

THE BANKRUPTING OF CANADA'S MILITARY – CAUSES, CONSEQUENCES & REMEDY

The state of Canada's military has received much publicity in recent years. Senate and Parliamentary committees, the Auditor General, prominent retired military persons, journalists and television commentators have repeatedly warned the Canadian public that, as a result of protracted underfunding, Canada's military is seriously undermanned and inadequately equipped to meet the commitments imposed by Government. Examples are the humiliating shortcomings in Canada's commitment to East Timor 1999, the inability to provide a second battalion group to Afghanistan and to sustain Canada's Persian Gulf naval contribution to the War on Terrorism, and the loss of interoperability between Canada's air squadrons and their United States counterparts.

The prevalent theme in all of this commentary is hand wringing; there is an abundance of finger pointing but, other than Jack Granastein in "*Who Killed the Canadian Military*", there is a serious shortage of honest explanation on why and how this bankrupting of Canada's military came about and a serious lack of determination and constructive suggestions to correct the situation.

No Canadian government in recent years seems to have fully comprehended the consequences of the fact that, in times other than all-out war, the majority of Canadians will never willingly sacrifice traditional or newfound social programs in order to fund Canada's military. Accordingly, there will never be the same measure of public support for military spending as there is for medicare, child care, old age security, education, and aboriginal needs. Consequently all politicians can hide with impunity behind the argument that Defence simply does not have sufficient public support to take precedence over those other causes so dear to Canadians.

Putting it bluntly – that is a political cop-out! The first obligation of any government to its citizens is to ensure that they, their territories and their other vital interests are properly defended at all times. To meet that obligation the Government and all federal politicians must show **leadership** and be prepared in defence matters to take necessary action and then properly advise the public on the need for the measures which have been taken. This is no a simple task – for very often the measures needed will be predicated on classified information known only to the leadership and a few others – information which often comes from non-Canadian sources and which cannot be exposed to public scrutiny without destroying Canada's future access to those sources. Moreover, given that major equipment programs take ten to fifteen years to implement, the government, indeed all federal politicians, must think and act at a strategic national level with a horizon well beyond the mandate of any one administration.

In the course of this paper it will be shown that defence funding has been the victim, not the cause, of the financial problems which Canada has faced; it will be argued that the results of this victimization have damaged Canadian industry and Canada's international reputation and influence; and it will be demonstrated that the traditional manner whereby National Defence has been funded in the past three decades has become unworkable and a new formula is needed.

Figures 1 and 2, depict the values given in each fiscal year from 1961-62 to 2002-2003 for defence spending and for the percentage it represented of the total federal budget and the percentage it represented of gross domestic expenditure (up to 1986-87) or gross domestic product (after 1986/87). The values up to 1986-87 have been extracted from the Canadian Tax Foundation's 1987-88 edition of *The National Finances*. For subsequent years, the corresponding values have been obtained from the later editions of

that publication and its successor, *Finances of the Nation*, with corroboration from the relevant Department of Finance Budget publications and from Statistics Canada and Department of National Defence publications.¹

The first noteworthy item in Figure 1 is the line which shows that, in 1961-62, during the Diefenbaker era and the time of the Cuban Crisis, the Defence Budget was very nearly 22 percent of the total federal budget; it then declined steadily during the Pearson era (1963-68) and the early Trudeau years until it fell to the 8 percent region in 1975-76.

Opponents of defence spending would undoubtedly claim that the high percentages of defence spending in the early 1960's were forcing Canada into debt and had to be reduced to save Canada from bankruptcy. That would be a half truth - for Figure 3, copied from page 100 of the 1996 federal Budget Plan, clearly shows that the net debt increased markedly after 1974, despite the fact that the Defence Budget steadily remained below 10 percent of the federal budget. Figure 3A illustrates that point.

Between 1979 and 1984 during the tenures of Prime Ministers Clark, Trudeau and Turner the Defence budget was increased – but not sufficiently to enable the Canadian Armed Forces to both maintain personnel strength and replace worn out or obsolete equipment. Following the arrival of the Mulroney government in 1984 the defence share of the federal budget was permitted to increase and in 1987-88 it reached 9.3 percent – a ramping-up consistent with the Government's commitment in the 1987 Defence White Paper to a two percent annual real growth in the defence budget, after inflation, for a period of 15 years.

This was an important stage in Canada's peacetime defence history. Following four major reports by the Senate Subcommittee on National Defence, a Defence Review and White Paper initiated by the Minister of National Defence, Perrin Beatty, and the 1987 Auditor General's report, the Canadian Government had come to recognize that the existing Canadian Armed Forces structure was no longer sustainable – regardless of where or how the forces were employed. At the same time, the defence budget level foreseen to be necessary to restore and sustain Canada's military capability would have to increase and it can be seen from Figure 2 that in 1987-88 it was approaching ten percent of the total federal budget.

Opponents of defence spending will assert that Figure 2 shows that the defence budget had grown excessively during the 1984 to 1990 period and that the subsequent reductions were fully warranted. However, the values given on Figures 1 and 2 are in budget year dollars. Figure 4 depicts the impact of

¹ The selection of correct values to ensure continuity and accuracy in comparisons has been no simple task and has been complicated by the existence of different conventions in financial accounting. Thus, for example, the 2003 edition of *Finances of the Nation* shows total budgetary expenditure for 2001-2002 to be \$163.5 M in Table 2.1, \$164.7 M in Table 2.2; then Table A.5 shows it to be \$175.991 M based on the FMS (Financial Management System) introduced by Statistics Canada in 1993-94. To further complicate matters, Statistics Canada show a total federal expenditure of \$188.09 M for the year 2000 fiscal year ending March 31, and a total federal general expenditure of \$184.612 M for fiscal year 2000-2001.

Defence expenditures also show similar variations within individual years, for example – Defence Estimates for the subsequent year are provided in each edition of *Finances of the Nation* but those values differ considerably from the actual Defence budgetary expenditures. There is also an added obfuscation whereby Defence been lumped together with federal policing in later years and the total expenditure is shown under the category "*Protection of Persons and Property*".

The sole common thread has been the budgetary calculations, and it is those values which have been used to produce the accompanying charts. Since even those values are frequently updated in subsequent issues of the respective parent documents, the latest available budgetary values for any given year have been selected - on the assumption that they will be the most accurate values.

inflation and shows that the purchasing power of the defence budget during the last thirteen years is considerably less than it was in 1982-83. It is not surprising therefore that the “rust out” discerned in the late 80’s has not abated, but indeed has worsened – even given the reduction in Canada’s commitments to the defence of Western Europe, following the collapse of the Warsaw Pact and the Soviet Union. Furthermore, recalling the major equipment programs – tanks, warships and aircraft – which were undertaken in the 1980-1990 period; it is clear from Figure 4 that no equivalent purchasing power has existed since 1994 to conduct any major equipment replacement programs.

The “rust out” forewarned in the 1987 Defence White Paper has been far more serious than is commonly believed; for it has extended beyond just the military and into the industrial capacity of the nation. Shipbuilding is an example - in 1990-91 defence expenditures accounted for 91 percent of the jobs in Canadian shipbuilding and ship repair² and the Canadian Patrol Frigate Program was a saviour to the many associated industries. Today, it is questionable whether Canada still possesses the shipyards, the talent and the technology to again build such warships!

Any discussion of federal and defence budgets must take into account the reality that there are two main components of the federal budget. These are depicted in Figure 5 and comprise payments related to the National Debt and expenditures on government programs - Program Spending – which will include some items prescribed by statute and legislation and others, such as Defence, which are perceived to be discretionary - hence subject to government priorities and political whim. The red columns in Figure 5 represent the sum of the debt cost columns and program spending columns.

Figure 6 depicts the annual defence budgets in comparison to the total federal budgets and the programming spending included in those total federal budgets. It can readily be seen that defence spending was a very minor contributor in the runaway escalation in federal spending between 1983 and 1993. Yet, when austerity measures were imposed during the four years following the inauguration of the Chretien government in 1993, it was the already underfunded defence budget which suffered the greatest damage – as has already been shown in Figures 2 and 4.

Because Defence budgets are classified as discretionary spending they become easy targets to find money to support popular programs. The rationale given is that Defence constitutes about 60 per cent of the discretionary budget eligible for parliamentary review and control; accordingly it must expect to receive major cuts in periods of restraint – but will receive major paybacks in times of plenty. It can be seen from Figure 4 That Defence did indeed experience major cuts; but it can be seen from Figure 6 that when more money became available for program spending after 1997 the increases in Defence budgets were diminutive in comparison to the increases elsewhere in Program Spending.

One early announcement of the scope of the defence cuts is found in the *Budget 1995 Fact Sheet* chapter on Departmental Spending Reductions. There it is stated –

“Defence Spending will also fall sharply, declining by \$1.6 billion between 1994-95 and 1997-98. The cuts in defence spending resulting from this budget reflect the 1994 *Defence White Paper* and are in addition to large reductions announced in last year’s budget”³

² DND document *Making Sense out of Dollars 1993-94 Edition* p.76 – Impact of Defence Expenditures on Canadian Industries

³ Department of Finance Fact Sheet - *Budget 1995 – Departmental Spending Reductions*

The reference to reflecting the 1994 *Defence White Paper* was a masterful example of misinformation. It is true that a diagram of the Defence Budget Reductions is depicted on page 10 of that White Paper; but it takes a great stretch of the imagination to interpret the accompanying explanation as any form of endorsement for the cuts!

In those years the military leadership was in no position to forcefully oppose the cuts in defence funding. Shortly after becoming Prime Minister in November 1993, Mr. Chretien peremptorily replaced the Chief of the Defence Staff, Admiral Anderson, with General de Chastelain who he recalled from his post as ambassador to the United States. Then, when General Boyle succeeded to the CDS position in 1995 the Somalia Inquiry discredited him and forced his resignation. Then, his acting successor, Vice Admiral Murray, was neither promoted nor fully appointed into the CDS position, and in less than a year was forced into retirement. Additionally, the EH 101 helicopter program was misrepresented and cancelled and the Airborne Regiment was disgraced and dismantled. When the credibility of the Canadian Armed Forces leadership has been undermined, it becomes easier for Cabinet to reject military programmes. When the media conducts incessant denunciation of the military and its senior leadership it enables government to cut defence funding without fear of public opposition.

The Government's 1996 *Budget Plan* announced even further cuts in defence spending. It exulted –
 “This budget reduces defence spending from planned levels by an additional \$200 million in 1997-98 and \$600 million in 1998-99. These spending cuts are over and above defence expenditure reductions of \$7 billion (over 5 years) introduced in the 1994 budget and \$2.8 billion (over 4 years) in last year's budget. These successive cuts to the defence program will result in annual average reductions of almost 6 per cent over the next three years. As a result, defence spending of about \$9.3 billion in 1998-99 will be more than 21 per cent lower than in 1994-95”⁴

The above announcement is followed by the statement “A leaner, more flexible and more cost-effective defence capability will result from these actions” – another example of misinformation and a somewhat presumptuous statement for a Department of Finance document!

Figure 7 contrasts the actual defence budgets between 1987-88 and 2002-03 with an upward sloping line depicting the annual budgets which would have resulted from the funding formula proposed in the 1987 Defence White Paper – i.e. annual increases of 2% after inflation for 15 years. Opponents of defence spending will undoubtedly view the gap between the columns and the sloping line as a victory for social programs. However, those persons who are fully aware of the technologies involved and the value-added components of warship, submarine, and military aircraft construction are more likely to view that gap as a major defeat for Canadian industry and technology and a serious loss to a great many Canadian firms. Additionally, serving and retired Canadian military personnel will recognize that gap as the cause of the loss of over 20,000 military and over 30 percent of the nation's combat capability.

This brings one to the issue of Canada's reputation and influence in her military alliances. Figure 8, provides information annually publicized in NATO documents, and generally well known abroad, but little known (and perhaps little understood) in Canada. The three lines depict Defence spending as percentages of Gross Domestic Product for Canada, for all NATO European nations (averaged), and for the United States.

⁴ Budget 1996 *Budget Plan* p.44

Opponents of Defence spending will argue that the comparatively low Canada GDP % line is justified and that Canada, a nation of ‘peacekeepers’ is entitled to a “peace dividend” following the cessation of the Cold War. Our Allies however correctly point out that Canada has been extracting an unearned “peace dividend” for the last three decades; that NATO Europe is much closer to Russia than Canada, (hence has much more justification than Canada to cut defence spending following the Cold War), yet the European percentage of GDP allocated to defence remains almost twice as large as Canada’s. As far as NATO Europe is concerned, Canada is considered to have been shirking their fair share of the Alliance for many years!

The difference between Canada’s defence efforts and those of NATO European nations has undoubtedly had a negative impact on Canada’s reputation and influence abroad. In the 1980’s there were frequent laudatory references to Canada in speeches by NATO Secretaries General. Such references no longer occur and NATO Secretaries General have felt it necessary to implore Canada to raise her defence expenditures to the same levels as our European Allies.

Worse still - the very large gap between the United States and Canada percentages portrayed in Figure 7, has undoubtedly convinced many Americans that Canada is not only shirking our defence responsibilities in NATO but (more especially) is also seriously shirking our responsibilities in North American defence – with the result that Americans are having to pay more than their fair share. It is obvious that, since 9/11, the United States views all North American issues through the ‘lens’ of national security – including such matters as bilateral trade, economics and diplomacy. The more that the impression takes hold that Canada is shirking its share; the less will Americans be willing to cooperate in trade and other issues, the less recognition will they give to Canada’s good deeds, and the less willing they will be to be influenced by Canada’s preferences or policies. Surely it must sound some warning bells when the United States ambassador to Canada abandons diplomacy to publicly state that Canada must spend more on defence!

One could hope that the public lamentations over the state of a Canadian military, which has shrunk from 80,000 military personnel to 53,550 effectives and which has lost over 30 percent of its combat units, would now be matched by public urgings for restoration of military funding - now that the Government is realizing budgetary surpluses. It is shameful that this has not happened – the media has been full of suggestions on how to spend that surplus – but Defence is not one of them! This reinforces the point made at the beginning of this paper: that the Government and federal politicians must take the lead in such matters – for the public and the media will not - even though the Canadian Armed Forces has dwindled to the point where its 53,500 effective personnel could fit into *B.C. Place* with some 6,000 seats left over!

It will be obvious from the preceding paragraphs that Canada’s traditional methodology for allocating defence funding is seriously flawed and that politicians of all parties must act to correct it and do so without expecting grassroots public support as a precondition. One solution – perhaps the only one - is to remove Defence funding from the discretionary category and to legislate it according to a fixed formula.

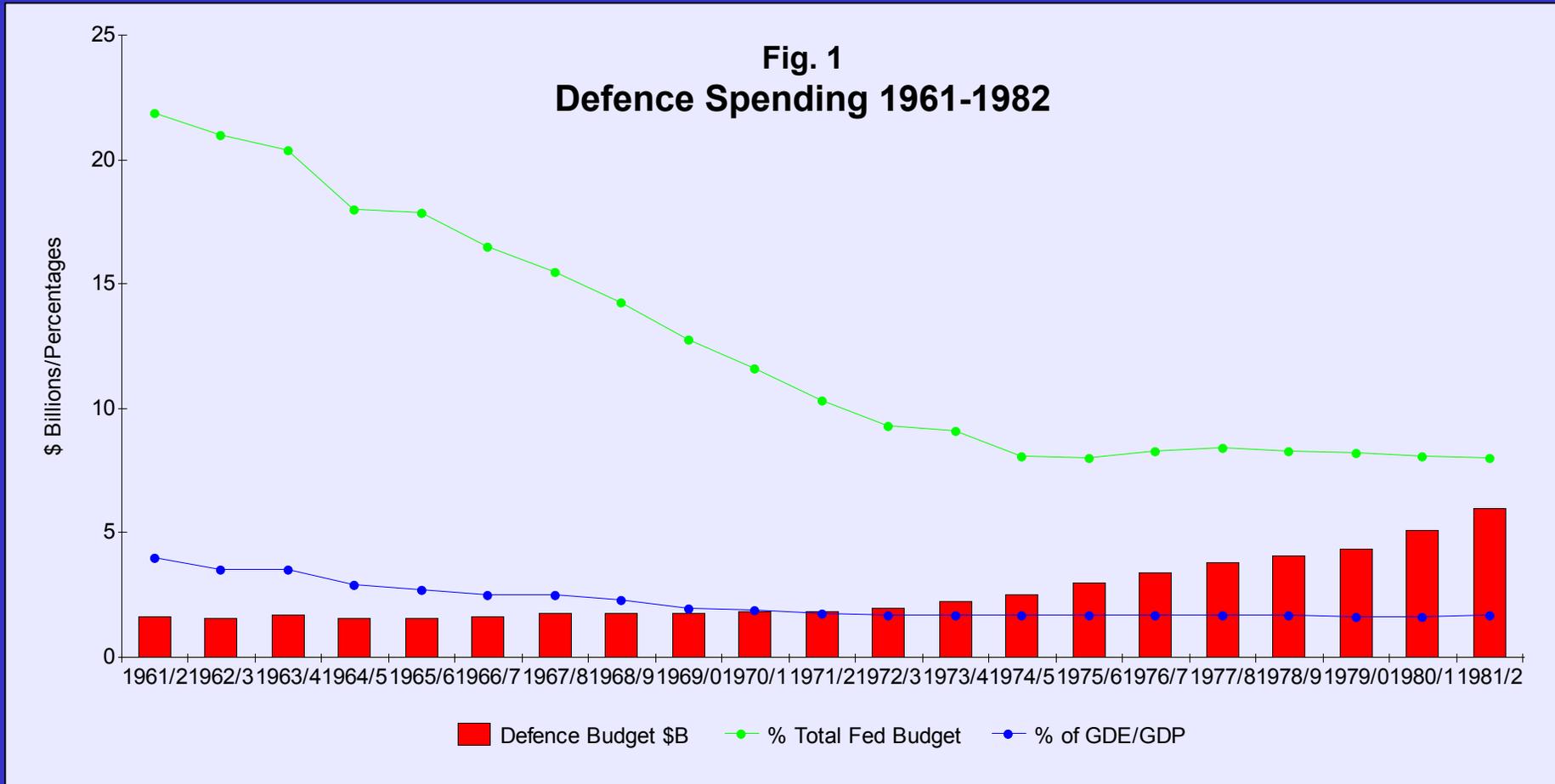
Figure 9 depicts the actual defence budgets and then applies the European and United States GDP percentages from Figure 8 to show the sizes of the budgets which would occur if Canada had applied those percentages in determining the Canadian defence budget. The values from applying the U.S.A. GDP percentage obviously would have been (and continue to be) far beyond Canada’s capability and are out of the question. The values resulting from applying the European average percentage of GDP are realistic, more attainable, and would have done much to restore Canada’s international reputation and influence in

Europe – and also in the United States. In the future however, applying a formula predicated on the NATO European average could be cumbersome; would lack the flexibility to readily compensate for major changes in Canada's financial fortunes; and probably would not be well understood or accepted by Canadians.

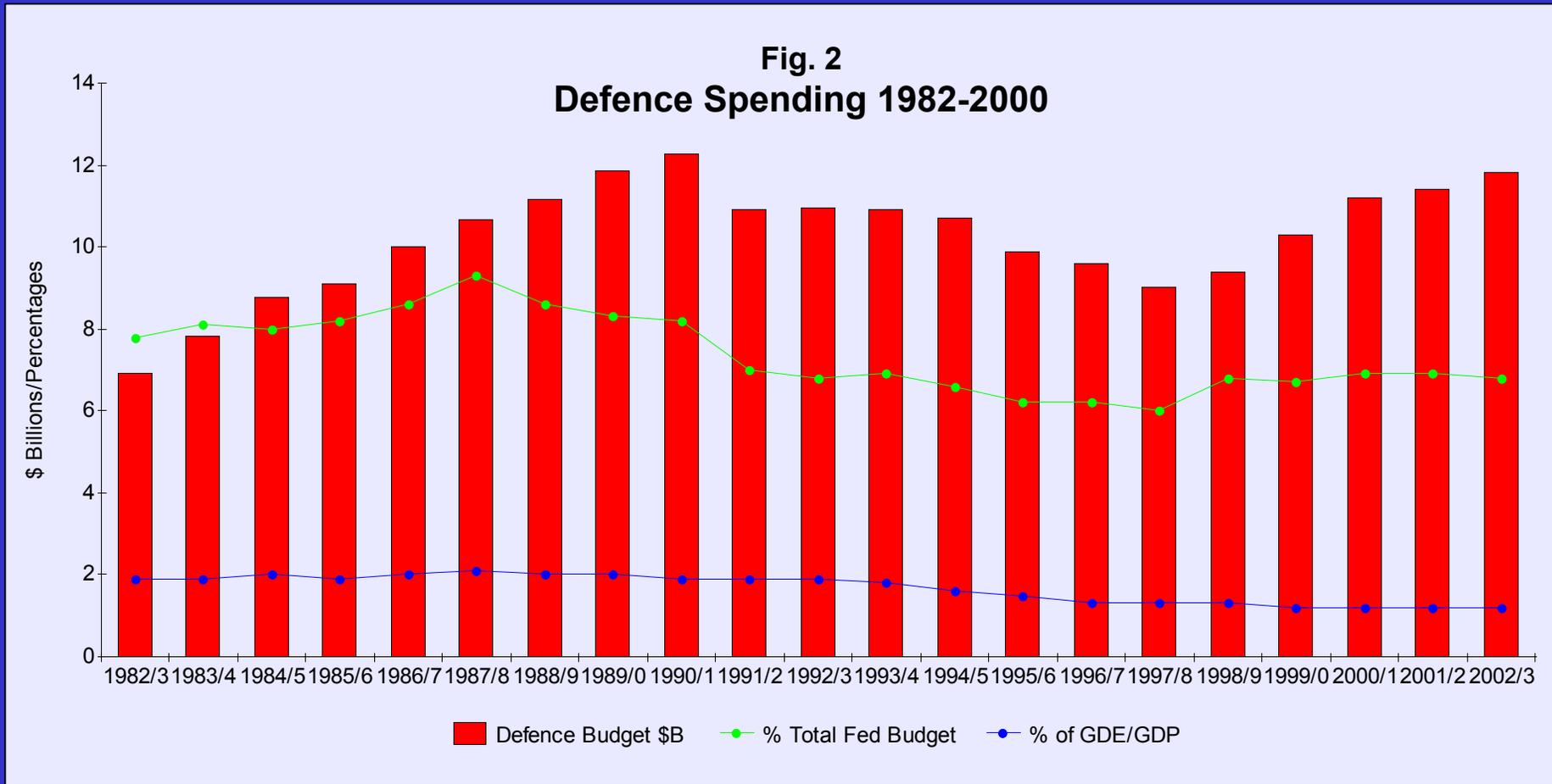
The preferred approach, depicted by the green columns in Figure 9, is one which legislates that the Defence Budget shall be fixed at ten percent of the total federal budget. It can be seen from Figure 9A that this corresponds reasonably well to the blue (Europe %) columns – thereby redressing NATO's concerns and contributing to the Government's policy objective to be a player on the world stage. It would also project smaller defence expenditure than that envisaged in the 1987 Defence White Paper – a realistic consideration given the termination of the Cold War. Additionally, it provides built-in flexibility for ready adjustment when Canada's financial fortunes change, and provides the predictability Canadian industry needs to effectively and efficiently participate in defence capital equipments programmes. Most importantly – it would be easy to explain to Canadians and should be readily accepted. When Canada is spending only seven cents on defence out of every federal dollar, an additional three cents - to restore the defence and industry of our nation, to contribute to international security, and to regain the respect of our allies and trading partners - surely is not too much to ask!

N.D.Brodeur
Vice Admiral (ret'd)
18 February 2005

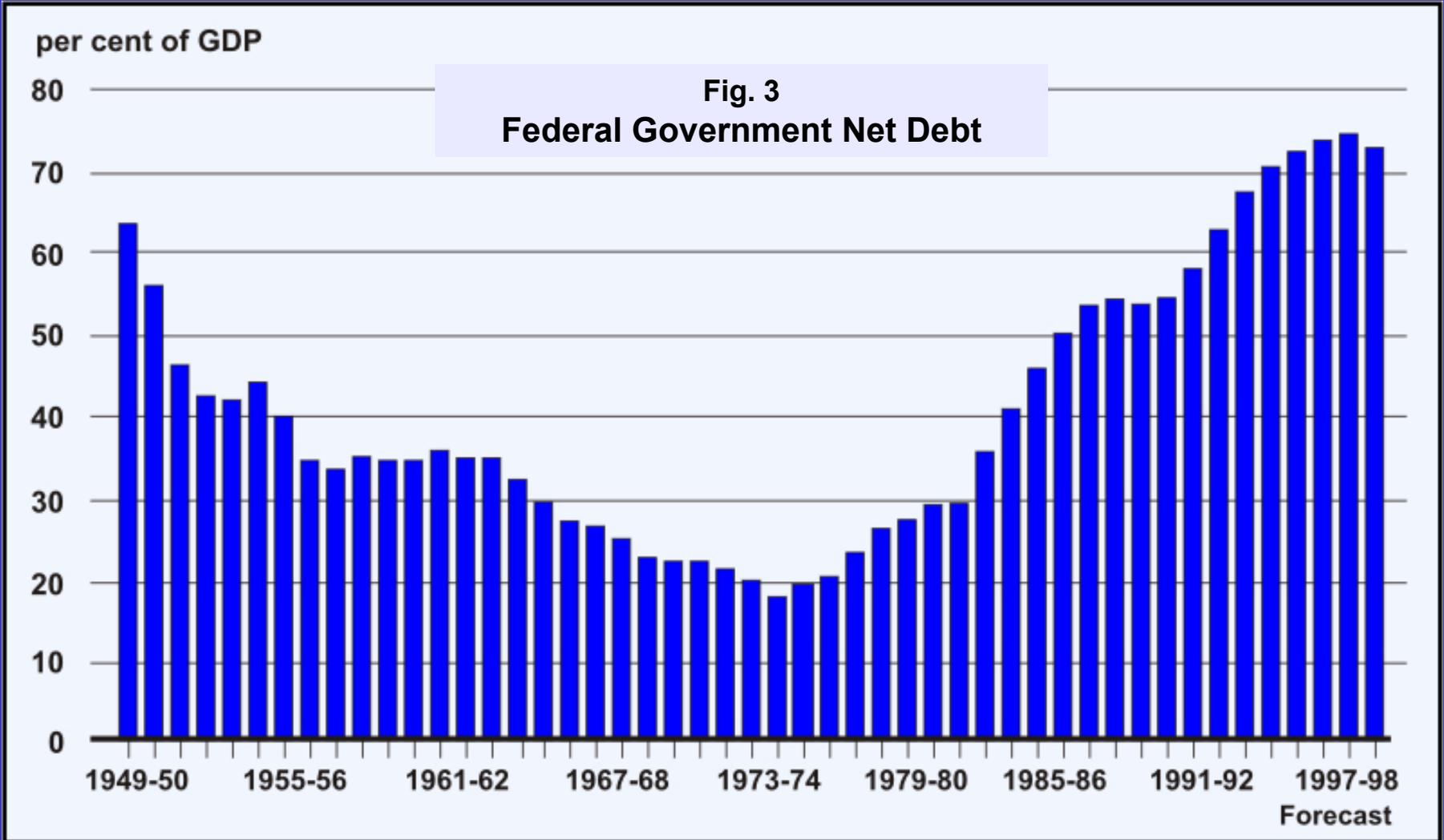
Defence Shares of Total Federal Budget & GDE Cut by 63%



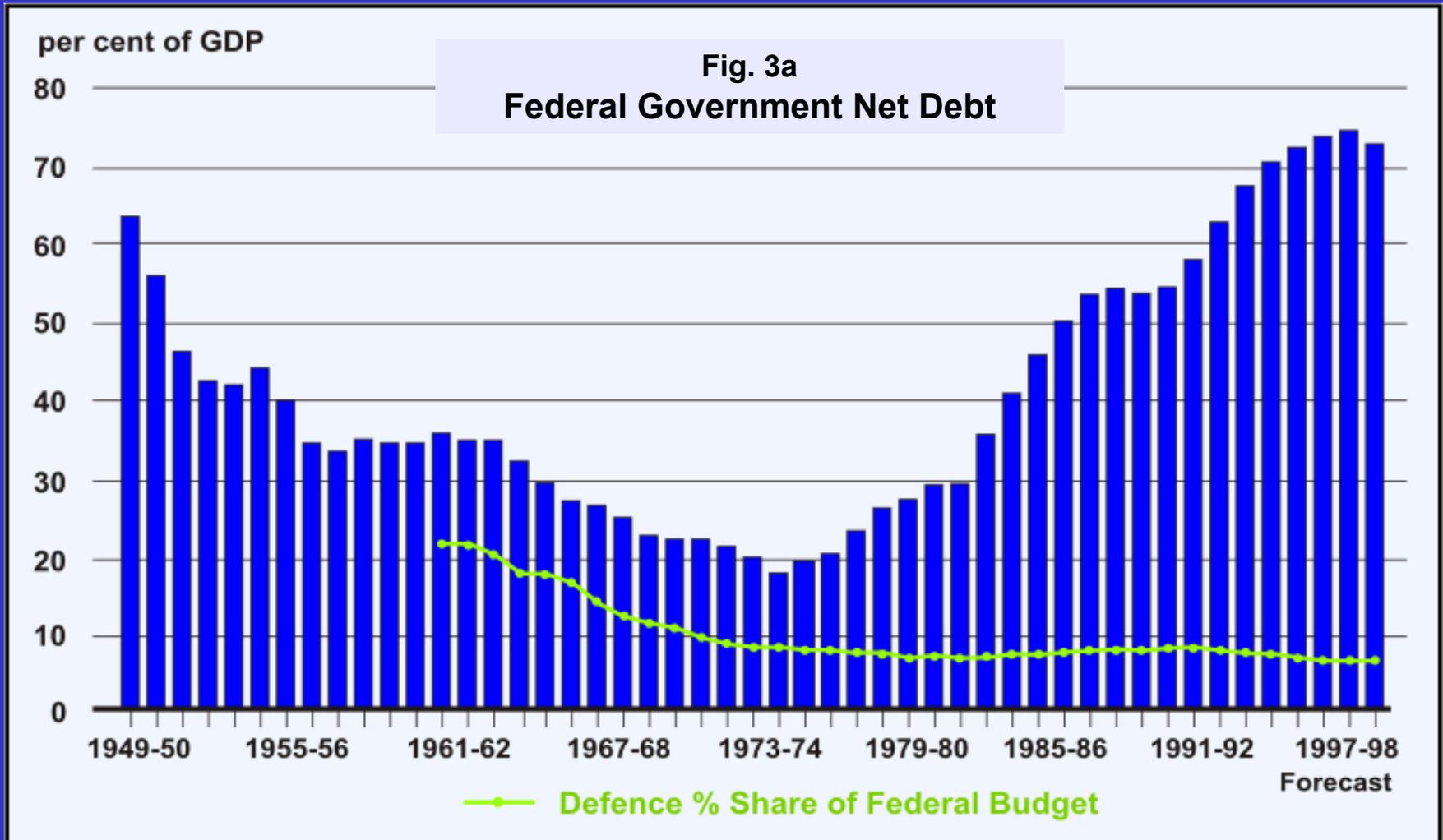
- Defence Shares of Federal Budget & GDE/GDP Continue to Decline



- **Decline and Growth of the National Debt**

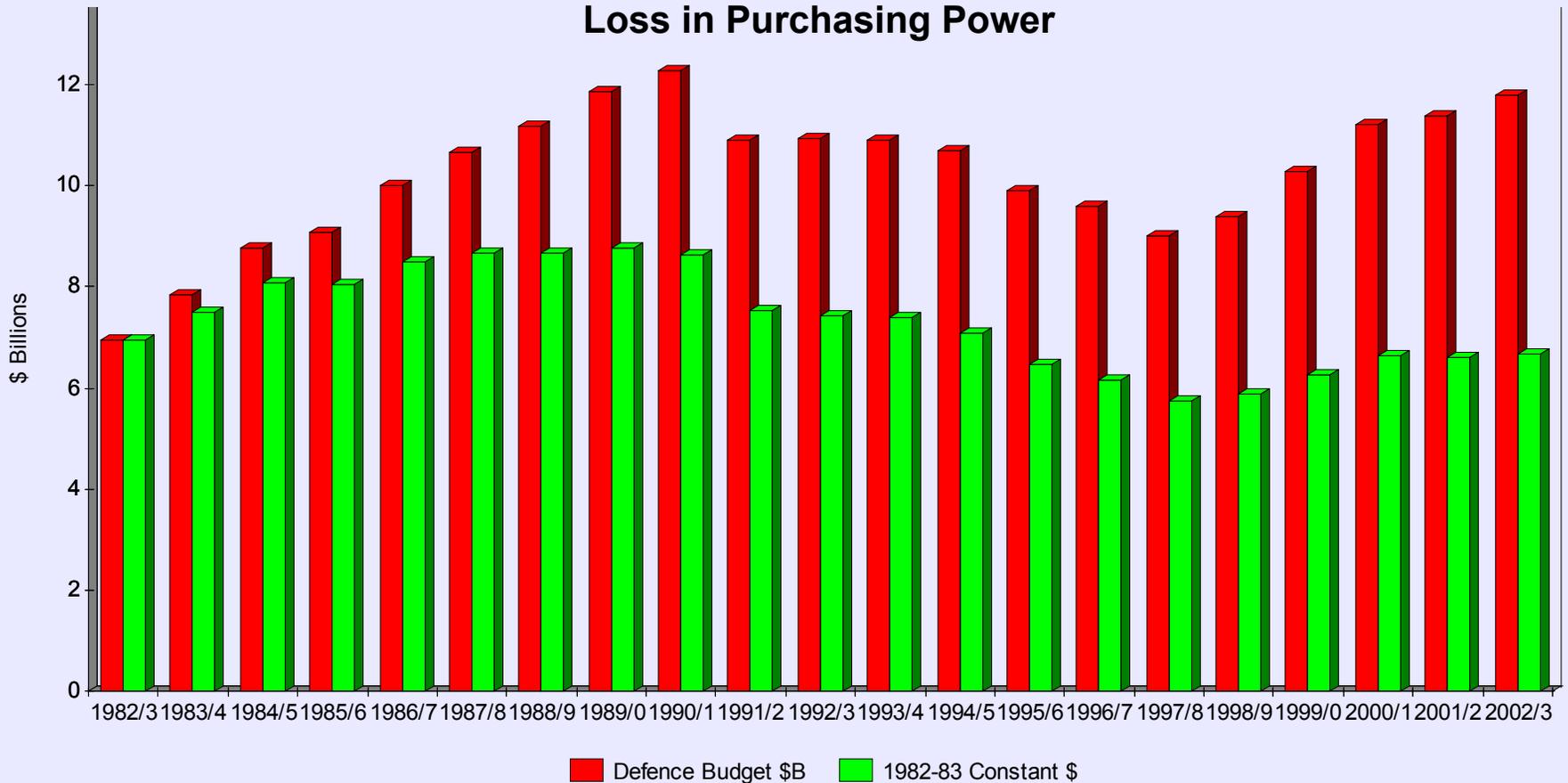


- Growth in National Debt is not Attributable to Defence



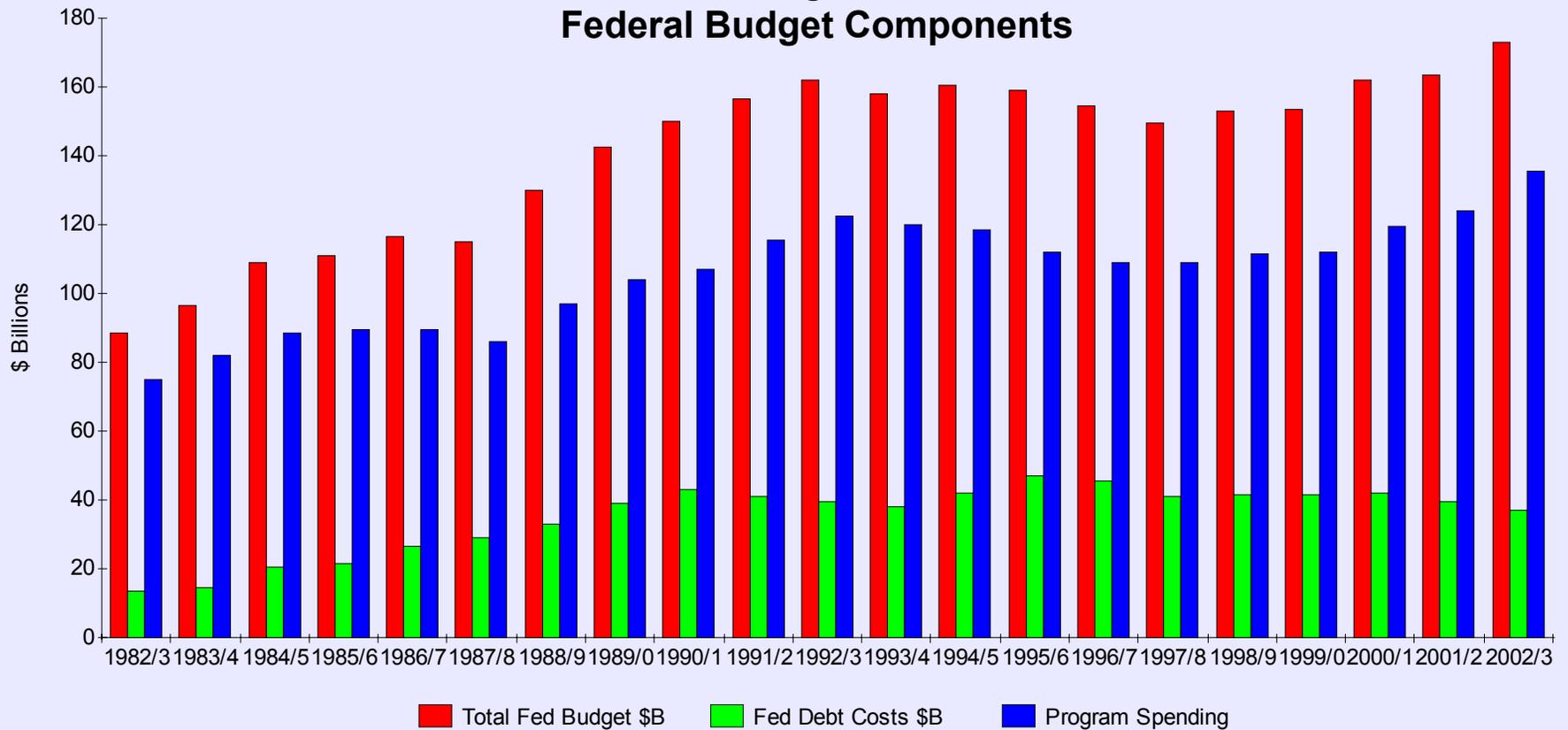
• Measures to Avoid 'Rust-out' Destroyed by Inflation & Budget Cuts

Fig. 4
Loss in Purchasing Power



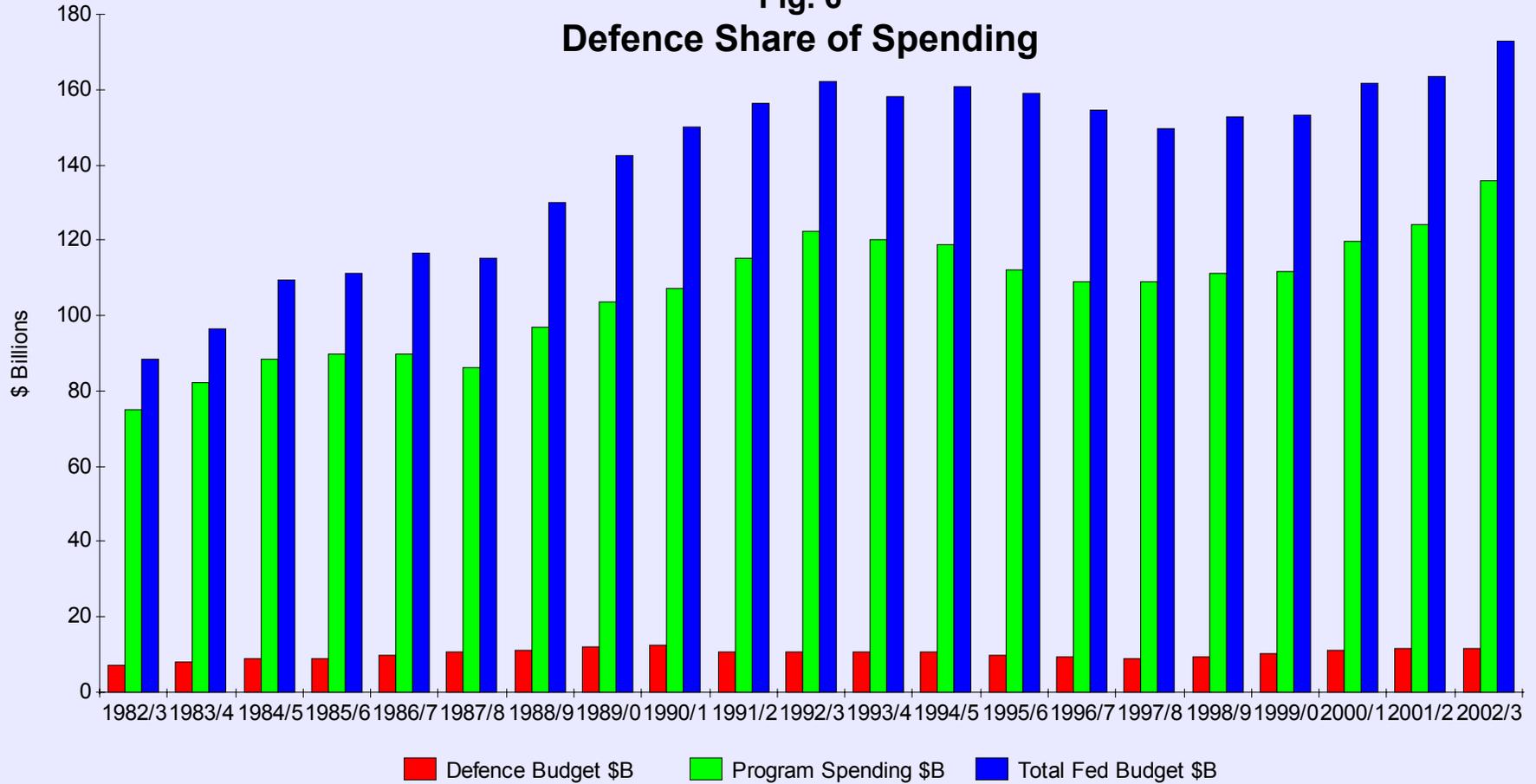
- Impact of Debt Payments and Overall Program Spending on Federal Budgets

Fig. 5
Federal Budget Components



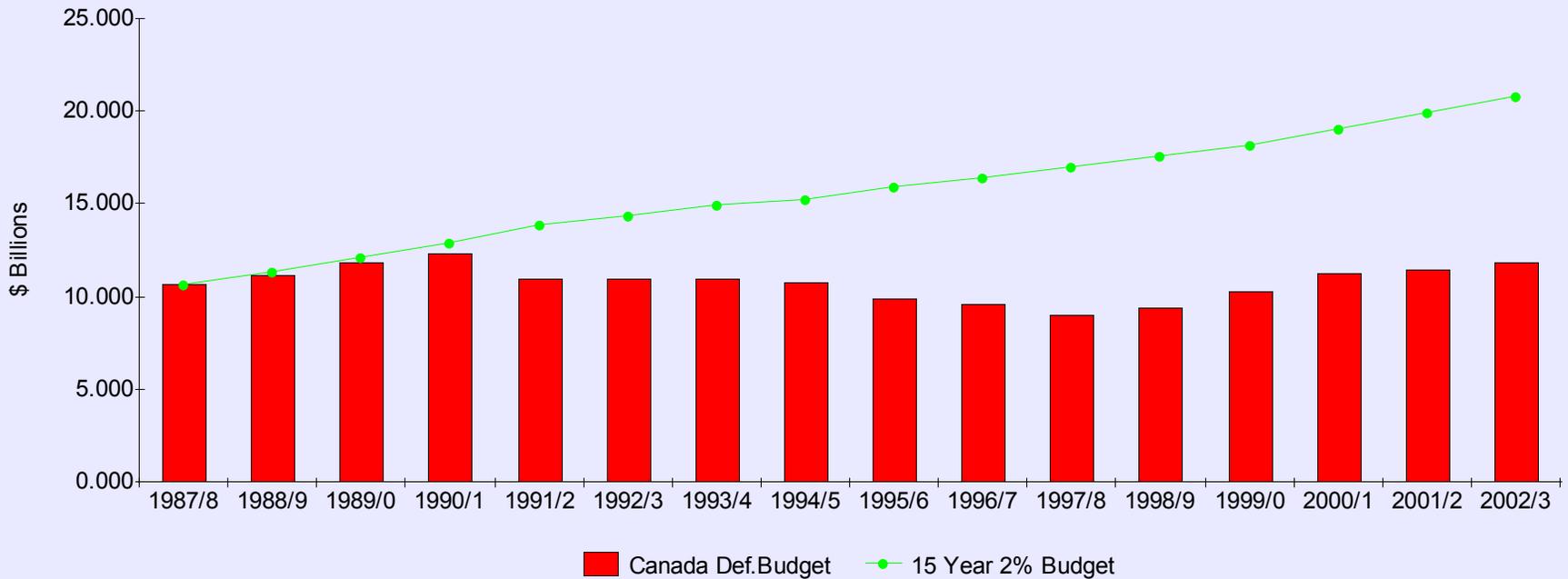
Consequences of Increases and Escalations in Non-Defence Programs

Fig. 6
Defence Share of Spending



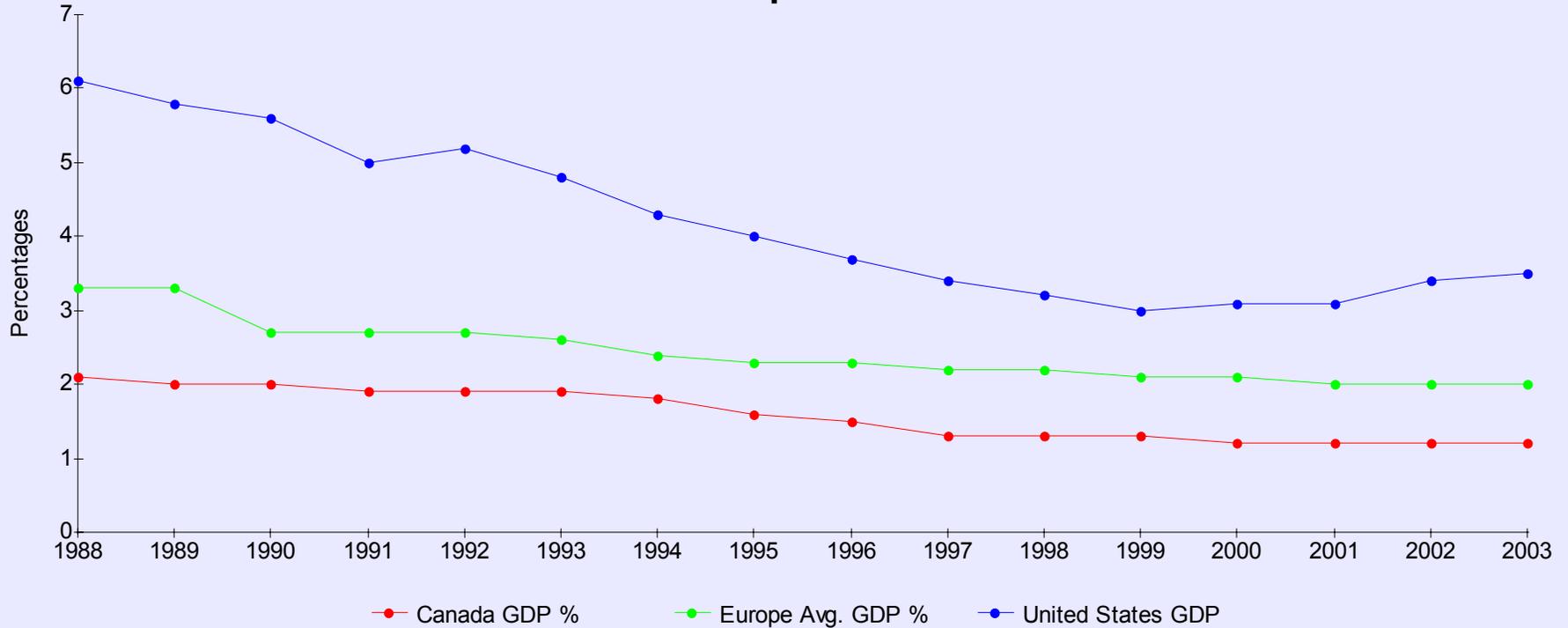
• Lost Defence Capabilities & Lost Industrial Capabilities

Fig. 7
Actual vs. 1987 White Paper Budgets



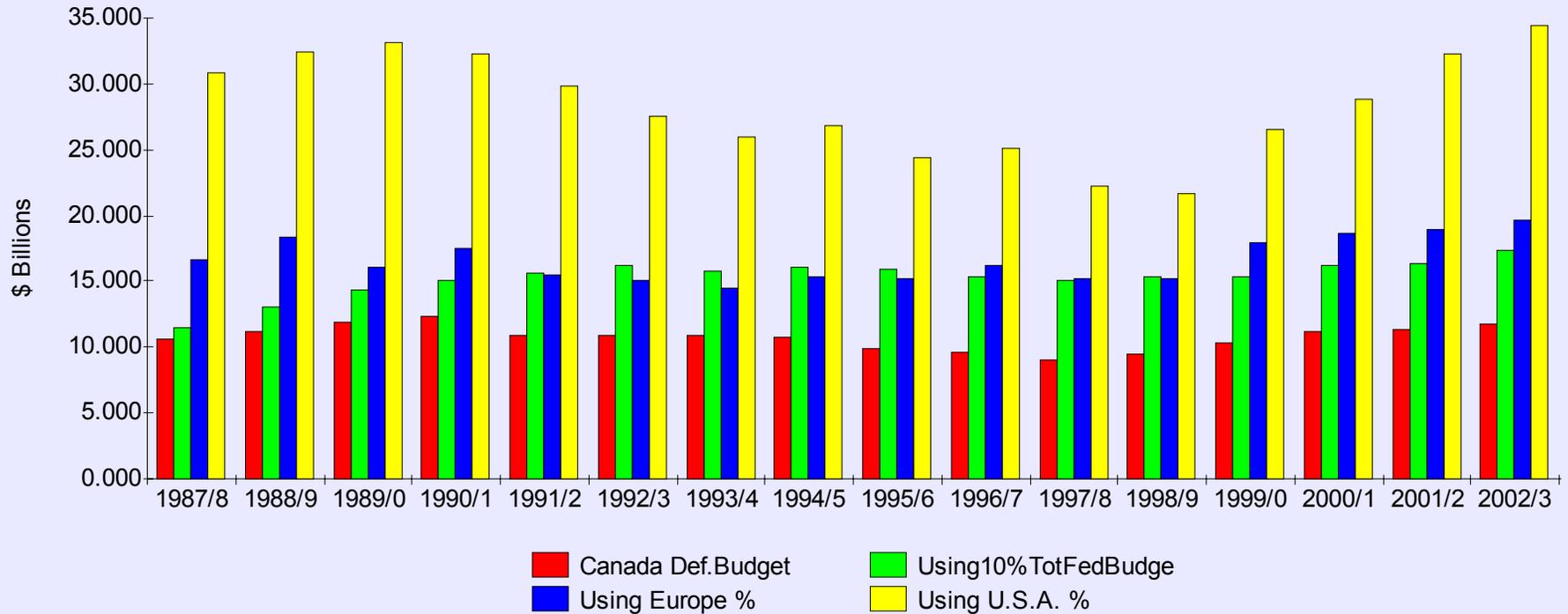
• Canada seen to be Shirking in NATO & North American Defence

Fig. 8
% of GDP Spent on Defence



• Alternatives for a Legislated & Effective Defence Budget

Fig. 9
Defence Funding Options



- **THE LEGISLATED 10%- A Path to Restore Defence & Industry**

Fig. 9a
Options vs 1987 White Paper

