



Fiscal Firepower in a More Dangerous World

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By Warren Fernandez

SYNOPSIS

The Budget in Singapore has taken place against the backdrop of an unfolding conflict in the Middle East. It offers an opportunity for collective reflection on what it takes to uphold the peace closer to home. The challenges – and constraints – by European leaders in responding to the “America First” approach by the United States offer some useful lessons. It shows the importance of both fiscal firepower and military might to ensure that political rhetoric is matched by resources.

COMMENTARY

A debate is unfolding in many capitals as leaders consider how their countries might reclaim some measure of strategic autonomy in the face of United States President Donald Trump’s America-first agenda increasingly being applied across the globe.

Trump and his officials have long argued that America’s allies must shoulder more responsibility for their defence rather than rely so heavily on Washington. Some frame this as burden sharing. Others see it as enabling the US to refocus on more pressing global threats. Or to redirect resources to domestic priorities – rebuilding manufacturing, creating jobs, and upgrading infrastructure, both physical and digital.

In an era of rising geopolitical tension, any meaningful response to the new US approach will require sustaining fiscal firepower as much as enhancing military might.

By fiscal firepower, I mean the financial capacity of states to sustain higher defence spending over time. That ambition, however, runs up against fiscal constraints in several key countries: high levels of public debt, rising interest payments, and mounting spending pressures from ageing populations.

The question is not whether governments can spend more on defence – they will if they must – but whether they are prepared to make the difficult trade-offs required to do so.

Or, to put it more starkly: Will leaders be able to back their defiant talk with decisive action, matching their rhetoric with resources?

Paradoxically, the more immediate and severe the security threat, the greater the ability to marshal fiscal firepower. Conflict concentrates minds and mobilises political will for action. A looming or slow-burning security threat does not.

European leaders have spoken recently with unusual candour about the need to strengthen their defence. British Prime Minister Keir Starmer told the Munich Security Conference that “we must build our hard power because that is the currency of our age”. Similarly, French President Emmanuel Macron has urged European allies to boost their autonomy by raising defence spending substantially, closer to 3 per cent of GDP.

The fiscal arithmetic across much of the developed world, however, provides a sobering reality check. The United Kingdom’s public debt stands at roughly the size of its annual economic output, or GDP. Debt interest payments now account for about 8 per cent of total government spending, one of the top items of public expenditure – exceeding defence and education, and behind health and social security.

France’s debt exceeds 115 per cent of GDP and keeps edging upwards – domestic politics thwarts efforts to rein it in – while Italy’s, at about 135 per cent, is among the highest in Europe. In all three cases, servicing past borrowing constrains governments’ ability to fund new strategic plans.

Japan faces an even steeper fiscal hill to climb. With public debt exceeding twice the size of its economy, even modest increases in interest rates translate into significant pressure on public finances. Tokyo has pledged to raise defence spending to 2 per cent of GDP by 2027, and the new government led by Prime Minister Sanae Takaichi, bolstered by a landslide victory at the recent elections, has signalled a tougher security posture. Even so, these ambitions will run up against one of the heaviest debt burdens in the industrialised world.

But the challenge is not only financial. Even where political will exists – as seen in the decisive moves in Germany and Poland to significantly increase defence spending in the face of Russian aggression and American ambivalence – other constraints remain.

After decades of enjoying the post-Cold War peace dividend, military equipment, defence capabilities and manufacturing capacity have been depleted, with most experts projecting that it could take a decade or more to rebuild.

Harder still will be the question of manpower. Ageing societies, tight labour markets, and a decline in public readiness to serve in the military or to support a national

service draft to do so, complicate efforts to expand the armed forces or sustain prolonged mobilisation.

Money, munitions, and men – all are in short supply. It is this stark reality that has, alas, necessitated a rather restrained response by European leaders in the face of taunts and threats from their American counterparts.

Asian leaders can draw no comfort from this unfortunate prospect, knowing that their region could face challenges no less fraught if America's willingness to play its longstanding role as the neutral keeper of regional peace were called into question.

In this light, the recent debate over Singapore's Budget – against the backdrop of a major regional conflict unfolding in the Middle East – offers an opportunity for sober reflection. There has been considerable, and legitimate, discussion on just how much the country should spend and save. Yet this should not detract from the more fundamental point: Singapore has worked to build up its fiscal firepower over the decades by investing consistently in defence, through the inevitable ups and downs of economic cycles, never falling for the delusion that geopolitical "history has ended" and conflicts were behind us. In this sense, minimal public debt reflect not just prudent governance. They are enablers of security policy.

Fiscal firepower is best built when geopolitical waters appear calm and security risks seem far off. Like deterrence, it cannot be improvised in a rushed response to a crisis. It is the result of years of disciplined budgetary decisions and difficult political trade-offs.

In an era of heightened geopolitical contestation, slow-burning conflicts and long-drawn rivalry, the test of a country's ability to defend itself will lie not in grand rhetoric at security conferences, but in the patient work of building fiscal and military firepower. So that, should the nation ever be tested, it does not find itself strong in will but wanting on the wherewithal to act.

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