

Defence faces a deficit deeper than our pockets

Hugh White

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No one could call John Howard tight-fisted on defence. In the past 12 months he has promised an extra \$30 billion for the Australian Defence Force over the next decade, and there is more to come in the May budget.

And yet Australia will go to the election this year facing a crisis in defence funding and policy since, while the Government has promised money for defence in unprecedented quantities, the plans it has announced will cost a lot more. Second, the Government has become careless about the defence budget, devoting billions with little thought to capabilities we could do without.

There is no easy way out. The best we can hope for is that economic growth will allow defence spending to increase enough to pay for recent bad decisions and still cover the things we really need. The worse scenario is that the economy slows, and the federal budget gets squeezed by our ageing population. Then, with a stagnant or shrinking defence budget, we will be stuck paying for inessentials, leaving insufficient money to fund what we really need. That carries real strategic risks.

These problems have been brought to a head by the decision to spend \$6 billion on 24 F-18F Super Hornet aircraft, a decision shrouded in mystery.

We do not know why the Government suddenly stopped denying there would be any problem maintaining our air capability until the Joint Strike Fighters arrived, and decided instead that we faced a looming capability gap. We do not know why the purchase of a new fleet of aircraft was identified as the best way to fill this sudden gap, instead of further upgrading existing planes. We do not know why the F-18F was chosen as the best aircraft for the job, or why buying it without a competitive tender was the best way to acquire it.

None of these questions received the serious, detailed analysis that a decision of this magnitude and significance requires. It is clear that the idea was first raised at a National Security Council meeting last November, when the Defence Minister, Brendan Nelson, put it on the table out of the blue. Three months later, the deal was done - a triumph of salesmanship over strategy.

This is bad enough in isolation. But the true seriousness of the Super Hornet decision appears only when it is seen in context, as the latest of a series of bad decisions. In 2000, in the defence white paper, the Government built a new defence capability plan from the ground up. Each proposal was considered in the light of priorities for the whole force, within a generous but realistic budget. Since then many big new projects have been added without considering the effect on the rest of the force or the long-term bottom line. The numbers are large: tanks costing \$557 million; C-17 transport aircraft costing \$2.2 billion; two new infantry battalions costing \$10 billion and now the Super Hornets at \$6 billion.

But this is only the start of it. As well as many new projects, a lot of those already under way have risen in price, especially the Air Warfare Destroyers - from \$4 billion in 2000 to \$8 billion today, and probably heading for \$10 billion. At the same time defence's drive for administrative efficiencies has stalled, and the rising operating costs of new equipment have not yet been budgeted for. It all adds up to a long-term defence budget under unmanageable strain.

In this context, the implications of the Super Hornet decision may be very serious indeed. While times are easy, the Government can keep throwing money at defence, but that is not a reliable long-term strategy. A probable alternative scenario runs like this: an economic slowdown about the end of the decade makes it tougher politically for governments to increase defence funding. The Air Warfare Destroyer project starts to cost even more. Costs for the Super Hornets turn out to be higher than expected. And the price of the Joint Strike Fighter keeps rising. With contracts signed for the Super Hornets and the Air Warfare Destroyers, the Government takes the only way out, and dumps the Joint Strike Fighter, leaving Australia with an outdated airforce that cannot compete in the Asia of 2020. Our single most important future capability is pushed aside because all the funds have already been spent on lower-priority projects adopted on ministerial whim.

How much of this all do ministers understand?

The Government will not want to think about these problems before the election. But afterwards the government of the day will face some very tough choices, since it will discover that Australia cannot afford all the capabilities the Howard Government has committed to buy without further big increases in defence spending at a rate that may be unsustainable. It will discover that some of these projects will need to be cancelled unless the cabinet can guarantee further big increases in defence spending even if the economy turns down; that billions of dollars have been committed without serious analysis of Australia's real strategic needs and priorities; that good defence policy takes more than simply throwing large sums of taxpayers' money at the first plane that takes one's fancy.

Hugh White is a visiting fellow at the Lowy Institute and a professor of strategic studies at the Australian National University. He was the principal author of the 2000 defence white paper