

# *Dollars and Sense:* Defence and Economic Recovery

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Following a 2021 election that changed very little in the standing of the federal parties, Justin Trudeau's Liberal government is back in office, and slowly getting staff up and running. Two months post-election, and pending whatever the Omicron Covid-19 variant may bring, the themes emphasized during the campaign continue to resonate: climate change; diversity and inclusion; reconciliation; and importantly, a full economic recovery from the pandemic. Indeed, the title of the Throne Speech that launched the current session and laid out the government's agenda, was "Building a Resilient Economy."<sup>1</sup>

Further evidence of the government's priorities is found in the composition of Cabinet and its committee structure. In what would seem to be a first for a Canadian government, the ministry features two Cabinet committees with the exact same mandate, the Committee on Economy, Inclusion and Climate 'A' and Cabinet Committee on Economy, Inclusion and Climate 'B' respectively.<sup>2</sup> Collectively, those two committees comprise 28 ministers, in a Cabinet of 39. As well, eight different ministers have 'economic development' as part of their portfolios, when the regional development ministers, such as the minister responsible for the Atlantic Canada Opportunities Agency, are included.

A government with such a keen eye on economic recovery is doubtless considering the economic impact of all of its activities. This is likely an even more relevant factor given Canada's fiscal situation which features high levels of national debt as a result of various federal Covid support programs, and inflation running at a level not seen since the 1990s. In that context, all activities of government are likely to be viewed through an economic lens. Historically, defence has come under heavy scrutiny when this was the case, so the impact of defence on the Canadian economy is worth considering in some detail.

The data compiled in the National Shipbuilding Strategy Annual Report highlight \$17.5 billion in contracts awarded under all pillars of the strategy between 2012 and 2020, creating almost 17,000 jobs.<sup>3</sup> So, clearly, major procurement initiatives create substantial economic returns. But beyond the types of commitments companies make when fulfilling their economic offset obligations for Canadian procurement purposes, what economic impact is created by spending money on defence in Canada, generally? To answer that question, in a recent study by the Canadian Global Affairs Institute, author Craig Stone engaged Statistics Canada to run two simulations using its Input-Output Model to assess the economic impact of defence



Prime Minister Justin Trudeau is flanked by Deputy Minister and Minister of Finance Chrystia Freeland and Governor-General Mary Simon after the 26 October 2021 swearing in ceremony at Rideau Hall following the fall 2021 federal election.

spending in Canada.<sup>4</sup> In essence, the Statistics Canada model is a sophisticated means of assessing the impact of a specific type of investment (in this case defence), broken out into detailed spending categories, and the resulting impact on Canadian Gross Domestic Product (GDP) and jobs. Using detailed spending breakdowns obtained from the Department of National Defence (DND), the report ran one simulation on the impact of Operational spending (including personnel and operations and maintenance) and a second on Capital expenditures (encompassing spending on equipment and infrastructure).

The results of the simulation show that the long-term (or induced) result is for every dollar invested in Operational expenditures creates a multiplier of 2.0 and spending on Capital a multiplier of 2.17. Stated otherwise, every dollar spent on defence creates at least two dollars of future economic activity, and 2.17 dollars if the spending is on Capital expenses. Furthermore, the Statistics Canada data show that each defence dollar spent on Operational or Capital spending creates 1.71 and 1.99 jobs, respectively. For the sake of comparison, the 2016 federal budget indicated that investments in housing or infrastructure produced multipliers of 1.4 and 1.5, respectively, suggesting that the economic impact of defence spending compares favourably to that in other areas of potential government investment.<sup>5</sup>

In addition to the sizeable overall economic impact of defence on Canada's GDP and job creation, defence activities are also dispersed broadly across Canada. DND has buildings in 161 federal ridings across the country,

slightly less than half of the total. That footprint is asymmetrical, with some having many structures – eg., the ridings of Fredericton and New Brunswick Southwest in New Brunswick have nearly 1,700 different structures – while others have as few as one, but this does indicate the breadth of the defence footprint across the country.<sup>6</sup> The majority of the department’s activity can be found in 25 bases and support units in eight provinces and one territory. Of those, a socioeconomic study conducted for DND indicates a significant economic contribution by several bases and wings on their local economies. Eleven of them contribute 10% or more to the GDP of their host communities and five of them contribute over 20%. The most significant impact is provided by the 4<sup>th</sup> Canadian Division Support Base Petawawa, which accounts for three-quarters of the GDP of its host community.<sup>7</sup>

Of course, the real point of defence spending is to provide for the defence of the country. But if fiscal pressures and the strong focus on economic recovery force some tough choices about overall federal spending, the government should factor into those considerations that defence spending has a consequential impact on the national economy, spread widely across the country, with particularly substantial impacts on the host communities of some bases. With defence spending nearing \$26 billion annually as the implementation of *Strong, Secure, Engaged* continues, the economic potential of a twofold, or better, impact on the economy of each of those dollars spent in Canada, as well as up to two jobs created with each dollar spent, should weigh into any consideration of future defence spending.

Similarly, the discussions about modernizing continental defence and the Canadian Patrol Submarine Project offer the prospect of additional investment over and above the existing National Shipbuilding Strategy program. Given the parameters of the Industrial Technological Benefits Program, companies are now heavily incentivized to make significant investments in Canada’s economy to win that work. For that reason, defence should be considered



The future HMCS Max Bernays is prepared to be launched at Irving Shipbuilding, 22 October 2021.

an economic asset as the government of Canada focuses on the recovery of the economy from the impacts of Covid-19. 🇨🇦

#### Notes

1. Canada, Privy Council Office, “Building a Resilient Economy: A Cleaner and Healthier Future for Our Kids,” Speech from the Throne to open the First Session of the Forty-Fourth Parliament of Canada, 23 November 2021.
2. Prime Minister of Canada, “Cabinet Committee Mandate and Membership,” 3 December 2021.
3. Canada, “Canada’s National Shipbuilding Strategy: 2020 Annual Report,” 3 June 2021.
4. Of note, this examined only expenditures which occurred in Canada. Spending on a procurement project that went to, say, a foreign-based supplier, did not factor into the simulation, although under the terms of Canada’s Industrial Technological Benefits Policy, firms are required to commit at least 100% of the value of a procurement in the Canadian economy.
5. David Perry and Craig Stone, “Economic Benefits of Defence Spending,” The immediate direct impact is much less than the long term impact. Details are provided in the CGAI study. Calgary: Canadian Global Affairs Institute, 2021.
6. Treasury Board of Canada Secretariat, Directory of Federal Real Property, Department of National Defence, September 2020.
7. Prism Economics and Analysis, “Socio-Economic Impact of Canadian Armed Forces Installations on Host Communities Study,” 28 April 2017.

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An undated aerial view shows CFB Petawawa.