

# Sustaining Strong, Secure and Engaged Funding: What the COVID-19 Pandemic Means for Defence Funding

by James A. Clarke

*The risk of interstate conflict, including among great powers, is higher than at any time since the end of the Cold War.*

– Daniel R. Coats, Director of National Intelligence

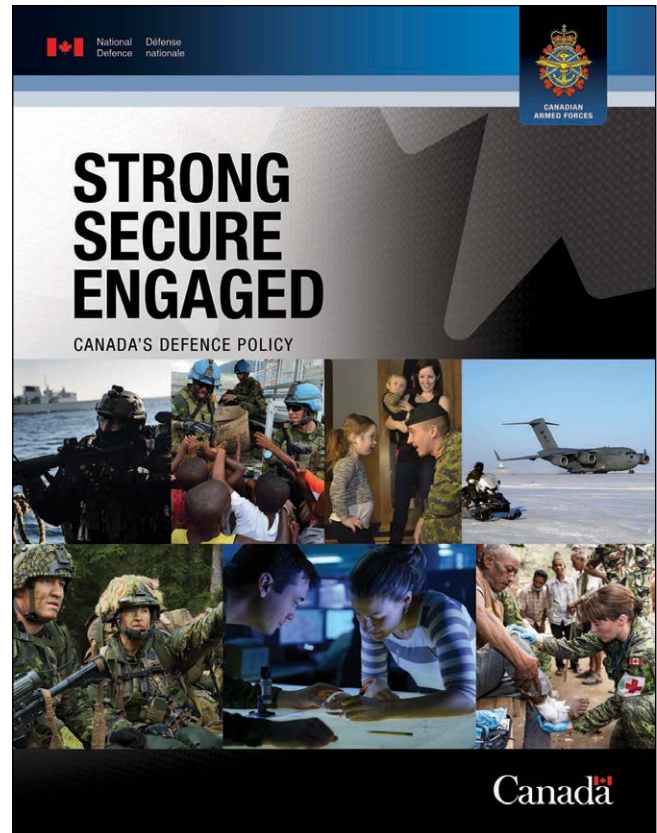
## Introduction

*The Government has no higher obligation than the safety and security of Canadian people. Our new strategic vision for defence reaffirms this overarching priority of the Canadian Armed Forces: defending Canada and protecting Canadians.*

– Strong, Secure, Engaged: Canada’s Defence Policy (p. 60)

**C**COVID-19 has changed the world. Forever. In fact, a recent article on *The Economist* website very succinctly framed the long-term financial challenge: “...governments are writing millions of cheques to households and firms in order to help them survive lockdowns. At the same time, with factories, shops and offices shut, tax revenues are collapsing. Long after the covid-19 wards have emptied, countries will be living with the consequences.”<sup>1</sup> That article concludes by portending that for future governments “Making budgets add up looks as if it will be a defining challenge of the post-covid world – one that today’s politicians have not yet even started to confront.”<sup>2</sup> The post-COVID reality will likely be the defining challenge for Canada’s next government and, pending the duration and impact of the pandemic, governments beyond. As our governments develop fiscal plans to restore the economy, they must avoid the temptation of ‘easy cuts’ to Defence, often seen as a discretionary budget; an approach that worked during the debt crisis of the 1990s and the 2008 financial crisis. The world has changed – we can no longer seek a post-Cold War ‘peace dividend,’ nor can we rely on a disproportionate US defence investment to provide Canadian security. Canada must carry its weight and we need to be able to contribute in a world that is being redefined in terms of geopolitical power, ascending and resurgent aspirations and differing ideologies. One of the biggest challenges for future Canadian governments will be managing debt (COVID induced and other), revenue, and expenditures while sustaining economic growth and the quality of life Canadians have come to expect. All of this in what is arguably the most complex global security environment ever.

This brief article contends that continued investment in *Strong, Secure, Engaged* and other needed defence investments



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should remain central to any post-COVID economic recovery action contemplated by government. Through the lens of today’s security environment, this article examines the strong correlation between security and economic prosperity. It will also show that an economic stimulus package can address the needs of the Department of National Defence, while providing the economic benefits needed to keep our economy growing, and finally, that investment in defence will reduce economic risk to Canada in an era of integrated infrastructure, integrated economies and shared security risks.

Some may argue that, much like during the debt crisis of the 1990s or global financial crisis of 2008, defence spending remains a discretionary activity. Unfortunately, the return to a period of Great Power Competition and an increasing reluctance of the United States to fulfill the role (and payment) as the world’s policeman bring risk to any policy that would see Canada reduce its widely-touted commitment to a long-term increase in defence spending. Canada must stay the course on defence rejuvenation.



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Chrystia Freeland, then-Canada's Foreign Affairs Minister, meets Rex Tillerson the US Secretary of State, at the first session of the 2018 Foreign Ministers' meeting addressing Security and Stability on the Korean Peninsula, Vancouver, 16 January 2018.

**Constructive Canada**

*Canadians' security and prosperity go hand-in-hand. Today, we are connected to – and affected by – everything that happens internationally, and we want to be part of solutions to complex global challenges. Canadians rightly expect our government and country to play a positive and constructive role.*

– Chrystia Freeland (then-Minister of Foreign Affairs)

**I**freely admit that this section is underpinned by two assumptions. The first is that the above statement, in particular that Canadians expect Canada to be part of the solution to complex global challenges, is true. The second assumption is that the same statement is without caveats. I assume it means all the time: not when convenient, not when affordable or not only when we feel like it. I believe that *Strong, Secure, Engaged* is about giving the Canadian Armed Forces the tools needed to be at the leading edge of Canada's positive influence in the world.

It should come as no surprise that with increasing economic turmoil come increased security challenges. On the heels of the 2008 financial crisis, Canada's intelligence community hosted a series of workshops that sought to determine if there was a correlation between that economic upheaval and international security challenges. In particular, they noted, "Economic crises can produce security crises because they destroy the economic security of individuals and classes, upset power relationships which have supported stability [regional or global], or induce ideological revolution against the status quo."<sup>3</sup> Any COVID recovery plan must be mindful that an already complicated international security environment will likely

become more complex and, without a sufficient domestic capability to ameliorate emerging crises around the globe, the economic conditions needed for a Canadian recovery could be compromised.

The study also noted some significant shifts in economic and political power, and while it was a review of the 2008 financial crisis, the observations are illustrative of the potential shifts that may occur during world-wide post-COVID recovery efforts. After 2008, the dominance of the United States decreased, and given the vastness of the COVID impact on the US, a similar decrease can also be expected. The authors remarked:

*The attractiveness of the US economic model has been severely impaired and its political culture, which one*

*expert emphasized has been characterized lately by "incivility and partisan bitterness", has lost much of its appeal. A decline in U.S. moral authority will have direct consequences for the potential of soft power.<sup>4</sup>*

Given the tremendous changes in US politics that accompanied both President Trump's election and his administration to date, these observations can only be amplified. The return to Great Power Competition that has changed the global security landscape since this study both complicates the COVID-19 economic response and highlights that Canada and other Western nations must be prepared to take a more active role, given an increasingly inward-looking United States. Should the West fail to collectively address the pending power vacuum, the door will open for other all-to-eager powers. In light of China's relatively small number of (reported) cases, it is reasonable to expect that they will be well-placed to accelerate their Belt and Road Initiative, either by staying that strategic course or, modifying their approach to one of opportunistic increased foreign aid to struggling and willing economies around the world.

In the 12 years since the 2008 financial crisis, much has changed. We are, once again, in a period of Great Power competition; several of our competitors seek to undermine the American-led liberal democratic world order that enables Canadian prosperity. However, unlike the last Great Power competition, the Cold War, we now face a more diverse threat and, for the first time in our history, a threat that can credibly attack North America without resorting to nuclear weapons. This is a reality for which the current Canadian Armed Forces are ill-prepared.



Canada's Minister of National Defence Harjit Sajjan, and NATO Secretary-General Jens Stoltenberg participate in a joint Q & A at NORAD and US Northern Command Headquarters in Colorado Springs, April 2018.



NORAD Public Affairs

Today's threat environment is more complex than ever before. Ballistic missiles, hypersonic glide vehicles, the ongoing development of nuclear-powered cruise missiles, and exceedingly long-range air, land, surface and subsurface launched low radar cross-section cruise missiles complicate the defence of Canada and North America. Much of the civilian infrastructure we take for granted, whether economic, power generation, transportation

or the facilities needed to project power abroad, is held at risk and can be attacked with surgical precision. We have lost the security that came with geographic isolation, a luxury we enjoyed since Confederation. Decelerating or cutting *Strong, Secure, Engaged* investments will prolong our period at risk and leave Canada increasingly vulnerable to the nefarious influence, either through covert or overt actions, of adversaries.

A constructive Canada is a nation that continues its tradition of contributing to global peace and security, is one that protects human rights the world over and is a nation that serves as a beacon of freedom and prosperity to the rest of the world. To do this, Canada must safeguard the security on which our prosperity depends and fulfill its commitment to invest in the Armed Forces.

### A Canadian Tradition

*Whatever the economic conditions, over the long term, the federal government has generally had a tendency to increase its expenditure faster than revenue, even during good economic times. Over the [first] 150 years of Confederation, nominal federal government revenue has grown at an average annual rate of 7.6% while expenditure has grown at 8.3%. Moreover, expenditure has exceeded revenue – that is a deficit has been incurred – nearly 75% of the time.*

– Livio Di Matteo in *A Federal Fiscal History: Canada, 1867 – 2017*

Debt and deficit spending is nothing new to Canada, the Canadian government, or Canadians. In fact, Canada is a nation that was born into debt. As part of the fiscal solutions at Confederation, the federal government took over the overwhelming majority of existing provincial debt. National debt at Canada's birth was 72.1 million dollars or, 18.6 percent of GDP.<sup>5</sup> While debt continues to grow and should not be ignored, deficit financing will undoubtedly continue and, when owned by the nation, national debt is unlike household debt. What is most important is not the *value* of the debt, but rather, the cost of *servicing* the debt. While interest rates are low, debt is cheap.<sup>6</sup> In fact, "most economists worry less that governments will borrow recklessly, than that they will be too timid because of an irrational fear of rising public debt. Inadequate fiscal support today risks pushing the economy into a spiral of decline."<sup>7</sup> So, how can Canada approach the looming COVID induced financial crisis?

In general, governments will have three broad choices on how to finance debt: 1. pay back the debt through taxation; 2. decide not to pay back the debt (or only pay back a portion); or 3. be patient and allow the economy to grow so that debt decreases relative to the GDP.<sup>8</sup> Of course, any solution will likely be a combination of increased taxation and growing the economy, much like Canada did after the Second World War. In 1945, Canada's National Debt was 15.7 billion dollars or nearly 100% of GDP. By the end of the post-Second World War economic boom in 1973, the debt had more

than tripled to 48.7 billion dollars, but was only approximately 20% of GDP.<sup>9</sup> We have been here before; we successfully managed staggering post Second World War debt through economic growth. While there were many factors beyond Canada's control that aided economic growth, there are still indicators that federal investment in defence can, once again, help keep our economy moving during recovery.

A 2009 study by the Canadian Association of Defence and Security Industries found that the expected economic impact from Canada's planned recapitalization of the Royal Canadian Navy and Canadian Coast Guard fleets will, including in-service support contracts, be approximately 1.6 billion dollars per annum over 30 years. Using an independent report, they also concluded that this will translate into approximately 10,000 full time jobs.<sup>10</sup> Defence investments provide real jobs and bring real capabilities needed to secure Canada's prosperity into the future.

After the economic boom that followed the Second World War ended, Canada was slow to respond, leading to the debt crisis of the 1990s. The Fraser Institute found that after the debt crisis, there was "little to show from the rising deficits, debt, and debt service costs ... given that the spending fueled current consumption rather than capital spending."<sup>11</sup> With interest rates forecast to remain low for the foreseeable future; the need for new and renewed capabilities articulated in *Strong, Secure, Engaged*; the real economic benefits that come with defence investment; and the



World History Archive/Alamy Stock Photo EC82CF

Winston Churchill, Franklin D. Roosevelt, Mackenzie King and the Earl of Athlone are pictured at the Quebec Conference of 1943.

increasingly complex global security environment, Canada *can*, and *must*, stay the course on defence spending while managing the economic recovery action needed as a result of COVID spending.

## A Reliable Canada

*The Dominion of Canada is part of the sisterhood of the British Empire. I give you assurance that the people of the United States will not stand idly by if domination of Canadian soil is threatened by any other empire.*

– President Franklin Delano Roosevelt

*We, too, have our obligations as a good friendly neighbour, and one of these is to see that, at our own instance, our country is made as immune from attack or possible invasion as we can reasonably be expected to make it, and that, should the occasion ever arise, enemy forces should not be able to pursue their way either by land, sea or air to the United States across Canadian territory.*

– Prime Minister William Lyon Mackenzie King

On the eve of the Second World War, the leaders of Canada and the United States made the above comments to reassure each other that the security of North America was a shared responsibility. A vision put into practice through the Permanent Joint Board of Defence, NORAD and a multitude of other bilateral agreements. Despite over 80 years of this shared responsibility, both nations are now, for the first time, facing adversaries that can attack North America below the nuclear threshold. This changes everything.

Of course, we have been vulnerable since the Soviet Union detonated their first atomic bomb in August 1949. We have lived under the cloud of possible nuclear annihilation for over 70 years. However, we knew that a nuclear attack on North America would be met in kind; Mutually Assured Destruction kept a fragile peace. What has changed is that adversaries now have the ability to conduct attacks below the threshold that would generate a nuclear response. An attack on North America is no longer a desperate, suicidal act, but rather, a valid strategy that could erode public will, fracture alliances, undermine power projection capability or create economic chaos. The consequences are less than a nuclear attack. However, the likelihood of a near-peer competitor conducting a conventional or non-kinetic attack is not only more likely, but is a widely publicized component of Russia's strategic thought. We are at risk of being attacked; our geography does not protect us, and Canada must share in the responsibility and cost of building the capabilities needed for this new reality. The real question is not whether Canada can afford this investment, but rather, can Canada afford *not* to invest?

I do not pose that question lightly. It is based upon two potential outcomes of an under-investment by Canada. First, the United States will not allow themselves to remain vulnerable: they will make the necessary investments for their defence. Today's threat from low radar cross section missiles that can be launched by land, sea or air provide little warning, and lend themselves to space-based and local sensors, as well as point defence systems. In short, Canada's geography is becoming less-important to the defence of the United States. If Canada is unwilling to commit

to our mutual defence, why would the United States do so? Without a bilateral approach to the defence of North America, Canada will be left to either pay for its own defence – likely much more expensive, or, outsource its defence through reliance on treaties and allies, hardly the approach that Canadians would expect or accept.

Second, and related, is what is the risk to the Canada-US relationship (and Canada's economy) if Canada is viewed by the United States as a vulnerability. The North East Power failure of summer 2003 brought clear the level of integration of cross-border critical infrastructure: infrastructure that could be vulnerable to either cyber or kinetic attack on either side of the border. That power outage affected an area with approximately 50 million people, and is estimated to have cost the United States between 4 and 10 billion dollars.<sup>12</sup> Although that blackout was the result of a software 'bug,' nefarious cyber activity could have the same result. In fact, in recognition of this type of vulnerability, President Trump signed Executive Order 13920: Securing the United States Bulk Power Supply on May 1<sup>st</sup> of this year. The President signed the order because "...foreign adversaries are increasingly creating and exploiting vulnerabilities in the United States bulk-power system, which provides the electricity that supports our national defense, vital emergency services, critical infrastructure, economy and way of life."<sup>13</sup> The United States is already making itself and its infrastructure a harder target which will likely have two effects: 1. Decrease the likelihood of adversaries directly attacking (kinetic or non-kinetic) the United States; and 2. Increase the likelihood of attacking the United States indirectly through Canada. Any reduced, deferred or cancelled defence spending must be done with full awareness of this risk AND understanding of the economic impact to Canada if we *are*, or are *perceived to be*, a multi-billion dollar vulnerability to the US economy.

Despite the arguments above, it is inevitable that many in government will see defence spending as a discretionary activity. It worked in the 1990s, and it worked a decade later during the global financial crisis. The simple fact is, the world has changed. We now live in a world where other superpowers seek to undermine liberal democratic societies; we live in a world where the United States is increasingly reluctant to continue to pay a disproportionate security cost, and we live with a Canadian Armed Forces that has only recently overcome the legacy of the 'decade of darkness.' Canada's return to a solid fiscal foundation includes a robust economic relationship with the United States. A robust economic relationship with the United States includes a proportionately-shared responsibility for the defence of North America and the protection of our values around the world.

## A Final Thought

In just the past five years – the 'blink of an eye' in strategic terms – China built islands in the South China Sea, put its Uighur population into detention camps, and promulgated its version of 5g technology globally. Russia waged globally-disruptive disinformation campaigns, as well as proxy wars in Syria and Ukraine. North Korea and the United States grew eerily close to an all-out confrontation over Pyongyang's burgeoning intercontinental ballistic missile capabilities. The Islamic State rose, and in the process, helped displace millions of Syrians and Iraqis before it collapsed – for the moment. Iran

DND photo by Corporal Justin Dreimanis



Canada's Chief of the Defence Staff, General Jonathan Vance, thanks soldiers of 4 Canadian Health Services Group and the other Canadian Forces members that collectively are part of Territorial Battle Group 1, and who recently came off shift at Eatonville Care Centre in Etobicoke, Ontario, for helping their communities during Operation Laser, the CAF COVID-19 response, 3 June 2020.

still wages hybrid war in the Middle East against the United States and its partners in the Gulf. The challenge of climate change looms. We do not know how these issues will play out, much less how they might intersect and interact with each other, nor how the ramifications of COVID-19 might shake everything to the ground.<sup>14</sup>

Given the complexity and rapid change we have witnessed to the global security environment in just the past few years, we have to ask ourselves, does Canada want to be part of the solution, or are we content to ‘cheerlead’ from the sidelines and accept the security and economic risk that comes with non-participation?

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**NOTES**

- 1 <https://www.economist.com/leaders/2020/04/23/after-the-disease-the-debt> accessed 20 May 2020.
- 2 *Ibid.*
- 3 [https://www.canada.ca/content/content/dam/csis-scrs/documents/publications/AO\\_EconomicReport.pdf](https://www.canada.ca/content/content/dam/csis-scrs/documents/publications/AO_EconomicReport.pdf). p. 4. Accessed 20 May 2020.
- 4 *Ibid.*, p. 11
- 5 <https://www.fraserinstitute.org/studies/a-federal-fiscal-history-canada-1867-2017>. pp. 9-12. Accessed 20 May 2020.
- 6 <https://www.economist.com/leaders/2020/04/23/after-the-disease-the-debt>.
- 7 *Ibid.*
- 8 <https://www.economist.com/briefing/2020/04/23/the-pandemic-will-leave-the-rich-world-deep-in-debt-and-force-some-hard-choices>. p. 2. Accessed 20 May 2020.
- 9 <https://www.fraserinstitute.org/studies/a-federal-fiscal-history-canada-1867-2017>. pp. 49 and 91
- 10 <http://www.defenceandsecurity.ca/UserFiles/File/pubs/cadsi-mir.pdf>. p. 30. Accessed 20 May 2020.
- 11 <https://www.fraserinstitute.org/studies/a-federal-fiscal-history-canada-1867-2017>. p.p. 63, 64.
- 12 <https://www.energy.gov/sites/prod/files/oeprod/DocumentsandMedia/BlackoutFinal-Web.pdf>. P. 1. Accessed 04 May 2020.
- 13 <https://www.federalregister.gov/documents/2020/05/04/2020-09695/securing-the-united-states-bulk-power-system>. Accessed 28 May 2020.
- 14 <https://foreignpolicy.com/2020/05/19/national-security-policy-making-myths-logos-strategy>. Accessed 20 May 2020.