

Dollars and Sense: Coping with COVID

Dave Perry

It is often a stretch to say that particular events have changed everything, but in the current context, it isn't. The COVID-19 pandemic, and government reactions to it, have completely changed Canada for at least the short term, and likely well into the future given the transformation this health and economic crisis will usher in. In what other post-electoral context would it be normal for a government to be finishing up the summer following a fall election with effectively no progress to report with respect to implementing its campaign commitments? And yet that is where the Justin Trudeau government sits at the time of writing, in mid-August 2020, just after Chrystia Freeland replaced Bill Morneau as Finance Minister. Responding to the COVID pandemic and the economic catastrophe that resulted from the public health measures put in place to mitigate it has consumed the government since mid-March. Understandably, given the magnitude of the problem, little time has been devoted to any other activity of government, including implementing the campaign pledges that won the Liberal government the election.

Across the government of Canada, at least in the National Capital Region, the impact has been widespread, with the bulk of the public service sent home to work from their couches and kitchens. While progressively more staff are returning to the office, downtown Ottawa remains a virtual ghost town given the absence of federal employees from their offices.

The Department of National Defence (DND) and Canadian Armed Forces (CAF) in comparison may have been amongst the least immediately impacted organizations in Canada from COVID. While a sizeable portion of its workforce was sent home, operational activities have mostly continued, with public health modifications. An operationally focused organization, the CAF actually already had some stockpiles of the Personal Protective Equipment that was in short supply elsewhere, and appears initially to be more oriented towards working within the COVID environment than avoiding it. Relatively early on, the navy's quarantining of ship companies before deployments meant ships sailed as otherwise scheduled, and the defence industry that supports the DND/CAF was declared an essential service allowing its support to continue. That is not to say there were no effects. The Irving Shipyard shut down production for a time and both it and Seaspan had to adjust operations, for instance, but the designation as an essential industry meant that the defence industry could continue to operate whereas other sectors were



Then-Finance Minister Bill Morneau speaks on the COVID-19 Economic Response Plan in the House of Commons on 8 July 2020 while Chrystia Freeland and Justin Trudeau look on. Freeland took over from Morneau as Finance Minister a little over one month later.

shuttered. Most notably, although thousands of troops put on standby ended up not being needed, many were sent to run care homes in a move not predicted at the onset of the health crisis. While some international operations were scaled back, the army has resumed its summer training, adding face masks to the list of standard issue camouflage.

In contrast, major swathes of the Canadian economy continue to operate remotely, if they are in fact operating, while some sectors such as travel and hospitality, remain crippled by a lack of business. Several provinces were still in the process of deciding how many of the normal hours of in-person public schooling parents can expect their children to receive in a few short weeks at the time of writing. And millions of Canadians who are still working are doing so because their employers are receiving the direct support of the federal wage subsidy or the indirect support of their employees collecting the government's emergency response benefit while they pick up a few shifts a week.

As the summer of 2020 ends, 8.5 million Canadians had drawn on the government emergency response benefit at some point since its introduction, with close to two million applying just in the second week of August.¹

To deal with the health and economic situation, the government has committed around \$200 billion on COVID mitigation and economic supports, pushing this year's

deficit to close to \$400 billion and Canada's total debt over \$1 trillion. And that was before any of the 'transformational' initiatives mentioned when Freeland was sworn in as Canada's new Finance Minister. For DND and CAF, the more notable, if less discussed, eye-popping number to keep an eye on is the federal government's loss of revenue as a result of a severely weakened economy. As of July, the government was expected to fall more than \$70 billion short of its pre-COVID forecasted revenue of \$350 billion.² In context, pre-COVID federal spending was roughly \$350, of which about \$100 billion went towards ministerial spending. With the other amounts going to pensions, transfer payments, social welfare programs, or debt repayment that are far more fixed, the remaining \$100 billion in ministerial spending is effectively the 'discretionary' component of federal spending, and DND represents roughly a quarter of this. At present, the government is only collecting enough revenue to fund one-third of those expenses.

To be clear, there has been no indication that the Trudeau government is as yet thinking about restricting spending in any way. In fact, the opposite has been suggested, as media reporting around the change of Finance Minister suggested that one of the reasons Morneau was replaced was his lack of enthusiasm for large spending. There is the possibility that the spending taps are now "really going to be turned on."³ But as many in defence circles have observed, there are strong historical reasons to be concerned

that the weakened economy and fiscal deficits with which Canada finds itself saddled will lead to defence budget cuts down the road. That has been the pattern experienced dating back over the previous 40 years. In the recessions in the early 1990s and the Great Recession after 2008, the defence budget was significantly cut, along with wider departmental spending. As Eugene Lang has argued, this precedent and the fact that Canada's budget math remains the same, with defence consuming the single largest share of ministerial, or discretionary, federal spending, means we should be prepared to say RIP to *Strong Secure Engaged* (SSE).⁴

If the past serves as a guide, we won't know the impact for another year or two, at a minimum. Following the 2008 financial crisis, it took the Stephen Harper government, which had embraced fiscal balance as a goal, until the 2010 Budget to outline a series of measures to rein in government spending in the wake of its stimulus plan, and the measures took effect starting in April 2010. The Trudeau government is far less concerned about fiscal balance than the Harper government. Trudeau campaigned on running \$10 billion a year deficits and returning to balanced budgets in the short term, but progressively moved to a roughly \$30 billion a year deficit with no plan to return to balance, pre-COVID-19. And that was before the global COVID-19 pandemic sent interest rates and the cost of borrowing to historically low levels, creating a paradoxical situation in which the cost of servicing Canada's



Wearing the now-characteristic face masks and shields, members of the Canadian Grenadier Guards decontaminate a room in the Jeanne-Le Ber long-term care centre in Montreal during *Operation Laser*, the CAF's response to COVID-19, on 17 June 2020.

Credit: Corporal Marc-André Leclerc



Three Norwegian Air Force F-16s and four F-35s escort an American B-52 bomber in international waters north of Finnmark, Norway, on 3 June 2020. Despite COVID-19, the United States has increased its strategic bomber presence in Europe, with multiple flights over Norway and near Russia this year.

debt has decreased even as the size of the deficit has increased dramatically. On its past fiscal record alone, the Trudeau government would seem less oriented to returning to balance than any other government in a couple of generations.

Another consideration will hopefully factor into any decision to reduce spending on defence – the current strategic climate. This climate features a return of great power competition accompanied by American strategic retrenchment. Starting with President Barack Obama, the United States began shifting its strategic posture. This has meant withdrawing some of its international presence, and adopting a less interventionist stance than many previous administrations. The Donald Trump administration continued this trend and adopted a policy of actively alienating American allies.

This all happened as the Russian government started fielding a generational leap in new military technology that, according to the outgoing commander of US NORTHCOM/NORAD, has placed the US homeland at risk from conventional threats for the first time in generations.⁵ Concurrently, China's emergence as a global power, and burgeoning regional hegemon intent on working outside of the accepted international norms, rules and legal structures that have endured since WWII, is even more problematic. Given China's economic strength and, as COVID has demonstrated, strategic role in the global supply chain of many essential goods, it is surely the longer term strategic problem. And this has already manifested itself. As a senior NATO official stated in fall 2019, in terms of security threats, Russia is like a bad storm, whereas China is more like climate change.⁶ So unlike the 1990s recession that came on the heels of the Berlin Wall's collapse, or the 2008-2009 recession that occurred during costly war in the Middle East but at a time when Russia was still

pursuing partnerships with NATO and China was still thought of as an aspiring trading partner and collegial member of the world community, the current economic crisis is the first to happen since the Cold War in a period of heightened, and rising, geostrategic tensions.

How much this matters to the fate of the defence budget will likely depend on a combination of how intensely Canadians feel the respective economic and geostrategic threats. At the moment, given the perilous state of the economy, it will be a tough sell to convince many Canadians that they should be concerned enough about China that maintaining, never mind increasing, the defence budget should outweigh their concerns for their children's employment prospects. If the defence budget is to survive in the short term unscathed, senior defence officials need to be far more forthright about the changing strategic landscape than they have been. 🍷

Notes

1. Employment and Social Development Canada, Media Release, "Government of Canada Announces Plan to Help Support Canadians Through the Next Phase of the Recovery," 20 August 2020.
2. Department of Finance, "Economic Fiscal Snapshot," 2019, available at <https://www.budget.gc.ca/efu-meb/2019/docs/statement-enonce/chap01-en.html#s7>.
3. Steve Scherer and David Ljunggren, quoting an unnamed critic, "Trudeau 'Wants to Go Big,' Plans Sweeping Social Welfare Reform for Canada: Sources," *National Post*, 19 August 2020.
4. Eugene Lang, "RIP SSE: What the COVID-19 Pandemic Means for Defence Funding," published by the Canadian Global Affairs Institute, 13 May 2020.
5. Commodore Jamie Clarke, Deputy Director Strategy, NORAD/NORTHCOM, "The Strategic Outlook and Threats to North America," speech delivered at Modernizing North American Defence conference, Canadian Global Affairs Institute, January 2020, available at https://www.cgai.ca/modernization_of_north_american_defence.
6. Halifax International Security Forum, off the record dinner, November 2019.

Dave Perry is Vice-President of the Canadian Global Affairs Institute and host of the Defence Deconstructed Podcast.