POLAND'S DEFENCE EXPENDITURES IN THE NATO FINANCIAL FRAMEWORK

Grzegorz Kozłowski, PhD
Embassy of the Republic of Poland
to the Republic of Estonia
Ambassador

Keywords: Poland, defence expenditures, burden-sharing, NATO

ABSTRACT

The objective of this article is to provide an analysis of Poland's policy on defence expenditures in the context of the NATO financial framework. The publication reviews political, legal and financial aspects of Warsaw's position in that regard since 2000, placing particular emphasis on the period after 2014, when the 2/20% rule was introduced into the Alliance's system, according to which NATO Member States should pay annually at least 2% of their Gross Domestic Product on defence, including 20% on major equipment.

Poland is among only eleven Allies which meet these requirements, having a well-established bipartisan approach to gradually increase domestic defence spending to at least 2.5% by 2030. That policy is not going to change even in the context of an economic recession due to the COVID-19 pandemic or any potential external changes in the security environment. Such an attitude should only serve to help maintain Poland's position as one of the NATO beneficiaries, receiving not only security – as can be indicated through burden-sharing analysis - but also economic (military infrastructure projects through NATO Security Investment Programme) benefits.

INTRODUCTION

Defence Expenditures remain one of the most important elements of political and military discourse in NATO. Uneven burden sharing, the necessity of modernising defence capabilities and a dynamic security environment have been determining intense debate in the Alliance in that regard, especially during the presidency of Donald Trump (Kozlowski, 2019). While NATO took many initiatives in the past to introduce financial guidelines for their member states, it was only successful in 2014, when the Allies agreed to spend at least 2% of their GDP on defence, including 20% on major equipment. Despite applicable guidelines, only eleven NATO countries met these guidelines in 2020.

Poland has a longstanding and bipartisan policy to allocate spending on defence in accordance with the Alliance's expectations. Given the security environment close to the eastern flank of NATO as well as its importance of burden sharing for the United States, Warsaw is determined not only to fulfil applicable regulations, but even to increase its defence expenditures up to 2.5% by 2030. The current economic crisis due to the COVID-19 should not be a substantial obstacle in meeting these plans since Poland is already apidly returning to the path of dynamic economic growth.

The aim of the article is to assess the policy of Poland in terms of defence spending, thereby verifying its political, legal and financial aspects. The scope of research in that regard encompasses the period between 2000 and today. The publication analyses the position of Poland vis-à-vis NATO financial guidelines in comparison to other Allies. It also discusses the broader perception of burden sharing in the Alliance and explores costs and benefits stemming from the participation in the NATO common funded budgets. Finally, it addresses current and prospective challenges that may determine the size of defence spending.

During the work on the article several questions were formulated: Does Poland have a stable and predictable policy on defence spending? Does Poland meet the NATO requirements regarding the level and structure of defence expenditures? How can we evaluate defence expenditures in the context of NATO burden sharing and common funded budgets? Should we expect any changes in the Poland's defence spending policy on the mid- and long-term horizon?

The article uses methods of comparative scientific literature and analysis of source materials. The latter encompasses research of Poland's legal acts, government documents and public policy speeches since 2000 (1999 was the year of accession of Poland to the North Atlantic Alliance) as well as analytical studies by think tanks and academic research. In addition, I have used a method of participant observation being employed at the Permanent Delegation of the Republic of Poland to NATO (until 2004) and at the other Polish government agencies (until today).

1. POLAND'S POLICY ON THE LEVEL OF DEFENCE EXPENDITURES

Poland presents a stable and continuous position of spending at least 2% of their GDP on defence, including 20% on major equipment. The policy of adequate (meaning meeting NATO financial guidelines – see below) financing of defence has been uncontentious in Poland since the beginning of the membership in NATO, being effectively and deeply anchored in the political, legal and financial system.

There is a bipartisan understanding among all major political parties in Warsaw that an appropriate level of defence expenditure is one of the most important criteria of Poland's membership in the Alliance and the essential condition of further modernisation of the Armed Forces in the current and prospective security environment, as well as strengthening strategic ties with the United States. Warsaw wants to be perceived not only as the recipient of NATO security, but also as one of its providers, exposing the position of the biggest member state on the eastern flank of the North Atlantic Treaty area. Hence it is determined to actively engage in NATO military activities, including deployment of forces according to the Alliance's needs (e.g., Poland participation in the NATO enhanced Forward Presence Battle Group in Latvia).

Simultaneously, while Poland has prepared some analysis concerning the costs of enlargement and accession to NATO, this issue has never been perceived as a primary one; in fact, Poland has not actively scrutinised the membership cost, understanding that the alternative option of not being a member of the Alliance would cost considerably more (a similar position was taken by other mid- and small-sized countries, see e.g., Rudzite-Stejskala, 2013, 181). Nevertheless, Warsaw is well aware that a preparedness to spend more on defence would directly contribute towards strengthening transatlantic relations. Gradual replacement of obsolete post-Soviet military equipment with modern American armaments has been reinforcing strategic political-military ties between Warsaw and Washington. Regardless of the government coalition, pro-US policy continued in Poland during the last twenty years; the acquisition of 48 F16 aircrafts (2003; PL - Left Wing Alliance government; US – Republican

Party administration), pursuing further expansion of US troops and deployment of US Missile Defence elements in Poland (2005 onwards; PL – Law and Justice / Civic Platform governments; US – Republican and Democratic Party administrations) could be the convincing examples of this approach.

The bipartisan stance on the level of defence expenditures was reflected in the exposés of the Prime Ministers.

TABLE 1: Polish Prime Ministers on Defence Expenditures. Excerpts of exposés (2007-2019)

Year	Prime Minister	Statement on Defence Expenditures.
2019	Mateusz Morawiecki	"Voices of some leaders challenging Art. 5 of the Washington Treaty or failure to fulfil allied obligations to spend 2% of GDP on defence undermine our security, threaten the future of the European Union and NATO. We will counteract them".
2017	Mateusz Morawiecki	"In the last two years we have significantly strengthened Poland's security. Implementation of the decisions made during the NATO summit in Warsaw, presence of allied soldiers and American troops in Poland, and the expansion of the military infrastructure became a clear signal that Poland can count on the support of its allies".
2015	Beata Szydło	"As for military security, we are planning an introduction of two types of parallel and complementary activities. On the one hand – strengthening and developing our Armed Forces. There are already significant investments planned in armaments should (...) serve the development of the Polish economy. On the other hand – actions aimed at strengthening the eastern flank of NATO".
2014	Ewa Kopacz	"My government will ensure the security of Poland and Poles. By implementing this objective, we will increase defence spending – as of 2016 – up to 2% of GDP".
2007	Donald Tusk	"We will remain a strong link in the North Atlantic Alliance. We will strive to spread the costs and risks of NATO activities among Allies more fairly".

Source: J. Marszałek-Kawa, P. Siemiątkowski (2020).

The data in table 1 present the excerpts dedicated to NATO and/or defence expenditures from five of the last six exposés of Poland's Prime Ministers (exposé of Prime Minister Donald Tusk in 2011 did not refer to Alliance and defence spending). They all, either implicitly or explicitly (Ewa Kopacz and Mateusz Morawiecki), confirmed the necessity for adequate spending on defence. The exposés in 2014 and 2019 reflected external developments; the former resulted from NATO's decision to include financial guidelines in the Wales Summit Declaration, the latter came due to the strong US administration's position on the Alliance's burden sharing (see point 2 of this text).

The appropriate level of defence expenditures is formally well secured. Poland already introduced stringent rules with regard to the financing of armed forces in 2001, when the Act on Reconstruction and Technical Modernization and Financing of the Armed Forces of the Republic of Poland and Act on Public Finance (hereinafter referred to as "the Act") was adopted. Art. 7.1 of the Act stipulated that expenditures financing the program are included in the state budget on the level of at least 1.95% of GDP. At the same time, property expenses were set on the level of at least 19% and the budget for acquisition of the multipurpose aircrafts was not included in this amount (Polska, 2001). The Act explained such a position by two main factors: adaptation of Poland's defence planning to NATO requirements as well as the creation of conditions to stable financing of the Armed Forces.

After the amendment of the Act in 2015, the new art. 7.1 stipulated that annual defence expenditures of Poland cannot be lower than 2% of GDP. Simultaneously, art. 7.2a and 7.3 stated that property as well as technical modernisation expenses should reach the level of at least 20% of the total defence expenditures (Polska, 2015). The next changes to the Act had already been introduced in 2017, when Parliament decided to gradually increase defence expenditures from 2.0% of GDP in the years 2018 and 2019 to: 2.1% in 2020; 2.2% in the years 2021-2023; 2.3% in the years 2024 and 2025; 2.4% in the years 2026-2029 and at least 2.5% from 2030 onwards (Polska, 2017). According to the authors of this amendment, an increase of defence expenditures was necessary not only due to the NATO guidelines, but the further technical modernisation of the Polish Armed Forces as well as to increase the number of Allied troops in Poland.

The support for a high level of defence spending was also included in the 2012 Strategic Review of National Security of Poland, which recommended in par. 5.2b that "defence budget on the level of 1.95% of GDP needs to be maintained in the long-time budgetary horizon" (Biuro Bezpieczeństwa Narodowego, 2012). The 2017 Strategy for Responsible Development of Poland confirmed that the level of defence expenditures would amount to 2% of GDP in 2020 and to 2.5% of GDP in 2030, while GDP would refer to the same year as defence spending as NATO's methodology suggested (Ministerstwo Funduszy i Polityki Regionalnej, 2017). The 2020 Strategy for National Security specified in par. 3.1 that there is a need "to make an effort to accelerate the development of the operational capabilities of the Republic of Poland's Armed Forces by increasing the dynamics of growth in defence spending, reaching the level of 2.5 % of GDP in 2024" (Biuro Bezpieczeństwa Narodowego, 2020).

Political and legal arrangements on the level of defence expenditures were reflected in the budgetary realities (see table 2).

TABLE 2: Poland's Defence Expenditure in the years 2000-2019 (% of GDP, including spending on major equipment)

Year	% GDP	Major Equipment	Year	% GDP	Major Equipment
2000	1.9	8.8	2001	1.9	8.8
2002	1.9	11.1	2003	1.9	12.4
2004	1.8	14.6	2005	1.8	14.6
2006	1.8	18.2	2007	1.8	18.6
2008	1.6	13.9	2009	1.7	15.9
2010	1.8	18.1	2011	1.7	16.1
2012	1.8	15.2	2013	1.7	13.9
2014	1.8	18.8	2015	2.2	33.2
2016	2.0	21.6	2017	1.9	22.0
2018	2.0	27.5	2019	2.0	23.2

Source: NATO HQ (2005, 2009, 2011, 2015, 2018a, 2021a)

In the years 2000-2014, Poland spent annually close to 2% of their GDP on defence, and from 9 to 19% on major equipment. Why was there a difference with the rules stemming from the Act? The main reason resulted from methods of calculations that differed from NATO's one. Until 2017 Poland used the GDP data of the previous year, not the current one, which (in most of the cases the GDP of Poland was higher than projected in the budgetary acts) eventually led to the lower than expected level of defence spending (Dmitruk, 2019). This method of calculation has since been repealed.

2. NATO GUIDELINES

Art. 3 of the North Atlantic Treaty states that ”in order to more effectively achieve the objectives of this Treaty, the Parties, separately and jointly, by means of continuous and effective self-help and mutual aid, will maintain and develop their individual and collective capacity to resist armed attack”. The scope and character of these obligations are defined in art. 19 of the NATO Strategic Concept as the full range of capabilities necessary to deter and defend against any threat to the safety and security of NATO members’ populations. Concurrently, the Concept stipulates that member states ”will sustain the necessary levels of defence spending, so that our armed forces are sufficiently resourced” (NATO HQ, 2010). The “necessary level of defence spending in NATO” was regulated only in 2014 during NATO Summit in Newport. Art. 14 of the Wales Summit Declaration stipulates that:

- “Allies currently meeting the NATO guideline to spend a minimum of 2% of their Gross Domestic Product (GDP) on defence will aim to continue to do so. Likewise, Allies spending more than 20% of their defence budgets on major equipment, including related Research and Development, will continue to do so;

- Allies whose current proportion of GDP spent on defence is below this level will halt any decline in defence expenditures; aim to increase defence expenditure in real terms as GDP grows; aim to move towards the 2% guideline within a decade with a view to meeting their NATO Capability targets and filling NATO’s capability shortfalls” (NATO HQ, 2014).

Despite the reference to an allegedly existing “NATO Guideline”, the rule of 2/20% was mentioned in a summit document for the first time in Newport. It did appear once before in the 2006 Ministerial Guidance of the NATO Defence Planning Committee, but it was not included in neither the declaration of the 2006 NATO summit in Riga, nor in any other declarations of summit before Wales (Kamp, 2019).

The decision to formally introduce financial guidelines to the Wales Summit declaration was predominantly determined by two factors. First, it reflected the constant pressure of the US administration, represented inter alia by secretary of defence Robert Gates, who emphasised that "defence budgets – in absolute terms, as a share of economic output – have been chronically starved for adequate funding for a long time, with the shortfalls compounding on themselves each year" (Fontaine, 2017). Secondly, in 2014 the threat to the North Atlantic Treaty area significantly increased after Russia's illegal annexation of Crimea. The violation of territorial integrity of Ukraine radically altered the Allies' perception of threat, mostly from the Eastern flank, including Poland, who – together with Baltic states – had been since 2008 (Russia's invasion on Georgia) continuously voicing concern about the aggressive policies of Moscow.

It has to be underlined that the debate on burden sharing and the necessity to establish a form of rigid requirement on defence expenditures among member states were practically run since the beginning of the Alliance, however it was successful for the first time in only 1977. Then NATO allies agreed in the Ministerial Guidance that "against the background of adverse trends in the NATO-Warsaw Pact military balance and in order to avoid a continued deterioration in the relative force capabilities, an annual increase in real terms in defence budgets should be aimed at by all member countries (…) annual increase should be in the region of 3 % (…)" (NATO HQ, 1977). This objective has never been met and was eventually dropped by the Alliance in the middle of 80s.

Today, the 2/20% rule seems to be deeply rooted in the NATO regulations being repeatedly included in Alliance summits' declarations (see table below).

TABLE 3: Statements on defence expenditures of member states included in NATO Summits' declarations (2016-2019)

Summit	Excerpts
Warsaw, 2016.	Par. 34. "Since Wales, we have turned a corner. Collectively, Allies' defence expenditures have increased in 2016 for the first time since 2009. In just two years, a majority of Allies have halted or reversed declines in defence spending in real terms. Today, five Allies meet the NATO guideline to spend a minimum of 2% of their Gross Domestic Product on defence. Ten Allies meet the NATO guideline to spend more than 20% of their defence budgets on major equipment, including related Research & Development.".
Brussels, 2018.	Par. 3. "Fair burden sharing underpins the Alliance's cohesion, solidarity, credibility, and ability to fulfil our Article 3 and Article 5 commitments. We welcome the considerable progress made since the Wales Summit with four consecutive years of real growth in non-US defence expenditure. All Allies have started to increase the amount they spend on defence in real terms and some two-thirds of Allies have national plans in place to spend 2% of their Gross Domestic Product on defence by 2024. More than half of Allies are spending more than 20% of their defence expenditures on major equipment, including related research and development, and, according to their national plans, 24 Allies will meet the 20% guideline by 2024.".
London, 2019.	Par. 2. "We are determined to share the costs and responsibilities of our indivisible security. Through our Defence Investment Pledge, we are increasing our defence investment in line with its 2% and 20% guidelines, investing in new capabilities, and contributing more forces to missions and operations. Non-US defence expenditure has grown for five consecutive years; over 130 billion US dollars more is being invested in defence.".

Source: NATO HQ (2016, 2018b, 2019a)

Recently, allies have not only agreed to the necessity of spending at least 2% on defence (including 20% on major equipment) but have also listed the topic among key NATO objectives. While typically an issue of defence expenditures was introduced into the summit communique later in the text (such as, for example, in 2016), it became of primary importance in 2018 and 2019 (see table above). That change was determined mostly by the constant pressure from US President Donald Trump, who perceived burden sharing as one of his top priorities in policy vis-à-vis allies (Kozlowski, 2019). The special criticism from the US came during the 2018 NATO Summit in Brussels where President Trump stated that "United States was paying for anywhere from 70 to 90 percent of it, depending on the way you calculate” and expecting that NATO Allies should be paying even up to 4% (ibidem).

Poland actively supported the US in prioritising defence expenditures, with Warsaw’s position based mainly on two elements. On the one hand, there was an understanding that in the current and prospective security environment, pursuing further defence capabilities modernisation as well as an increase of troops was needed and that required an adequate level of financing. On the other hand, US highlighted readiness to continue defence investments in Poland and in the Central and Eastern European region. It was endorsed by Washington’s decision to: (a) take over the position of a framework nation of NATO enhanced Forward Presence in Poland; (b) continue the construction of the Aegis Ashore ballistic missile defence base in Redzikowo (northern part of Poland) and (c) expand military presence in Poland. The latter decision was not only politically and militarily anticipated by the Polish government, but it was also stimulated economically. Warsaw was ready to contribute “1.5 – 2 billion USD to cover the cost of facilitating the stationing of one US armored division or equivalent force in Poland” (Ministry of the National Defence of the Republic of Poland, 2018).

Pressure from the US administration on increasing defence expenditures among European allies was only a partial success. In the years 2014-2019, NATO countries increased their defence spending by 130 billion USD (see table 3), but most of the countries are still behind the existing guidelines.

TABLE 4: Level of defence spending & their share in the GDP of NATO Allies (2015-2020)

	Country	Share of defence spending in GDP (%)		Share of military expenditure spent on military equipment (%)	
		2020e	**2019**	**2020e**	**2019**
1.	USA	3.73	3.51	29.25	27.51
2.	Greece	2.68	2.36	12.06	12.51
3.	Estonia	2.33	2.03	25.36	15.50
4.	United Kingdom	2.32	2.10	23.00	22.85
5.	**Poland**	**2.31**	**1.98**	**29.04**	**23.24**
6.	Latvia	2.27	2.03	26.03	21.65
7.	Lithuania	2.13	2.00	26.19	37.57
8.	Romania	2.07	1.84	23.08	25.59
9.	France	2.04	1.83	26.50	24.50
10-11	Norway	2.00	1.86	28.44	28.76
	Slovakia	2.00	1.71	31.84	40.07
12.	Turkey	1.86	1.85	34.20	34.32
13.	Hungary	1.85	1.25	34.73	23.81
14.	Croatia	1.83	1.65	10.27	6.55
15.	Montenegro	1.72	1.33	20.76	14.78
16.	Bulgaria	1.60	3.15	19.20	62.12
17.	Portugal	1.59	1.38	16.60	16.61
18.	Germany	1.56	1.36	16.87	14.69
19.	The Netherlands	1.49	1.35	26.10	23.90
20.	Denmark	1.43	1.30	22.35	18.06
21.	Canada	1.42	1.29	17.36	14.80
22.	Italy	1.39	1.18	24.59	17.00
23.	Czech Rep.	1.34	1.16	17.00	14.42
24.	Albania	1.29	1.31	14.50	16.80
25.	North Macedonia	1.27	1.16	11.41	13.82
26.	Spain	1.17	0.91	23.25	21.02
27.	Slovenia	1.10	1.06	4.56	7.10
28.	Belgium	1.07	0.89	10.36	11.06
29.	Luxembourg	0.54	0.54	52.53	51.99
30.	Iceland	n. a.	n. a.	n. a.	n. a.

Source: NATO HQ (2021a). e-estimates.

The biggest deficiencies in terms of meeting NATO financial guidelines lie with Germany, Canada and Italy (members of G7), which are not even close to the 2% level (the percentage of defence expenditures amounted to, respectively: 1.56, 1.42 and 1.39). Poland is among eleven Allies who meet both requirements stemming from the 2/20% rule. Warsaw spent 2.31 % of their GDP in 2020 on defence, including 29.04% on major equipment. While exact numbers can be misleading due to the post-COVID economic recession (see par. 4), the trend of defence expenditures in Poland is gradually on the rise and is expected to reach 2.5% by 2030 as it is reflected in the Act.

3. SELECTED COMMENTS ON DEFENCE EXPENDITURES IN THE CONTEXT OF NATO BURDEN SHARING AND THE COMMON FUNDED BUDGETS

The 2/20% rule remains an important indicator of the political resolve of individual Allies devoting to defence. However, it provides no guarantee that money will be spent in the most efficient ways to acquire and deploy modern capabilities (NATO HQ, 2021b). Thus, defence expenditures of NATO member states have to be perceived in the wider perspective of economic, financial and military aspects of NATO functioning, including burden sharing and the common funded budgets.

NATO's cornerstone is that the burden of defending the North Atlantic Treaty area should be shared fairly among its member states, stemming directly from art. 5 of the Washington Treaty and the idea of collective defence (NATO HQ, 1949). While there is no commonly accepted definition of the term 'burden sharing', one can derive their interpretation from former US Secretary of Defense Caspar Weinberger, that alliances remain acceptable as long as risks and responsibilities are equitably shared (Weinberger, 1987, 1).

The NATO burden sharing debate was dominated in literature through economic theory of alliances, which suggests that the collective defence can be interpreted either as pure public good (Olson, Zeckhauser, 1966) or impure public good (i.e. Rinsgmose, 2009). In the first case (pure public) a nation's consumption of defence does not affect the amount available for consumption by other nations (non-rivalry) and, once these goods are provided, they are available to everyone (non-excludability). That could have potential consequences by providing an incentive for a nation to 'free-ride' when it knows that another nation will provide sufficient alliance defence for its own needs (Kozlowski, 2019). In the second case, defence can have a feature of both public and private good (where non-rivalry and non-excludability factors do not occur). While the nuclear umbrella provided by the United States can be used only externally and may be seen as a public good, conventional forces of member states can be interpreted as a public good when they defend external borders of the North Atlantic Treaty area, and as a private good when they serve individual ally benefits (e.g. counteracting terrorism inside the country or suppressing internal unrest).

Most of the experts agree that today (de facto after 1967, when the Mutual Assured Destruction doctrine was no longer valid) NATO collective defence can be interpreted as public-private good, where the US, whose biggest military capabilities far surpass any other – including atomic weapons - in the Alliance, remains the most important provider of deterrence and defence and where small and medium-sized countries, including Poland, are major beneficiaries of the Alliance. It has to be noted however that these allies "tend to contribute less than their proportionate share of the defence burden to avoid entrapment, but they will increase their contribution when the dominant power applies enough pressure (…)" (Rinsgmose, 2009).

While the burden sharing issue should provide a strategic analysis of the costs and benefits of individual members of the Alliance, NATO common funded budgets constitute a financially small, but politically and militarily important piece of the Alliance activities. The costs of running NATO are covered through member states' direct and indirect contributions. The former (indirect or national) come in the form of Allies' participation in NATO-led operations and missions. The latter are borne collectively through common funding, with all Allies contributing according to an agreed upon cost-share formula. Common-funding arrangements finance NATO's budgets: the Civil Budget, covering the costs related to the running the NATO International Staff and Headquarters, the Military Budget, funding the costs of the Integrated Command Structure, and the NATO Security Investment Programme (NSIP), dedicated to military capabilities. These three budgets are worth annually around 2.5 billion euros (in 2020 – 2.46 billion) and represents 0.3% of the total Allied defence spending. Projects can also be jointly funded by two or more member states, given that participating countries identify the requirements, priorities and funding arrangements for the project, and NATO provides political and financial oversight (NATO HQ, 2020).

The NATO common funded cost-sharing formula is based on GNI (Gross National Income) data, representing an average of figures using current prices and data measuring purchasing power parity (taken from the World Bank's World Development Indicators). The formula uses a two-year rolling average of each country's GNI with an exception for the US, which negotiated a ceiling for its cost share percentages (Ek, 2012).

TABLE 5: Cost sharing formulae in NATO common funded budgets (excluding North Macedonia)

Country	Real GDP in 2020 in billion USD	Share of GDP in total NATO states GDP	Cost sharing formula
Albania	13	0.0332	0.0908
Belgium	493	1.2600	2.1059
Bulgaria	58	0.1482	0.3660
Canada	1,682	4.2987	6.8840
Croatia	56	0.1431	0.2997
Czech Rep.	214	0.5469	1.0567
Denmark	338	0.8638	1.3125
Estonia	27	0.0690	0.1249
France	2,608	6.6653	10.4986
Germany	3,393	8.6715	16.3572
Greece	204	0.5214	1.0581
Hungary	147	0.3757	3.4532
Iceland	21	0.0537	0.0645
Italy	1,915	4.8942	8.7881
Latvia	31	0.0792	0.1596
Lithuania	48	0.1227	0.2568
Luxembourg	65	0.1661	0.1694
Montenegro	5	0.0128	0.0292
Netherlands	838	2.1417	3.4532
Norway	407	1.0402	1.7784
Poland	**569**	1.4542	**2.9887**
Portugal	221	0.5648	1.0499
Romania	217	0.5546	1.2290
Slovakia	99	0.2530	0.5165
Slovenia	50	0.1278	0.2277
Spain	1,325	3.3863	5.9956
Turkey	997	2.5480	4.7308
United Kingdom	3,112	7.9534	11.2908
United States	19,975	51.0504	16.3572
Total	**39,128**	100.0000	**100.0000**

Source: NATO HQ (2021a) and NATO HQ (2021b).

Given the macroeconomic data, the US would pay 51% of the total common-funded budgets. However, it was agreed that the American share will reach a maximum level of 16.3572%[1], which is equal to Germany's contribution. Hence, contributions from all other member states are increased on a pro rata basis (Poland's share amounts to 2.9887).

The Allies are not only contributing to the common funded budgets, but they can also receive benefits in the form of investments. NSIP covers major construction and technology investments that are beyond the national defence requirements of individual member states. The Allies' cumulative contributions to the NSIP (received/paid) are shown in the table below.

1 Limited US cost share was introduced in NATO (as well as other international organization) just after creation of common funded budgets. At the beginning it did not exceed 1/3 of total costs.

TABLE 6: Cumulative Contributions by Host Nations (in KEUR) by 2019

Country	Received	Paid	Net Rec./(Paid)
Albania	493	2,426	(1,933)
Belgium	843,258	1,523,020	(679,762)
Bulgaria	60,570	26,154	34,415
Canada	79,939	1,966,618	(1,886,679)
Croatia	9,521	8,666	855
Czech Rep.	134,469	105,278	29,191
Denmark	711,764	1,108,566	(396,803)
Estonia	63,367	8,351	55,016
France	1,006,697	1,832,430	(825,733)
Germany	5,857,395	7,688,380	(1,830,985)
Greece	1,868,685	310,457	1,558,228
Hungary	182,511	77,085	105,426
Iceland	27,313	1,532	25,781
Italy	2,334,619	2,786,306	(451,687)
Latvia	44,387	10,990	33,397
Lithuania	45,908	16,576	29,331
Luxembourg	59,204	66,970	(7,760)
Montenegro	0	80	(80)
Netherlands	963,064	1,605,796	(642,732)
Norway	2,166,187	933,869	1,232,318
Poland	**474,874**	**288,365**	**186,509**
Portugal	610,802	124,395	486,408
Romania	62,452	85,229	(22,777)
Slovakia	39,132	35,289	3,843
Slovenia	40,102	19,378	20,724
Spain	238,588	473,626	(235,038)
Turkey	4,515,928	470,126	4,045,802
United Kingdom	2,653,978	4,318,249	(1,664,271)
United States	1,491,388	9,521,869	(8,030,481)
Total	35,416,078	35,416,078	0

Source: NATO HQ (2019b).

The data in table 6 shows that the countries situated on the borders of the North Atlantic Treaty area are the largest recipients of investments. Germany (eastern flank of NATO between 1955 and 1999) and Turkey (southern flank of NATO since 1952) received, approximately, 5.9 and 4.5 billion euros; concurrently, Ankara was by far the biggest beneficiary of NSIP (received 4 billion euro more than it paid). Poland is one of the NSIP beneficiaries, receiving 474 million euros since the beginning of the membership, while contributing to the Programme 288 million.

4. DEFENCE EXPENDITURE TRENDS. CURRENT AND PROSPECTIVE CHALLENGES

The economic recession induced by the COVID-19 pandemic presents a significant obstacle to the recently observed trend in many NATO countries to increase defence expenditures. The Allies might be inclined to reconsider their positions on defence spending, especially if the dynamic security would create favourable conditions for it. This is made even more probable under the current US administration, which is emphasising a much more multilateral approach than the previous government and lessening the pressure on defence spending. The new circumstances should not change the policy of Poland.

First, as the World Bank projects, while the global economy is emerging from the collapse triggered by the pandemic and the world-wide output will expand by 4% in 2021, it will still remain more than 5% below its pre-pandemic trend (World Bank, 2021). The deep recession of 2020 and relatively slow process of economic recovery would probably imply consequences for defence expenditures.

TABLE 7: Annual Percent Change of Real GDP in selected NATO member states/regions (2019-2022)

Country/Area	2019	2020	2021	2022
Euro area	1.3	-7.4	3.6	4.0
Poland	**4.5**	**-3.4**	**3.5**	**4.3**
Romania	4.1	-5.0	3.5	4.1
United States	2.2	-3.6	3.5	3.3
World	2.3	-4.3	4.0	3.8

Source: World Bank (2021).

Poland is hit by an economic recession on a relatively limited scale. Concomitantly, Euro area countries, including major NATO allies, are being faced with far greater economic challenges. According to the International Monetary Fund (IMF), the GDP of France, Italy, Spain and

UK decreased by more than 8% and the return to pre-COVID levels in these countries would be improbable before 2023 (IMF, 2021).

Given the fact that the governments will prioritise combating the health emergency and neutralising the economic crisis, any cuts, or slower-than-expected increase of defence expenditures, could occur. Such processes cannot be excluded since many NATO member states reacted in that way to the previous economic crises in 2008 and 2009. Defence expenditures in Europe fell by 3 percent in 2009 and continued to decline steadily throughout the ensuing 2010-2013 period. This tendency was especially discernible in smaller European states such as Latvia and Lithuania, where defence expenditures were reduced by over 30% (Morcos, 2020). Poland, conversely, had already returned to the pre-crisis level of defence spending in 2010.

Second, new US President Joe Biden and the Democratic administration run foreign and security policies differently than the previous Republican government. The 'America First' doctrine of President Donald Trump was replaced by reorientation towards multilateralism and a much broader perception of international relations, where diplomacy, development and other soft power policy instruments might play a role as important as defence. As former Secretary of State Hillary Clinton emphasised, "the overmilitarisation of US foreign policy is a bad habit that goes all the way back to the days when President Dwight Eisenhower warned of the military-industrial complex" and recalled what general James Mattis told US Congress when he led the US Central Command: "if you don't fund the State Department fully, then I need to buy more ammunition ultimately" (Clinton, 2020). Consequently, one can assume, that the White House will, on the one hand, retain its expectations towards European Allies to spend at least 2% of GDP on defence, including 20% on major equipment, but on the other, it will lessen the pressure in that regard on Germany and other large member states (i.e. Canada and Italy), expecting their deeper engagement in development and humanitarian assistance or in other strategic, non-military areas. The history of the last 50 years prove that Democratic governments expenditure on defence was relatively less (as a percentage of GDP) than that of Republican governments (US Military Spending/Defense Budget 1960-2020, 2020).

Third, the security environment close to NATO borders and globally will remain dynamic. Russia continues armed conflict with Ukraine and its aggressive and confrontational policy vis-à-vis many allies (i.e. Czech Republic and Bulgaria). One cannot exclude that despite the current policy, Moscow might tactically seek rapprochement with the West, however the strategic interests of Russia's European security seem to remain unchanged: (a) strategic control over the post-Soviet area; (b) the existence of a security buffer zone in Central and Eastern Europe; (c) transformation of the existing security architecture in Europe in a way that would maximise Russian influence and minimise the sway of the US (Menkiszak, 2019). In these circumstances we can expect that Poland and several other NATO eastern flank countries (including Baltic States) would keep increasing defence spending regardless of potential temporary alterations in NATO's policy against Russia, while some of the Western European Allies could have an alternative approach. Different NATO member states defence expenditures' reaction to Russia's invasion on Georgia in 2008 could be a lesson here.

CONCLUSIONS

The aim of this paper was to analyse Poland's policy on defence expenditures in the context of the NATO financial framework. The conducted research led to four main conclusions.

Firstly, Poland has a stable and long-held position of spending at least 2% of GDP on defence, including 20% on major equipment. This policy is deeply grounded in the national legal and financial system representing a bipartisan approach of all major political parties. There is a common understanding that the current and prospective security environment on the eastern flank of NATO will require strength and a modernised Polish Armed Forces as well as effective cooperation within the Alliance, especially with the United States.

Secondly, Poland remains one of the eleven Allies which meet NATO financial guidelines (rule 2/20%). Only the US, UK, France, Greece, Norway and six of the Alliance's eastern flank countries are in this group. The biggest financial deficiencies in NATO stems from the policy of Germany, Canada and Italy (members of G7), all of whom are not even close to the 2% threshold.

Thirdly, Warsaw is not only a well-established contributor to the Alliance, but primarily a recipient of its benefits, both from the perspective of burden sharing and infrastructure projects financed through common funded budgets. According to the analysis of inflows and outflows of the investments, Poland remains one of the beneficiaries of the NSIP, receiving 474 million euros since the beginning of the membership, while paying into the Programme 288 million. The countries situated on the borders of North Atlantic Treaty, including Germany (eastern flank of NATO between 1955 and 1999) and Turkey (southern flank of NATO since 1952), are the biggest beneficiaries of NSIP.

Finally, despite the current and prospective challenges for the Alliance resulting from economic recession as a follow up to COVID-19, Poland – unlike some of the NATO member states - will continue to raise its defence expenditures gradually to 2.5% of its GDP by 2030. That should keep the position of Warsaw as one of the NATO leaders in that regard.

Contact:

Grzegorz Kozlowski, PhD
Embassy of the
Republic of Poland to Estonia
E-mail: grzegorz.kozlowski@msz.gov.pl

REFERENCES AND SOURCES

Biuro Bezpieczeństwa Narodowego., (2012). *Strategiczny Przegląd Bezpieczeństwa Narodowego. Główne wnioski i rekomendacje dla Polski.* [Viewed 19 May 2021]. Available from: https://www.bbn.gov.pl/ftp/dok/WNIOSKISPBN.pdf

Biuro Bezpieczeństwa Narodowego., (2020). *Strategia Bezpieczeństwa Narodowego Rzeczypospolitej Polskiej.* [Viewed 19 May 2021]. Available from: https://www.bbn.gov.pl/ftp/dokumenty/Strategia_Bezpieczenstwa_Narodowego_RP_2020.pdf

Clinton H., (2020). A National Security Reckoning. How Washington Should Think About Power. [Viewed 24 May 2021]. Available from: https://www.foreignaffairs.com/articles/united-states/2020-10-09/hillary-clinton-national-security-reckoning

Dmitruk T., (2019). *Wydatki obronne Polski w latach 2000-2019*, Nowa Technika Wojskowa 1/2019.

Ek C., (2012). *NATO Common Funds Burdensharing: Background and Current Issues.* [Viewed 22 May 2021]. Available from: https://fas.org/sgp/crs/row/RL30150.pdf

Fontaine R., (2017). *2 Percent Is No Magic Number.* [Viewed 20 May 2021]. Available from: https://foreignpolicy.com/2017/05/24/2-percent-is-no-magic-number/

International Monetary Fund (2021). World Economic Outlook [Viewed 23 May 2021]. Available from: https://www.imf.org/external/datamapper/datasets/WEO

Kamp K-H., (2019). *Myths Surrounding the Two Percent Debate – on NATO defence spending.* [Viewed 19 May 2021]. Available from: https://www.baks.bund.de/sites/baks010/files/working_paper_2019_9.pdf

Kozlowski G., (2019). *The Position of Burden Sharing in Current US Security Policy Vis-à-vis European Allies*, Baltic Journal of European Studies, Vol. 9, No 4 (29), 41-51.

Marszałek-Kawa J., Siemiątkowski P., (2020). *Exposé Prezesów Rady Ministrów 1989-2019*, Adam Marszałek, Toruń.

Menkiszak M., (2019). *Strategiczna Kontynuacja, Taktyczna Zmiana. Polityka Bezpieczeństwa Europejskiego Rosji* [Viewed 25 May 2021]. Available from: https://www.osw.waw.pl/sites/default/files/PW_76_PL_Strategiczna-kontynuacja_net_0.pdf

Morcos, P. (2020). Toward a New "Lost Decade"? Covid-19 and Defense Spending in Europe, Center for Strategic and International Studies. [Viewed

24 May 2021]. Available from: https://www.csis.org/analysis/toward-new-lost-decade-covid-19-and-defense-spending-europe.

Ministerstwo Funduszy i Polityki Regionalnej., (2017). *Strategia na rzecz odpowiedzialnego rozwoju do roku 2020 (z perspektywą do 2030).* [Viewed 23 May 2021]. Available from: https://www.gov.pl/web/fundusze-regiony/informacje-o-strategii-na-rzecz-odpowiedzialnego-rozwoju

Ministry of National Defence of the Republic of Poland (2018). *Proposal for a US Permanent Presence in Poland*. [Viewed 20 May 2021]. Available from: https://www.politico.eu/wp-content/uploads/2018/05/Proposal-for-a-U.S.-Permanent-Presence-in-Poland-2018.pdf

NATO HQ., (1949). *The North Atlantic Treaty*. [Viewed 19 May 2021]. Available from: https://www.nato.int/cps/en/natohq/official_texts_17120.htm

NATO HQ., (1977). Annex – Ministerial Guidance – 1977. [Viewed 19 May 2021]. Available from: https://www.nato.int/cps/en/natohq/official_texts_26984.htm?selectedLocale=en

NATO HQ., (2005). *NATO-Russia Compendium of Financial and Economic Data Relating to Defence.* [Viewed 23 May 2021]. Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2005_06/20090902_p050609.pdf

NATO HQ., (2009). *Financial and Economic Data Relating to NATO Defence.* [Viewed 23 May 2021]. Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2009_02/2009_03_D34F22C9AE854B7FAA0BB409A21C90D3.pdf

NATO HQ., (2010). *Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organization*. [Viewed 19 May 2021]. Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_publications/20120214_strategic-concept-2010-eng.pdf

NATO HQ., (2011). *Financial and Economic Data Relating to NATO Defence*. [Viewed 23 May 2021]. Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2011_03/20110309_PR_CP_2011_027.pdf

NATO HQ (2014). Wales Summit Declaration issued by the Heads of State and Government participating in the meeting of the North Atlantic Council. [Viewed 19 May 2021]. Available from: https://www.nato.int/cps/en/natohq/official_texts_112964.htm

NATO HQ., (2015). *Financial and Economic Data Relating to NATO Defence*. [Viewed 23 May 2021]. Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2015_06/20150622_PR_CP_2015_093-v2.pdf

NATO HQ (2016), Warsaw Summit Communiqué issued by the Heads of State and Government participating in the meeting of the North Atlantic

Council. [Viewed 16 November 2020]. Available from: https://www.nato.int/cps/en/natohq/official_texts_133169.htm

NATO HQ., (2018a). *Defence Expenditure of NATO Countries (2011-2018).* [Viewed 23 May 2021]. Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2018_07/20180709_180710-pr2018-91-en.pdf

NATO HQ (2018b). *Brussels Summit Declaration*. [Viewed 18 May 2021]. Available from: https://www.nato.int/cps/en/natohq/official_texts_156624.htm

NATO HQ., (2019a). *London Declaration*. [Viewed 18 May 2021]. Available from: https://www.nato.int/cps/en/natohq/official_texts_171584.htm

NATO HQ., (2019b). *NATO Security Investment Programme Financial Activity As At 31 December 2019* [Viewed 17 May 2021] Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/2020/9/pdf/2009-NSIP-2019-financial-activi.pdf

NATO HQ., (2020). *The Secretary General's Annual Report*. [Viewed 22 May 2020]. Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/2021/3/pdf/sgar20-en.pdf#page=50

NATO HQ., (2021a). *Defence Expenditure of NATO Countries (2013-2020).* [Viewed 23 May 2021]. Available from: https://www.nato.int/nato_static_fl2014/assets/pdf/2021/3/pdf/210316-pr-2020-30-en.pdf

NATO HQ., (2021b). *Funding NATO*. [Viewed 22 May 2021]. Available from: https://www.nato.int/cps/en/natohq/topics_67655.htm

Olson M., Zeckhauser R., (1966). *An Economic Theory of Alliances*, Review of Economics and Statistics, no 48, p. 266-279.

Polska., (2001). *Ustawa z dnia 25 maja 2001 o przebudowie i modernizacji technicznej raz finansowaniu Sił Zbrojnych Rzeczypospolitej Polskiej w latach 2001-2006*. [Viewed 22 May 2021]. Available from: https://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU20010760804/O/D20010804.pdf

Polska., (2015). *Ustawa z dnia 10 lipca 2015 o zmianie ustawy o przebudowie i modernizacji technicznej oraz finansowaniu Sił Zbrojnych Rzeczypospolitej Polskiej oraz ustawy o finansach publicznych*. [Viewed 22 May 2021]. Available from: http://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU20150001117/T/D20151117L.pdf

Polska., (2017). *Ustawa z dnia 29 września 2017 o zmianie ustawy o przebudowie i modernizacji technicznej oraz finansowaniu Sił Zbrojnych Rzeczypospolitej oraz ustawy o finansach publicznych*. [Viewed 22 May 2021]. Available from: http://orka.sejm.gov.pl/opinie8.nsf/nazwa/1688_u/$file/1688_u.pdf

Ringsmose J., (2009). *NATO Burden-Sharing Redux: Continuity and Change after the Cold War.* [Viewed 1 October 2019]. Available from: https://ecpr.eu/Filestore/PaperProposal/95a4009e-4a32-4706-9e74-d973f2d03be9.pdf

Rudzite-Stejskala K., (2013). Financing Defence. In: Lawrence T., Jermalavicius T., *Apprenticeship, Partnership, Membership: Twenty Years of Defence Development in the Baltic States*, International Centre for Defence Studies, Tallinn.

US Military Spending/Defense Budget 1960-2020 (2020). [Viewed 18 November 2020]. Available from: https://www.macrotrends.net/countries/USA/united-states/military-spending-defense-budget

Weinberger C., (1987). *Report on Allied Contributions to the Common Defense. A Report to the United States Congress*, Department of Defense, Washington.

World Bank., (2021). *A World Bank Group Flagship Report, Global Economic Prospects*. [Viewed 24 May 2021]. Available from: https://www.worldbank.org/en/publication/global-economic-prospects