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The Hague Investment Plan: NATO seeks to redefine 'defence' to hit 5% spending target by 2032

Executive Summary:

NATO is proposing to redefine and increase military spending targets, aiming for 5% of GDP by 2032, as part of the Hague Investment Plan. The proposal includes 3.5% for "hard military spending" and 1.5% for related areas like infrastructure and cybersecurity. The plan seeks to address longstanding concerns about NATO burden-sharing, with the United States pushing for higher spending. Currently, 22 of NATO's 32 members meet the existing 2% target, but none meet the proposed 5% goal. The Plan's adoption requires the consensus of all 32 NATO member states.

Politically, the increased spending target could strengthen NATO's unity but also risks internal divisions and voter discontent. Economically, it may boost the defence sector but could strain public budgets and global supply chains. Militarily, it could modernize forces and enhance deterrence but risks escalating tensions with adversaries like Russia and China.

Instead of relying on GDP-based metrics for burden-sharing, a more nuanced approach could consider broader security contributions like UN peacekeeping and political assistance. NATO's spending and planning frameworks also require greater transparency and accountability.

I. Introduction: the backstory

The United States has long complained about burden-sharing with NATO, which revolves around the distribution of financial and military responsibilities among member states. Specifically, it focuses on whether all allies are contributing fairly to collective defence, particularly concerning military spending. A widely discussed target is 2% of GDP, as agreed upon by NATO leaders in 2014. While progress has been made towards this target, there has been unevenness among member states, and some argue that a simple spending percentage is a reductive measure.

President Trump has demanded that NATO member states massively increase military spending to 5% of GDP, as the US needs to focus on its own security challenges outside of Europe. The NATO Secretary General has also regularly called for NATO member states to spend more of GDP on defence as quickly as possible, as part of the need to shift to a "wartime mindset". This push is partly aimed at placating President Trump, but some European allies are reluctant to raise military spending too soon given they are struggling with low growth and increasing budget deficits.

At the NATO Foreign Ministers meeting in April, several European foreign ministers criticized the US demand to boost military spending while launching a trade war. And several of them indicated that new funds should be spent on European rather than American equipment. The European

Commission has also entered the fray with a White Paper for European Defence Readiness 2030, which includes a potential 150 billion Euro loan for EU member states to buy arms, but only from European countries. This may be an irritant to the United States, which expects its arms companies to profit from a surge in European arms procurement. In recent years, European allies placed around two-thirds of their military equipment orders with US military companies.

Twenty-two of NATO's 32 members meet the current 2% target. Several major member states, such as Italy, Spain, Canada and Belgium remain below that level but have pledged to reach it in 2025. No NATO country meets Trump's 5% target. The United States last year spent 3.19% of its GDP on defence, behind eastern flank countries Poland, Estonia and Lithuania.

At the recent informal meeting of NATO Foreign Ministers in Antalya, Türkiye (14-15 May 2025) the focus was on how to achieve new ambitious spending targets without further exacerbating some of these financial and industrial concerns. This briefing examines the current plans to redefine and boost military spending in NATO (section II). It then explores the current metric used to define burden sharing and finds it wanting. Instead, a new, multifaceted framework is proposed (section III). Section IV discusses the political, economic and security implications of increasing military spending to 5% of GDP. It concludes by summarising the main potential risks, including alliance fragmentation, fiscal strain and geopolitical escalation.

II. Plans to redefine and boost military spending with new targets

The broad parameters of the proposed new military spending guidelines are now in the public domain. According to the Prime Minister of the Netherlands, Dick Schoof, alliance member states are going to be expected to meet higher targets for defence spending by 2032. Schoof said the NATO Secretary General Mark Rutte had written to all 32 member countries calling for them to reach 3.5% of GDP on "hard military spending" and 1.5% of GDP on "related spending such as infrastructure, cybersecurity and other things" over the next seven years.

Reuters reported on 2 May that Rutte had proposed this split between traditional military spending and broader security-related items. Under NATO's current military spending formula, NATO officials consider purchases of military equipment, infrastructure building, operations abroad, soldiers' salaries and pensions. This calculation favours those member states increasing their military procurement, like Poland, or the United States, where troops' pay and pensions inflate the numbers. However, repurposing bridges and roads for military needs, civilian development of dual-use technologies and critical infrastructure protection are all left out.

Schoof also said the government of the Netherlands would continue discussions to determine its position on the proposal. Other NATO members were also considering Rutte's request and would have to discuss it with their parliaments, he added. The parameters of what could be included in the 1.5% part of loosely related defence spending are still to be defined. To be adopted the plan will need to be agreed by consensus by all 32 NATO member states.

Crucially, the United States appears to be receptive to the plan. "This new Hague investment pledge or plan is going to include all of the capability targets necessary for NATO allies to deter and defend, but it also includes things like mobility, infrastructure, necessary infrastructure, cyber security," US NATO ambassador Matthew Whitaker said on 13 May during a digital press briefing. "It is definitely more than just missiles, tanks and howitzers, but at the same time, it's got to be defence-related. It is not a grab bag for everything that you could possibly imagine."

Germany's position on the issue will also be crucial. Germany's new chancellor Friedrich Merz has declared his intention to reinvest in Germany's armed forces in order to transform the Bundeswehr into the "strongest conventional army in Europe" and also promised that Germany would take on greater responsibility within NATO and the EU. During a visit to NATO's headquarters in Brussels on 9 May Merz appeared lukewarm on the spending target as a percentage of GDP. "It makes no sense to argue about abstract GDP percentages now. What is crucial is that we continuously expand our efforts over the next few years" Merz said, adding "that for Germany, every increase of one percent of GDP represented 45 billion euros". However, during the ministerial meeting in Antalya German Foreign Minister Johann Wadephul said that Berlin accepts in principle the demand from the United States that NATO member states increase military spending to 5% of GDP.

III. New metrics are needed to measure burden sharing in NATO

Military spending as a percentage of GDP and public expenditure compared

NATO currently measures military spending as a percentage of GDP (the total value of goods and services produced in a country), and this metric is used to assess burden sharing within the alliance. An alternative would be to measure it as a percentage of public expenditure (total government spending). Public expenditure represents the actual allocation of government resources. Using this metric would directly show how much a nation prioritizes military spending compared to other essential areas like healthcare, education, infrastructure and social welfare. It better illustrates the trade-offs a country makes in its budget allocation. Moreover, GDP can be heavily influenced by the structure of a nation's economy. Some countries might have large GDPs due to specific industries (e.g., finance, technology, resource extraction) without necessarily translating into a comparable ability or willingness to allocate significant funds to defence.

Public expenditure offers a more direct view of what the government *actually* controls and can spend—although it raises other complexities. Using public expenditure alone, for example, disregards the overall size and strength of a nation's economy. A country with a small GDP might allocate a high percentage of its public expenditure to defence, but the absolute amount of money might still be insufficient to contribute meaningfully to NATO's capabilities. A richer country can simply shoulder a bigger burden, even if it spends less as a percentage of public expenditure. Governments might also be tempted to manipulate their public expenditure figures to appear more committed to defence. This could involve reclassifying certain expenditures as defence or security-related, even if they primarily serve other purposes (e.g., using military personnel for disaster relief and counting that as defence spending, as Spain is currently doing).

The choice between measuring burden sharing as a percentage of GDP versus public expenditure reflects deeper questions about fairness, priorities and the nature of security commitments within NATO. While GDP-based targets emphasize economic capacity and align with NATO's current framework, they can overlook fiscal realities and broader contributions. On the other hand, public expenditure metrics highlight budgetary priorities but may not adequately account for economic disparities or strategic necessities. A more balanced approach might involve considering both metrics in conjunction with other qualitative factors, like the quality of defence capabilities, strategic alignment and contributions to NATO operations.

Ultimately, assessing burden sharing is a complex issue that requires a multi-faceted approach. Relying on a single metric, whether GDP or public expenditure, provides an incomplete picture. A more holistic assessment is needed to accurately gauge each member state's contribution to NATO's collective defence, including more qualitative assessments and criteria. Greater transparency is also required in how NATO calculates and reports burden sharing, as discussed below.

Towards a new multifaceted approach to measuring burden sharing

The choice of metric is not just technical—it shapes political narratives within NATO about fairness, commitment and burden sharing. Policymakers and analysts must consider these implications when designing or evaluating burden sharing arrangements, as the metric used can influence domestic political debates, alliance cohesion and the strategic posture of member states. To improve NATO's burden-sharing framework, a multifaceted approach is necessary, addressing both structural and cultural challenges.

This could be achieved by replacing the rigid % of GDP spending requirement with tiered or tailored benchmarks. These could seek to balance 'inputs' (how much the member states spend) with 'outputs' (how much they get out of it). They could seek to assess each country's actual military capabilities; its readiness, deployability, and sustainability levels; and the quality of the force that it can field, with a particular emphasis on what each member state can contribute to the NATO Force Model, either in terms of reinforcements or in-places forces.

These military outputs could then be balanced with a broader, more holistic way of understanding burden sharing—since NATO is a political-military alliance with a fundamental goal to safeguard freedom and security by political and military means—that includes more qualitative aspects, both external to NATO (such as UN peacekeeping and overseas political assistance), and especially in relation to newer 'soft security' or political commitments within NATO (such as climate change, pandemics, public poverty support and other human security threats).

It would probably be controversial in NATO to include some of these broader security issues. However, as a starting point, National Security Strategies of member states could be scrutinised to identify issues that are already included by some as security threats. Such a redefinition could acknowledge how different sectors in society and industry contribute to increasing security. Smarter burden-sharing could also be incentivized by prioritising contributions in niche areas or emerging domains (such as space, cyber and AI).

Important work has already been done in exploring broader approaches to burden sharing. For example, one recent study examined NATO security burden sharing and sought to balance military spending with foreign non-military assistance and UN peacekeeping spending. Similarly, a new definition of "responsibility sharing", proposed by the Centre for Strategic and International Studies in February 2024, included a more comprehensive picture of security. In addition to military spending, the authors counted efforts to support Ukraine and abandon Russian oil and gas, as well as public order and safety expenditures. This pushed 14 NATO member states above the 4% of GDP threshold.

Subject to funding, an initial scoping study to devise a composite security burden measure for NATO that portrays burden- and risk-sharing more accurately is currently under consideration (Please contact the author for further details).

Annual, peer-reviewed transparency reports detailing each member state's contributions, including financial, military, and non-traditional support could also be introduced. Findings could be published to maintain accountability.

While the two-tier approach in the Hague Investment Plan is a step in the right direction, it remains wedded to the simple metric of spending as a percentage of GDP. Improving NATO's burden-sharing framework requires a more nuanced, transparent, and flexible approach that values diverse contributions, promotes political accountability, and aligns resources with strategic priorities. Ultimately, it is outputs (rather than inputs) that count, and although these are harder to measure, assessment is possible given the political will to do so. By moving beyond simple spending targets and fostering cooperation, NATO can enhance alliance solidarity and collective defence effectiveness.

IV. Increasing the NATO military spending target from 2% to 5%: Political, economic and security implications

NATO's potential increase of the military spending target from 2% to 5% of GDP would have significant political, economic, and security implications for member states and the global landscape. Some of those are briefly reviewed here.

Political implications

NATO is clearly hoping that a higher spending target could strengthen unity by demonstrating a shared commitment to collective defence. It is also assumed that it could also bolster the alliance's credibility and deter potential adversaries. However, with many NATO members already struggling to meet the 2% target, a 5% goal could spark resistance, exacerbating tensions between hawkish members (e.g., Poland, Baltic states) and those prioritizing domestic spending. This could lead to internal divisions, further fragmented threat perceptions and risks a two-tier alliance, undermining cohesion.

Domestically, some governments may also face voter discontent if social programmes are cut or taxes raised to fund military spending. Populist movements could further exploit such shifts. Framing NATO as a burden due to increased military spending is already a common rhetorical strategy among populist movements, and it is often used to rally opposition to international commitments and to emphasize national sovereignty and fiscal concerns.

Internationally, a stronger NATO could challenge the influence of other powers, such as Russia and China, potentially leading to increased geopolitical tensions. In 2024 world military spending rose by a record 9.4% to reach $2718 billion. NATO as a bloc accounted for 55% of this global total. Countries and regions that prioritize disarmament and peacebuilding may view these further increases as a concerning escalation in global military spending. They are likely to argue that resources would be better allocated to development, poverty alleviation, and climate change mitigation.

Economic implications

The significant increase in military spending across NATO member states could stimulate economic activity in the defence sector, but might divert resources from other priorities like healthcare, education or infrastructure. Aerospace, cybersecurity and defence manufacturing sectors could boom, creating jobs and innovation. However, a surging military-industrial complex might wield undue political influence and increase the risk of corruption. Increased demand for resources (e.g., metals, skilled labour) could drive inflationary pressures. Concurrent spending across NATO might strain global supply chains for defence materials.

Proponents argue that increased military spending could boost innovation and technological development, leading to long-term economic growth (a form of military Keynesianism). However, critics argue that it could lead to crowding out of private investment and force cuts to infrastructure or R&D, potentially harming long-term economic competitiveness.

Higher taxes, borrowing, or cuts to public services could follow, risking social unrest. Germany has already reformed its debt brake to allow for a huge increase in military spending, while the UK has changed its fiscal rules to allow for greater borrowing, specifically to support higher military spending. High-debt countries (e.g., Italy, France, Greece) might face sovereign debt crises. Reduced investment in infrastructure, education, or green transitions could hinder long-term economic resilience.

Security implications

Increased spending would potentially allow NATO members to modernize their armed forces, acquire new weapons systems, increase troop strength and readiness, and address stockpile shortages (highlighted by the Ukraine war). Similarly, investments in cyber, space, and AI could bolster NATO's technological edge. Overall, these investments could significantly enhance NATO's military capabilities and deterrence posture. Higher spending could also facilitate greater interoperability between NATO forces, allowing them to operate more effectively together.

However, procurement and industrial policy reforms will be needed to deliver better capabilities and deterrence effects within meaningful timeframes. European NATO member states will also have to address the questions of what to prioritize in procurement, and how to procure better together.

Moreover, the further increases in NATO spending could trigger an arms race with other powers, leading to increased military tensions and the risk of conflict. Russia and China, in particular, are likely to frame the increase as NATO aggression, potentially escalating propaganda or military posturing. An arms race with Russia or China could ensue.

Higher spending might also normalize military solutions over diplomacy, increasing the likelihood of interventionism. Finally, societal militarization could shift public opinion toward hawkish policies.

V. Conclusions

The potential implications of NATO increasing its military spending target are complex and multifaceted. A 5% military spending target would mark a dramatic shift in NATO's posture, reflecting a world increasingly shaped by great-power competition. While it could strengthen the alliance and enhance military industrial capacity, readiness and deterrence, the political and economic costs—domestic unrest, fiscal strain, and alliance fragmentation—pose substantial risks. It could also lead to unintended escalation with adversaries. The decision to increase the target requires careful consideration of these potential consequences and a thorough assessment of the security environment.

The specific implications will vary depending on a range of factors, including the global security environment, the economic situation of individual member states, and the political will to implement the increase. Success would hinge on more nuanced burden-sharing, fiscal responsibility and strategic coordination to avoid inefficiencies and maintain alliance cohesion. Without careful management, the move could exacerbate the very tensions it aims to address.

It is also unclear as to the specific requirements motivating higher military spending. The NATO Defence Planning Process helps to define the capability gaps that need to be funded. However, because of the opaque nature of this process there will be little chance for detailed parliamentary scrutiny by the various individual national parliaments of these plans prior to their endorsement by heads of state at the Hague Summit. How can it be ensured that national commitments to NATO are consistent with the resources and political aims of the respective countries?