

# The defence budget

## must be boosted

Ross Babbage

During the last three decades Australian governments and, to some extent, the Australian people have wanted more defence options and more defence capabilities than they have been prepared to pay for. The result has been a mismatch between expectations of what the Defence Organisation is expected to be able to deliver and the budgets actually allocated to achieve this.

A key result is that during the last fifteen years, Australia's real capabilities to conduct some types of defence operations have become marginal. Indeed, for operations in East Timor substantial elements of the ADF were committed without a full complement of the necessary equipments and personnel. These operations did not fail largely because of the high quality of the personnel that were committed, the proximity of the area of operations to Australia (especially to a major ADF mounting base in Darwin), and exceptional doses of diplomatic, operational and even climatic good fortune. However, committing forces in these types of circumstances entails serious risks. Making a strategic habit of the practice courts disaster.

These weaknesses have arisen largely because the funding commitments to defence in the Australian budget have not kept pace with the costs of running a modern defence force. The scale of this problem grew markedly from the early 1980s to the mid-1990s when real defence funding fell from 2.6 per cent to 1.9 per cent of Gross Domestic Product (GDP). Since 1996 defence spending as a percentage of GDP has been held at about 1.9 per cent, and baseline real defence expenditure has grown at an annual rate of 3 per cent. In addition, the government has provided supplementation to cover the additional logistic costs of offshore operations and to augment the personnel and the estate (facilities) budgets.

Nevertheless, and despite these funding increases, the real costs faced by Defence have risen even faster. The four main categories of Defence expenditure – facilities, personnel costs, defence operational costs (fuel, spare parts, etc) and new capital equipment have all risen markedly in recent years. Defence equipment costs have grown at an average real rate of 3-9 per cent per annum, depending on the equipment type. The nominal annual rise in defence personnel costs has also averaged some 6 per cent. In addition, the costs of new capital facilities have grown by some 3-10 per cent, depending on the region. Moreover, while the government

did act to reimburse Defence for the direct additional costs of the commitments to Bougainville, East Timor, Afghanistan, the Solomons, Iraq, tsunami relief in Aceh, and also for the intensified maritime border patrolling (Operation *Relex*), many of the secondary costs of such operations – such as the wear and tear on the assets deployed – have had to be absorbed by Defence.

In the early 1990s the primary effect of this mismatch of budget allocations and real costs was to drive several waves of real and false efficiency measures in the Defence organisation, especially a 28 per cent reduction in its overall personnel strength. However, during the last decade the inadequate levels of defence investment have forced a more complex pattern of change. On the one hand there have been cuts in several categories of personnel and reductions in logistic support capabilities. A consequence of this has been to 'hollow out' some defence capabilities and, in particular, to reduce the ADF's capabilities to sustain

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some types of operation. The budget/cost mismatch has also forced the ADF to prematurely phase out several major types of equipment, including two almost new *Huon Class* minehunters,

two *Adelaide Class* frigates and, at the end of this decade, the F-111 bomber force. It can, of course, be argued that these strategic capability decisions have provided room to plan the introduction of several much more capable systems such as the air warfare destroyers, the *Wedgetail* airborne early warning and control aircraft, the new amphibious ships and the Joint Strike Fighters.

So in the 2005-2015 period, the ADF's capabilities are in a state of transition. Several legacy systems have been cut, in part to free up financial and personnel resources required for important new systems. These new systems will be highly capable, but generally deployed in fewer numbers. A key question is whether these modernised, but generally smaller forces, will give future governments adequate options in the security crises that might be anticipated in the 2020 and beyond timeframes. ♦

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