

Intelligence MEMOS



From: Michael Wernick
To: Defence Spending Watchers
Date: July 3, 2025
Re: **HOW ABOUT A DEDICATED NATIONAL SECURITY TAX FOR CANADA?**

Over the past year, a chorus has risen calling for an increase in defence spending. Canada has been pressed to show it is putting enough effort into protecting and policing its own land, sea and air borders while also contributing to the collective security of North America and the NATO alliance. The recent NATO summit took the pressure up several notches.

Regardless of any arbitrary arithmetical targets, the case for Canada spending more on defence and security and investing smartly and briskly to raise our capabilities is strong. Clearly the world is more dangerous and unlikely to become less so any time soon.

Canada will see increasing stresses on its security as the guardian of the longest coastline in the world, of its Arctic archipelago and the airspace vital to the next generation of North American missile defence. As regional conflicts flare around the globe, Canada will be asked to contribute in some manner to operations as we have so many times in the past. Our economy and society will need ever stronger cybersecurity defences. Enhanced intelligence gathering will be key to all these efforts.

The new NATO numbers are daunting, and there are no easy options when it comes to finding the money. The choices are borrow, tax, or cut other areas to make room. We will end up doing a bit of all three – the question is in what mix and how fast.

Borrowing the incremental dollars means shifting the burden to future taxpayers, which runs against inter-generational fairness and the debt load would leave us more vulnerable to shocks. Cutting other areas to make room is never easy. Let's not pretend that cuts are coming to old-age pensions or transfers to the provinces, territories and Indigenous governments, or that we will stop paying interest on government debt.

The “cuttable” part of federal spending is far less than the total and insufficient to generate the numbers needed to meet the new defence targets, even if we take a slow walk to the 2035 goalpost.

If there ever was a time when the tired old phrase “think outside the box” applies, this would be it. Our current box is the revenue constraint purposely created two decades ago by Jim Flaherty when he cut the GST by two points. Ever since, Canadian politicians have been painting themselves into a corner, pandering to short term electoral politics, bidding for tax holidays and cuts and treating the GST rate as untouchable.

There is a way out of the box, out of the corner. Parliament could come together in the national interest and create a new Defence and Security Tax (DST), collected on the same base as the GST/HST, using the same exemptions and rebates for low-income households. It could be set up to start at a time of Parliament's choosing, say, January 2027, be ramped up in steps and sunset after 10 years.

The DST rate could be set to cover a substantial portion of the federal role in keeping us safe. Two points of the GST base for 10 years is a good starting point for discussion. A rough model for this approach would be Germany's [solidarity tax](#) created to finance reunification.

The incremental revenue generated by a 10-year Defence and Security Tax could be tracked to the penny by Parliament and the Auditor General by flowing it into a separate earmarked account. I know that will appall the orthodox finance hands who read this, but this approach would increase transparency and should protect the DST against leakage into other program areas in future budgets.

It should only fund federal organizations directly involved in keeping Canada safe: National Defence, the Coast Guard, Public Safety, Canada Border Services Agency, RCMP, CSIS, Canadian Security Establishment and the review agencies associated with them. This cluster currently employs around 65,000 civilian public servants as well as uniformed military and law enforcement personnel.

As we grapple with the unforgiving arithmetic of finding \$150 billion a year, we don't need another sterile and performative debate where people call for more defence spending but won't declare how to pay for it – or worse, practice fiscal NIMBYism (cut, but cut somewhere else). We need our leaders to not just admire and quote Winston Churchill, but to emulate his realism about the need to invest and be ready for a more dangerous time ahead. To paraphrase the great man's memoirs – the storm is gathering.

Lest we forget, past generations of Canadians made sacrifices for their safety and a safer world. Now it is our turn.

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A version of this Memo first [appeared](#) in the Financial Post.