

Getting NATO members to pony up

Each NATO country is supposed to spend at least 2 percent of its GDP on military expenditures. But according to the Washington Post, only 11 of the 31 member countries have met

Joe McGarrity



this goal. Poland leads the field, spending 3.9 percent of its GDP on its military. Next, is the U.S at 3.49 percent. On the other extreme, eight countries spend less than 1.5 percent of their GDPs on their militaries. The ultimate laggard is Luxembourg at 0.76 percent. But it's not just small countries that are shirking. Germany is at 1.57 percent and Italy is at 1.46 percent.

The failure of these countries to honor their spending pledges has revealed a problem now that the war in Ukraine makes clear that Russia has ambitions to expand its borders. The problem, many fear, is that Russia may try to absorb some NATO countries that used to be satellite countries to the U.S.S.R. Poland and the Baltic states seem most at risk. Given this heightened risk, NATO countries should probably be spending 3 percent, not 2 percent, of their GDPs on defense. They should also all start honoring this commitment.

But that is a challenge. How can NATO get its members to meet these professed military spending targets? This challenge is well understood by economists. Generally, people only contribute to an activity if they are better off by doing so. They ignore the benefits others might gain from their actions. As a result, people do less of an activity than would be optimal from the group's perspective.

We all experienced this problem when we were students working on group projects. We ignored the benefits that other group members received from our effort. We only considered our own benefits. The net result was that every group member contributed less effort than they would have if they had the group's interests at heart.

The school group would have been better off if it could have found a way to get its members to contribute effort as if they cared about the group's members. This might happen if the group was composed of friends. Then, because they cared about each other, the group's members might contribute enough effort for the good of the group. It could also happen if the group could penalize the members who put forth low levels of effort.

Perhaps this last solution, the one where a group can penalize its members, can also help NATO get its members to contribute more to

the group's joint defense. NATO needs a way to punish members who do not spend 2 percent (or 3 percent) of their GDPs on military spending. Probably the most effective punishments would be economic punishments. NATO could agree to put tariffs on countries that do not meet their military spending targets.

My proposal will have some details to work out. Now, the European Union allows its members to trade with each other freely, just as people in Texas can trade freely with people in Arkansas. But the complicating factor is that the European Union and NATO are not identical groups. Five EU members are not in NATO (but Sweden wants to be). And several NATO countries are not in the European Union. These groups should coordinate so that an EU member pays a tariff to sell its products to other EU members if that first member doesn't meet its NATO military spending obligations.

I am no fan of tariffs. They make countries poorer. But the threat of tariffs may help stave off something that will make some countries even poorer than tariffs. That something is a Russian invasion. It would certainly make the invaded country poorer than tariffs ever could.

Joe McGarrity is a Professor of Economics at UCA. He can be reached at joem@uca.edu.