

# CHAPTER ONE

## INTRODUCTION

---

### The Dependence of National Defence on Federal Funding

*It is a matter of common knowledge that the necessity of a single authority for the defence of Australia was one of the urgent, perhaps the most urgent of all the needs for the establishment of the Constitution.<sup>1</sup>*

1.1 Under Section 114 of the Australian Constitution, the responsibility for the raising and maintaining of military forces is vested exclusively in the Commonwealth Government. Correspondingly, since Federation, one of the essential duties of the Commonwealth Parliament has been the assumption of responsibility for the defence of Australia, and with it, the responsibility for the funding to provide for that level of defence. The defence function is vital to ensure the continued security of the nation to pursue its independent functions and to further the national interest.

1.2 National defence is one of only a handful of Federal functions the core activities of which can neither be privatised, nor responsibility for their funding transferred. While Federal cutbacks in areas such as education, health and welfare have the effect of shifting some of the funding responsibility for these functions to the State, private organisation, or the individual taxpayer requiring the service, this cannot be done in the case of national defence. Reductions in funding for national defence cannot be compensated by shifting part of that responsibility to States, organisations or individuals.

1.3 Thus, the function of defence remains completely dependent on Federal funding, and any decrease to that funding, unless compensated through achievement of efficiencies, correlates directly to a decrease in the capability of the nation to defend itself and its national interests.

1.4 Since the end of the Second World War, and with the possible exception of the Korean and Vietnam Wars, Australian expenditure on Defence has been relatively low. Most other western countries spent a far higher proportion of their GDP on defence through the years of the Cold War. The 1970s and 1980s saw peaks, where Australian expenditure on Defence was up to 2.6 per cent of GDP. Through the last decade the level of Defence funding has fluctuated, but has shown a general decreasing trend. Defence outlays have reduced to a point where the present level of outlays on Defence is officially calculated to be 1.9 per cent of GDP.

1.5 While Defence funding has declined as a proportion of GDP and Commonwealth Budget Outlays over the decade since FY1988-89, the funding for many other departments has increased through the same period. In constant price terms, outlays on Defence have

---

1 Opinion of the majority of the court, in *Joseph v Colonial Treasurer* (1918) 25 CLR 32, as quoted in Lumb, R.D *The Constitution of the Commonwealth of Australia Annotated*, 4th Edition, Butterworths, Sydney, 1986, p. 107.

increased by 13.41 per cent over the decade. For comparison, the current outlays of around \$50.9 billion on Welfare represent an increase (in constant price terms) of 68.8 per cent, Health outlays have increased by 52.9 per cent to around \$20.7 billion, and Education by 45.0 per cent, to around \$11 billion.<sup>2</sup>

1.6 Expressed in percentage terms of Federal outlays - not GDP - Defence has fallen from 8.8 per cent of Commonwealth Budget Outlays in 1988-89 to 8.2 per cent in 1997-98. In the same period, Federal outlays have increased by over 15 per cent in real terms.

1.7 Defence capability has suffered as a consequence. Training times and exercise times have been squeezed on two fronts - a diminishing annual budget combined with an increase in the percentage of the Defence budget going to new capital equipment. One of the critical side effects of these strictures is unsatisfactory morale amongst ADF personnel.

1.8 On the horizon are major new equipment programmes to cope with block obsolescence as the F/A-18s, F-111s and DDGs fall due for retirement, to say nothing of the needs of the land force.

1.9 Externally we live in a region where the majority of nations are involved in rapid expansion of their defence budgets, although a temporary pause may now occur, as a result of the Asian currency crisis. Since 1987, some regional nations have increased their defence budgets by over 100 per cent in real terms, with increases of over 50 per cent being common.<sup>3</sup> The Committee regards this increase as a natural progression, as the economies of regional nations mature, and the focus for their defence planning shifts from internal security to the defence of territories and economic zones from external threats. However, the net result of this shift is that the technological advantage which Australia once enjoyed in the region is being eroded as modern technology systems enter the inventories of many regional nations.

1.10 There has been criticism from some sectors of the public that Defence has been unfairly excluded from the pain of recent Budget reductions. Through the last election campaign the present Government promised to quarantine defence expenditure, through the life of the 38th Parliament, at the level outlined in the forward estimates of the previous Government. Those forward estimates have involved a small decline in real terms. Expected difficulties in funding the replacement of obsolescent equipment also cast doubt over the adequacy of current funding levels.

---

2 *Budget Strategy and Outlook 1997-98*, Budget Paper No. 1, 1997-98, Australian Government Publishing Service, Table I, p. 4-131. Constant 1997-98 prices deflated using the IPD for Gross Non-Farm Product. The price movement for 1997-98 over 1996-97 is estimated to be 2.0 percent, as per 1997-98 Budget Forecast.

3 *Defence Economic Trends in the Asia-Pacific 1997*, Defence Intelligence Organisation, Commonwealth of Australia, 1997, pp. 1-4.

1.11 The level of defence expenditure should be a matter of future public debate. This inquiry provided a public forum for the presentation of a wide range of views on the desirable level of Defence funding.

## Limitations of the Inquiry

1.12 In considering the terms of reference, the Committee found significant problems with the conduct of an inquiry intended to produce a quantitative and enduring determination of a level of funding required for the defence of Australia. The task of determining:

- all capabilities required for that defence;
- the number of personnel needed to supply those capabilities;
- the type and level of equipment required to equip those personnel;
- the means to support those personnel and equipment; and
- the resources which should be put into commanding, training and preparing the composite force,

and then costing those components, is one which has occupied the military forces and governments of Australia since before Federation. One submission to the inquiry summarised this difficulty with the following quote from US analyst Carl Builder:

The question [...] was, 'How can we define and explain the military capabilities we *need* at this time of great change?' The author's short response, then and now, is 'We can't.' What *can* be defined and explained are the military capabilities that can (and cannot) be provided at any given level of funding. There is no single, correct answer.<sup>4</sup>

1.13 The public has a right to expect some review of recent Ministerial suggestions that the level of Defence funding requires increasing. However, defining all defence capabilities required is a continuous task which requires the efforts of a division of around 150 specialised force development planners within Defence, and could not be conducted meaningfully within the limited resources available to a parliamentary inquiry.

1.14 This consideration restricts the nature of the examination that may be made of the level of Defence funding. Accepting Carl Builder's assessment of the situation, the approach taken by the Committee was to concentrate its attention on those military capabilities which can be provided at the current level of funding, as well as those which cannot, and to examine extant pressures, and the arguments arising for variations to the status quo. While less analytical than ideal, this approach was forced upon the Committee by the specialist nature of strategic-level capability planning.

---

4 Builder, Carl H., *Military Planning Today: Calculus or Charade?*, prepared for the United States Air Force, RAND, 1993, p. iii, quoted in Ciesniewski, Submission, p. S160.

## The Approach

1.15 The approach of the Committee in this inquiry was, through examination of all aspects of Defence funding, to determine:

- the validity of claims that particular areas of the Defence budget are facing serious financial constraints, and if true, the severity of those pressures.
- whether funding priorities have been appropriately apportioned across the Defence portfolio, in accordance with stated Government objectives, and reasonable public expectations.
- whether particular areas of defence capability are being unacceptably degraded by possible funding constraints.
- whether there exist sufficient mechanisms within the Defence funding process to ensure the Defence bureaucracy remains accountable and efficient.
- whether Defence's current acquisition planning reasonably reflects the expectations of the Australian public for Defence capabilities.

The baselines used to inform the above judgements were:

- Government objectives, as defined in current Defence and Foreign Affairs White Papers, and
- Reasonable expectations of the Australian public. For this aspect, the Committee relied on the public submissions provided to the inquiry, the evidence given by witnesses at public hearings, academic and public debate selected from published papers and the media.

## The Issues

1.16 The government's most recent strategic review of national defence, the 1997 publication *Australia's Strategic Policy* (hereafter referred to as 'the strategic review') identifies the fundamental question regarding current levels of defence spending as whether they are sufficient to achieve a Defence Force which meets the Government's strategic objectives.<sup>5</sup> That will depend on Australia's strategic circumstances and objectives, and on how effectively its money is being spent.<sup>6</sup> This definition guided the Committee's inquiries, and suggested the major issues to be examined by the Committee in its deliberations. The release of the strategic review, in combination with the extant 1994 Defence White Paper *Defending Australia*, and the more recently released Foreign and Trade Policy White Paper *In the National Interest* provides sufficient guidance on the Government's strategic objectives.

---

5 *Australia's Strategic Policy*, Director Defence Publishing and Communications, Department of Defence, Commonwealth of Australia, December 1997, p. 50.

6 *ibid.*

The Committee's task then, was to examine:

- the current level of Defence funding, and how it is administered;
- strategic circumstances which may affect the requirement for specific Defence capabilities;
- the extent to which Defence is able to meet the Government's required objectives within the current level of funding;
- areas where there is a current or potential shortfall between the capabilities required by the Government and those able to be provided by Defence; and
- whether the funding provided to Defence is used efficiently.

## **Submissions to the Inquiry**

1.17 The inquiry received a total of 27 submissions. These were submitted by government departments, representatives of industry, non-government and peace research organisations, serving members of the ADF, and members of the public.

1.18 The submissions included a proportion which argued for reallocation of funding within particular areas of the Defence program. However, the Department of Defence, unlike most other government departments, is funded on a global basis, and priorities for allocations within that overall budget are determined by the Minister for Defence, on the advice of Defence planners. While the Committee was able to examine the funding pressures within individual segments of the Defence operation, to determine their impact upon the overall funding requirement, its Terms of Reference did not permit recommendations on the internal Departmental process of determining priorities for those resources. That is, no recommendations could be made to increase spending on international Defence Cooperation, for example, at the expense of, say, updates to the F-111 aircraft fleet.

1.19 A number of submissions to the inquiry argued for substantial reductions in the overall quanta of Defence funding, on the basis that other areas of Government responsibility were more deserving of funding. The alternative areas for increased funding suggested were the broad areas of education, health, peace research, environmental security, reduction of Australia's current account deficit, and increased emphasis on regional engagement initiatives. The Committee accepted that these are worthy intentions, but the arguments for reallocation generally failed to examine specific evidence of the requirements, or otherwise, for a given level of national military capabilities. The Committee was of the view that Defence should be considered as an area where a defined level of national capability was required, rather than as a source of Commonwealth funds on which major reductions may be subjectively imposed when other areas of government responsibility require additional expenditure. The stated intention of this inquiry was to confine its consideration to arguments concerning the level of national capability required.

1.20 While the Committee acknowledges that other areas of priority exist, the distribution of funding among portfolios is a function for the Government. The task of this inquiry was to examine and report on the level of need or surplus within the current level of Defence funding, which could inform that process of government allocation.

1.21 The Committee appreciated the cooperation provided by all witnesses in making submissions and in the giving of evidence before the inquiry. However, it was surprised that the Department of Defence declined the opportunity to elucidate on its current funding pressures in more quantitative terms, despite being supplied with an ideal forum in which to do so. The Committee believes the resultant reliance of this report on qualitative evidence reduces the cogency of the case for a funding increase.