Institut RIDEAU Institute
63 Rue Sparks Street, Suite 608, Ottawa, Ontario K1P 5A6 CANADA
t. 613 565-9449 fax/télec. 613 249-7091 e. operations@rideauinstitute.ca www.rideauinstitute.ca

Pre-Budget Submission to the House of Commons Standing Committee on Finance submitted by the Rideau Institute

August 12, 2011

Executive Summary

On June 17, 2011, the House of Commons Standing Committee on Finance invited Canadians to participate in its annual pre-budget consultation process. The committee indicated its interest in receiving the views of individuals and groups on four primary issues: how to achieve a sustained economic recovery in Canada, how to create quality sustainable jobs, how to ensure relatively low rates of taxation, and how to achieve a balanced budget.

The Rideau Institute, an independent research group with a demonstrated expertise in defence policy, submits that the government should reduce spending on the Department of National Defence, and includes the following recommendations to assist the committee in achieving its goal of achieving a balanced budget.

Recommendations

1. Reduce Department of National Defence spending, with a goal of returning to pre–September 11, 2001 levels.

2. Review planned equipment spending to ensure projects still meet Canada's national defence policy priorities.

3. Increase oversight of Department of National Defence equipment spending by establishing a parliamentary committee or subcommittee responsible for Major Crown Projects.

Background

National Defence forecasts that spending for FY2010-11 will reach $22.2 billion (including respendable revenue), according to the 2011-12 Estimates (or $22.8 billion in 2011 dollars, based on GDP Implicit Price Index).

But for the first time in more than a decade, the Government of Canada plans a reduction in defence spending this fiscal year, pegging FY2011-12 planned spending at $21.7 billion. This represents a 2.25% nominal/4.8% real decrease from last year's spending.

The planned reduction is politically significant in that the government may be acknowledging that the rate of annual increases – reaching as high as 12.9% nominal in FY2007-08, for instance – is not sustainable in the short term (see Chart 1).

The *Canada First* Defence Strategy (CFDS) announced in May 2008 promises an "average" of 0.6% real increase per year. But despite the planned decrease for 2011-12, the average real increase since 2008 remains at more than 2% per year, well above the CFDS target of 0.6% per year.

Whether this planned decrease will actually occur is questionable, based on past variations between planned spending and actual spending. The FY2011-12 figure will almost certainly be higher than projected. The cost of the Libya operation is not included in this total. And final spending has frequently been higher than original projections even in normal years.

Even if the planned decrease is achieved, this level of defence spending is high by historical standards. It is 19% higher than it was in FY1989-90, the year the Berlin Wall came down, and 40% higher than it was in FY2000-2001, the year before the terrorist attacks of September 11, 2001 (79% in nominal dollars). In fact, the government has spent $45.5 billion more on national defence since 9/11 ($31.8 billion in 2011 dollars) than it would have, if spending had remained at the FY2000-2001 level.

Chart 1: Changes in Canadian Defence Spending Since 2000-01

Fiscal year	Budget-year dollars (billions)	Nominal change from previous year	2011 dollars (billions)	Real change from previous year
2000-01	$12.1	-	$15.5	-
2001-02	$12.7	5.0%	$16.2	4.5%
2002-03	$12.9	1.6%	$16.3	0.6%
2003-04	$13.6	5.4%	$16.6	1.8%
2004-05	$14.6	7.4%	$17.2	3.6%
2005-06	$15.1	3.4%	$17.2	0%
2006-07	$16.3	7.9%	$18.1	5.2%
2007-08	$18.4	12.9%	$19.8	9.4%
2008-09	$19.5	6.0%	$20.2	2.0%
2009-10	$21.2	8.7%	$22.4	10.1%
2010-11	$22.2	4.7%	$22.8	1.8%
2011-12	$21.7	-2.3%	$21.7	-4.8%

Source: National Defence Reports on Plans and Priorities and author's calculations (2011 dollars based on GDP Implicit Price Index).

Considerations

Despite this significant commitment of public dollars to national defence, the government will likely find itself under pressure to increase military spending from the department and its advocates.

The Canadian Forces have increased both in size and in operational tempo in the last decade, and the Afghanistan operation has imposed severe human and equipment costs on the department now, and into the future. The incremental costs of Canada's international operations are projected to be considerably higher this year than they were last year – $2.146 billion, compared to $1.476 billion (2011 dollars) in 2010-11 – which means that in the absence of supplemental increases, this year's base budget will be as much as 9.5% lower than last year's.

Chart 2. Planned Capital Spending

	Planned Spending		
	2011-2012	2012-13	2013-2014
Capital Spending	$4,664,573	$5,129,587	$5,273,247

Source: National Defence, Report on Plans and Priorities 2011-12.

Another budget pressure is likely to come from the equipment procurement plans laid down in the *Canada First* Defence Strategy. It is widely felt that the amount of money allotted for those purchases is insufficient to cover them, meaning either that spending increases substantially beyond the level promised by the CFDS will be required or that significant equipment purchases will have to be deferred or cancelled.

Despite holding the line on overall departmental spending, the government plans to divert an additional $1 billion to capital spending over its current level within the next two years. The percentage devoted to equipment increase will rise from 21.9% to 24.7% of total departmental spending by 2013-14.

Finally, the ambitious military build-up of the last decade has allowed large military equipment programs to proceed without the department adequate demonstration by the department that they were required. Worse, the programs are undertaken without transparency, and often without open bidding processes. Procurement projects worth billions of dollars clearly require greater parliamentary oversight.

This poor management of public dollars has resulted in a large number of non-competitive contracts awarded for defence programs that seem to be driven by private or industrial interests, rather than demonstrable defensive requirements. For instance, the selection of the F-35 stealth fighter for the Next Generation Fighter Capability project reflects these failures.

Conclusions

In the wake of the terrorist attacks of September 11, 2001, Canada, along with others, undertook new international military operations and embarked on a long list of equipment and weapons acquisition or modernization programs.

A decade later, the greatest threats to Canadians' security are not military, but economic. These military missions (such as Afghanistan) are winding down, and governments are now preoccupied with addressing the global financial crisis and ensuring an economic recovery for their citizens.

Military spending should be adjusted to reflect the new reality and begin the return to pre–September 11, 2001 levels. In addition, ambitious capital equipment projects should be curtailed, and parliamentary oversight of these spending programs should be increased to ensure the greatest efficiency and effective management possible for taxpayers.

Parliamentary fiscal monitoring agencies, such as the Parliamentary Budget Office and Office of the Auditor General of Canada, have repeatedly raised alarms about defence spending programs. Parliamentarians require a mechanism to systematically inform themselves of Major Crown Projects, such as a subcommittee on Major Crown Projects of the Standing Committee on Government Operations and Estimates (OGGO).

About the Rideau Institute

Established in 2006, the Rideau Institute is a non-profit, non-partisan and independent research, advocacy and consulting group based in Ottawa.

This submission was prepared by Steven Staples, President, and Bill Robinson, Senior Advisor to the Rideau Institute.