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# An expanding defence budget is a hard sell for new minister Marise Payne

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**Money will need to be found through higher taxes or cuts to services, and the public will rightly demand an explanation.**

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At the most recent Senate estimates hearing in mid-October, new Defence Minister Marise Payne was asked whether the government remained committed to boosting defence spending to 2 per cent of GDP within a decade. Her response, that "there is no change to that policy", no doubt elicited a collective sigh of relief around the corridors of the Russell Offices.

However, at the same hearing, the minister declined to give a release date for the long-promised defence white paper and its associated capability investment plan. Not unreasonably, she said that time was needed to consider the current draft, adding it would be "irresponsible for the Prime Minister and me to not exercise due diligence in relation to those items".

So we find ourselves in a curious position. The government's policy on defence funding remains unchanged, yet the new Defence Minister and Prime Minister are yet to get across – let alone accept or reject – their predecessors' work on the matter. To do so properly will require at least several meetings of the newly constituted National Security Committee. Consequently, the defence white paper promised for 2015 may well become the 2016 defence white paper.

The likelihood of delay is increased by the need to accommodate defence funding within the Turnbull government's yet-to-emerge broader fiscal and economic strategy. As a former businessman, Malcolm Turnbull knows that each dollar can only be spent once; a dollar spent on defence cannot be spent on health or education, and vice versa. There is no spending without an opportunity cost. For this reason, it's unclear whether the 2 per cent promise will survive through to the white paper's release.

It's not that anything has happened to erode the argument for bolstering Australia's defence capabilities. Events near and far point to a slowly deteriorating security landscape. Iraq and Syria have collapsed into chaos and carnage, Afghanistan teters on the brink, and China's assertive brinkmanship in the South China Sea portends a fundamental challenge to the regional order.

Yet, at the same time, developments on the economic front are just as worrying. The US and European recoveries remain tepid and uncertain despite six years having elapsed since the global financial crisis. Meanwhile, China's three-decade long run of breakneck economic growth seems to be coming to an end with a reckoning due because of a mountain of domestic debt. Not only does the state of the global economy look bad, but here in Australia we face the challenge of a major economic restructure as the once-in-a-century commodity boom subsides.

It was no accident that one of Turnbull's first actions as Prime Minister was to convene an economic summit. With Australia's debt growing alongside risks in the global economy, economic reform is becoming ever

more imperative. But any practical change to the status quo will create winner and losers, most especially when it comes to the tax system. People adversely hit by change will need to be compensated – at least initially. The political reality is that economic reform is costly to introduce.

Whether it's seeding economic reform or paying down debt, Turnbull and his Treasurer, Scott Morrison, will need to find money to implement their fiscal and economic plans. That would be difficult in normal circumstances. But in recent years, the electorate has become quick to express its displeasure about "unfair" policy that hits the hip-pocket nerve. This restiveness in the electorate further elevates the practical cost of reform – especially with 2016 an election year.

So while it's possible the new government will sign up to the 2 per cent of GDP defence funding model, we can't yet be sure. Until Turnbull and Morrison properly understand the opportunity cost that higher defence spending would impose on the government's broader economic agenda, it will be hard for them to reach a conclusion. There's a good argument to be made for a sustained increase to defence funding, but it has to be judged against the correspondingly strong arguments for retiring debt and reforming the economy.

When all is said and done, jettisoning of the 2 per cent promise would not be a big loss. Funding defence at an arbitrary percentage of GDP is unambiguously poor policy. Not only does it prioritise the consumption of money over the delivery of military capability, but it leaves defence funding to the mercy of the ebb and flow of economic growth.

It would be an extraordinary coincidence if 2 per cent of GDP just happened to be the amount of money needed to defend Australia. Thus, while spending 2 per cent of GDP on defence would certainly make the military happy and warm the hearts of those in the boardrooms of defence industry, the electorate would need convincing.

Back during the boom times of the 2000s, it was possible to increase defence spending while cutting taxes and boosting government services. Those happy days are over. To increase defence spending in the years ahead, money will need to be found through higher taxes or cuts to government services. People will rightly demand an explanation.

It will take more than an erudite argument in the next white paper to convince people, and a hackneyed photo op in front of flag-draped military hardware will not cut it either. It will be up to the new Defence Minister to sell the case for higher defence spending to a sceptical electorate. I wish her luck.

**Mark Thomson is a senior analyst at the Australian Strategic Policy Institute. These are his personal views.**

This story was found at: <http://www.smh.com.au/comment/an-expanding-defence-budget-is-a-hard-sell-for-new-minister-marise-payne-20151024-gkhsou.html>

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