

Treasury's traditional

attack on Defence

Michael O'Connor

Let it be thought that the article in the Spring 2005 issue of *Defender* by Treasury Secretary Ken Henry breaks new ground, he is in fact doing no more than pursuing the Treasury line, traditional throughout Australian history, that Defence gets too much money. The only thing that is different is the straw man he has constructed to 'prove' the institutional point.

Dr Henry's opening sentence gives the game away. He writes: 'Discussions on Australia's current and future defence needs have traditionally been dominated by considerations relating to the strategic military environment.' One would have thought that such was a particularly sound basis for making defence policy rather than something to be cast aside because, as he suggests, our demographic future is somewhat difficult.

Far from 'considerations relating to the strategic military environment' defining defence needs, Australian history suggests that political and financial factors have been the primary determinants of defence policy. A year away from the outbreak of World War II, the then Treasurer, Richard Casey, was peddling his department's line that Australia could not afford more than three per cent of its national income for defence. Casey, who had some serious knowledge of defence, was simply expressing the current Treasury line. Of course, four years later, Australia was spending 35 per cent of national income, itself less than the 40-plus per cent being then spent by Great Britain.

Demographic dilemmas are not insoluble

Leaving aside the history, how compelling is Treasury's latest attack on defence spending? According to Dr Henry, demographic changes manifested by low population growth and increasing cohorts of the aged mean 'slower growth in the work force, slower growth in per capita incomes and slower growth in the aggregate economy.' His figures are incontestable (although it might be pointed out that the constant factor in all those measurements is growth) but the issue is what they mean for defence.

One impact of slower population growth is said to be the smaller pool of potential recruits. Drawing on his graphs, the pool of 20-30 year olds in 1965 was about 1.1 million

(counting for that time mainly men only). For 2045, however, the pool of males and females in the same age cohorts will be around 5 million — more than four times the 1965 figure.

Of course, Defence must compete for people within that pool but it is the issue of competing that will decide whether sufficient troops are available. Competition can take a number of forms with the most extreme being some form of compulsory service. Whether compulsion is introduced as it has been on at least four occasions since Federation is fundamentally a political question. Compulsion is of doubtful military value in modern strategic circumstances and is very expensive. Nevertheless, depending upon those circumstances, it is always an option available to government.

It is in the context of manpower that Dr Henry makes the fundamental mistake of comparing raw numbers with percentages. In 1965, Australia had regular armed forces of around 76,000, albeit with the aid of limited conscription. That force represented some seven military personnel per thousand of population. Today, the figure is 2.53 per thousand. Following Dr Henry's form of comparison, the 1965 figure represents 69 per thousand of the potential military manpower (again men only) pool. For 2005, today's 51,000-strong ADF represents around 12 per thousand (counting males and females). Using the population projections for 2045 and assuming no expansion of the ADF, the demand for personnel would be around 10 per thousand of the 20-30 year old cohort. If the ADF were to be expanded to 75,000 personnel (to take an arbitrary figure), the demand would rise to around 15 per thousand.

Whether Australia could afford such an increase is fundamentally a political question. Australia's military employment of 2.53 per thousand of population is significantly lower than Britain's at 3.5 per thousand and the United States at 4.61 per thousand. Even unthreatened and neutralist Eire employs 2.98 per thousand. (The less said about Canada and New Zealand the better but they have the inestimable advantage of always being defended by a bigger neighbour.)

Defence is a major public good for all

Dr Henry's principal point is that spending on health and aged care will grow (implicitly without restraint) to such an extent that Defence and other arms of government will have

to submit to cuts in what he clearly regards as a generous level of outlays. In his discussion where he admits the rapid growth in defence costs, he poses the loaded question whether government should 'approach the case for a bigger, faster air warfare destroyer in the same way it does the approval of a new cancer treatment'.

At the very least, this is devious. But it also demonstrates a complete lack of understanding of the nature of defence as a task of government. Two points can be made. First, defence is a public good for the benefit of all 20-plus million Australians. The new cancer treatment, especially for an aged person, is an essentially temporary expedient for a relatively small class of Australians. That point is not intended to be crude or callous; the concept of rationing of health services is widely discussed around the world and no government can afford to give a blank cheque to health and aged care however much it may wish to do so on compassionate and electoral grounds.

That is not to say that defence should be given a blank cheque either. Even in 1943, that did not happen. But it must be recognised that defence spending is qualitatively different from that of the usual run of spending departments. Defence spending is an investment in a national reserve, akin to an insurance company's reserve fund held against an emergency. That a senior official of government, a member of senior inter-departmental defence committees, should apparently misunderstand this fundamental point is extraordinary and indicates a significant degree of institutional immaturity in our governmental system.

Real capabilities not more tokenism

In a somewhat sympathetic (to Henry) article in this issue of *Defender*, Mark Thomson from the Australian Strategic Policy Institute puts two somewhat contradictory arguments in his questioning of the value of increased defence outlays. One is the surely devalued and ahistorical view that the fundamental defence task is no more than the protection of Australian territory. In his view, Australia can meet what he sees as no more than optional overseas commitments by the deployment of token forces. This is an odd but not untypical Australian attitude to national security issues where integration of foreign and defence policy to achieve security is seen as somehow unnatural. Furthermore, his strategic view is determined fundamentally by the experience of the immediate past whereas, as I have suggested, defence must take a longer and more sceptical view of the strategic environment.

Then, in a second string to his bow, Dr Thomson argues that these optional (in his estimation) commitments are increasingly met by the Federal Police. This is true to some extent but there is little evidence of an AFP ability to engage in warlike or even pacification operations against an armed adversary. The reality is that the ADF and the AFP (with support from the State police forces) are playing an increasingly sophisticated and well-integrated role in providing national security. In fact, Thomson seems to this sceptical observer to be engaging in the classic bureaucratic game of constructing a justification for a preferred conclusion.

An additional flaw in the Henry thesis is that he judges the demand for health and aged care services and implicitly the strategic situation over the next 40 years as a straight-line

projection of current experience. He has not indicated any awareness of the effect of expanded personal superannuation programs to provide self-funded enhanced health and care facilities, nor does he seem to be aware of the potential for more effective and less expensive public health outcomes. It is a Hanrahan's (we'll all be rooned) view and Hanrahan was never a very good prophet of the future (or indeed, analyst of the present). Despite concerns expressed in Thomson's article that the outcomes in some of our social programs do not match world best performance, the solution offered by the critics is the simplistic one of boosting inputs rather than improving efficiency—perhaps by minimising the scourge of often-duplicated policy programs and management systems.

This is an issue that neither Henry nor Thomson deal with but there is substantial scope for reducing expenditures in the excessive bureaucratic intervention in many areas of government activity, not least in the duplication of State and Commonwealth administrations. Of course, as *Defender* has pointed out over many years, the potential for such reductions certainly exists in Defence as well.

Fundamentally, Dr Henry's article demonstrates little more than the traditional Treasury view that defence spending is always an option for (undefined) expenditure cuts because the perceived political and bureaucratic pain is much less. His opening sentence quoted above shows more concern for fiscal inputs than effective outputs. ♦

Michael O'Connor was executive director of the Australia Defence Association 1981-2003 and is a member of the editorial board of Defender.



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