DND photo HS2009-0521-013 by Private Dan Bard

HMCS *Fredericton* leaving Halifax harbour as it deploys for six months on Operation *Saiph,* the continuing fight against piracy and terrorism in the Middle East, 23 October 2009.

CANADA FIRST – DEFENCE STRATEGY: A RETROSPECTIVE LOOK. TOO MUCH? TOO LITTLE? OR JUST RIGHT?

by Gerry Madigan

Introduction

Canadians have a very difficult time understanding the value of defence spending. The reasoning surrounding the requirement for continual strategic investment challenges Canadian sensibilities. It may be that Canadians have a simplistic and a romantic view of defence that simplifies the issue to a raison d'être for peacekeeping. Under this perception, there is little justification for investment in a large multipurpose defence capability. But this view is simply not realistic. It distorts the true purpose of defence, what soldiers, sailors, and airmen do for Canada – that is, the delivery of Canadian peace and security. Further, this viewpoint obviates the requirement for an ongoing investment in Canada's defence and security capabilities that are so necessary for protecting Canada's sovereignty and vital interests.

The general objectives of Canadian defence policy have been thematically expressed or published in one way or another in every White Paper since 1964 as securing our sovereignty, peace and security, and supporting Canadian foreign policy. [1] Therefore, the responsibilities of the Canadian Forces (CF) and the Department of National Defence (DND) should be clear to Canadians. Little has changed with the release of the *Canada First – Defence Strategy*.[2] All are laudable, necessary goals. Yet, the willingness to pay for these goals is very dependent upon the mood and opinion of the day. Consequently, the cycle of Canadian defence spending has often been one of 'boom and bust.'

Defence simply cannot continue to be held hostage to the public's mood, or political whims for the justification of defence spending. It should be obvious to most that a minimum level of spending is required, that defence is a necessary cornerstone of Canadian sovereignty and security, and that defence plays a role in Canada's economic well-being.

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But it is not. There is a continual debate with respect to the amount required, and, ultimately, upon the very necessity of defence itself.[3]

The problem from this observer's perspective is that the reasoning for a proper level of defence spending has never been adequately explained to Canadians. It is a 'political football,' wrapped in the realm of economic calculus, and disguised by special interests. Often as not, the need for adequate defence spending is buried so deep in government policy statements, prevarications, or rhetoric that it is simply a challenge getting to the heart of the matter to form a reasoned opinion. Canadians have great difficulty 'connecting the dots' from defence spending to the desired policy outcomes of their government, which rarely elevates the importance of defence to sustaining Canada's vital interests and values.

A case in point may be illustrated by the *Canada First – Defence Strategy* announcement of Prime Minister Stephen Harper and Defence Minister Peter MacKay in Halifax on 12 May 2008.[4] The original analysis was submitted shortly after the government's announcement in 2008. Some would say it may have been superseded by events. However, the key deductions and analysis of the models that follow remain as valid today as they did then. They may hold some clues for the tough choices ahead, and the outcomes that will follow. This situation illustrates the difficulty of sustaining the need for defence spending in changing economic circumstances. Tough times are ahead, but defence managers must not be blindsided by events. Therefore, an understanding of the past is, indeed, a key to managing the future.

"Tough times are ahead, but defence managers must not be blindsided by events."

And then came 12 May 2008, with the promise of a brighter future… It must be remembered that the government originally announced its intention to expand annual defence spending from $20 billion to $30 billion dollars over a 20-year period by 2031. It was not without controversy, being heavily criticized as unclear at the time. Critics complained that the 'total investment' was largely unexplained to Canadians. Commentators stated that the government was not being forthright with the taxpayer on the true cost of its strategy. At first blush, they suggested that on a two percent increase per year, the government should have announced at least a cumulative total investment in defence spending of $100 billion over the period. The preliminary release was also criticized for seemingly hiding a $50 billion investment in new capital spending. Some argued, quite rightly this observer believes, that the government should have announced and better explained the $100 billion figure.[5]

A detailed explanation came one month later in the final release of the *Canada First* strategy paper on 19 June 2008. The full cost of the strategy over the 20-year aggregate totaled $490 billion. It is possible that the government did not wish to scare Canadians on the largesse of the plan.[6] Investment was not just limited to new capital. It was, in effect, the recapitalization and revitalization of the CF, to be spread over four key pillars, forming a foundation of military capabilities that would impact the department's personnel, equipment, readiness, and infrastructure costs.

The Quest for Information – Sorting Out the Details (2008)

However, in order to form a reasoned opinion, Canadians would have to determine a start point for this quest. Where to begin? The only leads available were from various press conferences, press releases, the published strategy, and Treasury Board estimates. From this information, Canadians could build a framework to form their opinion.[7] Nonetheless, it was not a path likely taken by most Canadians, who tend to rely upon the media for a reasoned analysis, since the synthesis of such information is complicated.

To begin, we must orient to a start point of Fiscal Year 2010-11 that was based upon the information available from the strategy document.[8] Second, Treasury Board estimates also suggested 2010-11, and additionally provided information for a 20 year aggregate baseline plan amounting to $475 billion. This was the first information misstep, as the *aggregate* total of the strategy was stated as $490 billion, a $15 billion difference. It was matter of concern, since the differential amount was significant. However, the explanation was found as an adjustment in Note 1 of the *Canada First – Defence Strategy*. The department cited $15 billion dollar for prior investment. It was a matter of reading the fine print.

Second, there was in-year support costs associated with that investment. The total prior capital investment was, in fact, $30 billion. Part of this total was a $15 billion dollar figure, which was the in-year support costs that had to be added back into the department's budget, but this tended to obfuscate matters. Note 2 further cites a $20 billion cost for New Major Fleet Replacement, and the total cost of said replacement must also be amortized over the useful life of the assets, which extend beyond the 20-year period. This amounts to between $45 billion and $50 billion, or a $25 billion to $30 billion additional requirement beyond 2030.[9] Sorting out the details was not only difficult, but confusing. There is, indeed, new money required beyond the 20 years of the published strategy, and there is more to it than what meets the eye.

There was an additional conundrum with respect to the initial announcement, namely a $50 billion figure that was unexplained in the main text. As it happened, the government factored in new equipment, an increased investment to rebuild and maintain infrastructure into the strategy, and an increase for operational readiness, as well as compensation for prior investments. These inputs will ultimately impact the capital and operations and maintenance budgets over the long term. Further exacerbating the issue was the fact that CF equipment and infrastructure were rusting out, and required replacement and/or upgrades.

The government developed its plan, based upon a two percent increase in budget, commencing in Fiscal Year 2010-

11, and presumably at a rate of two percent of the Gross Domestic Product (GDP) per year. The $50 billion increase appears to have resulted from 'bumping' its investment from 1.01 percent of GDP to two percent, with additional increases for in-year support costs of the new capital that extend the aggregate total to $490 billion over the life of the strategy.

It appears to have been a convoluted process to arrive at the figure. So, what was the proper start point with respect to GDP? Was it 1.01 percent, or two percent of GDP? What optics were being played? Were they being played for the benefit of Canadians, strategic partners, or both? If the government was restoring the planning paradigm to two percent of GDP and had announced that baseline clearly, it could be argued that there was no new money involved in the plan for public consumption. It was simply a restoration of a historical figure for the benefit of Canada's strategic partners. As it was, the government could have explained that had it invested on the lower 1.01 percent GDP figure, it would have yielded total aggregate spending of nearly $426 billion, a $49 billion difference to the baseline of $475 billion. That would explain, in part, the apparent $50 billion increase in spending. But the government was, indeed, adding new money to the mix, as noted previously. Buried in the notes to the strategy were the additional $15 billion costs for in-service support that were ostensibly covering the life of new capital procurement purchases prior to the announced strategy, and an additional $25-30 billion in costs for the new major fleet replacements that will go beyond the 20-year period. These variances alone total approximately $100 billion, and this was likely the source of the criticism of the May 2008 announcement.[10] Arriving at the 'real' number was downright confusing and complex. It was beyond the reach of many Canadians, and was, indeed, buried deep in the fine print of government policy statements, prevarications, and rhetoric.

Remembering Who Pays the Bill

The defence community tends to forget that it is the taxpayer who foots the bill. There is a premium attached to the strategy. To a government, that premium may be its continued existence if its strategy or plans are deemed unacceptable by the taxpayer. Government control and power are on the line at election time. To the average Canadian, there are two obvious premiums for a poor choice in governance – increased taxation or reduced public services. There is 'no free lunch' for any party.

What the government was asking of all Canadians in its May 2008 announcement was a bit of a sacrifice to guarantee Canada's present and future security interests to allow the CF and the Department of National Defence (DND) to plan and to transform itself. Given the costs, there will be long-term fiscal implications in implementing this strategy.

A program of $490 billion, with approximately $100 billion of new spending, must be defended as affordable and reasonable over the long term. It is a given that personnel and equipment continue to be required, infrastructure must still be procured or maintained, and that these remain necessary requirements if Canada is to maintain forces in-being. The department's challenge continues to be its explanation to Canadians on an ongoing basis that ensures the taxpayers' investment is being wisely spent. The strategy was not an 'open sesame,' or 'bottomless pit.' Waste will be severely criticized.[11] Thus, stewardship of public resources, and accountability for results will be keys to sustaining the taxpayers' consensus, given the sacrifice that is being asked of Canadians.

Taken from the taxpayers' viewpoint, the *Canada First* strategy marked an increase in government spending. In effect, it was a change in fiscal policy. Government spending directly affects quality of life, and ultimately threatens personal incomes. Personal taxation is the single largest source of federal revenue at 47 percent.[12] The federal government's actions will ultimately have a spillover effect to other levels of government, and thus will impact upon the strength of the Canadian economy. All have a bearing, as the costs – or pain – will ultimately be borne by the taxpayer. The level of pain all comes down to the success or failure of a government's fiscal policy and plans. The taxpayer, then, is the government's buffer for the consequences of its actions. Thus, the taxpayer is a very interested stakeholder.

DND photo CX2008-0221-007 by Private Jax Kennedy

A CP-140 *Aurora* aircraft from 407 Maritime Patrol Squadron, 19 Wing Comox, British Columbia, lands at Kaneohe Bay Marine Corps Base Hawaii during Exercise *Rimpac*, July 2008.

The Economy Matters – Two Percent Matters – Real Dollars Matter

We have experienced a major downturn in economic circumstances that threatens the outcomes of the strategy since the initial review in 2008. The deep recession in the United States, led by the collapse of the financial markets, has had collateral consequences for Canada and the world that were unforeseen or ignored in 2008. The demands from defence will be hard-placed to address the long-term economic vagaries that lie hidden in the commitments buried in the strategy, given the current circumstances. It will be even harder to defend during a recessionary period, despite the fact that Canada appears to have emerged at least somewhat from its effects early. Canada, like other nations, had to redirect significant resources to aid its economic recovery, leading to growth in the national debt and deficit. This will place pressure upon continuance of the strategy. The incremental personnel costs of the CF alone will place undue pressure on the two percent model that the strategy appears to propose. It does not help the issue when there appears to be an ongoing debate concerning the validity of a two percent investment of GDP as an appropriate baseline for Canada's defence spending.

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Some argue that a two percent model is meaningless. Counter arguments have been made that what truly matters are the real dollars that are spent as being the more valid measure of defence spending.[13] Whether it is a two percent or a real dollar model, both points of view matter. Like it or not, the 'two percent solution' is the measure, the benchmark, from which the international community judges Canadian defence capability and intent.

Prior to 1994, Canada traditionally invested two percent of GDP on its defence forces, as captured by NATO. [14] Its defence investment dramatically declined well below two percent, commencing in 1994. Chart 1 below collaterally highlights a significant decline in Canada's influence, reputation, and prestige.

Canada argued during this period that it was the real dollars spent that were important. However, a common GDP planning factor may have been considered more important to its NATO allies. Embedded in a common GDP factor was also a level of common burden-sharing. A GDP planning factor is dependent upon the strength of individual economies. It is a measure of the extent of intent to burden share, based upon the strength of an individual country's economy. As long as Canada stayed at or near the two percent level, a NATO average, it was regarded as a player, and bought influence.

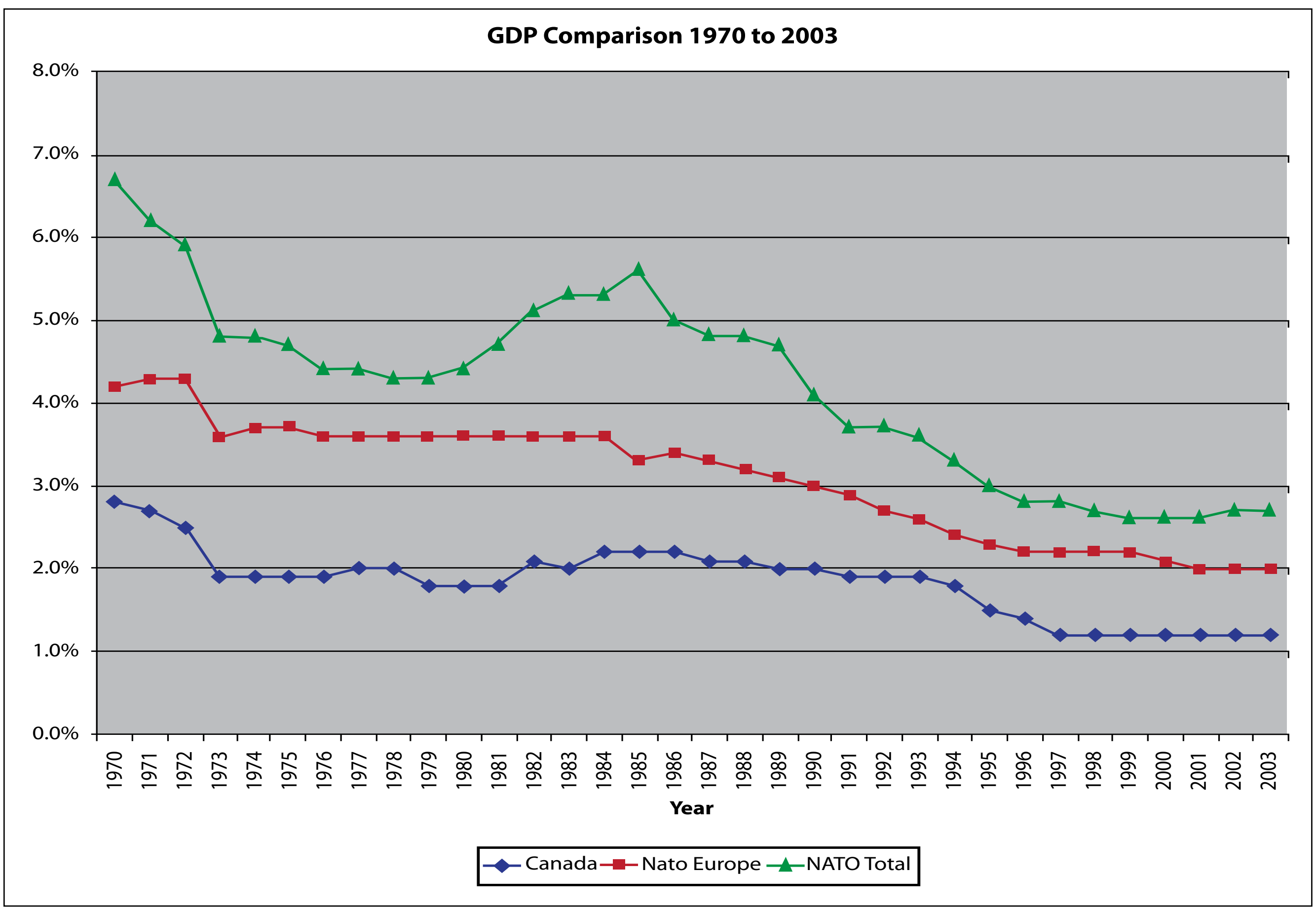

CHART 1 – GDP COMPARISON OF NATO (TOTAL), NATO (EUROPE) AND CANADIAN DEFENCE SPENDING

Canada sent a signal, by reducing its GDP factor below two percent, that it no longer intended to bear the pain at a common level, and that it was shifting this burden to the Alliance. Others were 'putting more on the table,' occasionally in spite of having weaker economies. Although Canada was putting more on the table in terms of real dollars, it was the GDP factor that was of greater importance to the other NATO nations overall. Consequently, Canada's reputation was considerably damaged, and it virtually lost its seat at the table, despite the fact that it was spending more in real terms than many of its NATO allies. Therefore, the 'two percent solution' and the real dollars stemming from it do indeed matter.

What of the *Canada First* Strategy?

Given this paradigm, *Canada First* had to 'get it right' from the outset. Canada's reputation was being restored, but it was fragile. The value of the defence investment had to be made apparent to Canadians, who are now starting to see the value of that payoff, exemplified by Canada's quick reaction to the disaster in Haiti. Hopefully, our citizens will understand the role that these resources can play at home, as well as aboard.[15] Therefore, the plan had better be explained on a continuing basis if that consensus is to be maintained, and a momentum for reasoned defence spending sustained over a 20-year period.

The key questions reviewed in 2008 were:

1. Is the plan affordable?
2. Is it sustainable? and
3. What are the challenges to implementing the strategy?

A model was created to test these important questions, using the 2010-11 baselines from information drawn from Treasury Board Main Estimates for FY 2008-09.[16] It still has merit today in 2010. The model may be useful in identifying some available options, as well as the impact of reduced economic circumstances.

Starting the process, the baseline was topped up for the proposed personnel changes that are to be in effect by 2010. The model was then refined to reflect both current and the *Defence First* strategy, and extrapolated with the following assumptions:

1. The department will be constrained by a fixed budget over the period;
2. The needs of Personnel, Operations and Maintenance, Grant and Contributions and Capital costs must be balanced within the annual ceilings;
3. Inflation will have an extraordinary impact on personnel costs;
4. Personnel levels of 70,000 will be achieved prior to 2010; and
5. Capital will be the changeable variable.

Putting the initial model together in 2008 was difficult. *Canada First* had to be re-aligned along new pillars, based upon personnel, equipment, infrastructure, and readiness, which were used to sell this program to the public. Parliamentary accounts are aligned differently along the lines of votes. The standard costing model employed is Based Vote for Personnel, Operations and Maintenance, Capital, and Grants and Contributions. Some of the pillars are similar to the standard costing model, but elements of the strategy cross Personnel, Operations and Maintenance (Vote 1), and Capital (Vote 5) lines. It was difficult to segregate these elements. The fact is that the department must respect the traditional money model, which is the Parliamentary Vote system. This analysis aligns to the traditional method. Hence, some slight variances may result. Not accounted for in the strategy was an important element. The department is obliged to assume mandatory payments under Grants and Contributions. Although this represents one percent of defence spending annually, it is a bill that will have to be paid. The 'Grants and Contributions' factor was held constant for the purposes of this analysis.

"Not accounted for in the strategy was an important element. The department is obliged to assume mandatory payments under Grants and Contributions."

Constructing a Model in 2008

The baseline was adjusted for information from *Canada First*, notably, the in-year support costs, to accurately reflect the proposed $490 billion spending plan on a Vote Based model. The model budget ceiling was then increased by two percent per annum over the life of the strategy. A number of reiterations were then conducted to reflect the impact of inflation upon personnel costs, and then again upon a combination of personnel and O&M costs upon capital. Capital was held as the residual for adjustments to the departmental budget within a fixed ceiling.

Findings through the Rearview Mirror – 2008 - A Plan without Constraint

The baseline based upon two percent increases suggested that the strategy was adequately funded to meet present and future demands of the department's needs of Personnel, Operations, and Maintenance, Grant and Contributions, and Capital Costs. There also appeared to be room for growth in personnel (Table 1). The funding baseline suggests a proper level for adjustment and re-alignment to all pillars of the pro-

Scenario	Personnel	O&M	Capital	Grants & Contributions	Total 20 Yr Spending
Baseline	$222,789.67	175,311.71	$71,787.69	$5,523.05	$475,412.13

TABLE 1 – BASELINE

Scenario	Personnel	O&M	Capital	Grants & Contributions	Total 20 Yr Spending
Baseline	$222,789.67	175,311.71	$71,787.69	$5,523.05	$475,412.13
1-51% Pers & all SP Costs	$250,110.18	$190,311.71	$44,467.18	$5,523.05	$490,412.13

TABLE 2 – BASELINE READJUSTED TO ANNOUNCE STRATEGY.

gram set out in *Canada First*. Baseline personnel costs were on the low end, representing 47 percent of total spending in 2010-11. The strategy proposes to spend 51 percent on Personnel costs. The fact that the government desired to increase personnel spending to 51 percent of budget *must* have an impact upon cash available across all pillars over the 20-year life of the strategy. *(see Table 1)*

The baseline was then adjusted to Scenario 1, to reflect the outcomes desired in *Canada First*.[17] The second iteration 'bumped' personnel costs to 51 percent of defence spending. The inferred in-year support costs of *Canada First* for prior capital purchases were also added back into the plan, straightlined, uninflated, and held at $750 million per year. The model, less the in-year support costs and capital as a residual, was inflated by two percent per year to raise defence spending for the period, amounting holding to the total aggregate costs of the $490 billion over the life of the plan. Scenario 1 in Table 2 confirmed the fiscal viability of the start line, and the viability of the program over the long-term assuming sustained support by the proponents of the plan.[18] This is a model without constraint. The department would be free to adjust from O&M to Capital in order to achieve any undefined infrastructure capital costs. There are $60 billion worth of equipment and other capital investment on the table. Fifteen billion has already been acquired, and, presumably, expensed. Consequently the $44.4 billion observed in Table 2 covers the remaining capital investment being planned in the *Canada First* strategy. Therefore, assuming continued government support, the basic plan presented in 2008 was affordable and sustainable, given a healthy Canadian economy over the long term as perceived at the time.

At first glance, the two percent framework appears to provide the department with a stable long-term planning base, assuming that annual inflation does not exceed two percent. Table 2 appears to confirm the viability of a two percent model increase, which appears sufficient for inflation, and assuming continued funding is available for the in-year support cost over the aggregate of 20 years. *(see Table 2)*

Chart 2 of Scenario 1 indicates close alignments with *Canada First*.[19] There are slight variances in the disposition of the chart, due to the Parliamentary Vote presentation. The proposed spending for personnel and capital costs of $250 billion and $45 billion respectively closely matches that laid out in the strategy. The infrastructure costs are likely embedded in the total O&M costs (Table 2) in this representation, however, they are discernable. The government proposes to spend $40 billion in infrastructure investment, and another $140 billion for operational readiness.[20] This closely matches the total for Operations and Maintenance found in Table 2.

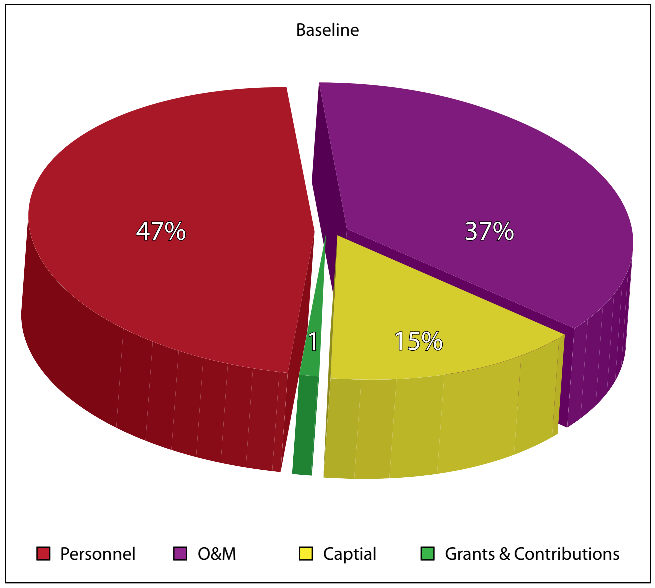

CHART 2 – SCENARIO 1 – CANADA FIRST STRATEGY ALLOCATION 20-YEAR AGGREGATE.

The capital infrastructure and readiness costs are likely embedded together in the strategy.[21] The analysis suggests that there is sufficient flexibility in the plan to adjust O&M to capital to meet the proposed program (Table 1 – Scenario 1). Essentially the *Canada First* strategy is a balanced plan, assuming that there is continued consensus and political will over the long term, based upon a two percent of GDP planning factor. It essentially restores a reasonable planning regime for the Department of National Defence, from which it can adjust to 'booms and busts' along the way.

The Challenges of 2008 - What about Inflation and Will?

However, there were two variables for which the plan could not account. The first was that of inflation. The second was the likelihood of sustained public and continued political goodwill toward defence needs. These variables had some bearing in 2008. They continue today, and they will be the source of possible friction for future budgetary adjustments. However, we can confidently test them within the model on some small scale. As demonstrated in 2008, the model will accept any inflation rate. A rate of four percent was chosen for this analysis to reflect the historical cost of military pay raises for a specific period. The historical rate is actually much higher. The selected rate was also applied to the proposed operations and maintenance costs to assess the impact. More relevant to the current situation, we also tested the shift in political will by removing the in-year support costs to reduce the budget ceiling to the baseline. The removal of in-year support costs from the model is an assessment of the impact of a shift of political mood upon the strategic plan over the long term. Confidence

Scenario	Personnel	O&M	Capital	Grants & Contributions	Total 20 Yr Spending
Baseline	$222,789.67	175,311.71	$71,787.69	$5,523.05	$475,412.13
1-51% Pers & all SP Costs	$250,110.18	$190,311.71	$44,467.18	$5,523.05	$490,412.13
2-51% Per - no Sp Costs	$252,158.59	$190,311.71	$27,3111.71	$5,523.05	$475,412.13

TABLE 3- IN-YEAR SUPPORT COST REMOVED – BUDGET REDUCED TO BASELINE

for continued support of the in-year support costs is only as good as the survivability of the current government.

At this point, we may start assessing the potential impacts of inflation and public/political will. The model was recalculated once again, inflating Operations and Maintenance, Grant and Contributions, and Capital Costs at a constant rate of two percent, while a four percent historical rate was applied to departmental personnel costs.[22] Likewise, the personnel costs were held at a 51 percent share, to match that proposed in *Canada First*.

We can see the effects of the removal of the in-year support costs in Table 3 – Scenario 2 below. *(see Table 3)*

A removal of in-year support cost for past capital procurements will mark an aggregate decline of $17 billion available in capital spending from $44.4 million to $27.4 million, should this occur early in the life of the plan. This is illustrative of how sensitive the program is to inflation and is indicative of the potential impact that it can wreak. The situation will only become exacerbated if inflation is greater than two percent over the life of the plan. The capital program will be constrained further if the in-year support costs are moved early on. The start of the removal of in-year support costs is now very evident in 2010, but from the 2008 analysis, an additional potential aggregate decline of $7.6 billion was possible (Table 4 – Scenario 3), which is an indication of how sensitive the program is to changing public/political will. *(see Table 4)*

The model is not perfect, but it does suggest that inflation and shifting political will have potential impacts upon future defence budgets under the *Canada First* strategy. The model suggests that there is nominal room for growth *if* inflation is held in check, and *if* there is continued support of the plan. Finally, a two percent planning factor may represent the maximum affordability threshold that is acceptable to Canadians. That test may be reflected in the results of the next general election.

Notwithstanding the fact that the government proposes aggregate spending of $490 billion over a 20-year period, money will no doubt be tight. The base budget is basically being adjusted for inflation. In other words, there is an assumption on the government's part that inflation will be constant for planning purposes, based upon a two percent inflation rate. It will work only if inflation is held *at* or *below* that limit.

Another factor that is beyond control of DND is that no government can commit another to agree to a long-term view unless there is virtual consensus by all political parties who have a high regard for the necessity of defence. No such consensus exists in Canada, other than tacitly. Defence is deemed necessary in so far as it is a required element of statehood, but in what capacity, how much, and how it is employed are other matters. Future governments will, no doubt, reassess prior spending priorities. New governments have new, possibly differing agendas. There is no long-term certainty for the *Canada First – Defence Strategy*, as it is not a White Paper. This will likely force new re-evaluations of the program more frequently, with the concomitant proviso that savings be redirected to higher priorities, either *within* or *outside* the department. Once re-evaluated, decisions will be based upon affordability, on how much, and on what is relevant to government in other spending priorities. Thus, the plan is under constant threat of review, decimation, or constraint. The defence establishment must face facts. Option reviews and key project deferrals are already occurring, and may well occur in future upon a change of government, if past history is any indicator.

However, what the current government has done by virtue of this strategy is to restore the planning regime and factors prevalent during the Cold War. Presumably, the government has expressed its national defence budget on the basis of a two percent of GDP policy.[23] This may represent real growth on the surface, but this investment is largely dependent upon the projected growth of the Canadian economy. Nominal growth is truly sensitive to the strength of the Canadian economy. Nominal growth can be positive for a period, but the resulting real growth can also concurrently be negative as the government has recognized in its strategy, namely, that inflation, coupled with a downturn in the economy, really 'bites.'[24] The economy does have bearing on

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3-51% pers - Pers - O&M inflated	$252,158.59	$197,924.18	$19,806.30	$5,523.05	$475,412.13

TABLE 4 – EFFECTS OF INFLATION & REMOVAL OF IN-YEAR SUPPORT COSTS


US Navy photo FA2006-2053 by MCS 2nd Class Jason Swink

Two Canadian CF-18 *Hornets* and a CP-140 *Aurora* fly in formation off the coast of Hawaii in celebration of Canada Day, 1 July 2006, during Exercise *Rimpac 2006*.

future spending. It is indeed relevant. The defence budget will expand and contract upon the strength of Canada's future economy.

2010 - Through the Looking Glass

Two years have passed since the initial review and submission of this paper, and the author recently was tasked to update his thoughts on the issue. I believe the model and analysis remains as pertinent to the discussion of defence issues today as it did then. The conclusion that the base budget was basically being adjusted for inflation, and the assumption of a two percent inflation rate stands, but the passage of time has proven the difficulty of operating this strategy under conditions of economic constraint. We are starting to see the edges of the strategy unraveling as being no longer affordable in its entirety, given the change of national economic circumstances. Sure enough, the defence establishment is being forced down the road of options review and the deferral of some key projects, now evident in 2010.

"As inflationary pressures and deficits grow, so will taxpayer demand for relief."

The analysis at Table 3 is very suggestive of the route that will be taken and the options that will be used to address the growing deficit. The fact is that the Canadian government of 2010 must dig itself out of a deficit position. No doubt this will be done through the reduction of its discretionary spending. Defence represents one-fifth of that spending, and, in ways, it is the simplest one to target.[25] Thus, sustaining the two percent growth specified in the *Canada First* strategy will be exceedingly difficult. This is manifesting itself today through the deferral of training, the reduction of reserve force levels, the cancellation and/or deferral of capital procurement, and the constraints to operations and maintenance that are very evident. [26] This may well be a harbinger of change that marks the start of the removal of the in-year support costs (Table 3). After a fashion, it is like 'Alice looking through the looking glass' all over again, and is very reminiscent of the 'Decade of Darkness' for DND that commenced in 1994. [27]

That particular point in time was not propitious for positive change. The difference today is that 'defence' has a constituency that did not exist in 1994, in the press, with statesmen, or with the average citizen. Defence simply was not a high public priority. For example, Angus Reid conducted a public opinion survey in November 1999 that revealed that defence issues registered as a concern among only five percent of Canadians. It ranked twelfth in a list of 27 public policy issues of the day. In the public's ranking of three 'top-of-mind' public policy issues that required immediate attention from the federal government, those associated with defence were down two percentage points from prior surveys.[28] However, given the realities of life in the post-9/11 world, defence will not be an easy target choice this time around. [29] The problem will rest in *sustaining* Canadian support for defence. We see trends in 2010 suggesting that drastic cuts to military spending are not acceptable to the public, trends that were not present in 1994 and the decade thereafter.[30] Nonetheless, Canadians are sensitive to economic pressures on their pocketbooks, and some of our citizens continue to argue against the largesse of the defence budget.[31]

Conclusion

The government generously increased defence spending through the *Canada First* strategy. But the figure that may be required to revitalize Canada's military is probably significantly higher than that which we see at face. The strategy appeared affordable and well-reasoned, based upon a two percent model of GDP in 2008. However, we cannot escape the realities of 2010. That said, the strategy is not excessive by any means, given that it is an investment relative to Canada's growth, juxtaposed to a minimal military capability. While it appears to be a huge sum, it is a question of scale. For example, the United States budgeted $US22.5 billion [32] on pharmaceuticals, medical supplies, and health care for military members and families in 2008, approximately $6 billion more than the $16.8 billion Canada spent on its entire defence budget in the same year.[33] Canada can neither compete nor plan for defence on the same scale, but nonetheless, the nation must have a proper balance and capability to sustain operations and to meet its own interests and security needs.

We are entering a potentially unsettled period with respect to the recovery and growth of the Canadian economy. As inflationary pressures and deficits grow, so will taxpayer demand for relief. The defence budget, as a consequence, will be hammered on these two fronts. We must be realistic. Politics will address changing public concerns. The challenge for the department must be to continue restraint in costs of personnel, operations, and maintenance if it is to sustain the ambitious capital program announced in the *Canada First* strategy. Further, the strategy is only as good as the life of the current government. There is no guarantee that future governments will sustain this commitment. If the past is indeed prologue to the future, then we need to look no further back than to the 1990s for portents of directional change.

The *Canada First* strategy was a good first step to restoring Canada's reputation on the world stage. It was a necessary step to rebuilding the Canadian Forces. Canada has a very real need for its armed forces, whether they are employed at peace or at war. Defence buys more than 'boots on the ground,' and a nation cannot build a defence force overnight. The proposed investment in the *Canada First – Defence Strategy* goes a long way to protecting Canada's vital interests. A $30 billion annual investment, at the end of the day, is but a small insurance premium that protects Canadian interests and the Canadian economy. The Canadian Forces represents the front line of Canadian sovereignty. The *Canada First – Defence Strategy* will always be criticized by some as being "too much," or "too little," but from this observer's perspective, I believe it *was* – and still *is* – just right.

CMJ

NOTES

1. Douglas L. Bland (ed.), *Canada's National Defence – Volume 1 Defence Policy*, School of Policy Studies, Queens University, Kingston, Ontario, 1997. Specifically, Paul Hellyer, Minister of National Defence, and Lucien Cardin, Associate Minister of National Defence, *White Paper on Defence,* March 1964, p. 71. Donald S. Macdonald, Minister of National Defence, *Defence in the 70s - White Paper on Defence*, August, 1971, p. 132. Brian Mulroney, Prime Minister of Canada, and Perrin Beatty, Minister of National Defence, *Challenge and Commitment – A Defence Policy for Canada*, June 1987, p. 193. David Collenette, Minister of National Defence, *1994 Defence White Paper*, 1994, p. 294.
2. Canada, Office of the Prime Minister, The Right Honourable. Stephen Joseph Harper, and The Honourable Peter Gordon MacKay, *Canada First – Defence Strategy*, 19 June 2008, p. 3.
3. Janice Kennedy, "War? What war? Bland words feed our indifference," in The Ottawa Citizen, 13 July 2008, at http://www.canada.com/components/print.aspx?id=cedb783a-68a1-4a33-8243-2d43cf3b9f37&sponsor, accessed 13 July 2008. This is an example of what Defence may have to contend with in this economic climate. Ms. Kennedy opines "…[that] the country's current war is gouging the economy by billions of dollars at a time when skyrocketing oil prices are about to make the cost of life as we know it insupportable." She is concerned that incomes are becoming progressively inadequate, facing the rising increases in the cost of living. She is also concerned that our respected peacekeeping identity has changed, and that the government has embodied this in the *Canada First* strategy. She was *immediately* concerned with DND's spending $90 million for grenade launchers, which is more than five times the annual cost of food distributed by the Canadian Association of Foodbanks. Many Canadians undoubtedly share her point of view.
4. Canada, Office of the Prime Minister, The Right Honourable Stephen Harper, Prime Minister, The Honourable Peter Mackay, Minister of National Defence, and the Minister of Atlantic Canada Opportunities Agency, *PM unveils Canada First Defence Strategy,* 12 May 2008, Halifax, Nova Scotia, at http://pm.gc.ca/eng/media.asp?category=1&id=2095, accessed 16 May 2008.
5. Editorial, "Unveil Canada's defence strategy," in The Toronto Star, TheStar.com, at http://www.thestar.com/comment/article/425894, accessed 16 May 2008.
6. *Canada First – Defence Strategy*, p. 4.
7. Canada, Treasury Board of Canada, Supplementary Estimates (A), 2007-2008, for the Fiscal Year ending 31 March 2008 , pp. 201-204.
8. *Canada First – Defence Strategy*, pp. 4, 12.
9. *Ibid.*, p. 12, Chart 3, Note 1, and Note 2.

10. *Ibid.,* p. 12, Chart 3, Note 1, and Note 2 – The $100 billion figure cited by the government's critics comes in three parts:
    a. an approximate growth from 1.01 percent to 2 percent of GDP – $48 billion;
    b. $15 billion for in-year support costs from previous announcements and $15 billion previously announced as capital – a residual $15 billion is 'on the table' as in-year support costs over the life of the assets; and
    c. a residual of capital costs for new major fleet procurements amounting to $30 billion gleaned from total planned procurement of $50 billion beyond a 20-year period, minus $20 billion in the current strategy.
11. Kennedy, accessed 13 July 2008.
12. Canada, Department of National Defence, Assistant Deputy Minister (Finance and Corporate Services), Director Budget, *Making Sense out of Dollars 2000-2001 Edition.*, "Trend in Share of Federal Government Revenues." Since 1989-90, Personal Income Tax has increased slightly from 46 percent to 47 percent of total government revenue.
13. Contrast: Colin Kenny, "Despite Harper's promises, Canadian Forces still lacking**,** in *The Toronto Star*, 16 May 2008, at http://www.thestar.com/comment/article/425878, accessed 16 May 2008**,** To: Paul Robinson and Philippe Lagassé, Graduate School of Public and International Affairs, University of Ottawa, Letter to the Editor, "RE: Despite Harper's promises, Canadian Forces still lacking**,"** in *The Toronto Star*, 19 May 2008, at http://www.thestar.com/comment/article/427266, accessed 19 May 2008.
14. NATO Reference materials:
    a. NATO Press Service, Press Release, M-DPC-2(1999) Financial and Economic Data Relating to NATO, 2 December 1999, Table 1 & Table 2;
    b. NATO Press Service, Press Release, M-DPC-2(95)115, Financial and Economic Data Relating to NATO, 29 November 1995, Table 1 & Table 2; and
    c. NATO Press Service, Press Release, M-DPC-2(91)105, Financial and Economic Data Relating to NATO, 12 December 1991, Table 1 & Table 2.
15. J.L Granatstein, *Whose War Is It? – How Canada can Survive in the Post-9/11 World* (Toronto: HarperCollins, 2007), pp. 5-16. The author provides a bleak scenario of Canada's immediate reaction to a hypothetical disaster in British Columbia with the limited resources then available. Juxtapose this to Canada's reaction to the Haitian disaster following the Defence Strategy investment of 2008. Dan Leger, "Canada in Haiti: doing the right thing well," in *The Chronicle Herald*, 25 January 2010, at http://thechronicleherald.ca/Opinion/1164200.html, accessed 29 January 2010. Mr. Leger was impressed with Canada's response to the Haitian emergency that was, in his opinion, swift, sure, and determined. The country was doing something worthwhile without miring itself in partisan politics. Canada was able to do what is right, helping people who needed help. This was accomplished within hours of the quake. It was a clear demonstration that Canada can respond quickly to an emergency far from home. But perhaps more importantly from this observer's viewpoint, the same response can be likewise applied to the hypothetical case presented by Granatstein (Note 15).
16. Treasury Board, Supplementary Estimates (A), 2007-2008, 31 March 2008, pp. 201-204.
17. Canada First – Defence Strategy, p. 12, Chart 3, Note 1.
18. *Ibid.,* p. 12, Chart 3.
19. *Ibid.,* p. 13, Chart 3a.
20. *Ibid.,* p. 12, Chart 3.
21. *Ibid.*
22. Canada, National Defence, DPPD Historical Rates, QR&O 204.21, GSO – Captain. Last Modified: 2003-02-03, at http://www.forces.gc.ca/dgcb/dppd/pay/engraph/204.21_e.asp?key=CAPTAIN&sidesection=3&sidecat=28&period=H, accessed 18 May 2008. The analysis was limited to a review of a post-moratorium pay increase for the period 1 April 1997 to 1 April 2005 for captains only. This yielded an average wage increase of 4 percent. A comprehensive review over a longer period yielded a higher historical wage rate increase. I chose to be conservative and applied a lower figure for the purposes of this analysis.
23. *Canada First – Defence Strategy*, p. 4.
24. *Ibid.,* p. 11, Chart 2 – Defence Average Growth (1986-87 to 2027). Selected Periods.
25. Campbell Clark, "Budget questions loom for Canadian soldiers," in *Tuesday's Globe and Mail*, 25 January 2010, at http://www.theglobeandmail.com/news/national/Somnia/article1443706/; accessed 26 January 2010.
26. Some examples include:
    a. "The wrong time to shortchange our military," in *The National Post*, 22 January 2010, at http://news.globaltv.com/world/story.html?id=2470262, accessed 23 January 2010. With respect to a $2-billion purchase of a fleet of Close Combat Vehicles.
    b. David Pugliese, "Canadian military tightens its belt further-DND scrambles to find another $233M in savings," in The Ottawa Citizen, 20 January 2010, at http://news.globaltv.com/world/story.html?id=2462157, accessed 29 January 2010. Cites reduction of training, budgets, deferrals, reduction of reserve positions to shift the savings to higher priorities.
    c. David Pugliese, "Air force threatens to ground Snowbirds - Brass accused of playing 'game of chicken' with government over proposed funding cuts," in *The Ottawa Citizen*, 2 May 2009, at http://www.ottawacitizen.com/Technology/force+threatens+ground+Snowbirds/1556026/story.html, accessed 2 May 2009.
27. Keynote Address by Chief of the Defence Staff General Rick Hillier at the 23rd Annual Seminar of the Conference of Defence Associations Institute, 16 February 2007, p. 3. A printed example of reference to the term, "Decade of Darkness."
28. National Defence, Director General Public Affairs, November 1999 Angus Reid Survey, *Canadians on Defence- Defence Issues Still Important to Canadians,* February 2000, at <C:\Documents and Settings\Gerry Madigan\My Documents\gerry\PhD Research Material\Book Defence in the 1990s\Chapter 4\New Folder\feb_e_00 canadians on defence.htm.>, accessed 23 October 2008.
29. Some examples include:
    a. Editorial, *National Post*, 22 January 2010, This aforementioned *National Post* editorial (Note 26A) concludes with an acknowledgement of the harsh fiscal realities, but also that having a capable military with global reach is worth paying the price.
    b. Colin Kenney, "Military readiness: Canada can't rely on luck to survive," in *The Chronicle Herald*, 30 April 2009, at http://thechronicleherald.ca/Letters/1119288.html, accessed 30 April 2009. The author argues "…[that] defence spending is discretionary, which is why the Liberals hammered the Canadian Forces so badly during their drive to cut the national debt in the 1990s." He further argues "…[that today] there is nothing in the pipeline to replace critical naval and air force equipment – stuff like ships and planes that are approaching obsolescence and take many years to plan for, order, and take delivery." He also mentions that although the defence budget has doubled since the arrival of the Harper government, it cannot get ahead of the procurement curve because of past penury.
30. Editorial, *The National Post*, 22 January 2010.
31. David Pugliese, "Air force threatens to ground Snowbirds…" Pugliese cites the Rideau Institute, which "…argues that the military's $18 billion budget is already too high."
32. United States of America. Department of Defense, Office of Management and Budget, *Budget2008,* at http://www.whitehouse.gov/omb/budget/fy2008/defense.html, accessed 19 March 2008.
33. Canada, Treasury Board of Canada, *2008-09 Estimates, Parts I and II - The Government Expense Plan and The Main Estimates,* pp. 1-27, Table 12.