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If budget cuts portend smaller ambitions, let's spell them out in next white paper

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THIS year's defence budget is straightforward: \$5.5 billion has been cut from previously promised funding over the next four years. These cuts come on top of more than \$13bn of cuts and deferrals in the past three budgets. As a result, defence spending will fall from \$26.4bn to \$24.2bn next year, a reduction of \$2.2bn or 10 per cent once inflation is taken into account. This is the largest percentage fall in Australian defence spending since the end of the Korea War in 1953.

The reason for the cuts is clear. While Defence's embarrassing habit of handing back unspent money has been a factor, the government has ultimately put a higher priority on delivering a surplus than building a stronger defence force. Without the accumulated reductions in defence spending, the budget would have remained in deficit until 2015-16.

In making the cuts, the government has been careful to quarantine funding for deployed troops and has promised not to reduce military personnel numbers. And although there might be a potential impact on training and exercises, priorities are being carefully managed.

Most of the money flowing back to Treasury has been taken away from capital investment: \$3bn from military equipment purchases and \$1.2bn from the construction of facilities. Further

significant savings have been made by reducing civilian numbers by 1000 positions (\$360 million), retiring the last of the C-130H transport aircraft (\$250m) and general administrative belt-tightening (\$438m).

But it gets worse. To meet cost pressures in a variety of areas within Defence, a further \$2.9bn will be redirected away from investment in new equipment over the next four years. Consequently, extra funding will be shifted to meet the rising cost of running the Collins-class submarine fleet (\$700m), fixing ageing IT infrastructure (\$550m), maintaining defence force housing (\$404m) and boosting naval maintenance (\$270m).

The net result of the cuts and reallocations is to dramatically reduce investment in new equipment and facilities over the next few years while leaving overall personnel and operating costs about where they were. This means cuts and cost pressures are largely being met by sacrificing the ADF's future development.

With a new white paper announced for next year, defence planning is effectively on hold. The government broadly has two choices. It can dig deep into taxpayers' pockets and plot a course back towards the goals of the 2009 white paper, or it can set new, less ambitious goals for the ADF.

The government has said it remains committed to the "core capabilities" of the 2009 white paper, but this is hardly reassur-

ing. When announcing the white paper plan, it mentioned both the GFC and the need for adjustments in the context of troop drawdowns in Afghanistan and East Timor.

Both imply downside risk to defence funding; any mention of the GFC is a prelude to excuses about balancing budgets, and Australia has scaled back its armed forces following every major conflict of the past century.

The government has so far avoided saying how much money it is willing to spend on defence in the long-term. Nor has the opposition, which has also failed to offer more than token resistance to the recent cuts. No surprises here; if the Coalition wins the next election, it faces an even more challenging fiscal outlook, given its aversion to the carbon and mining taxes. The longstanding bipartisan approach to defence policy has been overtaken by an even firmer agreement on the need to get the budget back into surplus.

On balance, therefore, it looks as though we are at a turning point in defence planning. Not only are economic circumstances unfavourable to sustained increases in defence spending, but the fears and misgivings that emerged after 9/11 have abated. In all likelihood, the 2013 white paper will lay out a somewhat more modest vision for the size and role of Australia's defence force. Already, we've seen some major projects cancelled outright, including self-propelled artillery and "blue-force tracking".

Designing a smaller defence

force will be difficult. When budgets are rising, there is little pressure to make difficult decisions. The army, navy and air force can all have what they want. But tight budgets demand hard choices. To guide those choices, the government needs to settle on what it wants the ADF to be able to do.

On this count, the 2009 white paper failed. On the one hand it laid claim to a traditional and ultimately modest "defence of Australia" strategy. On the other, it described a robust maritime force — including 12 long-range submarines — that was more at home in the South China Sea than waters closer to home. No such ambiguity can be afforded this time around.

Unless the government is willing to provide a lot more money, the choice is clear. Rather than seeking a role in the evolving balance between the great powers of the Asia Pacific, we need to focus on realistic tasks that are achievable within a realistic budget.

The government hopes to complete the new white paper before the middle of next year. On past experience, this will be hard to achieve. But it is urgent for defence planning to return to a realistic basis. Every day of big planning but small spending risks incoherent decisions that we'll have to live with for years. Now is the time to sort out the wreckage of the 2009 white paper.

Mark Thomson is an ASPI analyst. These are his personal views.