

**THE EUROPEAN UNION PROMOTES PEACE
BUT MOVES TO WAR ECONOMY**

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***Summary:** As a result of the war between Russia and Ukraine started by the Russian Federation in February 2022, the member states of the European Union have started to develop strong defense industries that bring them substantial financial benefits. To help Ukraine with weapons and ammunition, on March 20, 2023, the European Union adopted a plan to use strategic reserves and help manufacturers (manufacturers) to open new production lines.*

All over the world the budgets for armaments have increased, the largest expenditures in the field of defense are borne mainly by the USA, China, Russia, India and other states. The EU committed in March 2023 to supply Ukraine with one million artillery shells in violation of Article 41(2) of the EU Treaty.

***Keywords:** War, peace, Russian Federation, Ukraine, war economy.*

1. Preliminaries of economic restructuring. Since the annexation of the Crimean Peninsula, in 2014, at first Poland, then Eastern Europe but, little by little, at the suggestion of the US and under the umbrella of NATO requirements, all European countries have moved to extensive rearmament processes, against the background of the declaration that the European Union defend western democratic values. The main objective of the restructuring consisted in the development of a strong local military industry, with the related economic benefits, against the background of the awareness of the aggressive actions propagating from Russia.

In 2022, Russia attacked Ukraine with military forces, and the European Union, in the light of its public values of international law,

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decided to help the state under aggression, namely Ukraine, by a great military power, the Russian Federation in question.

After many bloody battles, at this moment, Ukraine consumes almost 5,000 shells daily, and this figure is much more than the German, French and Spanish factories put together produce in peacetime. As such, the European Union adopted on March 20 this year, a plan through which it intends to use strategic reserves and, at the same time, help manufacturers to open new production lines, which represents an intermediate step towards the war economy . The guarantee of a relative strategic autonomy in the field obliges the European Union to produce more shells and, failing that, to hire contracts from outside it, because the commitments towards the attacked Ukraine are firm.

On a global scale, spending on armaments began to rise menacingly. Thus, the International Peace Research Institute in Stockholm published a report on April 23, from which it follows that a new record was found on the arms market. Armament budgets are rising all over the world, and production seems powerless in the face of ever-increasing demands. Spending, in 2022, reached impressive values: 2,040 billion dollars or 2.2% of global GDP. In the first ranks of armaments are the great powers, as follows: the USA, 39% of the total, China 13%, Russia 3.9%, followed by India, Saudi Arabia, etc. The biggest consumers in Europe are still the UK, Germany, 1.4% of GDP, France, 1.9% of GDP, Greece, 3.76% of GDP, Poland, 2.42% of GDP, the Baltic States, Croatia and Slovakia , all over 2% of GDP. According to the Financial Times, in 2023 Poland will spend more than 4% of its GDP on armaments, the contract alone for the purchase of 500 Himars missile launchers from the USA owes the country more than ten billion dollars.

Economists already appreciate that European countries, especially the poorest, are sliding towards a war economy, which does not constitute progress for humanity. Le Monde writes that the European Peace Facility, an extrabudgetary fund at the disposal of the European Union, makes it possible to finance the purchase of lethal equipment in support of Ukraine, but constitutes a process of evading the Prohibition included in the European Union Treaty in this direction. It is already considered that the European Union is proceeding with an unconstitutional act. However, the European Union also committed, in March 2023, to supply Ukraine with one million shells for artillery and missiles, which constitutes the collective overcoming of a milestone of a constitutional nature in defense matters. On

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the basis of Article 41 paragraph 2 of the Union Treaty, the European Union "cannot assume expenses related to operations with military or defense implications", but the multibillion-euro European Peace Facility aims to help Ukraine to impose peace in relations with Russia, considered an aggressor country. In this regard, the President of the European Council, Charles Michel, declared with satisfaction: "*... before the start of this total invasion of Russia, it was politically inconceivable that heads of state would authorize the delivery of arms from the European Union. However, it only took a few hours for the first weapons to arrive on Ukrainian soil (...). This made it possible to take a leap forward in European security and defense policy*". The European Peace Facility was born in 2018, as a fund supplemented by member states, which makes it possible to purchase lethal equipment and, being an extra-budgetary fund, it makes it possible to circumvent the arms ban included in the European Treaty, because "At the time, it was necessary to help Mali with something other than simple non-lethal equipment", claims a senior European official. In 2021, this fund already had availability of almost six billion euros. A European diplomat noted that "*Two days after the start of hostilities, a first installment of 500 million euros was released for the partial reimbursement of weapons sent by member states to Kiev. Since then, 3.6 billion have been released. And to our peers outside Europe, we finally seem serious about armaments.*" While Ukraine consumed a million shells, the European Union decided to bring it a million shells, new ammunition financed through the EPF. As such, Europe will use one billion euros to reimburse between 50% and 60% of the price of shells sent by the end of May by European countries, and they will be able to draw either from national stocks or purchases, the munitions committed to reach in Ukraine. Next, 24 European states agreed to launch new orders, for which another one billion euros was unlocked from the same fund. Such commitments are forcing the European Commission to propose aid packages for the European defense industry, which has been without firm munitions orders for three decades. In the European Union, serious discussions have been started in relation to the philosophy of European engagement in the production of armaments and ammunition. For example, Poland supports the need to purchase weapons and ammunition from the US "to buy the American security that accompanies them". For its part, the US suggests the selective purchase of military equipment from America, but

also serious investments in the defense industry in Europe, both sides avoiding addressing the political aspects of autonomy¹.

The million shells promised to Ukraine push the European Union towards the war economy. The European Union reached an agreement in March to send Ukraine one million large-caliber shells over the next 12 months. The High Representative of the European Union for Foreign Affairs and Security Policy, envisages that the European Union will donate ammunition from its own stocks and also jointly buy new shells. Under this plan, the states would receive the money back for sending ammunition to Ukraine, and the funds would also finance future joint purchases, for the constant supply of the Ukrainian military.

This scheme is appreciated by military specialists as an essential moment for the European Union, understood as a union of peace, obliged to switch to the production and purchase of ammunition on behalf of a country at war. Although the idea in principle has been agreed, there are also problems to be solved: Germany does not want the ammunition purchases to be executed by the European Commission on a collective basis; Italy and the Netherlands want purchases to be made only from European countries; France insists that, in addition to shells, other types of munitions, for example air-to-surface missiles, be purchased. Officials in Brussels have urged companies in the European Union to switch to "war economy mode".

In discussions with the Commission, industry representatives have shown that firms need long-term contracts to invest in multiple production lines. Until this latest commitment by the European Union, member states had already provided military support to Ukraine, amounting to around 12 billion euros, 3.6 of which came from the European Peace Facility (EPF), a joint fund to help cost coverage.

Serious problems have also arisen in the process of finding financial resources: private financing is insignificant, because states do not rush to launch long-term orders; financing through the European Investment Bank is practically blocked for political reasons; the issuance of war bonds are not supported by the confidence that they will be honored. And all this, while an official of the ASD, the industrial group that represents the majority of European defense and security firms, concluded that the European Union has already moved from the status of a regulatory body to a spending body, but such massive investments have take time to become effective, with a

¹ Lumea, no.6, 2023, pp. 24-27.

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reasonable lag between when money is agreed, contracts are signed and ammunition is delivered.

A worrisome problem arises from the psychosis of the vaccine doses that are still lying in stocks of millions of unused doses. As a result, contractors in the field of armaments and ammunition production would be entitled to demand, in addition, insurance premiums from the European Union, which governments would have to bear, in the form of guarantees. The need to move the European economy to the war economy model is justified by the fact that Ukrainian forces use up to 7,000 shells per day, while the invasion troops fire more than 50,000, and the European Union wants Ukraine to win. From this moment on, the European Union's war economic involvement plan has three levels: At the first level, the European Union must commit one billion euros, common funding, to induce states to remove significant quantities of munitions from their own stocks and supply them send to Ukraine.; at the second level, the European Defense Agency (EDA) will have to manage another one billion euros for the purchase of shells; the third tier is intended to ensure the long-term growth of European munitions production and support production in their defense industries to help sustain supply flows going forward. A financing that involves dramatic renunciations in projects of technological innovation, of raising the standard of living, of consolidating peace through sustainable trade relations, of ensuring general prosperity.

2. The European Union is restless. Despite a fairly strong economy that has so far defied obvious recession and managed to keep unemployment at a low index, Europeans seem to be increasingly restless: spending on armaments is increasing and the security of the European citizen is increasingly precarious. A growing group of Europeans do not believe that the current situation is good, but, on the contrary, believe that the European Union is moving inexorably in the wrong direction. In certain circles assessments like this are made: the European Union is facing the most complex and dangerous geopolitical situation since the fall of the Berlin Wall.

The stakes for the European Union are high enough, and yet, in the run-up to the upcoming elections, today's political animosity has reached an unprecedented level of intensity and continues to grow. Questions like: Is the European Union still sovereign? What is the role of the European Union in the war in Ukraine? Who bears the costs of suspending contracts with

Russia and who bears the costs of economic and financial sanctions imposed against it? Why is inflation barely under control? Why are consumer goods prices rising everywhere? Who else can stop migration? They spread from near to near and give water to the mill of authoritarian and isolationist currents. To make matters worse, vital national issues remain unanswered and the European Union's economic and political power faces major new risks. The countries of the European Union have a growing public debt, and the trade and budget deficits indicate an imminent worsening of the situation. Social security and public health are headed for collapse. At the same time, the European Union is aware of the need to urgently strengthen its defense capacity and rebuild the alliance from within, in order to counter the growing capabilities of adversaries of any nature. In addition, the European Union needs reforms to mitigate climate risks that are not only reasonable, but also able to withstand partisan political changes. It must also maintain a dynamic market economy, able to overcome "cyclical" financial and commercial difficulties, whether they come from US-led security and defense strategies, or from restrictive strategies arising from groups of states in the entourage BRICS countries. But the great challenge of the future bodies of the European Union comes from the defense of the southern borders against the migration invasion that degenerates into fiscal, economic, even military crises with global implications. Many European states, especially France, took note with surprise of the Inflation Reduction Act in the USA, which worsened the trade climate between the USA and the European Union.

Europeans have good reason to believe that they have fallen far behind the Americans in policies to protect their own economies. With excessive government spending, financed from deficits, European economic policy had a decisive contribution to what became a dramatic inflation that engulfed the entire European market. Although price increases have moderated, core inflation (which excludes food and energy prices) is well above the initially set inflation target of around 2%.

The discontent of the Europeans is not limited only to the damage that high inflation has brought to family budgets, but also to the unclear and damaging prospects that inevitably arise from the increase in the number of illegal immigrants, as well as from the ever closer connection of the European Union to the war in Ukraine, a war that it did not cause, but that it supports in the name of the democratic values supported by the US, whose contribution to it is beginning to be questioned. The big cities of Europe,

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which have become "progressive", have become real theaters of social confrontations, are devastated by crime, so that people and companies no longer feel safe, looking for new places to relocate. The immense shortfall caused by the closure of schools and businesses during the pandemic continues to wreak havoc, with devastating results, especially for students and already disadvantaged youth.

To the disappointment of many Europeans, the US elections in 2024 are being blamed for a rematch between Biden and Trump, two candidates who are already resentful among Europeans, who have shown their sympathies sometimes towards one, sometimes towards the other, which which do not represent signs of auspicious prospects for the ties specific to the Western world. Not only does the age of the two candidates raise questions about the physiological capabilities of the two candidates, their abilities to lead the Western world, but both personalities are involved in legal actions that call into question their political morality. There is mounting evidence that while Vice President in the Barak Obama administration, Biden helped or turned a blind eye to his son's influence peddling, and for these efforts, nine members of his family allegedly received improper payments from to different foreign nationals. In a CNN poll, about 42% of respondents consider Biden guilty. Trump's problems with the judiciary are even worse. Faced with four separate indictments, totaling 91 charges, Trump will be subject to legal proceedings throughout the Republican primaries and next November's election.

Against this background, Europeans are even more worried about the fact that both overseas and in their own backyard, there is an acute lack of political leaders worthy of finding radical solutions and being followed by voters. Commitments to Ukraine made in the name of Western values promoted by the US are draining the European Union, and European citizens do not sufficiently understand the prospects of these sacrifices.

3. Propaganda supports the cause of war. Most Europeans believe that absolutely everything that is said has a great advertising load. In the conditions of the war in Ukraine, those who support Russia's position are categorized as victims of propaganda, and those who support Ukraine accuse others of being propagandists in the service of aggression. Depending on the message conveyed, those who convey it are classified as trying to support a cause using methods aimed at emotional responses, either acceptance or rejection. Those who support propaganda as an art

believe that the term itself derives from the activity of some cardinals of the Catholic Church supporting missionaryism, as such its religious origin has positive reasons. The two great world conflagrations made people think about the content of propaganda messages, understanding from afar that propaganda, depending on interests, could be considered either good or bad, depending on the cause it served.

The positive or negative perspective of propaganda depends mainly on two factors: the goal (interest) pursued by the one who communicates something and the degree to which communication as information is manipulated in the desire to achieve the goal, covering or supporting the truth or values recognized everywhere in the world. Russian propaganda related to the war in Ukraine seeks to eradicate Nazism from Ukraine, Nazism supported by the US and the European Union, which threatens its existential security, and Ukrainian propaganda is intended to increase the resilience of its own citizens, as well as the willingness of Western countries to support them until victory over the aggressor. Both parties broadcast only that communication information that corresponds to the overall realized purpose. In most cases, manipulation becomes evident when exaggerating the positive valences of one camp and the negative aspects of opponents. Beyond these, communications that present fabricated facts or events are frequent.

From this perspective, propaganda is similar to intentional disinformation, except that propaganda has a political slant, involving governments and affiliated bodies, and disinformation is more of a covert activity, giving more credibility to the political slant. Thus, when Putin and Lavrov claim that Ukraine is dominated by Nazism, supported by the West, it is obvious that we are dealing with political propaganda. When someone anywhere in an interview claims to have fought for Ukraine, this is information that supports a particular policy, but if the same interview is presented by the other side as belonging to a neo-Nazi citizen, then readers need to understand that is facing misinformation.

The degree of manipulation can be determined by specialists by tracking omitted or altered information, but its emotional effect is hard to fade when everything is superimposed on hopes of stopping the expense and suffering. For example, in a series of recent pan-European posts, several users turned into propaganda an ironic statement made by Anthony Blinken, the US Secretary of State: “When it comes to negotiations, it takes two sides. If Putin showed openness, the Ukrainians would be the first to

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negotiate and we would support them". The posts suggest that with this statement, Ukraine and the US want to open the way for negotiations because they know that the victory of the Russians is imminent. The stake was to demobilize and demotivate the peoples of the Western world to unconditionally support the war given to Ukraine.

All those who spread pro-Russian messages have begun to be labeled in Europe as "Putinists", and the public association of a name with the pejorative "Putinist" comes with some stigma in the Western world, since "Putinist" or "pro-propagandist" "-rus" is subject to a communication intended to associate with the values supported by those who are considered aggressors.

Since "Putinists" are stigmatized in all environments, anyone who supports even the literary value of some literary works is on the verge of being excommunicated from any social environment. Propaganda aggression has already transformed social environments into radicalized environments, which no longer accept what they see and hear from the media. People are divided into "good" and "bad" depending on how they position themselves towards the war in Ukraine. European public opinion believes that everything in the Western world is carried out according to the slogan "USA communicates and NATO propagates". In order to calm public opinion, from this media uproar, the European citizen tried to be convinced in time that: the USA will not consider Ukraine as a NATO member state, but they have taken into account the exemplary economic punishment of Russia in the event that it attacks, in -one way or another, Ukraine; The USA, NATO, the whole West form a common front against any Russian aggression directed at Ukraine; The US detailed, with the help of its own intelligence systems, the imminence of a Russian attack and urged members of the Western countries to leave Ukraine, which they did; The US made available to the public opinion data related to Russia's warlike actions, with the aim of preventing war; the US urged Moscow to reconsider the costs of a possible war with Ukraine, in addition to the human costs, the immense economic and political costs arising from the sanctions expected economic; The US believes it has learned from Russia's previous actions on Ukraine and has provided and provides information on the state of preparations for the Russian invasion, as well as ongoing actions; The Government of Ukraine has demanded and insists on NATO that the country be urgently admitted to NATO, and that punitive measures be applied from now on, as Ukraine's pacification policies are under threat; Russia accuses the US and

the West of being the victim of a coordinated informational attack aimed at undermining and discrediting Russia's legitimate demands for security guarantees and stopping the expansion of NATO in Russia's immediate security zone; Germany and France tried to moderate Russia's destabilizing actions, but they found a real war of the deaf: while Putin talks about the history after 1997, the West is concerned with the current history; The West does not say anything about the fact that for several years the Ukrainian army received sophisticated weaponry and was advised by the US and British military. Secretly, the Ukrainian army was prepared to act on the two rebel republics and bring them under Ukrainian authority . The secret of Ukrainian military actions was deciphered by Russia, which is responsible for the security of these two regions. The US and the West are ready to accuse Russia of offensive actions even if the Russian army confronts the Ukrainian military on the very land claimed by Ukraine. That is why Russia has declared that it has no plans to attack Ukraine, but is obliged to defend the two declared independent regions. While the embassies of Western countries are moving west, evacuating their staff, evacuating groups of military advisers, on the other side, general mobilization is being decreed and refugee convoys are being directed to Russia. Meanwhile, above a front line, there are violations of fire, in which the artillery also participates. For many commentators, the stake of this military escalation is to diminish Russia's economic role in Western Europe and replace it with the US.

Official propaganda upholds Western democratic values. The USA is the vector that unites the directions of political propaganda in the European Union. And it all converges to support the US in its effort to help Ukraine. But this effort acquires concrete responsibilities in the economic efforts of Europeans.

4. Peace economy with realities specific to the war economy. In the joint effort of the European Union to help Ukraine in good faith, it is considered that: *"Even if only the intervention of governments in markets and economies, and it would be enough to recognize that we are facing a behavior specific to times of war. In which the classic weapons – which kill people – are complemented by the weapons of resource and energy management – which kill economies and development plans and which intoxicate societies as a whole. More and more sectors in these economies/societies tend to become strategic – the global market will shift from economics to politics, and to make way for geopolitical confrontation,*

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*money will take a back seat. Second? It seems so now, but it's not certain. All this war behavior is done with borrowed money, and when peace returns - economic, political, social peace -, the bill for these years will remain."*²

Several reactions of the governments, supported by the central banks, are becoming evident, from which are propagating ways of managing imbalances different from what is encountered in economic crises with a specific peace. The reset of national priorities, as well as the reset between states and their own economies, takes on particular nuances.

In the chapter on resetting priorities, the citizens of the European Union find that the government's focus is no longer on economic growth and development, on raising their own standard of living, but is shifting to preserving macro balances, controlling inflation and reducing the degree of energy dependence, economic, in a word, security – currently, vis-à-vis Russia, which has become an enemy for the community; in the context, governments prefer the recession of an inflation that could last several years, concurrent with the revolutionary change in the field of energy, to break the dependence on Russian gas; of course, both attitudes have enormous costs, money that is withdrawn from development plans; governments propose to arrange measures in the direction of protecting the population with public money, to properly manage energy security, food security, sanitary security of citizens; at the same time, governments are supporting the rise of military spending a few positions higher in the list of national budget priorities.

Regarding the reset of the internal relations between the state and the branches of the national economy, there is a reassessment of the relations between governments and the strategic branches of the economy, which up to this point were partially private. This signals the global economic model and paradigm shift within states. As such: Entire sectors of the economy have been declared strategic, and some states, even with liberal democracies, with markets built after liberal capitalism - have moved to nationalize them, measures not specific to an ordinary crisis, but more like the authoritarian increase of control of the state over the economy specific to a war economy; state interventions in the markets in the formation of prices and in the financial support of investments from the private economy multiply and are socially justified; there is a major interest in the survival of companies in the private economy, etc. The markets of the European Union

² Cristian Grosu, *Economie de război*, article, *Cronice*, no. 84, 2022, p.79.

have lost their established economic character, becoming politically and geopolitically managed markets, governmental and bureaucratic interventionism that is not specific to a peace economy, but to a war economy. All these measures are superimposed on the historical reconfiguration of supply and distribution logistics chains, but everything requires huge additional costs that can only be covered by increasing national and community debt.

The renowned economist Mircea Coșea appreciates that, in these moments, the shocks to the economies of the states come from three directions, and they are potentiated by testing the internal balances and the standard of living of the societies. The three directions address: demand and supply shocks, disruption of global supply chains, and commodity and energy prices. The demand shock comes mainly from the relationship of consumers and investors to the sudden increase in uncertainty. Household consumption is decreasing, in favor of savings. Investments are also down as companies move to a cautious and wait-and-see stance, except in defense-related sectors. Net foreign demand is deteriorating. Domestic demand also hurts exports. On the import side, the increase in the prices of energy, minerals and certain agricultural products greatly increases the bills. The supply shock comes mainly from rising energy costs. Russia is a major producer of palladium, vanadium or titanium, metals essential for the aeronautical and automotive industries. Ukraine is a major exporter of wheat and sunflower, accounting for 36.5% of world trade in wheat and 80% of world trade in sunflower oil. Both supply and demand aspects will have a major influence on transport costs. In 60 years, access to basic food products has never been so expensive in real terms. This agricultural inflation would be a very severe blow to food security. Disruptions between supply and demand have exposed deficiencies in the security of supplies of critical raw materials: Russia accounts for 11% of the world's nickel production and 15% of its global exports. Regarding palladium, Russia supplied 43% Japan, 37% USA, 30.5 England, 28.5 China, 26% Italy, 21% Germany, 20% South Korea. Russia is one of the top four exporters of vanadium oxides (21% of world production and 25% of world export). Since the beginning of March, the world's largest shipping companies have stopped their cargo transport services to and from Russian ports³.

³ Mircea Coșea, Trei șocuri care configurează economia de război, article, Cronice, nr. 80, 2022, pp. 84-87.

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It has become evident that Russia has made natural gas supplies a veritable artillery used against the rest of Europe, to undermine the economies of the European Union, at the same time and the solidarity with which the countries of the European Union committed themselves to the defense of Ukraine. The waves of reduction of gas flows led to explosive price increases, which spread to the specific market of the European Union. Of course, it is obvious that Russia has been stalking European energy markets from the beginning with discontinuous physical deliveries of gas since 2021, long before the invasion of Ukraine. Gazprom's gas deliveries had large variations, through which Russia manipulated energy prices, especially in the second part of 2021. Thus, in the middle of summer 2021, Russia was drying up stocks from European gas deposits, from where extractions were more cheap. Russia was trying to force the commissioning of the Nord Stream II gas pipeline through heavy blackmail and late recognized as such by the European authorities. At the same time, it was also a deployment of energetic force in preparation for war. In 2022, the volume of Russian gas deliveries to the European Union decreased almost five times only from the beginning of March to the beginning of October. The five main waves of gas cuts have produced even more reverberating shocks to economies by exploding energy prices. Gas suddenly became more expensive even by 1000% (wholesale) in most European countries from January to the beginning of September, and by 800% in Romania. As a result of these shocks on the energy market, industrial production in Romania resumed its downward trend from 2019, decreasing by 2% in the first 8 months of 2022, compared to the same period in 2021. Energy prices amplified industrial inflation, Romania registering the second highest annual industrial inflation rate in the European Union, at 70.9%, after Ireland's 97.4%.

Astronomical energy prices triggered a real industrial tsunami, which the governments of large countries did not hesitate to combat, including the nationalization of some companies, especially energy companies (UNI-PER in Germany, Electricite de France in France) or overtaxing profits energy to obtain funds to subsidize the survival of others, especially SMEs. The idea of nationalizing energy companies has become increasingly popular in the European Union. But the European Commission has put in place a central plan of extensive emergency interventions, which have redistributed around €140 billion in exceptional taxes to cash-strapped businesses and households. The governments of small countries, especially those with

budget problems, like Romania, could barely compensate for the capped energy prices for the population. In Romania, the big industrial consumers stopped their activity totally or partially, waiting for the aid: Azomureș, the fertilizer producer that covers three quarters of the domestic demand; ALRO, one of the largest European aluminum producers; the Liberty Galati steel complex, or Chimcomplex, the only great survivor in chemistry.

Governments were faced with a fundamentally atypical situation by the number of simultaneous crises that shook economies and the cost of living. So their interventions in the private economy and markets were of an unprecedented scale – through policies unthinkable in peacetime and a free economy.

Especially after the outbreak of the war in Ukraine, European governments understood that, in times of crisis, the free market is unable to provide prompt and effective solutions to the various needs that may arise. This resulted in a radical change in public policies. Governments have stepped directly into the pockets of consumers and businesses with subsidies designed to partially offset the crisis in energy bills. Companies in sensitive fields have been helped or even nationalized without much hesitation, economic sectors considered strategic have already been taken under state control. State aid rules in the European Union have been relaxed, states have received the green light to intervene and support economies.

Against this broader backdrop, French President Emmanuel Macron has sparked wonder and suspicion by proposing a law to encourage the purchase of products made in the European Union - the Buy European Act - which would protect European electric car manufacturers from competition from China and the effects of a controversial scheme introduced by the US, which provides tax support for the purchase of US-made cars.

European subsidy competition has created political and economic distortions and fragmentation in the single market. Governments with more fiscal space were better able to manage their energy crisis, outperforming their neighbors. The single market has been fragmented from the point of view of single efforts. The harshest critics have received the German measures to fight the crisis. A package of 200 billion euros for the year 2022 is considered impossible to match for the other members of the European Union. "Faced with the common threats of our times, we cannot divide ourselves according to the space in our national budgets," commented former Italian Prime Minister Mario Draghi. The Hungarian Prime Minister described the package with the term "cannibalism", and the Polish Prime

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Minister commented on this situation as follows: "The richest country, the most powerful country in the European Union is trying to use this crisis to gain a competitive advantage for its companies, on the single market. That's not fair⁴."

For economic analysts, but also for governments, recession, inflation and debt, the three ingredients of a war economy, are also the basic structural elements of stagflation.

So far, the European economy has managed to narrowly avoid recession in the third quarter of this year, with the European Union and the Eurozone registering a 0.2% advance in GDP compared to the second quarter. Analysts warn that the recession has only been postponed. Overall, the picture remains bleak. Consumer confidence is near historic lows as real wage growth is at its lowest level in a decade. This substantially affects the outlook for consumption as retail sales have already seen a downward trend (...) With interest rates rising and the economic outlook uncertain, investor expectations are also falling. Analysts expect the economy to contract in the coming quarters, and recession will be the inevitable price the world will pay to bring inflation back under control. But recession does not scare investors as much as stagflation, an economic phenomenon characterized by a decrease in the rate of growth, even a contraction of GDP and high inflation. With most forecasts pointing to economies entering recession this winter and inflation forecasts continuing to rise, Europe looks set to face stagflation at least for the next half of the year. It will enter a vicious cycle: effective responses to combat inflation, through higher interest rates, which discourage consumption and demand, hoping to bring prices down, can accentuate economic contraction, and measures to support economic activity, such as increasing government spending through various fiscal measures packages, can further fuel inflation. In addition, many governments will also face pressures on public debt, fueled by the record public deficits that financed the exit from the pandemic crisis, which will further exacerbate the cost of living. The fight against inflation implies the accelerated growth of interest rates, which leads to the increase of the financing costs of the states. And if the level of public debt is high, the respective state must borrow large amounts of money to roll over the credits, but at significantly higher interest rates than those obtained in the

⁴ Alexandra Piele, *Comportamentul de război al guvernelor*, article, *Cronice*, no.84, 2022, pp. 92-95.

era of cheaper money before. This fuels larger public deficits, as the interest on loans to states is paid annually from the state budget. In mid-2022, the public debt of the euro area was 94.2% of GDP, and that of the EU, 86.4% of GDP. The highest levels were found in Greece 182.1%, Italy 150.2%, Portugal 123.4%, Spain 116.1%, France 113.1% and Belgium 108.3%, and the lowest in Estonia 16.7%, Bulgaria 21.3% and Luxembourg 24.4%.

At European level, the funding objectives are primarily aimed at solving the immediate problems of this winter, but they must also fit into the long-term strategy of the European Union, to transition to green energy and climate neutrality by 2050. Among the sources circulated there are also "*domestic fiscal measures*", including the imposition of a tax on windfall profits obtained by energy companies. In the short term, the package of measures proposed by the European authorities provides for the joint purchase of natural gas in the European Union (at least 15% of the stock requirement for the winter of 2023), the implementation of a temporary price ceiling mechanism for the gas used in the production of electricity, reducing gas consumption, solidarity mechanisms between member states, accessible in case of supply shortages, but also the allocation of substantial funds to support these measures - a fund of 40 billion euros from the community budget to help the population and companies to face the increase in gas prices. In the medium and long term, the solution proposed by the European authorities consists in the REPOWEREU program, designed as a response to the difficulties and disruptions on the world energy market, caused by the invasion of Ukraine. The plan, aimed at building the new infrastructure and the new European energy system, aims to save energy, accelerate the transition to green energy and diversify production sources, so as to ensure Europe's independence from Russian fossil fuels well before 2030. To this end, it will be the need for a massive increase in renewable energy production, faster electrification and the replacement of fossil fuels in the thermal energy production sector, as well as in industry, buildings and the transport sector. The transition to clean energy will, over time, help lower energy prices and reduce dependence on imports. For the application of this plan, additional investments worth 210 billion euros are needed until 2027, money that can be obtained from national recovery and resilience plans, to which member states can add a chapter specifically dedicated to this program. In the chapter on sources of financing, national fiscal measures are also provided, directed especially at energy companies and banks, when obtaining very high profits. The agreement is contested by

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some member states, and Austria and Luxembourg have already announced that they will take the European Commission to court if such a tax is imposed. Supporters of the imposition of such taxes believe that they are justified, given that the short-term revenues are not obtained on the basis of an exceptional performance of productivity or management, but in a context favorable to the respective companies, but unfavorable to society as a whole. The short-term benefits obtained from the overtaxation of companies that obtain exaggerated profits conjuncturally can influence long-term implications, such as: decreasing the investment expenses of investment companies, since the elements of predictability are affected; increasing reluctance to invest in countries where tax legislation changes depending on conjunctural factors; adopting decisions to change the fiscal headquarters of companies to avoid excessive taxation; discouraging investments in renewable energy, which endangers the strengthening of the energy security process.

Conclusions: Since the annexation of the Crimean Peninsula, in 2014, at first Poland, then Eastern Europe but, little by little, at the suggestion of the US and under the umbrella of NATO requirements, all European countries have moved to extensive rearmament processes, against the background of the declaration that the European Union defend western democratic values. The main objective of the restructuring consisted in the development of a strong local military industry, with the related economic benefits, against the background of the awareness of the aggressive actions propagating from Russia. Military developments in the field, especially the million shells promised to Ukraine, are pushing the European Union towards the war economy. The European Union reached an agreement in March to send Ukraine one million large-caliber shells over the next 12 months. The High Representative of the European Union for Foreign Affairs and Security Policy, envisages that the European Union will donate ammunition from its own stocks and also jointly buy new shells. Under this plan, the states would receive the money back for sending ammunition to Ukraine, and the funds would also finance future joint purchases, for the constant supply of the Ukrainian military. This scheme is appreciated by military specialists as an essential moment for the European Union, understood as a union of peace, obliged to switch to the production and purchase of ammunition on behalf of a country at war. Although the idea in principle has been agreed, there are also problems to be solved: Germany

does not want the ammunition purchases to be executed by the European Commission on a collective basis; Italy and the Netherlands want purchases to be made only from European countries; France insists that, in addition to shells, other types of munitions, for example air-to-surface missiles, be purchased. Officials in Brussels have urged companies in the European Union to switch to "war economy mode". Of course, the transition of the European Union's economy to a state of war has produced unrest among the citizens of Europe. But, against this background, Europeans are even more troubled by the fact that both overseas and in their own backyard, there is an acute lack of political leaders worthy of finding radical solutions and being followed by voters. Commitments to Ukraine made in the name of Western values promoted by the US are draining the European Union, and European citizens do not sufficiently understand the prospects of these sacrifices. The war economy caused the public debt of all the member states of the European Union to increase rapidly. In mid-2022, the public debt of the euro area was 94.2% of GDP, and that of the EU, 86.4% of GDP. The highest levels were found in Greece 182.1%, Italy 150.2%, Portugal 123.4%, Spain 116.1%, France 113.1% and Belgium 108.3%, and the lowest in Estonia 16.7%, Bulgaria 21.3% and Luxembourg 24.4%.



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