

# THE DEFENCE CUTS

by Keith Krause

"Seven billion dollar cut in defence spending" over five years, read the headlines the day after the federal budget was presented. There was, however, both less and more to this statement than met the eye.

From the more jaundiced perspective, the cuts were not as severe as the \$7 billion figure suggested. Fully one-half of this reduction from *planned* spending (\$3.6 billion) was accounted for by the cancellation of the EH-101 helicopter contract. Of the remainder, \$1.8 billion was to be recovered by reductions in operations, training, R & D, and construction, \$850 million from base closures, and \$620 million from savings in capital and equipment acquisitions, spares, and repairs. Moreover, overall defence spending will fall from \$11.3 billion in 1993-94 to \$10.8 billion in 1994-95 and to \$10.5 billion in 1995-96.

From a less cynical point of view, the cuts to defence spending did represent a first attempt to make serious changes to some of the operations and programs of the Department of National Defence. Over the next four years, more than 16,000 jobs will be eliminated, on both the civilian and military side. These job cuts are real: the uniformed side of DND will have dropped from 89,000 in 1989 to 67,000 in 1998, a reduction of almost one-quarter. The story on the civilian side is equally dramatic, with cuts of 8,400 jobs or 25 percent of the workforce. Further elimination of up to 3,000 jobs could also be in the pipeline.

It is not clear, however, that these cuts are part of a coherent and well-planned attempt to reshape Canadian defence and security policy. Of

course, budgets are not policy, and the long-awaited defence review will only begin later this year, but the initial portents do not augur well. The most immediate focus of attention was on base closures; the more problematic future planning and policy-making issues appear to have been deferred.

The closure of 4 bases, 4 military colleges and staff schools, and 13 other installations (with reductions or cancellations of 12 other facilities) was long overdue. For some time now, the department has wanted to close redundant facilities, many of which date from a time when the overall size of the armed forces was much greater, and which today serve as purely "regional economic subsidies." What was previously lacking, however, was the political will to carry out the closures. So far, the backlash against closures has been muted, except in the case of the Collège Militaire Royal St. Jean, the only fully bilingual military college in Canada. Overall, the closures suggest that defence policy may be slowly uncoupling itself from regional economic policies, but the closing of colleges and staff schools will undoubtedly affect future training and education levels within the forces.

The economic impact of base closures will also be high in places such as Cornwallis, Chatham, or St. Jean-sur-Richelieu. Information supplied by National Defence appears, however, to have minimized the predicted impact by maximizing the "region" against which the economic impact is measured. For example, the closure of the Downsview base will only reduce employment and output in the metropolitan Toronto area by one-tenth of 1 percent. But in North York, the impact of the reduction in spending of between \$60 and \$70 million will be much greater. Which standard is appropriate?

The budget ultimately raised many questions about the future of defence policy, especially the missions and capabilities of the Canadian forces. The most seriously squeezed part of the budget in the short term appears to be equipment procurement, especially if the cancellation of the EH-101 helicopters means that any future replacement must come out of existing procurement budgets and compete against other planned projects. Procurement will hover at around 20 to 25 percent of total spending (precise figures are not available), which is a lower percentage than in many western states. The long-term consequences of this policy are evident: aging helicopters, tanks, and aircraft. At some point, decisions will have to be made either to replace these systems or to abandon the missions that rely on them.

This issue is closely aligned with the upcoming defence review. Although Defence Minister Collette carefully pointed out that the budget decisions "neither pre-empt nor prejudice the outcome of the defence policy review," the parameters of Canadian defence and security policy will continue to be set by fiscal considerations. Here the department appears to be indulging in some wishful thinking. The impression it clearly wants to leave is that it has already made the requisite sacrifices, and ought not to be the target of future cuts in government spending. This is highly unlikely—a recent CROP poll in Quebec, for example, found that 82 percent of respondents felt defence was an appropriate place to make future cuts in government spending (placing it far ahead of arts and culture or business grants, welfare, or regional development).

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The amount that Canadians are willing to pay for "defence and security" will almost certainly continue to shrink and the missions and capabilities of the Canadian Forces thus be thought through from the "bottom up" with a keen eye to what Canadians are willing to pay for. But a large, entrenched bureaucracy, at least judging from its past record, is unlikely to generate the fresh new ideas that will be needed to provide Canadians with armed forces that are effective, affordable, and publicly supported.

*Professor Keith Krause is Acting Director, York Centre for International and Strategic Studies at York University.*



## MARTIN BUDGET PUTS OFF TOUGH CHOICES TO NEXT YEAR

*by Patrick J. Monahan*

Elected on a platform that talked vaguely of "restoring hope," Finance Minister Paul Martin moved into his new office only to discover that the federal deficit had ballooned to well over \$40 billion. The problem for Martin was that there wasn't the constituency, either in the country at large or in the Liberal caucus itself, for serious action on the deficit. Sooner or later, Martin was going to have to be the bearer of some very bad news for Canadian taxpayers, but just four months into the mandate seemed a little too early to begin doling out harsh budget medicine.

### SAME TIME NEXT YEAR

Martin's February 22 budget was largely a stand-pat effort establishing \$40 billion as the new benchmark for "acceptable" federal deficits. Just a year ago, Finance Minister Don Mazankowski had predicted that the federal deficit for 1994-95 would be \$20 billion, while net public debt would stand at \$520 billion. Martin's budget plan called for a deficit that was \$10 billion higher than Maz had forecast, while net public debt is expected to reach \$550 billion by year's end. Total federal debt will hit 75 percent of gross domestic product (GDP) this year, on a seemingly inexorable rise toward a "perfect" 100 percent.

The federal government's finances appear to be in a bit of a shambles. Yet, the financial markets reacted with a remarkable, almost eerie calm to Martin's budget numbers.

Analysts apparently took comfort from Martin's prediction that the deficit would decline to a mere

\$32 billion next year on a downward path toward the Liberal target of 3 percent of GDP by the end of the mandate. But Martin's predecessors at Finance made similar rosy predictions in the past, only to find themselves proven wrong every time. Why should anyone have faith in the new minister's assurances that the deficit might be too high today, but it would certainly be brought back into line by this time next year?

The answer, according to Martin, lies in the utter reasonableness of his economic assumptions. Martin went out of his way to emphasize how prudent he had been in his estimates of economic growth and tax revenues for the next two years. He explained that the forecasting gaffes of Wilson and Maz had been a product of overly optimistic economic assumptions, while he had deliberately chosen planning assumptions that lay at the "low end" of the range of views from private sector economists.

### LOOKING AHEAD IN THE REAR-VIEW MIRROR

Martin's economic assumptions do appear to be more reasonable than those of his recent predecessors. But his forecast for the deficit a year or two years from now will almost certainly turn out to be wrong again.

The reason is simple: no one has yet discovered a way to accurately predict the future. The size of the deficit 12 months from now will be affected by a whole host of economic and political events that we have no way of even imagining today. This makes the task of forecasting the deficit two or three years down the road little more than educated guesswork.

What makes Martin's forecasts particularly vulnerable to being sideswiped by future events is the huge stock of federal debt that has been built up over the past two decades. Ottawa expects to pay over \$41 billion in interest this year alone