

What Do We Know about Alliances and Military Spending?

Written by Joshua Alley and Brian Blankenship

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JOSHUA ALLEY AND BRIAN BLANKENSHIP, OCT 21 2023

How do military alliances impact defense spending? A common criticism of alliances is that they encourage members to reduce military spending. By doing so, allies pass the buck of preparing for and fighting wars with their partners. Observers think that this tendency is especially pronounced in U.S. alliances such as the North Atlantic Treaty Organization (NATO). Critics of U.S. alliances often assert that allies rely on the U.S. for security and invest too little in their own military capabilities. Among U.S. leaders, former President Donald Trump was unusually strident in insisting that allies increase defense spending, but similar complaints go back to the Eisenhower administration. The relationship between alliances and defense spending is more puzzling than these examples suggest, however. Scholars have disputed whether alliances increase or decrease defense spending. Prior research finds positive, negative and null relationships between military alliances and defense spending.

In this article we want to convince you that bargaining between allies is essential to understanding the connection between military alliances and defense spending. Any association between alliances and defense spending is not an inevitable result of alliances generating security for their members and thus substituting for military spending. Rather, alliance characteristics, context and associated bargaining determine whether and when alliances increase or decrease defense spending.

The reasons why alliances might lead their members to decrease military spending are clear in theory. Alliances can substitute for military arming, allowing members to pool their resources and rely on each other rather than having to fend for themselves. In practice, however, the link between alliances and defense spending is not so simple. Some scholars find no such relationship. Indeed, alliances and defense investments are not perfect substitutes. For one, states often distrust their allies, fearing the risks of depending too much on their partners' protection. More broadly, since alliances and military arming are both means of coping with threats, states typically do both, rather than pick and choose. Indeed, the capability to help their partner in wartime is what makes states attractive allies in the first place. For the United States, alliances may even increase defense spending.

While there is little consensus on whether alliances shape military spending overall, some alliances are more prone to suppress members' military spending than others. Some scholars, for example, find that allies are more likely to free ride when their partner is a democracy, owing to democracies being more trustworthy allies.

The most well-known argument is that alliances are most likely to decrease military spending when a powerful country protects weaker partners. Conventional wisdom long held that encouraging burden-sharing in such asymmetric alliances between great powers and weaker partners is inherently and even prohibitively difficult—especially in multilateral alliances with many partners like NATO. According to this perspective, small members of the alliance will inevitably free ride knowing that the leading member can provide security for the alliance alone.

Likewise, some scholars argue that a powerful country is less likely to successfully encourage allies to spend more on defense when it has military forces stationed in those allies' territory. Deploying troops on allied territory is often considered the most potent signal of a state's commitment to an ally's defense, both because these forces can be

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used in combat and because they may constitute a “tripwire” that ensures the state will be drawn into a larger conflict.

The evidence for both propositions, though, is mixed at best. A number of findings cast doubt on the relationship between size and defense spending in alliances. Similarly, the evidence on troop deployments’ effects on military spending is inconclusive, with some studies finding an negative effect, others an positive effect, and yet others no effect at all.

We argue that the link between military alliances and defense spending is so variable because military investments are fundamentally political and subject to bargaining between allies. In a forthcoming book, one of us argues that allies are far from helpless in seeking to stimulate their partners’ defense investments—even in U.S. alliances, which are highly asymmetric.

Partners can encourage allies to spend more on defense by capitalizing on their fears of abandonment. This is more likely to succeed when allies view the threat of abandonment as credible—for example, when their partner faces resource constraints or domestic pressure to reduce alliance commitments, or when the alliance treaty has fewer provisions for mutual support—as well as when allies face a high degree of external threat that causes them to need protection. The outcomes of this bargaining are not predetermined by allies’ size or the number of troops on their soil. If allies face an elevated level of external threat and fear that their patron may be unwilling or unable to protect them, they will not reduce defense spending.

For example, West Germany hosted around 250,000 American forces during the Cold War, however the United States successfully encouraged it to not only rearm but to do so using American military equipment. As a result, West Germany became one of NATO’s highest spenders on defense and supplied a substantial proportion of the alliance’s forces on the frontline with the Warsaw Pact. This, notably, was despite its hosting 250,000 American forces. Similarly, during the 1970s the United States had much greater success pressuring South Korea to increase its capacity for self-defense than Japan, despite the latter hosting the same number of U.S. forces and having an economy twenty-five times larger.

In both cases, U.S. policymakers leveraged these allies’ fears of abandonment, in many instances threatening troop withdrawals unless they contributed more. These threats were more effective given West Germany and South Korea faced a significant threat of invasion due to sharing a land border with the Warsaw Pact and North Korea, respectively, whereas Japan was separated from potential adversaries by water.

To the extent that alliance members spend less on defense than they would have in the alliance’s absence, then, it is often because their partner lacked the bargaining leverage to change their behavior—not because allies unwittingly took advantage of it. Indeed, in many cases partners willingly allow or even tacitly encourage their allies to underspend. Burden-sharing comes with a trade-off: allies that are more capable of contributing to the alliance and defending themselves also need the alliance less. Partners may allow allies to free-ride on their protection in exchange for other concessions – for example, obtaining favorable trade agreements, discouraging nuclear proliferation, and hosting military bases.

This trade-off is especially acute among larger, more powerful allies which have a greater latent capability to provide for their own defense. The fundamental dilemma, then, is that the allies with the greatest capability to contribute to the alliance also have the greatest capability to go their own way. Thus, counterintuitively, a partner is often reluctant to seek contributions from the allies that could contribute the most. This reluctance can be offset in the presence of a powerful shared adversary like the Soviet Union, but the dilemma never fully subsides.

The effects of alliances on defense spending are not mechanical or automatic, but rather contingent and subject to bargaining. In this light, the trade-off of alliances is less that forming alliances causes allies to become free riders, but that in some cases a state may lack the necessary bargaining leverage to shape partners’ defense spending, while in others, it may accept limited defense investments to obtain other objectives.

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Bargaining over burden-sharing will remain a salient issue. NATO members' efforts to increase defense spending after Russia's invasion of Ukraine are particularly noteworthy. But these transitions may stall out. While Poland plans to increase military expenditure to at least 3 percent of GDP, Germany is having second thoughts about pledges to increase defense spending. Leaders will also have to think carefully about when leverage over burden sharing from threats of abandonment is worthwhile. In the face of direct threats, where potential opponents are carefully weighing alliance credibility, calling alliance commitment into question may increase the risk of costly wars. Moreover, leaders will inevitably have to tailor their efforts to encourage burden-sharing based on the risk that doing so will encourage and empower allies to act independently from the alliance.

There is no silver bullet when it comes to alliances and defense spending. The relationship is not so simple as alliances flatly causing partners to reduce their investments in self-defense. But encouraging defense burden-sharing—perhaps especially using threats of abandonment—carries its own set of risks.

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