."¹³ Lieutenant General Ben Hodges, commander of all U.S. Army forces in Europe, quipped that his job is to make 30,000 soldiers look like 300,000.¹⁴

European NATO members appear largely incapable of mounting their own attacks or providing for their own defense. According to Heritage Foundation Senior Policy Analyst Sally McNamara, just 2.7 percent of Europe's 2 million military personnel are capable of overseas deployment.¹⁵ For the nations involved in the Kosovo and Afghanistan

conflicts, eight of those 13 nations had a total force of less than 30,000 troops, some having less than 7,000. Estonia, alone, contributed 7 total armed men to the NATO-led military operations in Afghanistan.¹⁶

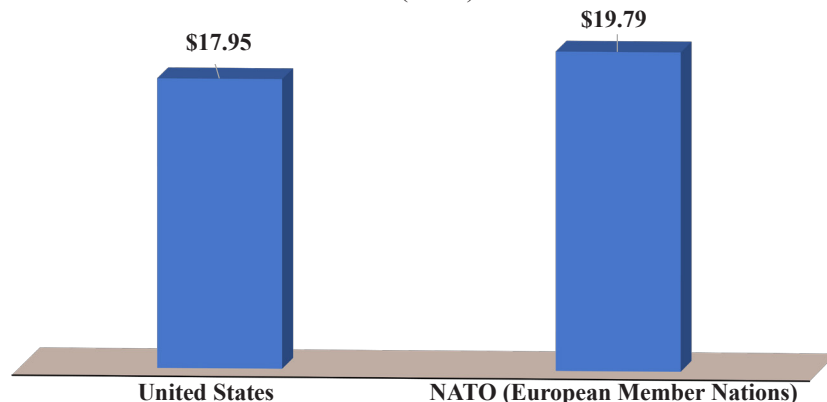
The American military plans to contribute to NATO's new "Very High Readiness Joint Task Force" (VJTF) to fix the incapacity of European nations. America's contribution will presumably involve aviation lift capabilities, intelligence-gathering platforms, navy and

air-force assets, and special operations forces.¹⁷

Regardless, NATO allies, particularly in Europe, remain financially inefficient, geopolitically fragmented and strategically incoherent. In the absence of permanently stationed U.S. forces across NATO's eastern flank, the Alliance's collective defense would be run over by the Russian military.

Fulfilling the Latest Pledges. At the July 2016 NATO conference, member-nations discussed the possibility of adding Georgia, Montenegro and war-torn Ukraine. But NATO should consider halting future expansion and installing benchmarks for members to meet leading

Figure III
GDP in Trillions
(2015)



Central Intelligence Agency, "The World Factbook."

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up to the promise of 2 percent in defense expenditures by 2024.¹⁸ Moreover, NATO could adopt more precise language requiring that 2 percent be spent on specific military hardware, personnel or training to hedge against the possibility of defense money being diverted to unrelated programs.

The expansion of NATO without ensuring accountability and participation among current members will only further the growing welfare atmosphere within the alliance. The United States risks taking on more financial and military responsibility until other nations can demonstrate their willingness to uphold existing promises.

Conclusion. Making a defense commitment without the resources to fulfill the promise increases the risk to U.S. forces. A new member would most likely adopt the average 1 percent of GDP defense spending and supply an inadequate armed force. But the addition of a new member would require more U.S. assistance. “The biggest concern comes from the fact that many NATO countries agreed to the 2 percent pledge in Wales but have no real intention to make good on the promise.”¹⁹

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Notes

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