

Hugh Segal: We need guns — and butter too

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National Post
April 30, 2010

Challenges faced by G-8 finance ministers a year and a half after the collapse of the Lehman Brothers Bank are not getting easier. Populist feeling is running against Wall Street and its analogous financial centres around the world. Rational analysis underscores the dangers to credit and investment-based economies of any dereliction of duty to both financial stability and reasonable liquidity for the economy as a whole. This quickly becomes about balance in the way restraint spending, stimulus and tax policy are managed.

Add to this the conundrum of governments that supported financial institutions either by direct infusions of cash (as in Europe or the United States) or the purchase of multi-billion dollar mortgage portfolios (Canada) in the hopes that money would be loaned out to small businesses and consumers, only to be frustrated by financial regulators who took the more “prudential” approach of discouraging lending leverage by imposing higher capital requirements on financial institutions, and one can easily understand President Obama’s banging on the podium about insufficient lending to average Americans. Where leaders should be knocking politely (as opposed to banging) is on the door of their central financial regulators.

The liquidity challenge, which remains key to any successful budget implementation, must also confront the classic dilemma faced by finance ministers in the democracies around the old trade-off between “guns and butter.” This is often characterized as the choice between defence and security spending versus social and stimulative spending. While this may have been the most obvious of public spending dilemmas in the past, one can certainly argue today that the competition between the two is largely illusory in the geopolitical context all developed nations share.

If one takes a broad view of security and defence spending, both domestically and internationally, they clearly relate to that essential core freedom if economic opportunity is to be real — namely “freedom from fear.” If streets are not safe, if businesses are attacked by thugs and organized crime, if investors are kidnapped, if jobs are offered only when corrupt officials are paid off, fear will destroy economic development and opportunity every time. Which is why countries have laws, why anti-corruption codes matter and why international organizations (such as NATO or, on occasion, the UN) exist to protect the world from Iraqi invasions of Kuwait or Taliban-harboured al-Qaida attacks on civilians in Madrid, New York, London, Paris, Kabul, Moscow, Toronto or elsewhere. Economic development and the jobs, opportunity and security that follow are critical to the second vital freedom — “freedom from want,” which is seminal if societies are to be peaceful and productive. A world where millions are poor and only a few are wealthy or have any meaningful economic opportunity is unlikely to be a stable place — as is apparent in any city where the gaps between rich and poor are broad or getting worse. These two freedoms connect in a very precise way. Without “freedom from fear,” which requires spending on security, defence, intelligence and deployable military or police capacity, there is insufficient time to make real progress on enhancing “freedom from want” before violence or strife reduces everyone’s freedom of action. This is as true in the Middle East as it is in the drug wars of our own hemisphere. As true in Africa as it is in our First Nations communities. Without “freedom from want,” the attractiveness of crime, violence and terrorism for those with nothing to lose remains real.

In my opinion, the challenge for governments “in restraint” is devising a balanced mix of targeting “freedom from fear” and “freedom from want” so as to move toward positive trends on both accounts, if we are to make any economic and security progress in this generation. This is a larger question than the mid-term elections in the U.S., the coming U.K. election or the inevitable soon-to-be-election in Canada. And to some extent, political parties in all places that aspire to electoral progress or re-election would be well advised to approach this particular challenge in something other than a narrow partisan way.

After several years of unprecedented investment and modernization, the 2010 budget admittedly slows National Defence spending increases. This should not be surprising. But in the time given us and in the period leading up to the winding down of combat activity in Afghanistan, we should be investing in future naval, air and reserve force capacity. Letting the denizens of the federal civil service, Finance Department and Treasury Board weaken Canada’s defenses and our ability to engage on the “freedom from fear” challenge will be seen as a serious disavowal of prior assurances and Canada’s commitment to fight both fears simultaneously. Similarly, with a view to the announced imposition of restraints system-wide and the current and historic duplication of Canada’s social programs, which have not reduced our poverty levels in more than two decades, this would also be the time to seriously examine a more inclusive, less micro-managed approach to its redesign and modernization. Genuine national security involves two freedoms and measurable progress on both fronts. And a post-recession modest recovery is precisely the right time to embrace these over-arching priorities.

There is no dichotomy between “guns and butter” and no dichotomy between restraint and innovation. Building real recovery and strengthening Canada at home and abroad depends upon our ability to embrace both “freedom from fear” and “freedom from want” at the same time and urging other allies and partners to do the same.

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