

Supplementary document to "Economic Principles for European Rearmement" August 2025

Proposal for a joint Franco-German Research Centre for European Defence Economics

In the conversations with the ministries on the defence memo it became clear on both sides that there is an urgent need for more Franco-German research on defence economics to inform contract design in procurement and support dual use technologies. An additional memo follows up on these suggestions and contains a proposal for a joint Franco-German research center for defence.

An additional memo follows up on these suggestions and contains a proposal for a joint Franco-German research center for defence economics. It would initially be set-up as a cooperation between the economics department of Sciences Po and the Kiel Institute but could be extended to additional countries and academic cooperation partners in the future.

To explore the economic principles of European rearmament in details, a Franco-German initiative to establish a joint Research Center for Defence Economics in collaboration with leading research institutes to study procurement and market design, industrial organization and security of supply chains, as well as innovation economics is highly advisable in light of the political and financial importance of the questions raised by the joint statement "Economic Principles of European Rearmament".

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European rearmament is a security imperative that has an important economic dimension.

France and Germany face the largest defence build-up in decades. France, Germany, and other European countries will spend hundreds of billions over the next decade to upgrade and modernize their defensive capabilities and invest in Europe's military and technological potential.

Economic expertise has an essential role to play for market and contract design, for industrial organization and supply chain security.

Economists have developed public procurement tools to incentivize scaling-up of production and lowering unit costs in competitive and oligopolistic markets through performance-based contracts, dual sourcing, capacity contracts and auctions. Other mechanisms such as advance market commitments, innovation prizes, and patent buyouts allow governments to create incentives for defence tech innovation. Input-output matrices and firm-level supply chain data help identify risk in defence production lines.

Economic insights are currently not applied systematically in defence procurement, but could help policy-makers save billions

of taxpayer money and assure that governments achieve a maximum of security per Euro spent. Economists can also advise on the advantages of centralized vs. decentralized procurement, and analyze input-output linkages of the defence industry, including the security of international supply chains and access to raw materials. Creating structures that foster technological innovation and support venture funding market for new technologies will be essential to leverage private sector R&D for national defence.

There is currently no research institution in France or Germany dedicated to the economics of defence and the defence sector.

In light of the imperative of success of and efficiency in European rearmament – both from a security and a financial point of view – the establishment of such an institution is an urgent priority to provide guidance and analysis of the economic challenges and opportunities of defence investments. While the focus here is on a Franco-German initiative, the new institution could be open to close collaboration with other EU partners who contribute to the funding, as well as UK partners, for instance the Centre for Defence and Management at King's College London

The proposal is to immediately set-up a joint Franco-German Centre for Defence Economics to produce policy-relevant research and give research-based policy advice.

Providing rigorous analysis for French and German policy makers, the goals of the Centre would be three-fold: (i) to produce topical research on defence economics, (ii) deliver timely, high-quality economic advice to policy-makers, and (iii) create a platform for Franco-German dialogue on the economics of defence connecting academia, policymakers, and industry. The specific areas covered would include but not be limited to questions of procurement and contract design, the industrial organization of the European defence industry and supply chain security, as well as innovation economics and the development of high-tech clusters.

The Centre for Defence Economics would be set-up as a cooperation between Sciences Po and the Kiel Institute and would start its work immediately.

Building on existing cooperations, the two leading institutions would provide an excellent academic platform with deep links into the national networks in policy, business and academia. By shaping debates, informing decisions, and ensuring that defence spending strengthens both security and industrial competitiveness, it would fill an important gap in the Franco-German co-operation landscape. The Centre would cooperate with the security policy institutions such as the Institut des Hautes Études de la Défense Nationale in Paris or the GIDS (German Institute for Defence and Strategic Studies) in Hamburg, but would be unique with a clear focus on the economics of defence and would work independently from the defence ministries. Cooperation with the Conseil d'analyse économique and the German Sachverständigenrat would be facilitated by the close ties that both institutions have with the councils. As mentioned above, close cooperation with or integration of other EU and UK partners could be an important addition, provided they contribute to the funding.

The Centre would initially be built around two professorships as research directors, one at Sciences Po and one at the Kiel Institute

that would be supported by 3-4 junior researchers positions as well as fellows and guest professors to provide rapid analysis and cover a broad research agenda. The appointment processes of the professorial positions will follow the rules of the two institutions to guarantee highest standards and academic independence. Joint governance between the two institutions, with two locations in Paris and Berlin (following the successful example of the

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Delors Centre), as well as frequent staff exchanges and guest scientists would ensure close collaboration and connection with the communities. The Centre would have a coordinated research program and a shared governance, and draw largely on the administrative resources of the two founding institutions.

Initial budget for the Centre.

The estimated personnel and running costs for a joint Centre of appropriate academic excellence and public visibility would initially be about €1.4 million per year. This would cover the researcher positions described above, as well as funds for operational costs, data, fellows, and conferences and would give Europe an institution to

provide top-notch, independent economic analysis and research on defence.

Future extensions.

The operations and budget sketched here will allow for the Centre to get started quickly and provide research-based policy advice when key decisions are taken in the coming months and years. Over time, it will be possible and important to consider an enlargement of the Centre to take on new cooperation partners and increase the scope of its activities to cover policy evaluation, questions of industrial transformation and the economics of European resource mobilization.