

## Standing Committee on Finance (FINA)

### Pre-budget consultations 2012

## Rideau Institute

### Responses

#### 1. Economic Recovery and Growth

*Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?*

A decade after the events of September 11, 2001, an attitude that encourages unlimited military spending only heightens the challenges of high unemployment and large deficits. The National Defence budget must be brought into line with the actual challenges that Canada faces in the world. The 2012 Budget reduced defence expenditure by about \$1.4 billion in inflation-adjusted terms (about \$800 million in nominal terms). Most of this reduction resulted from a drop in the projected incremental costs of the Afghanistan mission and other international missions (\$508 million) and the transfer of ongoing programs to other parts of the government (creation of Shared Services Canada: \$306 million; stand-up of Communications Security Establishment Canada as a separate agency: \$389 million). Together, these changes account for about \$1.2 billion of the reduction. However, the remaining decline of about \$188 million does represent a real drop of about 0.9% in the purchasing power of the National Defence budget. At the same time, the government remains committed to expensive procurement programs like the F-35. It is increasingly clear that the procurement plans laid out in the Canada First Defence Strategy (CFDS) would not have been affordable even under the defence budget increases promised in that document. The Canadian government cannot afford to increase defence funding year by year for another decade and a half. Secondly, the military build-up of the last decade has allowed military equipment programs to proceed without adequate oversight. Greater parliamentary oversight is needed over procurement. The troubled procurement process of the F-35 stealth fighter reflects these failures. Recommendations: • Continue to reduce the defence budget by approximately \$1.2 billion (2012 dollars) the next fiscal year. This reduction is to continue every year until FY2016–17 with a goal of returning to pre-September 11, 2001 levels. • Cancel the F-35 project • Channel the money saved into social programs and investments • Review planned equipment spending to ensure projects still meet Canada's national defence policy priorities. • Increase oversight by establishing a parliamentary committee or subcommittee responsible for Major Crown Projects.

#### 2. Job Creation

*As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?*

Industrial Regional Benefits (IRBs) are a key part of public procurement contracts. These agreements spell out how a contract will contribute to the Canadian economy through investment and increased economic activity. However, for one of the largest planned defence procurement programs in Canadian history, the F-35, there is no requirement for an IRB offset. Even for existing procurement projects there is insufficient information available about the benefit Canadians are receiving from military procurement. Companies can mix "direct" and "indirect" IRBs; this means that the benefit to Canada from military procurement may actually be quite minor in many cases. Greater transparency would help create and maintain high-quality jobs here in Canada. Similarly, we need to help transition Canadian

business away from the defence industry. Many governments worldwide are reducing defence expenditure. Canada should encourage its world-leading aerospace industry to continue to focus on the commercial market in the long term. Canada can help do this by supporting the industry in trade negotiations. Recommendations: • Maximize Canadian content, spin-off benefits and production offsets arising from procurement of military and civilian aircraft. • Increase transparency in public procurement by providing information about the specific industrial benefits Canada is getting. • Work with aircraft suppliers and their Canadian customers to enhance Canadian content in major domestic aircraft purchases. • Use direct and indirect IRBs to support targeted areas of Canada's industry that hold potential for high growth. • Help move the Aerospace Industry away from defence markets to commercial markets. • Support the aerospace industry in trade negotiations by insisting on reciprocity for aerospace goods

### **3. Demographic Change**

*What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?*

Canada needs to ensure that our workers have the skills they need in order to continue to participate in the global economy. We need better skill training programs to support workers both young and old. Canadian industry has emerged from a period of serious economic challenges, thanks to a skilled and organized work force. The aerospace industry is an excellent example of an industry with important spillover effects. International research indicates that, on average, five jobs in total depend on each direct job in a major aerospace manufacturing facility. Investments and policies that promote job creation in the aerospace sector have many long-lasting benefits for the economy. Recommendations: • Provide targeted public support for enhanced aerospace apprenticeships, and strengthening of recognized transferable skills.

### **4. Productivity**

*With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?*

Canada's economy is undergoing a structural change and has become much more dependent on the export of unprocessed resources. We need Canadian companies to add value to our exports. Moreover, we need an economy that generates innovative, high-income, high-quality jobs. To do this, Canada should move towards a "sector development policy," one that targets and promotes investment and exports in important areas of the economy. Recommendations: • Protect Canadian industries from harmful foreign takeovers, by improving the Canada Investment Act to ensure that there is a transparent set of guidelines and that these investments bring real benefit to Canada. • Increase targeted investments in key industries, such as aerospace, automotive and green manufacturing.

### **5. Other Challenges**

*With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?*

In the wake of the terrorist attacks of September 11, 2001, Canada, along with others, undertook new international military operations and embarked on a long list of equipment and weapons acquisition and modernization programs. A decade later, it is clear that the greatest threats to Canadians' security are not military, but economic. Military missions (such as Afghanistan) are winding down, and governments worldwide are now preoccupied with addressing the global financial crisis and ensuring an economic recovery for their citizens. Military spending should be adjusted to reflect this new reality. In addition,

ambitious capital equipment projects should be curtailed, and parliamentary oversight of these spending programs should be increased to ensure the greatest efficiency and effective management possible for taxpayers. About the Rideau Institute Established in 2006, the Rideau Institute is a non-profit, non-partisan and independent research, advocacy and consulting group based in Ottawa.