



TRADE AND INTERNATIONAL POLICY

Guns for Butter: A Continental Pact for Security and Prosperity

By James Pierlot

INTRODUCTION

Canada faces a dual strategic challenge: an emerging trade war with the United States threatens our economy and fiscal capacity, while chronic underfunding for defence has left us strategically vulnerable and increasingly unable to meet our NATO commitments. Both our prosperity and our territorial integrity are at risk.

“Guns or butter?” is the classic dilemma faced by governments as they try to balance spending between national security and support for general welfare. Now is the time to bargain for both. Canada can enhance its sovereignty and restore the tariff-free trade that is vital to both economies by committing to increased defence spending with a portion directed to US procurement. This would create leverage in both security and trade negotiations. In simple terms: to protect our butter, we’ll need to spend more on guns.

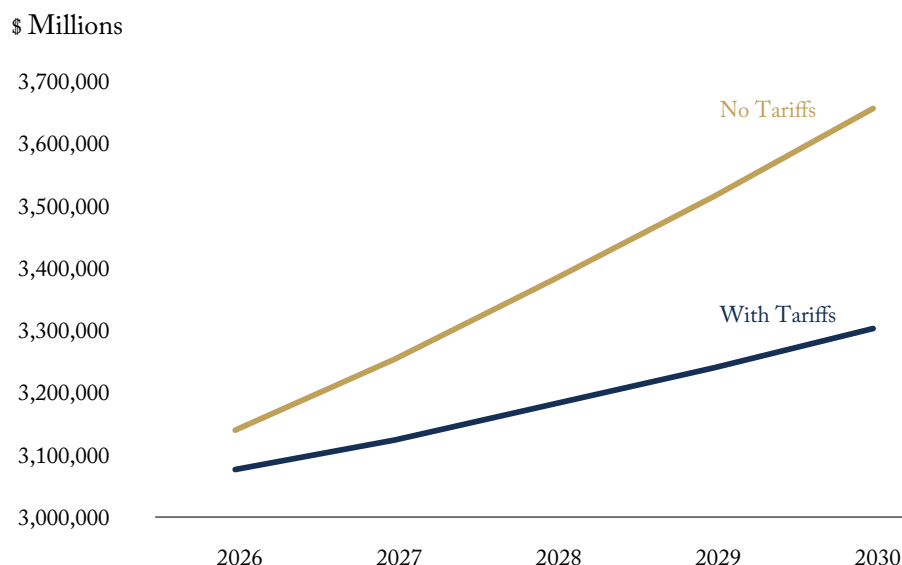
The United States is signalling to Canada that it “cares deeply” about defence and that “the ball’s in your court” to produce a “really serious proposal” on trade and security.¹ A new arrangement is unlikely to take the form of a conventional trade deal or materialize at all until Canada brings something new to respond directly to what the US is saying. A credible plan to increase defence spending, particularly with a commitment to US procurement, could prove pivotal in resolving bilateral tensions. This paper demonstrates, in economic terms, how such a strategy could pave the way back to tariff-free trade, strengthen Canada’s military capability, and protect our sovereignty.

While tariff-free trade remains a negotiation objective that stands on its own merits, the current US posture suggests that a more transactional approach may be needed to reopen negotiations and create the conditions for a return to rules-based trade – particularly given long-standing US concerns about defence spending (Penney 2024).

More money for national defence linked to a renewed commitment to tariff-free trade should not be viewed as a concession from Canada. Rather, it reflects the reality that defence and trade are pillars of sovereignty and prosperity for both Canada and the United States. Canada’s credibility in both realms depends on action. Now is the time for Canada to act decisively: not as a reluctant party yielding to pressure, but as a first mover shaping the rules of engagement.

1 Blanchfield, Mike. 2025. “It’s Outrageous That You Banned American Products From Your Shelves.” *Politico*. May 16. <https://www.politico.com/news/magazine/2025/05/16/canada-ambassador-trump-51st-state-interview-00353689>.

Figure 1: Projected Nominal GDP



Source: Author's calculations based on Meltzer (2025). See Appendix A for projections on defence spending, GDP impacts, and the proposed US procurement allocation.

A bold, credible signal on defence, tied to a clear path back to tariff-free trade, would demonstrate leadership on issues of vital mutual interest and set a constructive precedent for allies. In an ideal world, defence and trade discussions would proceed separately, each on its own merits. But with the US administration's position on tariffs in constant flux (Conteduca, Mancini, and Borin 2025) and Canada's credibility diminished by decades of underperformance on defence (Agnew and Todd 2021), a pragmatic bargain – one that strengthens our military and boosts US exports – may be the

only viable path to renewed negotiations. This may be the second-best option, but it is one we must seriously consider, given the stakes. A stepped-up investment in defence would respond directly to longstanding US calls for allied burden-sharing while anchoring a renewed economic partnership. Linking the two carefully and credibly offers political upside and creates fertile ground for constructive negotiations that could lead to a return to tariff-free trade and the resolution of trade irritants identified by the US (Office of the United States Trade Representative 2025, p. 40).

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DEFENCE SPENDING IN CANADA

Canada currently spends only 1.4 percent of GDP on defence (DND 2024). That is well below the 2 percent NATO target and less than half of the 5 percent that President Donald Trump has mused about demanding from NATO members.² The US figure last year was 3.4 percent.

Military spending needs to be sufficient, committed, and efficient. In Canada, it is none of these due to low pay and critical personnel shortages; chronic procurement delays; ageing hardware, armour and aircraft; inability to operate meaningfully in the Arctic; outdated missile defence; and minimal capabilities in modern asymmetric warfare and cybersecurity (Agnew and Todd 2021; Petersen 2022). Canada has a lot to defend: it has the world’s longest coastline and the second-largest land mass (Standing Senate Committee on National Security, Defence and Veterans Affairs 2023). Canada’s Arctic is increasingly vulnerable, and the country cannot afford to skimp on its military.

Prime Minister Mark Carney’s new government committed to increasing defence spending to 2 percent of projected GDP over five years to address long-standing capability gaps, fulfill our NATO commitments and respond to US expectations that we do our part. With the 2 percent target now increasingly in question, this paper assumes that 3 percent will become the new baseline. To get there by 2030, Canada would need to spend \$148 billion (US\$104 billion) more over the next five years. I propose earmarking 30 percent of this amount (\$44 billion/US\$31 billion) for US defence procurement, conditional upon a US

Table 1: Five-Year Defence-Spending Targets

Metric	2% GDP	3% GDP	4% GDP
New Defence Spend	\$44B	\$148B	\$252B
30% US Allocation	\$13B	\$44B	\$76B
GDP Loss Avoided	\$1.022T		

Sources: Meltzer (2025) and Penney (2024). Currency in nominal CA (millions), i.e. not inflation-adjusted, unless otherwise noted. Financial year end (FYE) is March 31. Numbers may not be added due to rounding. See Appendix A for projections on defence spending, GDP impacts, and the proposed US procurement allocation.

commitment to lift tariffs on Canadian exports and return to a stable, rules-based framework.

THE BARGAIN: STRUCTURING A DEAL WITH PROCUREMENT

A packaged deal would look like this: tariffs removed; defence spending committed. As a negotiating lever, \$44 billion allocated to US procurement over five years is consequential and \$76 billion – the corresponding five-year US allocation if defence spending were to rise to 4 percent of GDP – is even more so. However, if the five-year defence-spending target remains at 2 percent, a 30 percent allocation to the US would be only \$13 billion (US\$9.2 billion), providing little or no negotiating leverage.

US-reported foreign military sales to Canada are modest: less than US\$15 billion from 1950 to 2022 and averaging less than US\$1 billion annually from 2018 to 2022 (DSCA 2022). While recent

2 Sharp, Alexandra. 2025. “Can Trump’s 5 Percent Defense Spending Threshold Save NATO?” *Foreign Policy*. March 6. <https://foreignpolicy.com/2025/03/06/nato-5-percent-defense-spending-trump-russia-ukraine/>.

procurement initiatives – such as the purchases of the F-35, P-8A Poseidon aircraft, and RPAS drones – will increase the US share significantly in the years they are booked, these are outliers.³ A sustained 30 percent allocation of new defence spending to US procurement would, therefore, represent a material shift and a credible signal of commitment and strategic alignment.

The proposed approach directly responds to two stated US concerns: Canada's underinvestment in defence and a perceived trade imbalance. Addressing both in tandem creates an opportunity to de-escalate tensions and re-anchor the relationship in shared responsibility and mutual gain. Successfully negotiated, such a bargain would protect Canada's economy and rejuvenate its defence capabilities. The United States would gain procurement contracts, jobs in key districts, and a stronger northern ally. Together, we would modernize the North American Aerospace Defense Command (NORAD), strengthen Arctic security, and reinforce NATO interoperability and capability.

At the NATO summit in June 2025, the long-standing 2 percent spending target is expected to come under scrutiny. NATO Secretary General Mark Rutte has proposed a 5 percent commitment: 3.5 percent for military spending plus 1.5 percent for infrastructure and enabling capabilities.⁴ Canada

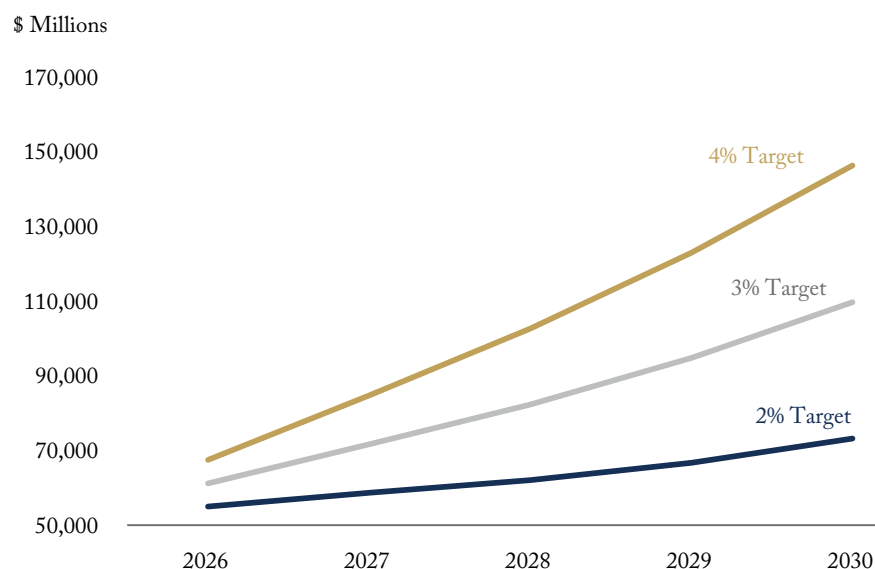
would do well to ask now: is a 2 percent target sufficient?

At a time when many allies are moving away from US defence suppliers, a new Canada-US trade defence pact would support shared strategic objectives, strengthen North American supply chains, and provide the US administration with a much-desired export market.⁵ The US-directed share of new Canadian defence spending should prioritize systems that enhance continental security, such as early-warning infrastructure, NORAD modernization, missile defence, and interoperable Arctic surveillance platforms. US-sourced systems procurement that supports long-term, shared defence objectives substantially mitigates post-procurement risks while leaving Canada free to rebuild and strengthen its domestic defence industry and procure offshore as needed to support Canada's strategic and operational requirements.

Procurement from the United States or elsewhere should enhance, not erode, Canada's sovereignty and operational independence, complementing rather than displacing the rebuilding of Canada's own defence industrial base. For too long, we have ceded decision-making and response control for missile defence to the United States.⁶ US procurement focused on NORAD modernization, missile defence, and other

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- 3 Available data indicate that US foreign military sales to Canada did not exceed US\$600 million annually from 2008 to 2015 (See: Defense Security Cooperation Agency (DSCA). 2015. *Historical Facts Book: Foreign Military Sales, Foreign Military Construction Sales and Other Security Cooperation*. Financial Policy and Analysis, Business Operations. September 30. https://www.sipri.org/sites/default/files/US_DSCAFacts_2015.pdf). DSCA reports cumulative foreign military sales to Canada from FY1950–2022 at approximately US\$14.7 billion, with spikes in 2019, 2021, and 2022. Large-ticket procurements in 2023–2025, including C\$19 billion for F-35s, C\$10.4 billion for Poseidon aircraft, and C\$2.5 billion for RPAS drones, are expected to increase the US share temporarily. However, across Canada's total defence budget, which ranged from C\$18.8 billion in 2013 to an estimated C\$41.0 billion in 2024, these represent exceptions rather than the rule.
 - 4 De Clercq, GV, and Andrew Gray. 2025. "NATO's Rutte Wants 2032 Deadline for New Defence Spending Goals, Dutch PM Says." *Reuters*. May 9. <https://www.reuters.com/world/europe/natos-rutte-wants-2032-deadline-new-defence-spending-goals-dutch-pm-says-2025-05-09/>.
 - 5 Francis, Ellen, Missy Ryan, and Michael Birnbaum. 2025. "Trump Turbulence Leads Allies to Rethink Reliance on U.S. Weapons." *The Washington Post*. March 23. <https://www.washingtonpost.com/world/2025/03/23/europe-us-weapons-dependence-trump/>.
 - 6 Panetta, Alexander. 2025. "An 'Iron Dome' for North America? Talk Heats Up About Canada Joining U.S. Missile Defence." *CBC News*. February 20. <https://www.cbc.ca/news/world/missile-defence-shield-canada-us-1.7463501>.

Figure 2: Total Defence Spending



Source: Author's calculations and Penney (2024).

binational systems should be contingent on greater control by and involvement of Canadian personnel and infrastructure. The bulk of new defence spending should remain in Canada, directed toward domestic manufacturing, personnel training, Arctic readiness, and asymmetric warfare capabilities. The procurement deal could be revisited after five years.

TRADE AND DEFENCE: SEPARATE, WITH A COMMON PURPOSE

The 1940 Ogdensburg Declaration, the subsequent 1941 Hyde Park Agreement, the 1958 NORAD Agreement, and the 1959 Defence Production Sharing Agreement demonstrate that Canada and the United States can collaborate on defence

in parallel with trade integration and industrial participation, even when trade flows have been asymmetrical. However, these agreements were primarily about defence, not trade. While maintaining separate tracks for trade and defence is, in principle, the ideal approach, current circumstances are such that a pragmatic and temporary convergence of the two may be the only viable strategy.

For Canada, the strategic and economic upsides of a new defence-trade pact are obvious: it could help prevent the potential economic losses from prolonged trade conflict, which could be between \$574 billion and \$1.459 trillion in GDP over five years.⁷ Further, it would preserve access to our largest export market and restore Canada's ability

⁷ See Appendix A. Tariff drag on GDP depends in part on the level of retaliatory tariffs, which worsen drag. Assuming partial retaliatory tariffs, tariff drag on GDP is estimated to be approximately C\$1.022 trillion (US\$715 billion) over five years. Some moderate retaliatory response preserves domestic political credibility while maintaining pressure on the US to return to negotiations.

to credibly defend its interests – particularly vis-à-vis self-styled “near-Arctic” states (Hughes 2024; Standing Senate Committee on National Security, Defence and Veterans Affairs 2023). Increased domestic defence procurement will drive economic growth, create high-value employment opportunities, and bolster national pride.

Most importantly, the renewal of our under-resourced military will enable Canada to deter threats, support allies, and project stability in an increasingly dangerous, multipolar world in which the largest economy is becoming increasingly isolationist as its fiscal capacity, military power, economic influence, and support for multilateralism wane. While unconventional, this approach reflects the realities of the current political moment and offers a pathway to re-engage with the United States constructively – on terms that facilitate an eventual return to more traditional, decoupled discussions of trade and defence.

CONCLUSION

Linking a credible defence commitment to the restoration of tariff-free trade would allow Canada to protect its prosperity, enhance security, meet NATO obligations, and rebuild trust with its largest trading partner. Policymakers should act now to initiate negotiations with US counterparts. Canada must credibly and clearly signal its readiness to invest in its own defence capabilities and in the relationship with the United States. The result will be a stronger Canada, a more secure North America, greater geopolitical relevance, and renewed confidence in Canada’s role in the world. By leading with a strong defence commitment, Canada can reshape the political context of trade negotiations and offer the United States a welcome, strategically sound path to de-escalation.

APPENDIX A: ECONOMIC IMPACT OF TARIFFS AND PROPOSED DEFENCE INVESTMENT, FYE2026 TO FYE2030

Table A.1: Comparison of Five-Year Defence Spending Scenarios

Metric	2% GDP Target	3% GDP Target	4% GDP Target
	(\$ millions)		
Total New Spending	43,793	148,063	252,333
US Procurement Allocation	13,138	44,419	75,700
Estimated GDP Protected	1,022,203		

Table A.2: Comparison of Annual Defence Spending Scenarios

FYE	2% Target		3% Target		4% Target	
	New Spending	30% US Allocation	New Spending	30% US Allocation	New Spending	30% US Allocation
	(\$ millions)					
2026	2,637	791	8,916	2,675	15,195	4,559
2027	5,466	1,640	18,482	5,544	31,497	9,449
2028	8,523	2,557	28,816	8,645	49,110	14,733
2029	11,809	3,543	39,927	11,978	68,045	20,413
2030	15,357	4,607	51,922	15,577	88,487	26,546
Totals	43,793	13,138	148,063	44,419	252,333	75,700

Notes: GDP projections are based on the Parliamentary Budget Officer (PBO) nominal GDP forecasts through 2030 (Penney 2024). In Table A.2, “New Spending” in the “2% Target” scenario is compared to PBO projections. To estimate the impact of tariffs, a 2.09 percent drag on GDP growth is applied over five years. This figure reflects the midpoint between Brookings Institution estimates (Meltzer 2025) of a 1.16 percent GDP drag (no retaliatory tariffs) and 3.02 percent GDP drag (full retaliation), which assumes partial retaliation. This is consistent with Canada’s current policy posture. In each defence-spending target scenario, annual spending is assumed to rise in equal increments to reach each respective target by 2030. A fixed share of that spending is assumed to be allocated to US procurement each year.

Sources: Author’s calculations; Meltzer (2025); and Penney (2024). Currency in nominal \$C (millions), i.e., not inflation-adjusted, unless otherwise noted. FYE is March 31. Numbers may not be added due to rounding.

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