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MORE THAN THE COLD WAR
Canada's military spending 2007–08

By Steven Staples and Bill Robinson

Main findings

- In 2007–08 Canada's military spending will reach $18.240 billion per year, an increase of 9% over 2006–07.
- Military spending in 2007–08 is 27% higher than before September 11, 2001, and after the next two years of planned increases, will be 37% higher than 2000–2001.
- In 2007, Canada increased its ranking internationally from 16th to 13th highest military spender in the world. Within the 26-member NATO alliance, Canada has moved from 7th to 6th highest military spender, dollar for dollar.
- Canada's military spending is at its highest level since the Second World War. In adjusted dollars, military spending in 2007–08 surpasses Canada's Cold War peak in 1952–53 by 2.3%.
- In the period between the invasion of Afghanistan in the fall of 2001 and the end of this fiscal year in March 2008, Canada will have spent $7.2 billion on the full cost of military missions in or related to Afghanistan (or $3.3 billion on incremental costs which exclude salaries, equipment depreciation and attrition, etc.).

Introduction

Canada's response to the terrorist attacks of September 11, 2001, has resulted in a dramatic transformation of Canada's military and its place in political and social fabric of the country. Indeed, the Canadian Forces and the war in Afghanistan now arguably command more public and political attention than any other government activity.

Yet, despite this unprecedented rise in attention paid to the military, Canadians probably understand less about what is actually happening within the Canadian Forces than ever before.

One of the public's greatest misperceptions is about the amount of resources the federal government now devotes to military spending.

According to pollsters, the generally accepted notion is that Canada is a low military spender and should spend more on National Defence. This is a widely held belief, and with good reason, considering what citizens are frequently told about Canada's defence budget.

For instance, many commentators and political leaders have described our defence spending as being shamefully low. Others have labelled Canada a defence "free-loader," sheltering under the protection of the huge U.S. military budget while contributing very little to continental defence ourselves.

Table 1. Canadian Military Spending (2007 Billions)

2006–07	2007–08 (est.)	2008–09 (est.)	2009–10 (est.)
$16.280	$18.240	$19.249	$19.418

Source: Treasury Board of Canada. Report on Plans and Priorities 2007–2008: Department of National Defence.

However, an independent study of Canada's military spending reveals that Canada's spending is at its highest point since the Second World War, and the nation ranks among the top spenders in the world.

After adjusting for inflation, the Department of National Defence (DND) receives more public dollars today than it has in decades. Remarkably, the last time Canada spent more money on the military was when Canadians were fighting the Nazis. And more, Canada's ranking internationally is rising.

Canada's military spending 2007–08

Canada's Department of National Defence is enjoying a surge of new money this year, much of which was committed in the federal budgets of 2005 and 2006 in a multi-year build-up of the military.

Riding an upward wave, Canada's military spending will reach $18.240 billion in fiscal year 2007–08, according to DND estimates.[1]

The figure is reported in the Department of National Defence's 2007–2008 *Report on Plans and Priorities*, which estimates the total dollars to be spent by the department and is a more detailed and accurate report than the annual budget tabled by the government each year.

Along with higher spending for 2007–08, DND predicts the spending wave to continue for the next two years. According to the *RPP*, Canada's military spending will continue to rise, reaching $19.418 billion by 2009–10.

This year's level of defence spending is nearly $2 billion higher than last year. Adjusting for inflation, 2007–08 spending is a real increase of 9% over 2006–07 spending (12% without adjusting for inflation).

The rise in spending this year and the next two was directed several years ago in Budget 2005 under Prime Minister Paul Martin's Liberal government. That year, the government committed $12.8 billion in defence spending increases over five years.[2] The planned increases escalated over the five years, with the bulk of resources arriving in the later period which we are now entering.

With the defeat of the Liberals by the Conservatives in 2006, Prime Minister Stephen Harper pledged to continue with the planned Liberal increases, and his own Budget 2006 increased the amount by $5.3 billion over five years.[3] In 2007, the Harper Conservatives' Budget 2007 pledged to accelerate Budget 2006's

Table 2. Budget 2005 (Millions)

	2005–06	06–07	07–08	08–09	09–10
Budget 2005 ("$12.8 billion increase over five years in defence funding")	$500	$600	$1,558	$4,466	$5,704

Table 3. Budget 2006 and Budget 2007 (Millions)

	2006–07	07–08	08–09	09–10
Budget 2006 ("increase the National Defence budget base by $5.3 billion over five years")	$400	$725	$1,000*	$1,400*
Budget 2007 ("accelerate the implementation of the *Canada First* defence plan")		$175		-$175

**Figure provided in Budget 2007*

increases by moving forward a planned increase of $175 million from 2009–10 to 2007–08.[4]

Perhaps seeking to capitalize on the largely multi-party support for increases to Canada's military spending, the Department of National Defence has asked for much higher increases as part of a long-range plan. According to a copy of a document titled *Canada First Defence Strategy* obtained by Senator Colin Kenney, DND is seeking an increase in spending to between $26.9 and $36.6 billion by 2025.[5] At the high end, this would represent a doubling of the current level of defence spending in real dollars.

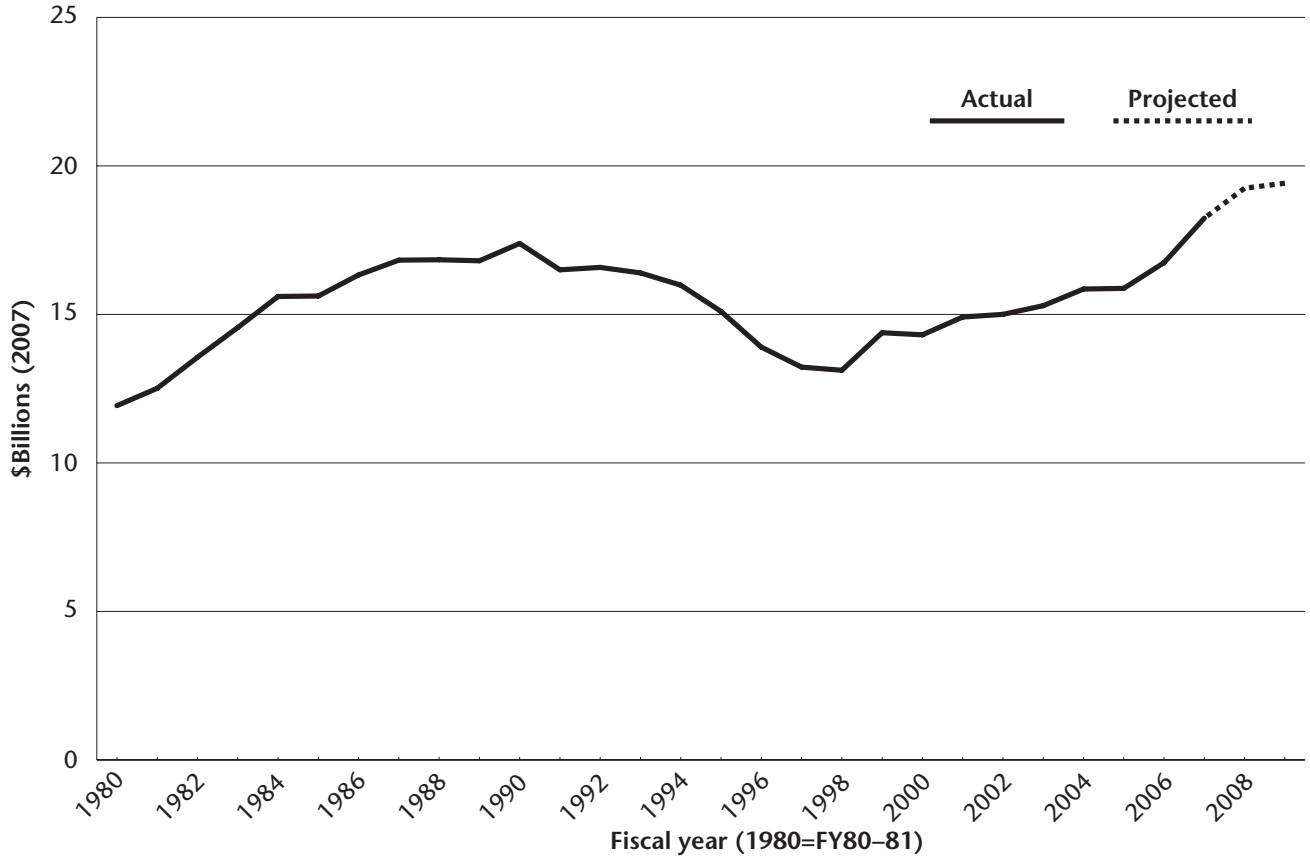
Military Spending Since September 11, 2001

Canada's military spending has been increasing since the terrorist attacks against the United States on September 11, 2001. Pressure from the United States and NATO on Canada, and all allies, to increase spending has resulted in a marked rise in Canadian military spending.

As Chart 1 shows, the upward trend in spending in Canada actually pre-dated the advent of the U.S.-led "war on terrorism." The increases began in 1998–99, the same time the federal budget deficit was eliminated. This year marked the end of Canada's "Peace Dividend," or the reduction in military spending experienced worldwide with the end of the Cold War in 1989.

There is no doubt, however, that the political environment following the terrorist attacks against the World Trade Center and the Pentagon focused an unprecedented attention on defence spending. Former U.S. Ambassador Paul Cellucci frequently pointed out that his only instruction, upon being dispatched by Washington to Ottawa, was to get Canada to spend more on the military.[6]

Chart 1. Canadian Military Spending (1980–81 to 2010–11)



Source: Treasury Board of Canada, Department of National Defence, Statistics Canada.

Domestic interests chimed in from the political right in this country: the Conservative Party, defence associations led by retired military brass, hawkish academic organizations, military contractors and business groups seeking closer Canadian ties to the Bush administration, NATO leaders, and indeed the military itself—all have pushed for more public dollars to go to the military.

Their efforts have been remarkably successful. Increases since 2001 have pushed Canada's military spending upward by 27% in 2007–08 over 2000–01.

And there is more to come. According to DND estimates (which are frequently shown to be too conservative), projected 2009–10 military spending will be 37% higher than 2000–01 spending.

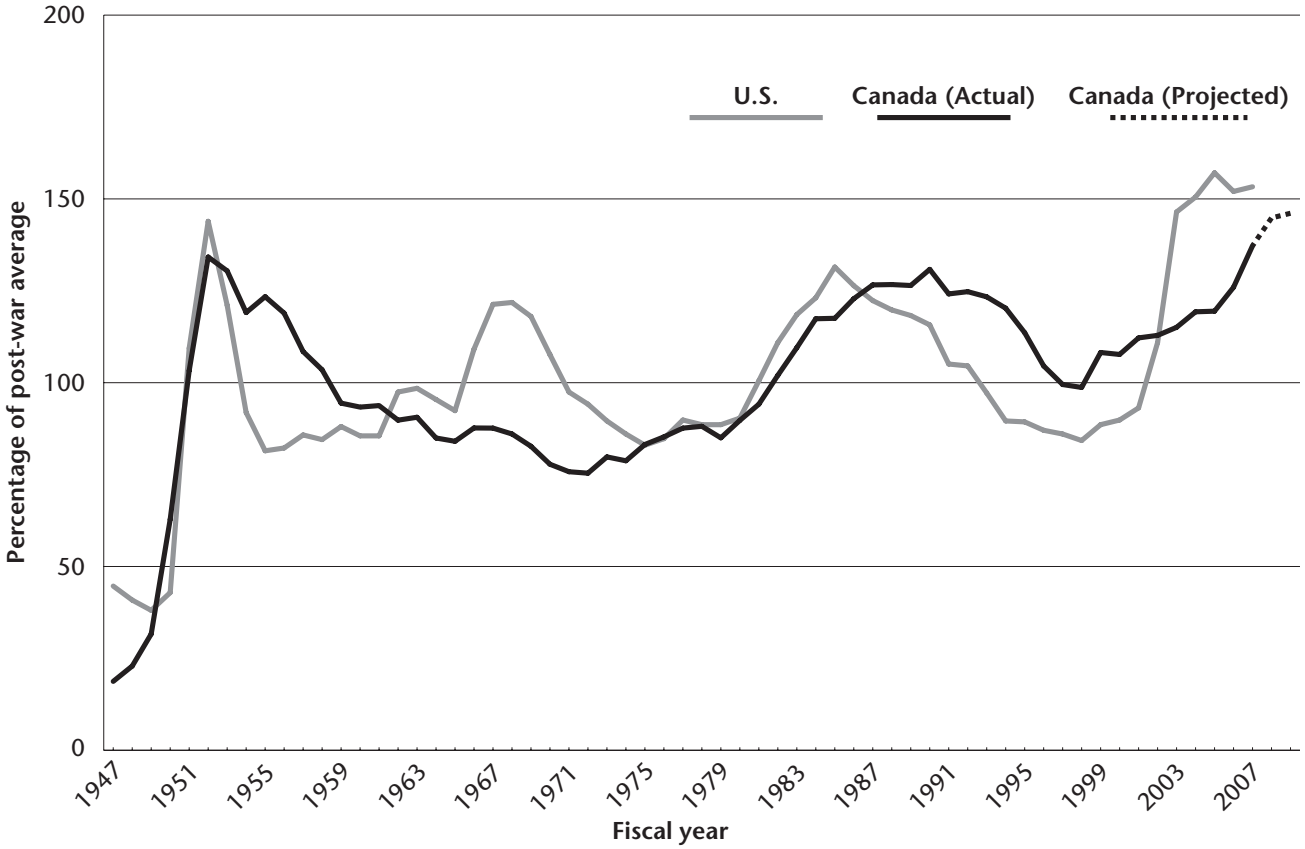
Historically speaking, the rise in Canadian defence spending is expected. A comparison of shifts in defence spending above or below the post-Second World War average level of spending shows that Canada's spending trends generally mirror those of the United States. This is shown in Chart 2.

Canada's rise in military spending kept pace with U.S. increases at the outset of the Cold War in the late 1940s and early 1950s. A notable exception was during the Vietnam War, when Canadian military spending remained relatively unchanged while U.S. spending escalated. But Canada kept pace with the U.S. build-up in the 1980s and similarly enjoyed a post-Cold War decline in spending in the 1990s.

In the wake of September 11, 2001, while somewhat delayed, Canada's defence spending increases have generally kept pace with U.S. spending increases. But there will be more upward pressure to keep pace. Between 2001 and 2006, U.S. outlays for national defence increased by 53%, roughly a third more than the Canadian increases.[7]

As a result of post-September 11, 2001 pressure, Canada's spending today is now higher than the Cold War peak in 1952–53 by 2.3%, after adjusting for

Chart 2. U.S. and Canadian Military Spending (1947–48 to 2009–10)



inflation. In 1952, Canada was at war in Korea and the first hydrogen bombs were being tested, supercharging the arms race. The irony is today, Canada is spending as much money fighting in Afghanistan and contributing to the "war on terrorism" as it did at the height of the nuclear arms race against the Soviet Union.

Canada's Ranking in NATO

Canada's ranking within the 26-member NATO alliance is frequently cited in any discussion of Canada's military spending. However, the basis upon which one compares military spending can generate quite different pictures of international standings.

NATO itself uses three different measurements in its annual report on members' military expenditures: defence expenditures in national and U.S. currencies, defence expenditures as a percentage of gross domestic product (GDP), and defence expenditures per capita. Among analysts, the least common comparison is based on per capita because the military spending of countries with large populations is understated. A per capita comparison for China or India, for example, is not very helpful because of their large populations.

The two most common measurements are real dollars, usually converted and expressed in U.S. dollar amounts, and defence spending as a percentage of the country's GDP, which measures the output of its entire economy.

The first method, comparing spending in real dollars, is the best method to determine the overall strength and capability of a nation's military. Real dollars deliver real firepower on the battlefield, especially given that the cost of military equipment has skyrocketed as systems have become increasingly complex.

The second method, the percentage of GDP, assumes that there is a connection between defence spending and the size of the economy in determining how much a government should spend on its military. That is, the government taxes its economy and should devote a certain percentage of the revenue on military spending.

Using the percentage of GDP measurement is rather murky. What is the appropriate amount to spend on defence relative to the economy? If your economy grows because of an increase in the price of oil, for instance, and your security situation remains unchanged, should military spending suddenly climb as well?

Ranking Canada within NATO using these two methods produces strikingly different results.

Proponents of increases in military spending frequently point to Canada's ranking in terms of military spending as a percentage of GDP as one of the lowest in NATO. For instance, it is not uncommon to hear Canada's level of military spending being rated as low as that of tiny Luxembourg. This comparison is often used to great effect, since most people equate Luxembourg with all things that are "small" and therefore would assume that Canada's spending must likewise be very small.

However, if one looks at Canada's ranking in terms of real dollars spent, a completely different picture emerges: dollar for dollar, Canada is the sixth highest spender in NATO.[8]

The noteworthy difference in ranking is demonstrated in Table 4.

NATO comprises several different tiers of military spenders. At the top are the five major military powers, three of which are nuclear weapons states. The United States, United Kingdom, France, Germany, and Italy all spend more than US$30 billion annually (the United States spends twice the rest of NATO combined—arguably putting it in a class by itself).

In the second tier is Canada, alongside other middle powers spending roughly US$10 billion or more, such as Spain, the Netherlands, and Turkey. The rest of the NATO members, many of which are new members from the former Warsaw Pact, comprise the third and largest of tiers, spending less than US$10 billion each.

In 2005, Canada surpassed Spain to become the sixth highest military spender in the 26-member NATO alliance. Canada's spending is so substantial that it outspends the lowest 12 NATO members combined: Portugal, Czech Republic, Romania, Hungary, Slovak Republic, Bulgaria, Slovenia, Lithuania, Latvia, Luxembourg, Estonia, and Iceland.

Canada's relatively high ranking also makes it an above-average NATO member. Considering that the average military spending by NATO members other than

Table 4. NATO Defence Expenditures, 2006.

Rank	Defence Expenditures of NATO Countries, 2006 est. (current prices and exchange rates, millions of US dollars)		NATO Defence Expenditures as % of gross domestic product (GDP), 2006 est.	
1	United States	$511053	United States	3.8
2	United Kingdom	55138	Greece	3
3	France	54002	Turkey	3
4	Germany	37775	Bulgaria	2.4
5	Italy	30635	France	2.4
6	Canada	15227	United Kingdom	2.3
7	Spain	14416	Romania	2
8	Turkey	10936	Poland	1.9
9	Netherlands	9904	Czech Republic	1.8
10	Greece	7287	Italy	1.7
11	Poland	6235	Slovak Republic	1.7
12	Norway	5201	Slovenia	1.7
13	Belgium	4427	Estonia	1.6
14	Denmark	3950	Portugal	1.6
15	Portugal	3080	Latvia	1.5
16	Czech Republic	2511	Netherlands	1.5
17	Romania	2291	Norway	1.5
18	Hungary	1299	Denmark	1.4
19	Slovak Republic	963	Germany	1.3
20	Bulgaria	712	Canada	1.2
21	Slovenia	623	Hungary	1.2
22	Lithuania	356	Lithuania	1.2
23	Latvia	278	Spain	1.2
24	Luxembourg	254	Belgium	1.1
25	Estonia	237	Luxembourg	0.6
26	Iceland	0	Iceland	0

Source: NATO, NATO-Russia Compendium of Financial and Economic Data Relating to Defence.

the United States (and Iceland, which has no armed forces) is US$11.2 billion, Canada's spending is much higher than the average amount spent by its non-American allies. According to NATO estimates for 2006 (converted to US currency), Canada's military spending at US$15.2 billion is 37% higher than the average of non-U.S. NATO members.

Yet, despite Canada's top-ten ranking in NATO, and outspending the average of non-U.S. members by more than a third, the popular perception persists that Canada is a low military spender. This is largely a result of media reports that cite statistics provided by proponents of increases in military spending.

For instance, an influential newspaper recently interviewed Senator Colin Kenny on the issue of defence spending.[9] Senator Kenny has long advocated substantial increases in defence spending, even calling for a doubling of current defence spending levels. He frequently uses the percentage of GDP-based method. As the global economy and NATO members' economies grow, advocates can argue that defence spending increases are required to keep pace with economic growth.

In the interview, Senator Kenny lamented that Canada's spending is akin to tiny Luxembourg's spending. But as Table 4 shows, according to NATO, Canada's military spending is 1.2% of GDP, the same as Spain, Hungary and Lithuania, and only one-tenth of one percent behind Germany. In fact, three-quarters of NATO's 26 members spend between one and two percent of GDP on defence. Luxembourg spends 0.6% of GDP on defence.

The GDP-based measurement method can also produce unexpected results. For instance, in 2002, a NATO report using the GDP method showed that Turkey (4.4%) spent more than the U.S. (3.4%), despite the fact that the U.S.'s military spending was 44 times larger than Turkey's that year. This demonstrates that the percentage-of-GDP method should not be accepted on face value, and should always be considered alongside real spending levels to get a better understanding.

Table 5. Defense News Worldwide Defense Spending Forecast, 2007

Rank (2007)	Country	Expenditure in Billions (US constant dollars)	Spending per Capita	% world share	Rank (2006)*
1	United States	$528.70	$1,756	46	1
2	United Kingdom	59.2	990	5	5
3	France	53.1	875	5	3
4	China	49.5	37	4	2
5	Japan	43.7	341	4	4
6	Germany	37	447	3	6
7	Russia	34.7	244	3	9
8	Italy	29.9	514	3	7
9	Saudi Arabia	29	1152	3	11
10	India	23.9	21	2	10
11	South Korea	21.9	455	2	8
12	Australia	13.8	676	1	12
13	Canada	13.5	414	1	16
14	Brazil	13.4	71	1	14
15	Spain	12.3	284	1	15

** Turkey was ranked 13 in 2006.*

Canada and Worldwide Military Spending

Worldwide military spending in 2006 is estimated to have reached US$1,204 billion, according to the Stockholm International Peace Research Institute (SIPRI).[10] This represents a 37% increase in the last decade, and a 3.5% increase between 2005 and 2006.

In terms of global comparisons, Canada's increased spending has moved it higher in the global ranking of military spenders. According to the U.S. publication *Defense News,* using data provided by SIPRI and the CIA, Canada is the world's 13th highest military spender.[11] This is an increase of three positions from 16th highest in the publication's 2006 ranking.[12]

Table 6. Canadian Military Operations in Afghanistan (2001–02 to 2007–08)

Fiscal year	Operations*	Full cost (millions)	Incremental cost (millions)	Source
2001–02	Apollo	$510.8	$216.0	*2002–03 Report on Plans and Priorities* (*RPP*)
2002–03	Accius, Apollo, Athena	709.3	233.6	*2003–04 RPP*
2003–04	Accius, Athena, Foundation	651.7	430.1	*2004–05 RPP*
2004–05	Accius, Athena, Foundation	672.0	390.5	*2005–06 RPP*
2005–06	Accius, Archer, Athena, Foundation	1066.6	402.2	*2006–07 RPP*
2006–07	Archer, Argus, Athena, Foundation	2008.9	803.7	*2007–08 RPP*
2007–08	Archer, Argus, Athena, Foundation	1600.7	849.0	*2007–08 RPP*
2001–02 to 2007–08	All operations	$7220.0	$3325.1	

**Canadian operations related to Afghanistan:*

APOLLO: Canadian "military contribution to the international campaign against terrorism," including the war in Afghanistan. Naval units also took part in Operation APOLLO, "to prevent Al-Qaeda and Taliban members from escaping the area of operations in merchant ships and fishing boats operating from Pakistan and Iran," among other purposes. Only the fiscal years during which Canadian troops were deployed in Afghanistan (2001–02 and 2002–03) are included.

ACCIUS: Canadian contribution to the United Nations Assistance Mission in Afghanistan (UNAMA). Canada contributed one Lieutenant Colonel from November 2002 to June 2005.

ATHENA: Canadian contribution to the International Security Assistance Force in Afghanistan (ISAF). Canada participated from October 2003 to October 2005 and from 31 July 2006 to present. Current number of Canadian personnel: approximately 2300.

ARCHER: Canadian contribution to US Operation ENDURING FREEDOM, Afghanistan. Canada participated from August 2005 to 31 July 2006.

ARGUS: Canadian Strategic Advisory Team providing support to the Afghan government.

FOUNDATION: Canadian liaison team at the headquarters of US Central Command for "liaison with the CENTCOM campaign against terrorism".

"Full cost" as defined by DND includes civilian and military salaries; overtime and allowances; petroleum, oil and lubricants; spares; contracted repair and overhaul services; and depreciation and attrition costs of all equipment involved. All figures are in thousands of dollars. "Incremental cost" as defined by DND is the cost incurred by DND over and above what would have been spent on personnel and equipment if they had not been deployed. It is derived from the Full Cost by subtracting salaries, equipment depreciation and attrition, and other sums that would otherwise have been spent on exercises or absorbed as part of normal activities.

The Cost of the War in Afghanistan, 2001–02 to 2007–08

By any measurement, be it in terms of dollars or soldiers' lives, Afghanistan has cost Canada dearly.

Canada will have spent more than $7.2 billion on the full cost of military operations in or related to Afghanistan between the fall of 2001 and the end of March 2008, according to the Department of National Defence's *Report on Plans and Priorities*.

The Department of National Defence uses two measurements of military missions: the full cost, and the incremental cost. It is important to consider both figures, and each provides different information because of how the cost of a military mission can be calculated.

The full cost, as defined by DND, includes civilian and military salaries; overtime and allowances; petroleum, oil and lubricants; spares; contracted repair and overhaul services; and depreciation and attrition costs of all equipment involved.

However, the incremental cost is always much lower, because DND defines it as the cost incurred by DND over and above what would have been spent on personnel and equipment if they had not been deployed. It is derived from the full cost figures by subtracting salaries, equipment depreciation and attrition, and other sums that would otherwise have been spent on exercises or absorbed as part of normal activities.

As expected, proponents of the war tend to cite the incremental costs, arguing that the soldiers would have to be paid anyway (and perhaps conveniently, it is always a lower amount than the full cost). However, there is no obligation to maintain a certain level of troops, and arguably the need to recruit more troops is because of the human costs of the missions.

Even more, General Motors counts the cost of labour in the price of its cars, not just the steel and rubber, so it makes sense to consider the cost of troops in military missions. This is why DND uses both methods together.

Because the figures reported by DND were not always final at the time of publication of the RPP, and because final figures for 2007–08 will not be reported until the 2008–09 edition of the report, it is likely that this costing of the Afghan war is an underestimate.

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Notes

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