DEFENSE & STRATEGY

Europe's Defense Buildup Is Reproducing the Problem It's Trying to Solve

Why spending without industrial architecture deepens dependency

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IDEA IN BRIEF

THE PROBLEM

European defense spending is rising rapidly, but increased expenditure without the industrial and institutional architectures to absorb it does not produce autonomy, it produces dependency as the money flows to whoever already has the production architecture, which is predominantly the United States. This dynamic has two compounding failure modes: external dependency on American contractors, and internal fragmentation across 27 separate European procurement systems.

THE ARGUMENT

This is structurally identical to a *premature market failure*: capital and political demand exist, but the surrounding system has not co-evolved to convert them into the intended output. European defense is experiencing a premature rearmament—a politically-driven spending surge into an industrial architecture that cannot yet absorb it productively. Increasing the budget does not resolve this, it amplifies it.

THE IMPLICATION

Genuine European defense autonomy requires an architecture-first approach: building European industrial capacity, harmonizing procurement, and developing interoperability standards before or alongside spending increases. The sequencing is not incidental, and without it, increased spending accelerates dependency rather than resolving it. Part I of this series examined why spending targets measure the wrong thing; this article examines where the money is actually going.

Europe is spending more on defense than at any point since the Cold War, suggesting that the political will is present and that the financial commitments are finally real. And yet the strategic objective—genuine European defense autonomy, the capacity to ensure European security without dependence on a United States that has become an unreliable partner—is not being achieved. In many respects, the spending surge is moving Europe further from that objective, not closer to it.

Understanding why requires distinguishing between two things that look similar but are economically distinct: defense *spending* and defense *capability*. The relationship between them is not automatic, and in fact depends on the existence of industrial, supply-chain, and institutional architectures that convert expenditure into capability. When those architectures are absent or underdeveloped, spending does not produce the intended output, it flows to wherever the architecture already exists.

THE PROCUREMENT FLOW PROBLEM

When a European country increases its defense budget and procures equipment, the economic and strategic outcome depends entirely on where that procurement flows.

If it flows to European producers, it builds European industrial capacity, develops European workforce skills, funds European R&D, and creates the production architecture that makes future procurement progressively more autonomous.

If it flows to American producers, the effect is inverted: it builds American industrial capacity, funds American R&D, and deepens European dependence on supply chains that are outside European control.

Recent data indicate that an increasing share of European defense procurement has been flowing to American contractors. This is not a political preference, but a mere reflection of an industrial reality that American defense contractors have the production architecture, the existing platforms, and the delivery timelines that European procurement demands right now. European producers, in many cases, do not, so European money goes to American industry, and European military capability becomes progressively more dependent on American supply chains.

This dependency now has three dimensions that are beyond political dispute:

First, US defense production is under documented strain. Backlogs are acknowledged even by analysts at think tanks aligned with the current administration—and European orders would be deprioritized behind American military demand in any real conflict.

Second, American weapons systems increasingly incorporate remote-disable capabilities. A European military dependent on American platforms is not, in any precise sense, autonomous.

Third, the current US administration has explicitly framed European economic activity as a target of competitive pressure. However, a security architecture that depends on a country that regards you as an adversarial economic competitor is not a security architecture.

Spain's Prime Minister made exactly this argument in refusing to commit to the 5% target: that routing more European money through American contractors would not make Europeans safer, because it would only reinforce structural dependency on an increasingly unreliable supplier. That argument is industrially correct, even if it is politically inconvenient.

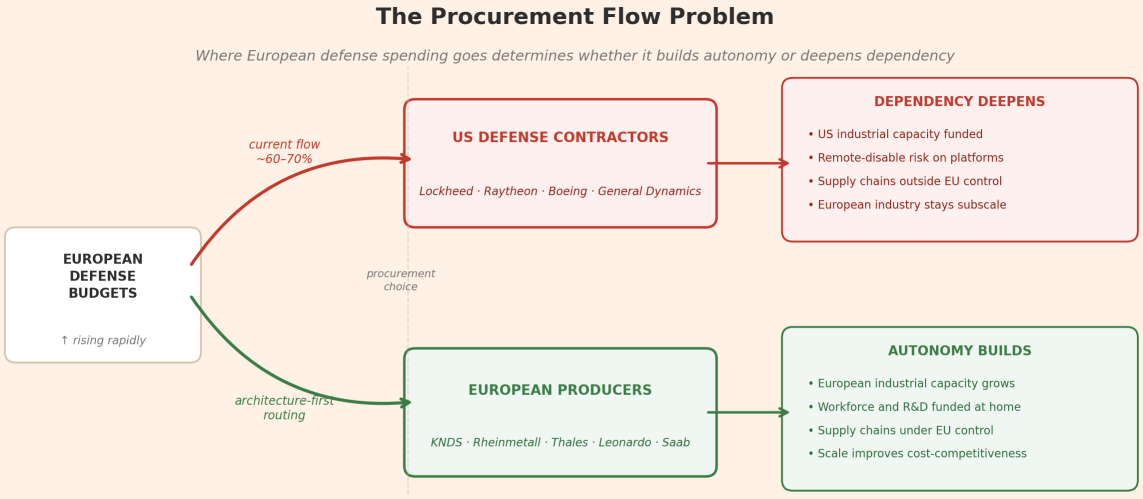

Figure 1: The procurement flow problem. European defense budgets fork at the point of procurement. The current path routes the majority of spending to US contractors, building American industrial capacity and deepening European dependency. An architecture-first approach redirects spending toward European producers, progressively building the domestic industrial base required for genuine autonomy.

THE FRAGMENTATION PROBLEM

The external dependency problem compounds a separate structural failure: the fragmentation of European defense procurement across 27 national systems.

The EU has 27 member states, each with its own defense ministry, procurement process, and industrial policy. The result is a market that is, by any industrial logic, incoherent. European defense firms face 27 separate certification regimes, 27 separate requirements processes, 27 separate procurement timelines. As such, there is no single European defense procurement market—only 27 small national ones, each too small to generate the economies of scale that American and, increasingly, Chinese defense producers achieve routinely.

This fragmentation produces compounding inefficiencies, preventing European producers from achieving the production volumes that would make them cost-competitive with American alternatives. Further, it prevents the standardization of platforms and components that would make European forces interoperable with one another. Finally, it prevents the formation of the stable demand signals that would justify the capital investment required to build European production capacity at scale.

The result is a *structural trap*. European producers cannot compete on cost or delivery against American contractors because they cannot reach scale, and they cannot reach scale because European procurement is fragmented.

Hence, European procurement remains fragmented because there is no institutional architecture for European defense market integration. And so European money flows to American contractors, the European industrial base remains underdeveloped, and the cycle reproduces.

The more Europe spends without building its own industrial architecture, the more entrenched its dependency becomes. Spending more through unreformed procurement channels is not a path to autonomy. It is the path away from it.

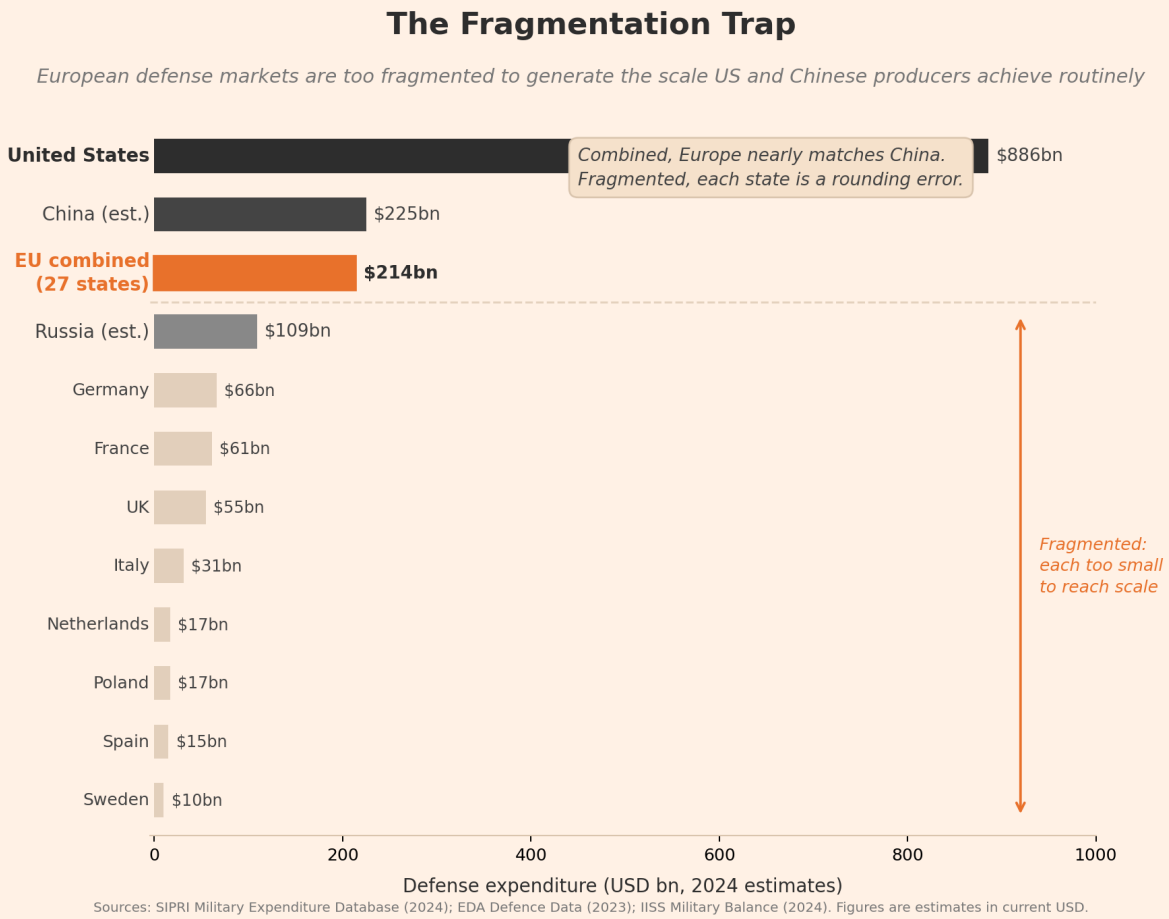

Figure 2: The fragmentation trap. EU member states combined spend almost as much as China on defense—but fragmented across 27 national markets, each is too small to generate the economies of scale that US and Chinese producers achieve routinely. Fragmentation prevents European firms from competing on cost or delivery, so procurement flows outward, and the industrial base stays underdeveloped. Sources: SIPRI (2024); EDA Defence Data (2023); IISS Military Balance (2024).

TWO FAILURE MODES, ONE STRUCTURAL CAUSE

The external dependency and internal fragmentation problems share a common structural origin: the absence of co-evolved industrial, market, and institutional architectures for European defense.

This pattern has a precise analog in innovation economics. When financial capital and political demand exist for a technology, but the surrounding industrial and institutional architectures have not developed to absorb that capital productively, investment does not produce the intended output. Instead, it flows to wherever the architecture already exists, deepens dependency on that architecture, and leaves the underlying structural problem unresolved.

European defense is exhibiting *exactly* this dynamic.

The political capital for rearmament is real while the financial commitments are substantial, but the industrial architecture needed to convert those commitments into European capability—the production capacity, the coordinated procurement institutions, the common technical standards, the workforce pipelines—has not been built.

Thus, investment therefore flows to America, and dependency deepens.

This is not an argument against European defense spending, rather an argument about *sequencing*. Spending in the absence of industrial architecture is not neutral, it actively forecloses the development of that architecture by entrenching dependency on existing suppliers and by failing to generate the demand signals and production volumes that would justify capital investment in European alternatives.

WHAT AN ARCHITECTURE-FIRST APPROACH REQUIRES

An architecture-first approach to European rearmament would require four structural investments that are not currently being prioritized:

European procurement coordination: The first is reating the institutional machinery to aggregate European defense demand into a single market signal large enough to justify capital investment in European production capacity. This does not require a European army or the elimination of national procurement systems, but common certification standards, harmonized requirements processes, and coordinated procurement timelines across member states—the institutional preconditions for a functioning European defense market.

Directed industrial investment: The second is allocating capital specifically to building European production capacity in key platform and munitions categories. Not procurement subsidies for existing equipment, but investment in the actual manufacturing infrastructure and supply chains that make future procurement progressively more European and progressively less dependent on American or other external suppliers.

Interoperability standards: The third is accelerating the development and adoption of common technical standards across European armed forces—so that equipment produced in one member state can integrate with allied systems, and so that European procurement decisions reinforce rather than undermine collective capability.

Workforce development: The fourth is building the technical and operational workforce pipelines that make expanded defense production and capability sustainable over time. No industrial architecture functions without the human capital to design, produce, operate, and maintain it.

None of these are spending targets; all of them are harder to implement than increasing national defense budgets, and all require coordination across national governments in ways that are institutionally demanding.

That is precisely why they have not been prioritized. The current approach—spending more through existing procurement channels—is the path of least resistance, but it is also the path that reproduces the structural problem it is meant to solve.

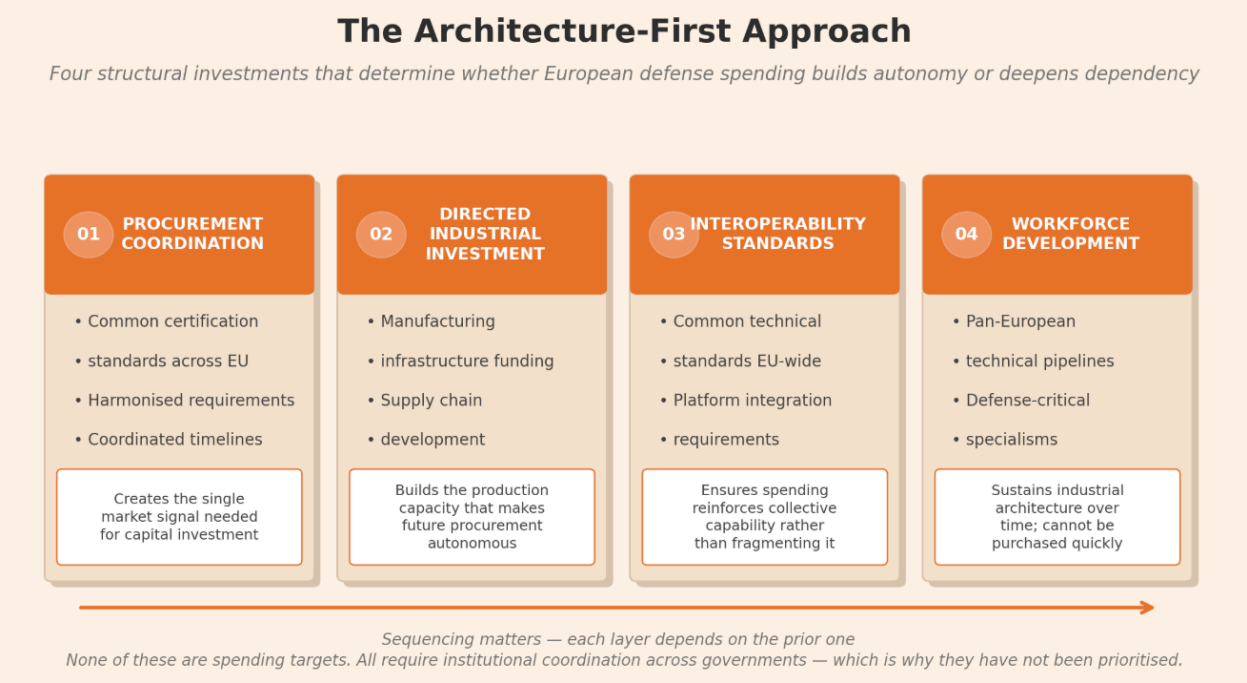

Figure 3: The architecture-first approach. Four structural investments determine whether European defense spending builds autonomous capability or deepens dependency. These are not spending targets. They are the institutional and industrial preconditions that spending targets measure the wrong thing to address.

TWO TRAJECTORIES COMPARED

DIMENSION	CURRENT TRAJECTORY	ARCHITECTURE-FIRST
Procurement flow	Predominantly US contractors; deepens external dependency	Redirected toward European producers; builds domestic industrial base
Market structure	27 fragmented national procurement systems	Coordinated demand aggregation; common certification and requirements
Industrial investment	Procurement-led; no directed investment in production capacity	Directed capital into manufacturing infrastructure and supply chains
Interoperability	Continues to diverge as spending flows to incompatible platforms	Common standards development; interoperability as procurement criterion
Workforce	No coordinated pipeline investment	Pan-European workforce development for defense-critical specialisms
Strategic outcome	Increasing financial commitment; no reduction in structural dependency	Spending and capability aligned; dependency replaced by autonomous capacity

The question European governments face is not whether to spend more on defense, because that decision has already been made, and it is the correct one. The question is whether to spend in ways that build the architectures required for that spending to translate into autonomous capability, or to continue spending through channels that entrench dependency.

Spain's argument—that the current spending framework would not produce European security—was dismissed as non-compliance. However, this now deserves to be treated as a structural diagnosis.

The architecture problem it identifies is real, it is tractable, and it is the binding constraint that European defense policy has not yet chosen to address.

This article draws on working papers by Sinéad O'Sullivan: Institutions as Coordination Architectures: Adaptive Bandwidth and The Dynamics of Economic Development and Market Formation as a Systems Engineering Problem. Copies available at s@sinead.co.