

The Strategic and Defence Studies Centre

WORKING PAPER NO. 77

FUNDING AUSTRALIA'S DEFENCE

by

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ABSTRACT

This paper examines the attempt made between 1976 and 1983 to significantly raise expenditure on defence, and to direct a higher proportion of the total to the purchase of equipment. The nature, scope and consequences of this plan's failure is discussed, and deficiencies in the capital stock of the Australian Defence Force are indicated. Yet the funding of defence during this period was probably more liberal than usual in Australia, and similar to that of many countries in less favourable circumstances. This dichotomy suggests that a fundamental rethinking of defence policy may be necessary.

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FUNDING AUSTRALIA'S DEFENCE

The Attempt to Increase and Redirect Defence Financing - 1976 to 1983

1. INTRODUCTION

In May 1976, shortly after reassuming office, the Liberal/ National Country Party (LN/CP) Government announced a major revision of defence posture, a revision not so much of fundamental policy as of the priority attached to the Defence budget. Almost four years later, in February 1980, another revision was introduced. This time there was a measure of change to policy, but the emphasis was still upon increases in funding, these of more ambitious nature even than those of 1976. Yet only some three years later one of the acts of the first Cabinet meeting of the Labor government was to accept its Defence Minister's recommendation that no attempt be made to replace the aged aircraft carrier Melbourne. The reason was that future projections of the defence budget made it clear that no potential replacement vessel could be provided within the parameters of current financial planning - the same parameters that had been laid down by the previous government. In a metaphorical sense at least, defence planning had run against the threat of bankruptcy!

The aim of this paper is to examine the origins of this situation and some of the implications for the provision of equipment and facilities for, and the development of the force structure of, the Australian Defence Forces. Some commentators on Australian defence matters have assumed that the answers in both instances remain simple; expenditure on defence has not reached the levels postulated by Government in 1976, hence any future government would simply have to spend more. The contention explored in this paper is that the issue involved in both cases is not so simple as to make this type of reaction relevant, let alone helpful, in addressing the issues involved in the formulation of policy for the future defence of Australia. It will be shown that a difficult conundrum must be considered by

policy makers: defence spending in Australia in recent years has been at historically high peace time levels, yet it appears that this level of finance will not be sufficient to maintain even the force structure that the Australian Services currently possess.

2. THE OBJECTIVES OF DEFENCE FINANCIAL POLICY, 1976-1983

The First Draft - The 1976-81 FYDP

During the period from 1973 to 1975, when the Australian Labor Party (ALP) was in power, the then Opposition claimed that the Australian Defence Forces were being allowed to decline and that essential capabilities were not being added to or replaced. In May 1976 the Defence Minister, Mr. D.J. Killen, made a statement to Parliament detailing the LN/CP Government's plans for correcting this situation. In a speech of broad generalisation the Minister's substantial point was that the Government had decided to spend \$12,000m on defence over the next five years.¹ This was the amount required to give the country a 'credible Defence capacity' and, although the greater part of the finance would be spent in the last three years of the program, there would be, nevertheless, 'an increase in real terms of between 5 and 6 per cent' in the 1976-77 Budget compared with that of the previous financial year.

There was also to be what the Minister described as an 'immediate' increase in Service activities, and he announced that the Defence (Industrial) Committee had, the previous day, commenced an investigation of the capacity of Australian industry to support the Services. For a more detailed exposition of the Government's thinking the Parliament had to await the presentation of the white paper on defence which the Minister promised for the Budget Session of that year.

Australian Defence, the promised white paper, was duly tabled on 4 November 1976, and provided not only the details which had been absent from the Ministerial Statement seven months earlier, but a resume of the thinking which had prompted the

Government to accept the target of a Defence Program of \$12,000m. Although still the most concerted official attempt to expound a developed concept of national defence, the white paper never explicitly enumerated the elements adopted as policy, requiring the alert reader to detect the crucial statements deposited amongst widely separated paragraphs. The purposes of my paper do not require that these be threaded together but amongst those factors, important in leading to the financial objectives adopted by the Government, were the recognition of the need for increased self reliance in defence matters² and an 'emphasis on the defence of Australia within the context of our neighbourhood and region.'³ Talking of the specific funding requirements of the plan for the financing of the Defence Program, Australian Defence stated that they depicted 'in quantified financial form, certain policy objectives which the Government will pursue.'⁴

The financial data given in Australian Defence (1976) revealed the Government's objective to be one of the most ambitious defence programs ever attempted in Australia in peacetime. In its essence, the Government was proposing a Five Year Defence Program (FYDP) totalling \$12,000m in constant January 1976 dollars.⁵ To reach this target, expenditure on defence would need to increase in real terms by 5 per cent per annum, a major change since, with little exception, real expenditure on defence had been falling consistently since Australia began, in 1968-69, to reduce her commitment in Vietnam. More important than the gross figures, however, was the objective to realign the distribution of resources within the Defence Vote. Generally, this could be described as an attempt to shift expenditure from current consumption to capital investment, which was not explicitly stated in the discussion on the financial aspects of the FYDP, but was elsewhere described as 'balances between immediate capability and provision of a basis for expansion in a threat situation; between development and consolidation; and between training and peacetime operational use.'⁶

The main objective of the proposed changes in allocations was to lower the proportion of total expenditure devoted to manpower costs, and redirect the savings to financing capital equipment programs and, to a lesser extent, defence facilities. Although not inconsiderable growth in the numbers of Service personnel was proposed, expenditure on manpower costs (which include such ancillaries as the government contribution to the DFRDB, the Service retirement scheme) was to be reduced from the 57.6 per cent of expenditure they had consumed in 1975-76, to 45 per cent by the end of the Program in 1980-81. In contrast, it was expected that capital equipment programs would consume 'over 22 per cent' of the total in 1980-81 in contrast to the 8.3 per cent⁷ that they comprised in 1975-76.

A similar, but smaller, increase in the proportion of expenditure allocated to facilities, rising from 6.2 per cent to 7 per cent, was also projected. Although apparently small, this amounted to an increase of 46 per cent in constant money terms. Australian Defence stated that running costs, covering administration, operating expenses and maintenance, would be held at substantially the same level of some 22 per cent. (Analysis of statistical data in the 1976 white paper shows that running costs were calculated to fall from 22.8 per cent of total expenditure to 21.7 per cent over the period of the FYDP). Although not specifically discussed, data in Australian Defence showed that no increase in expenditure on support of defence industries was planned, an important omission in view of the emphasis on self reliance expressed elsewhere in the white paper.

The initial calculations for the 1976-81 FYDP were published in Australian Defence in the table which appears below:

TABLE I
DEFENCE PROGRAM
Broad Planning Allocations

(January 1976 Prices)						
Expenditure	76-77	77-78	78-79	79-80	80-81	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Ships, Aircraft Armour and Other Equipment and Plant	300	380	450	540	650	2 320
Works, Housing and Acquisition of Sites and Buildings	130	130	150	170	190	770
Pay and Allowances of Service and civilian men and women and payments for Service retirement and death benefits	1 170	1 180	1 210	1 230	1 250	6 040
Defence co-operation and assistance to other countries	20	20	30	30	40	140
Service activities, operating and support costs (including administration)	500	530	560	590	610	2790
Maintenance of Government Factories and Defence Industry	70	60	70	70	70	340
 Total expenditure	 2 190	 2 300	 2 470	 2 630	 2 810	 12 400
Less: receipts from rent, charges made for rations and quarters, disposal sales and recoveries from other administrations	-70	-70	-80	-80	-80	- 380
 Total outlay on defence function	 2 120	 2 230	 2 390	 2 550	 2 730	 12 020

Source: Australian Defence, p.58.

Second Attempts - The 1980-85 FYDP

As will be shown later in this paper, the intentions proclaimed within the white paper were to be dissipated within the half-year, for the Budget of 1977-78 - which would have been formulated in April/May 1977 - provided for an increase in the Defence Vote of barely one per cent in real terms. The resolve of Australian Defence (1976) was not to show again till after the Soviet Union intervened militarily in Afghanistan in December 1979. In response, the Prime Minister announced a new FYDP in a statement to Parliament on 19 February 1980. This new Defence Program encompassed a defence planning objective more complex and more ambitious than its predecessor. Inserted into an extensive presentation of the Government's forebodings about the strategic superpower balance and its perception of a deteriorating international order, the strictly defence-related section of the Prime Minister's speech was brief, but its import was of great significance.

For the first time since 1976 the Government publicly pledged itself to a Five Year Defence Program defined in terms of a total real expenditure. This time however, the Government was intent to emphasise the emergence of a potentially real threat. Unlike the tone of long term development set by Australian Defence (1976), the Prime Minister's speech called for 'an increase in our defence preparedness'.⁸ Indeed, rather than announcing (or reemphasising) changes in the allocation of resources, to assist in reaching policy goals in conjunction with generally increased financing, the part of the speech dealing with the 1980-85 FYDP called for increases in everything. The Government now appeared to see the demonstration of response as being as important as the graduated improvements necessary to make such a response possible. Later, the Minister for Defence conveyed the Government's ambitions by describing the "essence" of the program as providing in addition to the expected initiatives on equipment, for 'development of our defence infrastructure; for an increase in our defence manpower; and for a higher level of operational activity.'⁹

To finance such a widely-cast ambition the Government announced a spending program that was larger than that of the 1976-81 FYDP. Grossing no less than \$17,600m in constant August, 1979 dollars,¹⁰ the 1980-85 Defence Program was seen as increasing in average annual real terms by no less than 7 per cent. Through this process it was calculated that the defence budget would grow to absorb 3 per cent of the Gross Domestic Product by 1984-85.¹¹ Once realised this would represent the devotion of a higher proportion of the nation's wealth to defence than at any time since the involvement in Vietnam.

Within this context of general increase, the objective to increase the proportion of the Vote spent on capital equipment was reiterated but now the target was to be 25 per cent of the budget. This was not without reason, as the Prime Minister's 1980 Statement announced some significantly costly changes to major equipment projects, as well as restating an intention to pursue several of those proposals of the 1976-81 FYDP which had not been realised.¹²

3. POLICY AND REALITY - DEFENCE FINANCING, 1976 - 1983

The Government's Assessment

Most Government publications discussing defence, and especially those which deal with the expenditure that it entails, will stress that the projections of future expenditure presented in the Five Year Defence Program represent no promise to spend the allocations in the way proposed nor, indeed, to spend even the total projected. The explanation advanced is that the need to maintain flexibility sufficient to adjust defence priorities to changing circumstances dictates that the actual expenditure allocated in any financial year should be decided as part of the process of forming the Commonwealth Budget for that particular year. As Australian Defence expressed it, when outlining the 1976-81 FYDP, in the shape of the table reproduced above (pp.4-5), 'These broad provisional allocations are subject to review and adjustment according to actual timing of project

developments, Budget considerations and the circumstances prevailing at the time that major decisions need to be taken.¹³ (Emphasis Added).

This much of procedure appears to have remained an agreement within government over the next six years. In presenting its calculation of the extent of the total 1983-84 Federal deficit facing the incoming Government in March 1983, the Department of Finance commented upon the practice used in fixing the Defence Budget. Saying that the expression of financial objectives in real terms 'implied' an obligation to compensate for price increases, it noted that, 'however', funding was usually decided in the annual consideration of the Budget. 'By retaining the discretion to vary outlays within the overall guidance, the Government has increased its flexibility to adjust outlays in the face of broader economic goals'.¹⁴ And, indeed, these 'broader economic goals' had proved early to have sufficient strength to upset the LN/CP Government's defence finance plans.

In delivering the 1977-78 Budget, the Treasurer indicated just how strongly economic developments could deflect the Government's resolve when he announced that the Defence estimates 'implied' an increase of 1 per cent in real terms.¹⁵ This departure from the Government's objectives was sufficiently obvious to prompt the Minister for Defence to say that: 'this outlay represents a departure from the provisional allocations projected in the White Paper. It was inevitable that this be so the Government's strategy for national economic recovery from inflation requires that expenditure in the public sector be contained. There will be some selective postponement of some of the objectives we set for ourselves last November. But the stated objectives in the White Paper of what defence capabilities we intend this country to have in sight in the early 1980s remain.'¹⁶

Unfortunately 1977-78 was to prove to be no aberration. Although the worst year for Defence under the coalition government, it set a pattern of increases in real expenditure

well below the stated objective, which was to persist until Afghanistan brought a return of the old resolve and an even more ambitious defence program. However, even then the objectives of the financial policy were to prove ephemeral and, after eighteen months of significant advance, were to retreat, once more, in the face of economic imperatives.

In April 1982 Sir James Killen was again to be found telling Parliament: 'The Government has recently found it necessary to contain the growth in post-Budget 1981-82 public expenditures. Along with other areas of government, defence has had to find offsets for price and wage increases [Because of the effect of Service and civilian wage rises] some planned objectives for the development of the Defence Force will not be achieved as early as originally intended.'¹⁷ And, although this setback was suffered against the background of an expenditure on defence that had expanded significantly, and in real terms, since 1977, and a 1981-82 Budget that, despite this cutback, was to show a real growth rate at least equal to the average, the Minister was to concede that these developmental objectives were not considered adequate. Saying that the Government was aware that the important criterion was not expenditure but the defence capability it purchased, Sir James stated of the latter, 'It is, unfortunately, not as much as we would like. This is not a problem unique to Australia. It is common to every country which needs to have its defence forces keep pace with the rate of technological advance.'¹⁸

Whatever the situation in other countries, it was certainly true that by the Autumn of 1982 serious problems were apparent in the financing of Australian defence. Furthermore, it was equally apparent that these problems were producing more tangible effects in frustrating the Services' attempts to replace items about to retire. For, as well as consistently failing to meet the real growth objectives for the total defence budget, the policy of restructuring that total, to allocate an increased proportion to capital equipment and facilities, had also collapsed. In the Minister's terminology, 'The effect in this year (of the wage rises) has been to divert investment

expenditures ... away from real growth towards meeting higher wages and other costs.¹⁹

The Implications of Shortfall

In reality, several factors had combined early in 1982 to force dramatic changes to the then existing plans - the chance to purchase HMS Invincible, American pressure to advance the order for P3C Orion aircraft, and Service wage increases of around 30 per cent - but the possibility of such a dramatic restructuring had been strengthening over the years. The indication that the problems facing defence were now more than momentary lies in the fact that the Equipment component of the FYDP, disrupted by the need to shuffle projects aside to facilitate action on Invincible, has only been partially reconstructed, more than a year after the changes of 1982 and after the disappearance of the aircraft carrier project. None of the programs deferred, or capabilities abandoned, at that time has been reinstated since, with the possible exception of the Follow On Destroyer project. According to the April 1982 Statement, expenditure scheduled for the project over the succeeding five years would be reduced. This could have been interpreted as placing in jeopardy any proposal to commence fabrication of the vessels but approval was given in October 1983 to their construction at Williamstown Naval Dockyard.

What had been happening to defence Expenditure and its components to produce responses such as those of April 1982, can be seen in the tables which follow. Table II demonstrates that there has been real growth in the Expenditure on defence in nearly all years since 1976-77 but that in only the first year of the two much-heralded Programs, did expenditure approach the levels indicated by policy. Once the rate of increase of expenditure departed from the FYDP projections there was no attempt to return to those levels, let alone any 'loading' of subsequent years in an attempt to restore to the average the rate of real increase over the duration of the Program. Indeed, the flexibility of the FYDP to annual Budget priorities, in the best of Department of Finance traditions, is well demonstrated by the data presented in Table II. So well has the FYDP been adjusted

to the pursuit of broader economic goals that only a power as influential as the Soviet Union was capable of restoring Government determination to reassert its financial objectives.

It is, of course, completely logical that a nation's defence planning should be influenced by the state of its economy unless (as for instance Israel) it is faced with the crisis of survival. Through most of the period of the coalition government the Australian economy was, indeed, in trouble. It can be well argued that the prospects of funding defence expenditure are so much better with a healthy, than with an ailing, economy that any reductions in current levels of defence expenditure which assist economic recovery will be more than repaid in future. Hence any pressures which may have been placed upon the Minister for Defence to defer to the common good would have carried credence and, given the nation's economic history over the last decade, been oft repeated.

However, the Government was well aware of the economic situation when it formulated the 1976-81 FYDP. It had, in fact, recently won an election on the theme of repairing the economy, yet still saw the need to persist with its defence financing proposals:

At a time when the nation faces serious economic difficulties, a decision to spend substantial sums of money on Defence in the next five years does not make the resolution of these difficulties any easier. The Government freely acknowledges that fact. It accepts, however, that the first obligation which falls upon government ²⁰ is to ensure the safety of the country and its people.

It was then important to the Government that the objectives of the 1976-81 Defence Program be met, including necessarily the finance to provide for them, despite economic conditions and at a time when the strategic situation was not of the worst. Further, the Minister had earlier said that the FYDP's '\$12,000m is needed to give the country a credible defence capacity'²¹ (emphasis added). If the effort to build the nation's defences was sufficiently important to outweigh the economic imperatives and the FYDP provisions were dictated by the requirements to maintain defence capacity, only two conclusions

can be drawn. Either the circumstances of Australia's strategic situation subsequently changed for the better, thereby no longer requiring defence capacity of the degree thought necessary in 1976, or a decline in defence capacity has occurred which must be regarded as serious within the definitions of the then Government's own policy.

With the exception of possibly one Statement,²² the Minister for Defence, at least, gave no indication that the evaluation of the strategic situation had improved at any time during the currency of either the 1976-81 or the 1980-85 FYDP's. On the contrary, the latter was a response to a perception of its deterioration. One can hardly do other than conclude that the failure of FYDP expenditures to reach the levels that were said to be necessary has resulted in some significant reduction of the nation's defence capabilities, at least in the terms of those who drew-up these Programs. The extent of this reduction, and its significance or otherwise, depends on just how great has been the shortfall and where its influence has been most felt.

Difficulties in Quantifying Trends

It is here that one strikes difficulty, for there are a great many calculations of the extent of real growth in defence expenditure during this period, exhibiting significantly different results across their range, and all from official sources! Those studying the progress of the 1976-81 FYDP would have noticed early that the results being claimed as the correct indication of real growth of expenditure did not match any that could be obtained by using the indices of the implicit price deflators prepared by the Commonwealth Statistician. Indeed, as early as September 1977, the then Opposition spokesman on Defence, Bill Hayden, challenged the calculations used to allow the Treasurer to claim that that year's Budget would see a real increase in Defence Outlay of 1 per cent.²³

Although there was some official correspondence with Mr. Hayden's office on the point, there was no public indication that the Department of Defence (DoD) was indeed using a special purpose index until two years later. Replying to a Question on

Notice from Bill Hayden, by then Leader of the Opposition, DoD supplied its own index for the implicit price deflator pertaining to total defence outlay.²⁴ This index was, however, constructed from information maintained by the Department which, in its answer, claimed that no deflator existed, 'rather, assessments of real growth in Defence outlays are made each year relative to the achievement in the previous year'.²⁵ In operation and concept, however, assessments of relativities involve collecting data and making judgements about them - DoD was constructing its own index to assess progress against its objectives year by year. The extent of its own research into the peculiarities of inflation in its own domain can be seen in an accompanying answer which details an index for expenditure on defence equipment. The differences in price movements shown in this are quite marked in comparison with the general expenditure index.²⁶

DoD's processing of its own estimate of real growth continued into the next of the publicised FYDPs and until at least the end of 1981 its relevance was strongly defended by the Minister. In an exchange during a Budget Session meeting of the House of Representatives' committee dealing with the Defence Budget, Sir James Killen vigorously defended the Department's calculations. In brief, these claimed a rate of real increase in Outlay during 1980-81 of 5.6 per cent, against a lower estimate advanced during the meeting.²⁷ The Minister stressed that the result had been agreed with the Department of Finance and offered to provide an explanation of the methodology in response to the query of Mr. W.L. Morrison, himself a former Minister for Defence.

This response provides little comfort for the student of Australian defence management, for it implies that, without a computer program providing an interactive weighting for the various price and foreign exchange movements affecting transactions as they occur during the course of a financial year, the Departmental assessment of its budgetary performance cannot be duplicated.²⁸ However, the answer to Mr. Morrison does confirm that the DoD had evolved a specialised measurement of defence-related inflation and, equally important, had received governmental consent that this was the relevant way to assess

compliance with the Government's FYDP fiscal guidelines. Up to 1981 the official statements of real growth in Defence outlays can be seen to have been based on this departmental purpose-designed deflation procedure. The calculations of real growth in total defence outlays given in sections 6, 7, and 8 of Table II emanate from official DoD sources and display closely comparable estimates of real growth.

Unfortunately, this consistency has now vanished. There was no DoD estimate of the real growth in outlays achieved in 1981-82, although the Minister had, towards the end of 1981 predicted a real growth rate of 5.3 per cent.²⁹ Nor was there any mention of the predicted real growth rate for 1982-83 in either the Budget Speech or Papers, or the Defence Statement. In fact there was no Defence Statement in 1982, the Minister - by now Ian Sinclair - choosing to speak in the Appropriation debate, a rather less structured and formal vehicle than a Ministerial Statement. Although he promised a more considered Statement later in the 1982 Budget Session, to include sections on the Defence Program and defence management,³⁰ this was not delivered, and by the time that Parliament resumed Mr. Sinclair was no longer Minister. During these last months of the Coalition government there appears to have been a significant change in the handling of the Defence Program which may be not a little connected to the sudden absence of information about the growth objectives of the 1982-83 Budget. Not till the presentation of the 1983-84 Budget under the new Government was an official projection of real growth in the Defence Estimates again offered.³¹

We now know that on 30 March 1982, the objective for average annual real growth had been shaved back, if slightly, from the 7 per cent postulated for 1980-85 to 6.3 per cent per annum for the 1982-87 FYDP.³² Had the 1980-85 Program come closer to achieving the financial goals and Defence force capabilities postulated in the 1976 white paper, one would have expected such adjustments. Where, as will be shown with regard to capabilities in later sections, this was not the case, one

tends to be suspicious of such changes two years before the expiry of the 1980-85 FYDP, especially where a speech which could have contained information of such changes is promised but not made. Suspicion is heightened where the characteristic method of measuring the advancement of the central aspect of the Program is abandoned.

During his speech on the Appropriations (which it must be remembered was the only official attempt to explain the objectives of the 1982 Defence Budget outside the documents themselves) the only reference that the Minister for Defence made to real growth was to a fairly broad and loosely expressed comparison of total growth in Defence outlays with the increase in the 'implicit GDP non-farm price deflator' (sic.)³³ for the period 1976-77 to 1982-83. The implicit price deflator for gross non-farm product had never been used before in official statements on the progress of the Defence Program. Indeed, at around the same time that Sir James Killen was defending estimates derived from DoD's specialised procedures, the Department of Finance was warning of the dangers involved in using the 'non-farm' deflator. In answer to a question which sought constant price comparisons of outlays of several Commonwealth departments, this index was used because 'specific price deflators' for all the areas were not available. However, it was cautioned, the resulting adjustment for price movements was very 'broad' and the results were given with 'due regard to their approximate nature.'³⁴ (The answer to this question provided the data for the calculations in section 9 of Table II.)

The difficulties involved in using the implicit price deflators are no secret. The results obtained from their use can vary markedly from year to year, as the Statistician is continually revising the series in the light of new information or assumptions. This can be seen in Table II by comparing sections 10 and 11 which use the same index but in versions approximately a year apart. These revisions are common to any statistical time series, and such revision is probably the reason for the slight variations shown in Table II for the calculations of real growth based on the DoD "deflator". The question however

remains, why did Defence suddenly abandon a procedure of relative precision, for which the techniques had been refined over at least nine years of use, which had received governmental approval and which had been vigorously defended by the Minister on several occasions, for one which was not specifically designed to evaluate the cost pressures acting upon Defence expenditures and was therefore the more vague and approximate?

The extent to which a specialised DoD procedure for calculating inflation became unfashionable can be seen in the response to a more recent request for information on real growth in Australian expenditure on defence.³⁵ This, an answer to a Question on Notice by Senator Michael Tate, was calculated by once more using the implicit price deflator for non-farm Gross Domestic Product. (The estimates of real growth in defence Outlay that this answer implied are shown as section 10 of Table II.) However Senator Michael Tate also asked in part of his Question, whether a specific defence deflator had been calculated for any part of the period since 1945-46 and, if so, for what period. The answer supplied to this query merely referred the Senator back to that answer supplied to Mr. Hayden in 1979 which has been discussed above. Yet, as I have shown, official reference to the DoD series of deflators continued to appear for at least three more years and it should have been possible to add to that earlier answer using data already calculated by the Department.

The use of the "non-farm deflator" appears to have a growing following, for in the 1983-84 Budget papers an historical series of total Commonwealth Outlays at constant prices is published.³⁶ This practice sits oddly with Finance's previous disquiet about the relevance of this index applied broadly to all Commonwealth outlays (see p.17) and involves the Budget Papers in a seeming contradiction. The historical series estimated a real growth rate for Defence outlay of 2.2 per cent, whereas the narrative claimed a growth rate of 'about 4 per cent' for the 1983-84 Defence Estimates.³⁷

Of course, departments can choose whatever measure of inflation they wish, to calculate what would constitute real growth in appropriations. Provided this is accepted by government (in practice by the Department of Finance) as relevant, there would be no greater managerial difficulty in using this series instead of any other to achieve the real growth objectives of the FYDP. The problem comes when there appears to be a change from one measure to another, for if the estimates of inflation are not comparable neither will be the benefits, in terms of disposable finance. Thus, while the change to a non specific deflator may be cosmetically appealing, the result may be, in fact, a worsening of the situation. This results from the size of the total outlay yielded, when real growth appears to have reached the maximum rate set by policy, being lower than that which would have been calculated under a more specific deflationary procedure. Obviously, this problem is less than real in a situation where no successful attempt has been made to reach the proposed maximum growth rate.

TABLE II

VARIATIONS IN CLAIMED REAL GROWTH IN DEFENCE OUTLAY

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1. Actual Defence Outlay (\$m) ¹	1863	2190	2386	2616	3019	3550	4134	4782
2. Proportional Increase - Current Prices (%)	14.0	17.6	8.9	9.6	15.4	17.6	16.5	15.7
3. Derived Defence Deflator ²	144.1	161.2	175.7	189.9	-	-	-	-
4. Implicit Price Deflator ³ for Gross Non-Farm Product	71.0	79.0	85.5	91.2	100	110.2	123.2	137.3
5. Real Growth in Defence Outlay projected in <u>Australian Defence (%)</u> ⁴	-	7.0 ⁵	5.2	7.2	6.7	7.0	(7.0)	(7.0)
6. Real Growth estimated from Derived Defence Deflator (%)	-0.1	5.1	-0.1	1.4	-	-	-	-
7. Real Growth Claims from Official Sources (%)	-0.4	5.3	0	1.0	3.0 ⁶	5.6 ⁷	-	-
8. Real Growth Derived from Constant ⁸ Price Summary of 1976-81 FYDP (%)	-	5.2	0	1.0	2.9	-	-	-
9. Real Growth Derived from Department of Finance's ⁹ Non-Farm Product Deflator (%)	-	6.2	0.4	2.6	5.5	6.2	5.2 (est.)	-
10. Real Growth Derived from Department of Defence's Non-Farm Product Deflation of Outlays (%) ¹⁰	-2.5	5.8	0.6	2.7	5.3	6.9	4.4	-
11. Real Growth Estimated from Implicit Price Deflator for Gross Non-Farm Product (no. 4 above) ¹¹	-2.3	5.7	0.7	2.8	5.3	6.7	4.2	3.8

Sources

1. 1983-84 Budget Paper No. I, AGPS, Canberra, August 1983, Table 5 'Commonwealth Government Budget Outlays and Receipts 1973-74 to 1982-83 and 1983-84 (estimated)', p.360.
2. 'Defence Expenditure : Implicit Price Deflator' (Question No. 4628), Hansard, Reps., 20 and 21 November 1979, p.3255. Despite its title, this answer gives deflators for Outlay on Defence and explains their derivation. The table as given in Hansard has been transposed to render the base year 1973-74 = 100).
3. Quarterly Estimates of National Income and Expenditure, Australia, Australian Bureau of Statistics (ABS), June Quarter 1983, Table 42, 'Implicit Price Deflators (1979-80 = 100)', p.39.
4. Calculated from Table I, pp.4-5, above. The two figures in brackets represent the projected average annual real increase in Defence Outlay as announced for the FYDP 1980-85 and as such are only given to provide a reminder of the approximate targets against which the subsequent results can be judged.
5. Australian Defence, p.60.
6. M.T. Hyland, 'The Five Year Defence Program', Presentation No. 5, Australian Defence Seminar, Brisbane, 10-11 June 1980, p.12 and vugraph, 'Percentage Real Changes in Defence Outlay'. At the time of the address, the 3% real growth for 1979-80 was presented as a projection. It was later confirmed in, 1980-81 Budget Paper No. I.
7. D.J. Killen, Ministerial Statement, 'Tactical Fighter Force', Hansard, Reps., 20 October 1981, p.2208.
8. W.L. Morrison, Speech on Appropriation Bill No. 1, table prepared by the Department of Defence incorporated by leave, Hansard, Reps., 26 February 1981, p.312. This table gives expenditure on various segments of Defence Function for the years 1975-76 to 1980-81 (the last as estimates). It is reproduced below at Appendix I.
9. 'Government Expenditure' (Question No. 1190), Hansard, Reps., 18 November 1981, pp.2324-2325. This answer, which uses the Implicit Price Deflator for Gross Non-Farm Product to render prices at 1980-81 levels, should be noted for its caveat on the use of this index. It was used here because the question called for a comparison of expenditure in several portfolios and specific price deflators were not available for all areas.
10. 'Defence Expenditure' (Question No. 2958), Hansard, Reps., 19 November 1982, pp.2641-2642. Although this question asked about the use of any specific deflator for defence outlays, and the answer referred to the response noted in Source 2 above, no attempt to update that departmental deflator was made, nor was there any explanation of why the less precisely calculated deflator for 'Non-Farm Gross Domestic Product' was used. The answer uses 1981-82 as the base and is expressed in estimated 1981-82 prices. It is reproduced below at Appendix 2.

As can be seen from Table II, the differences in the calculation of real growth in defence outlay derived from the specific DoD procedure and the "non-farm deflator" are significantly greater than any differences using the same index, even when calculations based on the same index have been separated in time. This is especially so after 1978-79 where the possible range of difference between the results of the two indices are less than one percentage point in only one instance, the divergence being as great as 180 per cent. In all cases the DoD procedure shows a greater rate of inflation affecting defence (i.e. a lower rate of real growth for the same actual expenditure) than the economy in general as shown by the 'non-farm deflator', which reflects data gathered from throughout the economy as a whole. This is in keeping with overseas experience.

For the purposes of this paper I assume that the specific procedures developed by DoD and approved by Finance give the measurements of real growth in defence Outlay that best reflect the extent to which the Australian Defence Force has been able to develop over the last seven years. Although the DoD "index" as supplied to Mr. Hayden ceased in 1978-79, it is possible to estimate an approximation of that index for another two financial years by using official statements of real growth achieved in defence Outlay. Comparing the rates of increase of the deflator derived from DoD information, and that of the "non-farm deflator", for the years between 1976-77 and 1980-81, the range of maximum differences between the various estimations of the two series in each financial year shows the compatibility to be slight, being at least 0.7 percentage points and ranging up to 2.6 percentage points, the DoD "deflator" always showing the greater rate of increase. Differences between the two of greater than one percentage point can be observed for each of the last three years for which some reference to the DoD series is available, and it might be assumed that this relationship remained constant over the remaining two years of the period, since it remained a time of high levels of inflation. On this basis one could suppose that DoD's procedures would show real growth rates, in each of 1981-82 and 1982-83, of around 3 per cent. This however, is very speculative and as the 1983-84

Budget Papers show a reversal of the normal pattern (that is inflation in the defence area being less than that in the economy in general) any such supposition should be treated with care.

Significant Features of Defence Outlay Since 1976

In the light of this tedious preamble, unfortunately necessary in an attempt to clear the confusion laid around the measurement of growth in defence Outlay, what can now be said about spending on defence over the last seven years? Total Defence outlay has risen and risen greatly; by 157 per cent since 1975-76. Using the assumptions about the calculation of real growth in Australian Defence Outlay, developed earlier, this would amount to a real increase of some 22.8 per cent over the same period, an average compound rate of growth of 2.9 per cent per annum. This in itself is no mean achievement especially considering the economic circumstances of the seven years since 1976. As Sir James said at an earlier juncture, 'Over the period since 1976 estimated real growth in Defence outlays has already averaged slightly more than 3 per cent per annum, as compared with an annual average real growth in total Commonwealth Budget outlays, over the same period of slightly more than 1 per cent.'³⁸

This rate of real increase in Defence outlay is above the average for increases in defence expenditure for the major Western nations. During the second half of the 1970s only four of the NATO countries (defined to include Spain and Portugal) registered average annual increases in defence expenditure above 4 per cent, when current prices are deflated by the consumer price indices of the relevant country.³⁹ Over roughly the same period, 1975-76 to 1979-80, Australian defence expenditure deflated by a similarly broad measure of price increase (the ubiquitous "non-farm deflator"), increased at an average compound rate of increase of 3.6 per cent. This rate of increase was better than more than half of the NATO countries as calculated by the IISS, the median being 3.36 per cent. The Australian rate of increase compares well with that of Britain at 3.92 per cent, if we recognize that, with a comparison as approximate as in this

case, small differences cannot be regarded as significant. Over the same period the US defence budget was almost stationary and shows a rate of growth of 0.4 per cent per annum, reflecting the period from the collapse of South Vietnam to the initial response to Soviet actions in Afghanistan. It is also significant that the rate of real growth in defence outlay which I have calculated as being that likely to have been yielded by the specialised deflation procedure of DoD over the period of the Coalition government's budgets, at 2.9 per cent per annum is almost equal to the NATO target of 3 per cent.

The "problem" that has arisen for Australia's defence planners as a result of this history is bi-faceted, one face the assumption by critics that the LN/CP government neglected Defence, the other the reality of deficiencies bequeathed to their successors. Throughout the period of the Coalition government, their efforts in the defence area were constantly met with the charge from the Opposition that, whatever they might have done for Defence they certainly had not lived up to their own funding objectives. It is certainly easy to see a pattern in the Coalition's treatment of defence, especially as far as funding total outlay is concerned. As can be seen from the official estimates of real growth in Table II, the beginning of each period of supposed urgency (following the accession to power in 1975 and Russia's actions in Afghanistan in 1979) showed a jump in the growth of expenditure on defence (in the 1976-77 and 1980-81 Budgets), followed by as pronounced a drop in the rate of increase.

Although the 1976-81 FYDP was approved with the explicit acknowledgement of the economic problems facing the nation, these "realities" were more compelling than the basic assumption of that Program, the annual 5 per cent real increase. Before the FYDP made any significant headway extremely severe restrictions on military operations and training⁴⁰ were imposed in 1978-79 and by that year many of the equipment projects noted by Australian Defence in 1976 were no longer in prospect. The same process emerged after December 1980. In fact the strictures placed upon Defence during the preceding two years were released somewhat earlier, in the 1979-80 Budget, which the Treasurer stated

'implied' a real increase in Defence outlays of 2.6 per cent.⁴¹ In the event actions taken in second half of that year as a direct response to the situation in Afghanistan increased this growth rate to 2.9-3.0 per cent. Despite this early response the first year of the much publicised 1980-85 FYDP did not demonstrate the projected real increase of 7 per cent, nor was either of the succeeding two years to do so. As stated above (p.20) the 5.6 per cent real growth claimed officially for 1980-81 was followed by increases of probably only 3 per cent in each of the next two years. There is apparently plenty of ammunition here to mount political debates on the degree to which rhetoric was matched by action. Yet there have been few years of Australia's peace time history which have registered the rates of real growth of Defence outlay which were achieved in this period, and seldom has Australia's Defence received even this level of consideration in peace time.

At this stage one could ask what differences the odd percentage point of supposed growth, real or illusory, makes when developing defence policy, or in pursuing the genuine security of the nation. The answer should be apparent at the end of the following sections which look at the development of specific areas within the defence Budget and analyse the problems which are now apparent therein. For, despite the exceptional growth rate of total Outlay over the last seven years it is now being argued by some critics that Australia's security is even less well defended than in the past⁴² and that the Services are desperately underequipped. Indeed the decision not to replace the Melbourne could be seen as the shedding of a capability long considered essential by the operating Service. Manpower increases have been sporadic and often reversed, and operational capabilities have fluctuated in the areas which were affected in 1978.

As important to the planning of the Defence Programs of the Coalition government as the objective to increase total outlay, was that of restructuring the way in which that money was spent. In this the Government's success was as limited as with its main objective, and the result has been that the increase in

outlay seems to have procured little increase in capabilities. Thus the Coalition Government became vulnerable to accusations based, not merely on the obtruse arguments about total Outlay, but upon the more tangible absence of equipment and facilities projects that it had committed itself to fostering in both the white paper and the post-Afghanistan statements. The failure to achieve the levels of promised Defence outlay crippled the Defence Program, not simply by restricting the maintenance and development of defence as a whole, but by reducing the flexibility to allocate between components. Thus, even had the proposed distribution of finance been achieved, the funds available for capital items would have been less, in real terms, than was envisaged in the FYDP. In practice, however, with much less funding than anticipated, DoD had little to reallocate after meeting obligatory demands, such as manpower, and the proportion devoted to capital inevitably remained below target.

4. REALLOCATING FINANCE WITHIN THE DEFENCE BUDGET

From Priorities to Chaos

As mentioned above, if a simple statement could summarise the Defence management objectives of the Coalition government, it would be that it aimed to divert expenditure away from current consumption to investment in future capabilities. This was as much a result of necessity as of philosophical preference. The expense of projects commenced in the early 1970s, and the requirements for equipment replacement which had become apparent by the middle of the decade and which were correspondingly outlined in Australian Defence in 1976, required either a burgeoning of total defence Outlay or some internal economies to dampen the effect of the proposed capital acquisitions.

In the context of the 1974-75 and 1975-76 Budgets, defence equipment programs with a total value of \$315m and \$285m were approved to go forward to contract stage⁴³ but corresponding expenditure in those Budgets was only \$102m and \$162m, respectively.⁴⁴ Obviously such a rate of commitment to purchase

military equipment would require increased expenditure in the future if it were to be sustained. To so sustain the rate of approvals was indeed the planning outlined in Australian Defence, which projected a commitment to new capital programs over the then forthcoming five year period which would cost about three and a half billion dollars, of which some \$2500m would fall due in the period 1976-1981.⁴⁵ The magnitude of this ambition can be seen by comparing the average annual expenditure that this implied (almost \$500m in January 1976 prices) with the \$289m that was spent during 1976-77,⁴⁶ the first year of the FYDP. Furthermore, the \$289m, although well short of the target average for the FYDP was, nonetheless, a real increase of 47.1 per cent over the previous year. (See table IV below).

If further complication were needed, the equipment project costings presented in the context of Australian Defence, represented fairly general estimates, for government approval was necessary before definitive contractual negotiations could be concluded and accurate costs agreed. Entering the inflationary late-1970s the Government must have been acutely aware of the potential damage to financial management threatened by the rate of increase of defence equipment costs. Indeed, it had already one salutary lesson behind it, for the two FFG-7 frigates which had been approved in 1974 with an estimated program cost of \$187m, were to total \$330m by the time that contractual documents were ready for the Minister's signature in January 1976. It was a pattern that was to become all too familiar.

In Australian Defence, the allocation of resources between the elements of the defence budget for the 1976-81 FYDP was carefully outlined. As mentioned above, it was, in essence, equipment increasing to comprise over 22 per cent of expenditure by the end of the period; spending on facilities to increase slightly, to over 7 per cent of total; running costs to remain at about 22 per cent of total; and wages to comprise about half of expenditure over the period but dropping to be only some 45 per cent of expenditure by the end of the FYDP.⁴⁷ Table III shows the success of the FYDP objectives. Although some movement in the preferred direction had been achieved in equipment and

manpower expenditures by 1979-80, when the 1976-81 FYDP was overtaken by events, the result was still far short of the goal. Expenditure on equipment, which should by then have reached 20 per cent of the total, comprised only 16.4 per cent, whilst manpower costs, instead of shrinking to 46.8 per cent of defence expenditure were still clinging to the 50 per cent benchmark.⁴⁸

TABLE III

EXPENDITURE ON DEFENCE FUNCTION 1975-76 TO 1982-83: MAJOR CATEGORIES AS PERCENTAGE OF TOTAL

MAJOR CATEGORIES	Proportion of actual expenditure							
	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Capital equipment								
New capital equipment for the								
Defence Force	7.1	11.8	11.9	14.3	14.7	14.1	10.7	16.0
Machinery, plant and equipment								
for Defence Central and								
Department of Industry and	1.2	1.0	1.2	1.3	1.7	1.9	1.9	1.4
Commerce								
TOTAL EXPENDITURE ON CAPITAL	8.3	12.8	13.2	15.5	16.4	16.0	12.5	17.4
EQUIPMENT								
Capital facilities								
Buildings and works	4.4	3.8	3.7	2.8	2.7	3.2	3.8	3.6
Building Consultants under								
Department of Transport and								
Construction control	-	-	0.1	0.1	0.1	0.2	0.2	0.3
Acquisition of sites and buildings	0	0.2	0.3	0.4	0.4	0.2	0.3	0.4
Advances to States under								
Commonwealth-State Housing								
Agreement	1.8	1.6	0.9	0.4	-	-	0.1	0.2
TOTAL EXPENDITURE ON CAPITAL	6.2	5.6	5.0	3.8	3.3	3.6	4.4	4.4
FACILITIES								

TABLE III (Continued)

MAJOR CATEGORIES	Proportion of actual expenditure									
	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83		
DEFENCE CO-OPERATION										
Manpower costs	2.0	1.1	1.1	0.9	1.0	1.0	0.9	0.9		
Defence Force salaries and allowances	37.5	35.3	35.1	34.1	33.1	32.5	36.7	33.0		
Civilian salaries, wages etc.	14.8	14.0	13.7	12.9	11.8	11.6	11.8	11.3		
Defence Force Retirement and Death Benefits	5.3	5.3	5.5	5.9	5.7	5.5	5.8	5.7		
TOTAL MANPOWER COSTS	57.6	54.6	54.3	52.9	50.6	49.6	54.2	49.9		
Other running costs										
Admin. expenses and other services	11.1	11.5	11.7	11.5	11.3	11.6	11.3	11.3		
Replacement equipment and stores	8.0	9.0	9.5	10.0	11.6	12.1	10.8	10.5		
Repair and overhaul of equipment	3.5	3.1	3.0	3.3	3.5	3.7	3.8	3.7		
Repair of buildings and works	2.5	2.2	2.3	2.2	2.4	2.3	2.1	2.0		
TOTAL OTHER RUNNING COSTS	25.8	25.8	26.5	26.9	28.8	29.7	27.9	27.4		
TOTAL EXPENDITURE ON DEFENCE FUNCTION	100.0	100.0	100.0	100.0(a)	100.0(a)	100.0(a)	100.0(a)	100.0(b)		

Note:

(a) Excludes Boeing 707 Aircraft.

(b) Does not add to 100 due to rounding of components.

Sources:

1975-76 and 1976-77; Defence Report 1980, p.55.

1977-78 to 1981-82; Defence Report 1981-82, p.45.

1982-83; DoD, Estimates of Expenditure 1983-84, Appropriation Bill No. 1, 'Explanatory Notes', pp.3-5.

With the facilities and running cost categories, however, the objectives were further from achievement at the end of the Program than they had been when it began. By 1979-80 construction or purchase of facilities had reached something of a nadir in the eyes of Departmental financiers as a justification for funding, and received only 3.3 per cent of total expenditure against the 6.5 per cent proposed in the white paper. In contrast running costs had been comparatively unrestrained, burgeoning to 29.7 per cent of expenditure, although a deal of this can be seen as due to the increased proportion of the Vote devoted to replacement stores in the second half of 1979-80, this being the first tangible reaction of the Government to Afghanistan.

Although the 1976-81 FYDP failed in its objectives of financial relocation it did possess a definite and logical planning base. The same cannot be said of the Defence Program produced in the wake of Russia's actions in Afghanistan. Apart from the overall budgetary objectives for growth in total outlays, the only specific mention of financial priorities was that equipment would increase to 25 per cent of expenditure by 1985. Reading the statements of the period gives the impression that the established dichotomy between current consumption and future investment had become a little blurred. The first on the list of the Prime Minister's responses to the post-Afghanistan situation was the increasing of Defence Force operations in the Indian Ocean, with the attendant costs of crew training, infrastructure development and repositioning of fleet units fully acknowledged.⁴⁹ The Minister was more direct, "We must raise the level of our national defence preparedness".⁵⁰ This was in distinct contrast to his sentiments of seventeen months earlier when, explaining the Government's decision to reduce the operations and training of the Defence Forces in an exercise of "judicious restraint,"⁵¹ he pointed out the costs involved in higher operational activities and emphasised the Government's assignment of priority to equipment.⁵²

Although the Minister did mention the need to balance "councils of urgency" and longer term investment objectives, and

claimed to incline towards the latter,⁵³ he then went on to list comprehensively the costly web of supporting activities for the former, down to the investment to improve industrial support to the Forces.⁵⁴ In this he was echoing the earlier acknowledgement of the Prime Minister that additional finance would be necessary immediately to support the increased activities, with additional long term costs to follow.⁵⁵

A further implication of this increased emphasis on operational activities was that manpower levels would increase, both to perform the tasks now required by the Government and to man the equipments to which it was now committed.⁵⁶ This initiative was to result in increased costs, not merely from the greater numbers of service and civilian personnel now authorised, but from a policy of setting salaries at attractive levels. Wage fixing procedures were to be revised to ensure that increases were granted promptly and implemented without delay.⁵⁷ This decision, apparently flowing from the happenstance of the Prime Minister being confronted by angry submariners during a public relations exercise in Hawaii⁵⁸ was to prove extraordinarily disruptive. The review of military salaries set in train by this decision was to result, some eighteen months later, in pay increases averaging 30 per cent. An increase of such size inevitably destroyed the rationale of defence financial management so long claimed by the Government, forcing them to 'divert investment expenditures provided for in the Budget away from real growth towards meeting higher wages and other costs'.⁵⁹ Eventually, therefore, the inherent contradictions of the 1980 FYDP did come back to haunt the Government, for the conflict between current consumption and investment could only be contained if spending on defence were to be raised to levels much higher than the Coalition was able to provide.

Recent Trends and Some Predictions

As is detailed in Table III, the consequence was that by only the second year of the 1980-85 FYDP, the gradual reallocation of funding priorities, slowly achieved over the previous five years, had been reversed. Once again, the economic

imperative intervened when, in January 1982, cuts in Government expenditures were demanded and a total of \$101m was removed from the equipment Vote.⁶⁰ Unable both to fund the salary increases and to avoid cutting equipment outlays, DoD ended 1981-82 with a Budget whose functional distribution was uncomfortably like that of 1976-77. The major difference between the two was unfortunate, for the comparative importance of facilities had lessened whilst that of running costs had increased, mainly in the areas of spares and overhaul. Yet this was a year in which the rate of increase of total Outlay was at least equal to the average recorded throughout the period. With expenditures on equipment further depressed late in the Financial Year (by the decision of the UK to withdraw the offer to sell the aircraft carrier Invincible) the proportion of expenditure devoted to this area was lower than in any other year under the Coalition.

Although the situation was recovered during 1982-83 the increased proportion allocated to capital equipment reflected the effects of the decidedly unusual intervention of the wages pause and the costs of the devaluation of March 1983 (see p.46 below), rather than a restoration of those programs suspended in April 1982. Funds which would have normally been appropriated during the year to pay for increases in wage rates were not required and, in conjunction with the inflated cost of existing equipment programs, served to change the proportion of the Budget spent in these two areas. The Estimates for 1982-83 showed a pattern of distribution more closely approximating what might have been considered a 'normal' pattern for Australian Defence budgets, with an estimated 16.5 per cent allocated to equipment and 53.6 per cent for manpower, when the \$110m allowance for prospective wage and salary increases was included as part of prospective expenditure.⁶¹ The pattern of the distribution of funds to the other functional areas of Defence expenditure was not changed significantly, despite the fact that, in the final outcome, the expenditure on capital equipment, at 17.4 per cent of total expenditure, was considerably higher than in any other budget prepared by the Coalition. The proportion of the Defence budget

finally claimed by the "frozen" manpower costs was 49.9 per cent, little different from the proportion allocated in the years around the Afghanistan crisis.

Despite the outcome in the capital equipment component, it would be foolish to assume that the 1982-83 Financial Year saw the breakthrough in defence management which has been sought for the last decade or so, especially now that the wages pause has ended. The Government has promised that the 4.3 per cent increase to wage awards granted by the Full-Bench of the Arbitration Commission will flow-on to the Services, with a general review of salaries to follow, commencing by about the end of 1983. By that time the Defence Forces will have spent almost two years without an increase in their basic rates and allowances. It is inevitable, therefore, that there will be a catch-up to community standards, probably in the 1984-85 Financial Year, not just because both political alignments favour the system which now sees the setting of Service salaries in the hands of an independent tribunal but because, more than ever, the Services are competing for manpower in the civil market. Increasing the technological content of weapons systems brings requirements for increased technological competence in both operators and maintainers and hence an increasingly expensive type of Service person.

A further increase in Service wage costs was in prospect in October, 1982 when the Committee of Reference for Defence Force Pay sought the permission of the Government to begin work to adjust Service remuneration for those changes in community standards which had occurred since the general increases of a year earlier. This request was refused by the then Minister in compliance with the wages pause.⁶² Since the policy of the present Government is to allow the Committee of Reference to have independence in conducting hearings on salary determinations,⁶³ it is likely that realigning Service salaries with community standards will quickly reassert the demands of manpower costs for the majority of defence Expenditure. The Tribunal may take some time to report, but the longer a realistic Service wages increase is delayed, the greater the risk that such increase will be as indigestible as that of 1981-82. Should that happen the

consequences for the equipment component of the defence budget will again be severe.

The forward projections of the defence budget over the next three years are far more sanguine than this analysis suggests⁶⁴ but are, as Finance itself warns, 'extremely tentative'.⁶⁵ Although these projections (which the Department of Finance hastens to add are those of submitting departments and 'have not formally been "agreed" or "disagreed" by the Department')⁶⁶ show a dramatic fall in the proportion of total expenditure going to manpower costs, falling as low as 39.2 per cent in 1985-86, there are strong reasons to doubt that these projections will become reality. They are, in fact, already outdated.

The "Budget Basis"⁶⁷ forward estimate for 1983-84 showed a predicted expenditure on military and civilian wages of \$2282m, an increase of only some 0.8 per cent on the expenditure for 1982-83, as it was predicted in early 1983. Yet it was apparent by April 1983 that wages would cost DoD an estimated \$2459.6m by the end of 1982-83.⁶⁸ In fact, Defence manpower costs overran even this revised calculation, albeit slightly, despite the wages pause. Manpower costs for 1982-83 were \$2466m⁶⁹ some 49.9 per cent of expenditure and significantly greater than the 45.8 per cent taken by them in the 'Revised Estimate' for 1982-83.⁷⁰ The manpower component of the 1983-84 Estimates reflects this higher basis (as, it should be noted, do other components of the 1983-84 Budget) and consequently consumes 47.7 per cent of Expenditure,⁷¹ considerably greater than the 43.1 per cent projected in the Forward Estimates, and even above the level projected in the 1982-83 'Revised Estimate'. This calculation for 1983-84 includes the \$110m for 'Prospective Wage and Salary Increases' which is not a part of the manpower component in the Estimates as presented. However there is little doubt that all of this will be appropriated during 1983-84, as it is roughly in line with granted, and expected, wage determinations during the financial year. It was the recognition of higher rates of increase in average weekly earnings that led the allowance for prospective

wage increases to be enlarged by \$30m between the publication of the Forward Estimates and the calculation of the 1983-84 Budget.⁷²

There has been quite some debate in the past on the adequacy of DoD's procedures when calculating wage costs for a coming financial year. Whether or not such scepticism at Budget time was appropriate, it is evident that, until the special circumstances of the wages pause, little significant progress in reducing the "burden" of manpower costs had been achieved throughout the lives of several Defence Programs. It should not be surprising therefore that the proportion of the 1983-84 defence Budget devoted to manpower costs is considerably greater than that earlier proposed, with consequent effects for the dispersal of resources within the defence Budget. It cannot be assumed that the results will necessarily be better in any future Budget even though the current trend is somewhat more promising than that of the past. Much will depend upon the success of the Government in seeking to implement its incomes policy.

Further pressures on the capital component would arise if DoD is forced to cut its future Budgets to a level below that postulated by the Forward Estimates. On past experience this would cause a deferral of expenditures on equipment as well as reductions in Service operations. Several rumours were in circulation at the time of the Government's expenditure reduction campaign prior to the 1983-84 Budget that Defence represented a good source of further savings.⁷³ The reasons for this can be seen in the Forward Estimates' calculation of the rate of growth in outlays. Whereas the 1983-84 Budget calculated a rise of only 10.4 per cent for Defence Outlay,⁷⁴ the Forward Estimates envisaged subsequent rises of 17 per cent and 13.4 per cent.⁷⁵ Whilst the rise projected for 1983-84 is modest in comparison with total Commonwealth Budget outlays (up by 15.8 per cent),⁷⁶ a 17 per cent increase is almost 10 percentage points higher than the average of the following year, whilst in 1985-86 the suggested rate of increase of Defence Outlay is exactly twice that of the general rate of increase. Whilst such figures are tentative, they indicate that defence will be a sufficiently

prominent claim on the Revenue to ensure that its requirements for funding will draw strong objections.

The last few pages are highly speculative, drawing upon data that the compiling authority considers to be untestable, but a warning is necessary lest this first publication of the Forward Estimates be taken to show that the problems of funding defence requirements are about to be solved. One need not doubt the sincerity of Government or Department in drawing up each of the successive Defence Programs but, as we have seen, events have a monotonous habit of interceding. This appears to be the observation of perhaps the most experienced person in the area of defence finance. As Mat Hyland, for long DoD's director of budgets and programming, has said:-

We get financial guidance from government but still it is the next Budget which is going to test the will and the real extent of government and its ability to make it stick you come to budgets and there are all sorts of pressures ... When you sit down, costs are up and the squeeze is on and the best intentions have got to be compromised.

There is thus still some little way to go before the observer can be sure that defence operations are being funded in the predictable way necessary for policy to be implemented in any logical fashion. By the end of 1983-84 it seems that some progress will have been made, but surveying the history of the last eight years emphasises the opportunities missed and the extent to which present performance falls behind goals which are still supposed to be current. The next sections of this paper will attempt to flesh out the meaning of this failure to meet earlier objectives as it affects the capital components of the defence Budget.

5. HIGHER SPENDING, RETREATING OBJECTIVES -

THE EQUIPMENT COMPONENT

The Initial Objectives

Although it comprises a comparatively small component of the Australian Defence Budget, the amount allocated to equipment has always been cited as evidence of a government's success in "improving" the defence capacity of the nation. The allocation for equipment is thus always at the centre of the political assessments (whether made by serving MHRs or defence lobby groups) which accompany each Budget. By the mid-seventies this indicator had been declining consistently for over seven years, reflecting the drop in general defence activity as the nation's involvement in Vietnam was curtailed, and the lack of orders for significant items of new equipment. From 24.9 per cent of total expenditure in 1968-69, the equipment Vote dropped dramatically to 16.7 per cent the following year, thence to 11.5 per cent in 1971-72.⁷⁸ As a proportion of the total, equipment bottomed-out in 1874-75 at only 5.7 per cent.⁷⁹

As explained above (p.23) this proportion would have necessarily increased as a result of decisions on equipment made in the context of the 1974-75 Budget and that following, but the impact of those years over which the equipment component of the Budget had declined made it an obvious area of attention in the publicised FYDPs of the Coalition government. Not only would outlays on equipment have to rise if the costs of programs initiated in the mid-seventies (such as the FFG-7 frigates and Orion aircraft, soon to be supplemented by further purchases by the Coalition) were to be met, but many of the major components of the Defence Forces' inventories were approaching an unavoidable retirement. It was not merely political acuteness that led to the emphasis which was placed on the provision of equipment in Australian Defence and the centrality of the plan to divert funds towards the equipment component of the FYDP.

That this objective met with some success but overall failed to reach the target set has been demonstrated by the data

in Table III. This failure to reach targets in the restructuring of the defence Budget was, as one would expect, the reflection of more fundamental problems encountered with spending on equipment. As is only logical, the devotion of an increasing proportion of defence funds to equipment would result in a larger rate of real increase in that component than in the Vote as a whole. The extent of this difference, in the planning stage, is conveniently displayed in Australian Defence (See Table I, pp.4-5 above) which allows a comparison of intentions and results until 1980-81. The proportions derived from the data in the white paper are shown in Table IV, below, together with other relevant data on expenditures on equipment over the last seven years.

Compared with a projected increase in total Outlay of 28.8 per cent over the period of the 1976-81 FYDP, Australian Defence showed an increased expenditure on equipment of 116.6 per cent over the same period. By comparing section 5 of Table II with section 6 in Table IV it can be seen that in the 1976-81 FYDP, the rate of real growth projected for expenditure on equipment was from twice to five times more than that projected for the rate of real increase on defence Outlay for the same year. The major attempt to reorientate the defence budget under the planning suggested in Australian Defence was to have been made in 1977-78, when real growth in the equipment vote was supposed to rise by 26.7 per cent in real terms whilst total outlay would achieve only 5.2 per cent real growth. The rate of real increase in the equipment component was thereafter to be more-or-less 20 per cent per annum, with total Outlay similarly approximating a 7 per cent growth rate. This planning aimed at a situation where the equipment component increased steadily to end the Program claiming over 23 per cent of total Expenditure (Table IV, section 7).

Instead, as can be seen from the three sub-sections of Table IV, section 5, the Financial Year 1977-78 was almost as impoverished for the equipment procurers as for the Defence Force as a whole. Thus it was that the leap in the comparative importance of equipment as a component of defence budgeting postulated by Australian Defence in 1976 never materialised, and

the proportion of expenditure devoted to equipment in 1977-78 reached only 13.2 per cent. This was even less than the white paper had suggested would be the proportion achieved in 1976-77. As a comparison of Table III and section 7 of Table IV shows, it was a gap between expectation and reality that was never to be closed.

TABLE IV
TRENDS IN EXPENDITURE ON CAPITAL EQUIPMENT

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1. Total Expenditure on New Capital Equipment (\$m) ¹	162.1	289.0	325.6	417.0	509.9	585.1	533.6	859.1 ²
2. Proportional Increase - Current Prices (%)	58.5	78.3	12.7	28.1	22.3	14.7	-8.5	61.0
3. New Capital Equipment as Proportion Total Expenditure ³ (%)	8.3	12.8	13.2	15.5	16.4	16.0	12.5	17.4
4. Derived Defence Equipment Deflator ⁴	130.8	159.5	167.9	183.3				
5. Real Growth in Expenditure on New Capital Equipment (%)								
a) From Derived Deflator	30.4	47.1	7.0	17.3				
b) From Summary of '76-81 FYDP ⁵	-	46.2	7.0	16.9	5.4			
c) From Non-Farm Product Deflator ⁶	35.9	60.2	4.1	20.1	11.5	4.1	-18.4	44.5
6. Real Growth in New Capital Expenditure projected in <u>Australian Defence</u> (%)	-	-	26.7	18.4	20.0	20.4		
7. Proportion of Expenditure taken by New Capital Equipment as projected in <u>Australian Defence</u> ⁸ (%)	-	13.7	16.5	18.2	20.5	23.1		

Sources

1. Defence Report 1981-82 AGPS, Canberra, 1982, 'Expenditure on Defence Function 1977-78 to 1981-82: Major Categories', p.44, for years 1977-78 onwards, and Defence Report 1980, p.54 for earlier years.
2. DoD, Appropriation Bill No. 1, Estimates of Expenditure 1982-83, 'Explanatory Notes', p.3.
3. Defence Report 1981-82 'Expenditure on Defence Function 1977- to 1981-82: Major Categories as Percentage of Total', p.45, for years 1977-78 onwards, and Defence Report 1980 p.55 for earlier years.
4. 'Defence Equipment Expenditure: Implicit Price Deflator' (Question No. 4730) Hansard, Repts., 20 and 21 November 1979, pp.3254-3255. The index given in this answer has been transposed in the same fashion as that noted for Source 2 of Table II.
5. W.L. Morrison, op. cit.
6. Australian Bureau of Statistics, Quarterly Estimates of National Income and Expenditure Australia, June Quarter 1983, Table 42 'Implicit Price Deflators', p.39.
7. Australian Defence, Table 7, 'Defence Program', p.58.
8. ibid.

Real Growth in Spending on the Equipment Component

The problem that now arises is how to place developments in the provision of new capital equipment for defence in any context wider than that of the proportion of the total Budget that it was possible to seize for this purpose in any particular financial year. The assessment of real growth in a component of any particular Budgetary sector is far more problematical than the difficult enough task of analysing the figures of the total. With upwards of 70 per cent of new capital equipment imported, the economic forces affecting the return for finance spent in this area can be vastly different from those affecting the bulk of the Budget, spent in Australia. If the rate of inflation in the economies of Australia's main equipment suppliers is lower than at home, a comparatively better return could be expected from overseas expenditure than from local procurement. That is, the greater would be real growth in equipment expenditures (consequently producing an index with a lesser numerical increase than the index for defence Outlay). Conversely, the continuance of this situation may produce pressures on Australia's monetary system, leading to devaluation and an increase in the costs of imported defence equipment (in terms of the Australian Dollar).

Where the exchange rate is continually being adjusted by small amounts, with the occasional complication of the major conventional devaluation, the outside observer is in no position to compete with the kind of continual analysis used by DoD to establish the movements in factors determining the real value of expenditures in its area. Unfortunately, officially calculated figures for the equipment component, as for total Outlay, are available for only the earlier part of the period. These are shown as a) and b) of section 5 in Table IV. The real cost estimates shown as c) in section 5 are included only to illustrate the wide variations that result from the use of a non-specific indicator of price movements and amply illustrates how misleading can be reliance upon such sources. As can be seen, whilst the results given by use of the two official sets of data are sufficiently close to be consistent with the effects of revision over the 15 months separating their calculation, those

derived from the Implicit Price Deflator for Gross Non-Farm Product do not bear even a consistent relationship to the trends established by the DoD deflators. In one case (1977-78) they produce a figure showing a lesser rate of growth immediately after giving a greatly overestimated indication of real growth.

However, data calculated from DoD sources does allow some important observations to be made, despite the abbreviated chronological span of the information.

Firstly, the expenditure pattern for equipment is similar to that for total Outlay for the period over which we have DoD calculations of inflation. Yet, unlike the pattern for Outlay, the rate of growth does not increase markedly in Year I of the Program and then tail-off. Instead, the increase started in the financial year before the 1976-81 FYDP, accelerated in Year I of that Program, and then fluctuated, but around a clearly declining trend. The rate of increase in 1975-76, second only to that in 1976-77 in the period up to 1981-82, showed the early effects from the approvals to equipment programs given in April 1974 (p.23 above).

Secondly, with the exception of 1978-79, the rates of increase in expenditure on equipment nowhere approach the guidelines proposed in Australian Defence for the later years of the 1976-81 FYDP. Interestingly, this does not show as a reversal in the trend of slowly devoting proportionately more of total expenditure to equipment till 1980-81, but rather as a gradual falling behind target, this movement being itself a reflection of the falling behind target of the rate of growth of the defence Budget as a whole.

In the period not covered by publicly available DoD measures of inflation the situation is more difficult to interpret. One can say categorically that there was a real decline in the allocation of funds for equipment in 1981-82 as the figures are obvious; the rest must be estimation. What cannot fail to impress however, is that the response to Afghanistan did not have sufficient stamina to provide a

sustained boost to the equipment component of the defence Vote. Indeed, it appears that the two years immediately following the presentation of this second of the well publicised Defence Programs in 1980, witnessed the lowest rates of increase attained by the equipment Vote in any period under the Coalition. This can be surmised from Table IV, using the figures derived from the "non-farm deflator", dubious though they may be, but the contention is strengthened by the results obtained from using a more specifically relevant index. When expenditure on equipment is deflated by use of the Implicit Price Deflator for Final Consumption Expenditure - Government, the rate of change at constant values is 2.3 per cent and -19.4 per cent for 1980-81 and 1981-82, respectively.⁸⁰

Persistent Problems in Managing New Equipment Programs

That the spending on equipment should be so restricted in the two years following the Government's pronouncements on the need to re-equip the Services following what it saw as a significant worsening of the world's strategic security, is extraordinary. This is so even when allowing for the oft-cited lead times involved in procuring military equipment. It is significant to note that a real growth in this component of 5.4 per cent was possible in 1979-80, after the defence Budget had been supplemented by \$121m, most of it to cover such immediate steps in response to Afghanistan, as could be taken before the end of 1979-80.⁸¹ It is ironic that these first, urgent measures were more successfully implemented than those for which, presumably, more leisurely planning was available.

Indeed, part of the explanation of why there was little progress in meeting equipment expenditure goals over the last few years of the Coalition's period appears to be that events destroyed DoD's procurement planning, at least much of that part of it intended to give momentum to the Government's post-Afghanistan policy. The 1980-81 Budget had allocated \$638m for new capital equipment, but by the end of the Financial Year \$53m of this remained unspent. Nor was this, as is sometimes alleged, merely the normal slippage which occurs in the procurement of

defence systems, as \$42m had been already allowed to cover this eventuality.⁸² The following year the underspend was \$169m.⁸³ It appears that this performance was sufficiently poor to allow the Department of Finance to argue successfully that the defence equipment vote for 1982-83 should be reduced below DoD's expectations, as seems can be inferred from the comments of the then Minister.⁸⁴

The causes of these successive years of underspending vary. In 1980-81 the reason was said to be that a wide range of programs had run into problems of various kinds but that, principally, the underspending resulted from the postponement of the selection of the aircraft for the New Tactical Fighter program.⁸⁵ (Nevertheless, this was offset to a large extent by the unprogrammed allocation of some \$50.6m during the Financial Year to purchase four ex-USAF F-III aircraft).⁸⁶ In contrast, the shortfall of the following year was due to explicit Government actions. In January 1982, in a bid to reduce the size of the total public sector deficit, the Government ordered cuts to expenditure programs of the 1981-82 Budget, and the Defence equipment Vote contributed \$101m to this cause.⁸⁷ In addition, parts of the Naval Construction Vote were rearranged, with \$36m cut from approved programs and \$81m added as the intended down payment on HMS Invincible.⁸⁸ When the British Government accepted the Australian offer to release the vessel, the appropriation for it was not reallocated.

Neither was there an attempt to return, in the following Budget, to the FYDP equipment planning framework that had been altered in 1981-82 to allow for the early inclusion of HMS Invincible. Instead, pending the Government's decision on whether to pursue some form of replacement of HMAS Melbourne, the Minister cited a need not to reduce 'future flexibility',⁸⁹ to respond to whatever might be the outcome of such deliberations. This, in itself, was instructive because of the danger, which must then have been obvious, that a new construction program to replace Melbourne would absorb funds towards the middle and end of the decade, rather than in the early '80s period where most of the equipment expenditure savings had been realised. In effect,

this was a warning that the worst of DoD's problems in the funding of new equipment were yet to be seen.

The theme of the need to retain flexibility was repeated many times by the Minister, with increasing reference to the lack of funds that was becoming increasingly apparent as the cause of the problem. In October 1982, Mr. Sinclair spoke of his concern about the effects of the gradual devaluation of the Australian Dollar on the funding of defence equipment programs.⁹⁰ By the time of the Federal election campaign, the Minister was stressing the extent of funding required by the FYDP and saying that initiatives in equipment procurement had not been taken as they would 'preempt a decision' on the carrier project and would 'further increase that budgetary squeeze of the mid 80s'.⁹¹ (Emphasis Added).

The 'budgetary squeeze' had been looming closer since 1980. For, with the government continuing to commit new equipment programs for funding, but not increasing the rate at which these commitments were reflected in the annual outlay upon equipment, it was inevitable that the "debt" for capital projects would rise, and rise to unmanageable levels, the longer that deferments and "cut-backs" reduced the rate of growth of the annual appropriations.

At the end of 1979-80, some \$1731m,⁹² representing the amount that remained to be paid on expenditures (mostly equipment projects) which had been approved but not completely paid for, was carried into future financial years. Largely reflecting the equipment programs initiated shortly after the beginning of the 1980-85 FYDP, these obligations had increased within the year to the \$2236m carried over from 1980-81.⁹³ At that stage known obligations alone would have been sufficient to drive that figure up still further, despite the amount it was planned to spend in the 1981-82 Budget, so that it was predicted that the debt would have increased to \$2578m by 30 June 1982.⁹⁴ However, during 1981-82 decisions were made to proceed with certain equipment programs, especially the Tactical Fighter Force (TFF) project involving the F18. As a result the total of obligations the

Government now agreed to carry forward into 1982-83 and subsequent years was far larger - in fact, \$5065m.⁹⁵ This obligation will probably increase to as much as \$5612m to be carried into 1984-85 but, as in so many aspects of this subject, the considerable extent of recalculation conducted, apparently by both DoD and Treasury, leave the observer suspecting that the situation is often changed by rewording the definitions.⁹⁶

Not all of this increasing debt reflects the placement of equipment contracts, as the obligation to pay for the construction of defence facilities is amongst the items also counted in this category. However, when considering the budgeting consequences of funding this commitment, it is the equipment elements within the debt which are important as, historically, it has always proved easier to defer facilities construction within Australia than to avoid payments for any length of time on equipment procured overseas. Where major construction is required as part of an equipment program, as in the TFF program where some of the project cost is earmarked for associated buildings, it is considered as part of the equipment project. Its costs are therefore included as part of that project although, of course, the funding for such construction is appropriated under budgetary Divisions different to those for equipment.

The point which remains crucial to understanding the situation at the end of the period of Coalition government, is that by 1982 it had committed itself to equipment programs approaching in the order of ten times the amount it had been able to spend during 1981-82.⁹⁷ Increasing the seriousness of the situation was the fact that estimation of the commitment was based on costs that were, in some instances, out of date and not reflecting the effects of inflation. Furthermore there must have been a recognition that far too many of the program schedules were contemporaneous, and indeed this resulted in the necessity to defer programs which was seen in Sir James Killen's Statement of 29 April 1982; this remained a state of affairs his successor felt unable to rectify because of the strength of the mid-eighties 'Budgetary squeeze'.

Just how great was the "squeeze" the Minister had in mind was revealed publicly soon after by the release of the Forward Estimates at the National Economic Summit. Bids submitted by DoD to the Department of Finance for future defence budgets showed expenditure on new capital equipment (excluding that for Defence Industry) more than doubling from the then estimate of \$736m in 1982-83 to \$1650m in 1985-86.⁹⁸ Part of the restructuring of equipment expenditures in 1981-82, had been achieved by reductions in cash flows in the earlier years of programs to provide equipment under the US Foreign Military Sales (FMS) system.⁹⁹ It was stated at the time that this procedure was expected to continue into the next few financial years, as indeed it did in calculating the 1982-83 Estimates.¹⁰⁰ Unfortunately, procurement under FMS arrangements is not a fixed-price system and the US Congress insists that the purchaser pay the same for his equipment in any particular year as does the US service procuring that particular item. The country buying under FMS thus pays for whatever increases the rate of inflation in the USA imposes on his purchase and for whatever may be the changes in exchange rates. Any postponement of payments on FMS contracts represents an obligation to pay the price in the year that payment is finally made, not the price that existed in the year during which the rescheduling occurred. It is to take a gamble that any movement in the rate of exchange will be favourable.

Recently, this has not appeared a good bet, and the results of the depreciation of the Australian Dollar in March 1983 further contributed to the "budgetary squeeze" that Mr. Sinclair foresaw in February of that year. Defence Force equipment appropriations increased from \$696.8m estimated at the time of the presentation of the Budget in August 1982, to an actual expenditure of \$791.4m by the time that the 1982-83 Financial Year concluded (see n.97). Yet this did not represent a freeing of funds for the procurement of more equipment, but largely only the effects of devaluation. At the time of the Additional Estimates in May, it was thought that the devaluation of 7 March would add \$73m to the costs of equipment procurement in 1982-83. In addition \$13.9m of extra funding was requested to pay for inflation of equipment costs.¹⁰¹

The implications are ominous. In those countries which are the main suppliers of our military equipment, inflation is generally lower than in Australia, and this might be reflected in a somewhat lower rate of increase in the cost of imported defence equipment than that of general Australian price movements. However the effects of the decreased value of the currency (itself partly a function of the comparatively high rate of inflation) have till now outweighed this trend and increased the already high cost of the equipment component of the FYDP. During the second half of 1983 the trend reversed and, by October, the \$A had returned to its pre-devaluation level against the US dollar. However, unless the value of the Dollar vis-a-vis its American counterpart returns to the levels of greater than parity that existed till 1981, those FMS payments which have been rescheduled will continue to demand a premium of the type that was incurred during 1982-83.

It is ironic that, in the financial year where the spending on equipment reached the highest proportional level for well over a decade, the increased spending should initiate few new defence programs and not contribute to reducing the backlog created by the deferment of payments. Unless the extent of the equipment programs already approved were to be reduced, these debts must still be discharged within the financial restrictions of the Five Year Defence Program system, no matter how frequently annual expenditures are juggled.

The devaluation which produced the overrun in payments for equipment in 1982-83, "rewrote" the 1983-84 defence Vote before it was presented to Parliament. Expenditure on equipment for the Armed Services for 1983-84, as presented in the Forward Estimates was to be \$942m. As allocated in the Budget, this Expenditure had risen to \$1025m.¹⁰² Of the total increase in the 1983-84 defence budget when compared with the Forward Estimates, Treasury stated, 'Variations in economic and other parameters underlying the estimates account for all of the increase'.¹⁰³ On FMS contracts alone the cost increases amounted to \$67m,¹⁰⁴ and the equipment component reflected the influence of several other inflationary forces. The effect of these cost increases on contractual obligations has been to drive the equipment

component of the latest budget to the previously unobtainable level of 20.5 per cent of total expenditure.¹⁰⁵

Yet, whilst this element of financial policy is nearer achievement than at any time since its formulation, the substance of that policy has evaporated. To restate the words of Sir James Killen, 'the important thing is the extent of defence capability represented by that money'. Rather than financing a wide range of defence equipments as outlined in Australian Defence in 1976, the highest proportion of the Vote allocated to equipment since the period of Vietnam will instead, in 1983-84, pay for "debts" established several years ago and centred around a small number of programs. Thus, whilst the allocation for equipment in this latest Budget represents a refutation of the contention made above, that the revision of the 1981-82 Defence budget represented the collapse of defence financial policy, analysis of the content of that allocation indicates otherwise. The objective of the financial goals of the white paper was to provide a basis for the re-equipment and modernization of the Defence Forces. Yet seven years later twenty per cent of a defence budget, which in 1983-84 will itself probably reach the nominal target of three per cent of GDP, is no longer sufficient to do more than provide for a few of those areas requiring modernization, albeit to an impressive level of capability in some cases. On the contrary, even at the level of expenditure estimated for 1983-84 and projected for the next two budgets, there is no capacity to continue, let alone modernize, naval fixed-wing aviation, nor even to reinstitute those projects dropped in April 1982.

Indeed, it is startling to realise just how tight is such a seemingly large sum as the Vote for Service equipment for 1983-84. Over half of the total is accounted for by a single program, that for the TFF. Further, the lessons of previous underspends in the equipment divisions have been applied with a vengeance. The contractual obligations for the "more significant" items of naval construction during the financial year total \$319m¹⁰⁶ but the allocation is only \$224m.¹⁰⁷ Similarly, the major aircraft projects which are mentioned in the Budget Papers incur payments of \$669m but the appropriation is

only \$513m. This represents a slippage factor, comparing these two areas alone with the total appropriation for equipment, of about 25 per cent - far higher than usual. It would appear that the demand for equipment funding is so close to the limit that DoD dare not allow the repetition of lost funding that has occurred through poor management of program expenditures in the past.

In the event, the rising value of the Australian dollar may save DoD from potential embarrassment should it have to pay more than 75 per cent of its obligations on equipment programs. However, were a revaluation of the \$A to drop the cost of equipments so dramatically that contract payments required during the Financial year totalled less than the budgetary allocation, there would be no benefit to defence. The "windfall" surplus resulting from favourable currency fluctuations would, under normal Treasury procedures, revert to consolidated revenue. One need not be excessively sceptical to assume that if current allocations for defence equipment represent the minimum to pay unescapable obligations, the discharge of those obligations might allow the "minimum" to be reduced and see the equipment component of the defence budget being reduced once again. However, such an option, even if desired, could not be exercised for many years. Projects such as the TFF and the Follow-on Destroyers will continue to demand funding at present levels till near the end of the decade.

Small wonder that the Labor government's Defence Minister, Gordon Scholes, should have told an interviewer that the commitment to equipment made by the previous (Coalition) government would consume 90 per cent of the funds available in the five years beginning in 1983-84.¹⁰⁸ Given the state of the economy, the Minister might do well if he is able to secure those funds already planned for. Given the history of defence financing one must assume that those funds claimed by DoD in the Forward Estimates will not necessarily be available when the time comes to claim them, and that defence equipment programs will continue to be as bedevilled by delay and deferral as they have been in the past.

The Unmet Equipment Objectives

It is that bedevilment of the past which has contributed in large part to the current situation. It is constantly stressed that the FYDP process is only a guidance against which the 'real' decisions are made in drawing-up the Budget. The truth of this has been heavily underlined earlier in this paper with its obvious corollary that, since no device exists to compensate in the future for the effects of current deviations, the FYDP must eventually decay in a process of institutionalised procrastination. This is nowhere more manifestly true than in the provision of Defence Force equipment, as can be seen by comparing the projections of Australian Defence (1976) with the reality that has since developed.

The language of the white paper when discussing plans for equipment is often vague or equivocal and it is apparent that, in many of the sections, the white paper's authors are discussing concepts still at an early stage of development. Nevertheless, the information in Chapter 4 of Australian Defence gives a clear indication of the direction of the planning of 1976 for development of equipment and the phasing of the major programs. And, whilst one cannot claim any precision for the evaluation (and there has been a deal of movement both against the trend and in excess of it) it appears that major projects included in the white paper have slipped behind schedule by four to six years. Typical of such programs are the modernisation of the River class Destroyer Escorts (DEs), which the 1976 white paper stated should be completed in 1981, but which will not now be finished till at least 1984;¹⁰⁹ and the acquisition of a 'training capability' in aerial refuelling which was promised during the 1976-81 FYDP but which will not now begin to appear till 1987.¹¹⁰

Not all the overruns in program schedules have been due to financial stringencies. The problems of the DE refits also involved managerial inadequacies of sufficient severity, to help produce an enquiry into the organization of the dockyard and its co-ordination with the RAN. Nonetheless the significant factor is that funds not expended on this or other programs similarly in

difficulties, were not diverted to others, which did suffer from a lack of funding. The opportunity to so divert 'stalled' allocations is generally present throughout the course of any financial year especially for expenditure within the same Budget Expenditure Division. This was done, as we have seen, to procure four ex-USAF F-111As when delay in the selection of the aircraft for the TFF program left surplus funds in the 1980-81 Vote.

Some of the most notable examples of programs exceeding their planned delivery dates have been due, at least in part, to program difficulties involving problems in decision-making or administration. Probably the most extreme has been the case of the underway replenishment ship, most inappropriately named HMAS Success. According to the 1976 white paper, this ship, a type known by the Navy as an AOE, was to enter service in 1980.¹¹¹ It was a victim of the early financial stringencies from 1977 to 1979 but was finally approved in the 1979 Budget with a completion date in 1983. The building yard subsequently became a target for the (then) Amalgamated Metal Workers and Shipwrights Union's 36 hour week campaign, and the nucleus of a potentially nasty dispute. With some further management complications the ship has now overrun cost and time limits and will not be delivered till 1986.¹¹²

Many other projects have drifted backwards over the years and one can only assume that these were victims of the funding situation. The white paper talked of the 'new dimension' that would be added to the RAN by the new FFG frigates each 'carry(ing) two helicopters'.¹¹³ More than three years after the commissioning of the first of the class, no helicopters have been ordered and, given procurement time scales, no such aircraft could enter service before 1987. In 1976 it had been proposed to develop and then produce an Australian designed mine countermeasures (MCM) vessel, which would enter service in the 'first half of the 1980s'.¹¹⁴ Although this project also suffered not inconsiderable managerial difficulties, there is some evidence that funding constraints contributed to a considerable series of delays resulting in contracts for only the prototypes being let at the end of the "early" eighties.¹¹⁵ Even then these vessels will not be launched till the second part of

the decade. Given the time needed to trial the prototypes, operational craft cannot be expected till the 1990s.¹¹⁶ Similarly, the white paper had proposed that a decision should have been taken on the selection of a new 105mm howitzer in time for it to commence its Army service in the early 1980s. The weapon was not selected till the early 1980s and some elements of the Artillery will not see their new field guns till the early 1990s.¹¹⁷

Some areas of military capability have fared even worse than these and the equipments proposed in the 1976 white paper have ceased to be mentioned at official level. Amongst these are some form of ground attack missile for the FIII,¹¹⁸ fitting Barra sonabuoy processors to the RAN's Sea King helicopters,¹¹⁹ replacing the Army's Red Eye anti-aircraft missiles¹²⁰ and replacing the RAAF's Caribou transport aircraft.¹²¹ There have been some offsetting movements in equipment selection but delays have predominated. This predominance was illustrated when, some four years after the white paper, the Prime Minister's response to Afghanistan "re-announced" many of the equipment objectives outlined in Australian Defence. Items such as Precision Guided Munitions (PGMs) for the F111 force and providing the capability for Orion aircraft, destroyers and submarines all to use different versions of the Harpoon anti-shipping missile, were again stressed.¹²²

Other items also discussed in the 1976 white paper, such as a replacement for Melbourne, replacements for the River class, aerial refuelling capacity and an air defence system, were again mentioned but in no more definite a context than they had been four years earlier.¹²³ Several new projects were also announced but some of these have proved little more successful than those of the earlier period with several, such as the second AOE and an additional 10 patrol boats, having become victims of the April, 1982 cut-backs.

It is sometimes said that deferrals and delays are not individually important under the defence planning process because the "rolling" nature of the decision making process means that such suspended projects can be resumed at a more opportune time.

The problem is that deferred projects accumulate and eventually their funding requirements start to compete with those of other projects which come up for procurement in subsequent years as equipment in Service inventory ages and needs replacement. The traditional eking out of the operational lives of Service equipment, which has occurred increasingly of late, can only be extended for so long. Eventually, some form of equipment is bound not to be replaced because it can no longer serve its military purpose and the funds needed to replace it are already committed to other projects.

In a sense, if the Defence Program does not keep "rolling" forward with sufficient momentum, opportunities for action fall off the other end as the time in which they can be taken fades away. The loss of the Navy's fixed-wing maritime sea power is one example of a major capability "falling off" the FYDP, but this is not the only way in which the process of deferral affects the capability of the Services. To use another metaphor, the backlog of overdue projects creates a "log jam" from which, as one senior Army Officer has said, only the largest programs can escape.¹²⁴ This has meant that many projects to provide less "glamorous" items of equipment were never able to attract funding. In consequence, it was alleged, serious operational problems could arise if the Armed Forces are ever required to respond to a crisis, since many essentials of communications, logistics and support are in short supply or poor condition. It is another question as to whether such items are needed until such a crisis occurs, and what could be done in the meantime to compensate for their lack and to enable the effective exercise of the capability once the equipments are provided. However, whilst there might be no valid current need to supply all the equipments required by the Services, it must be recognized that significant gaps in capabilities do exist.

This is especially so when the developments over the last decade or so affecting the equipment inventories of the Services have not been reassuring. The outlay on equipment in each Budget of the period has tended to increase as the accounts for the approvals of mid-1974 came due and were gradually

supplemented by additional programs. Yet this expenditure has not been enough: not enough to enable Australia's Armed Forces to investigate new force structures perhaps more appropriate to the nation's circumstances; not enough to allow the introduction of important new military technologies which might better secure the nation's interests; not enough, even, to ensure the continuation of those military capabilities which have provided for the nation's safety in the past.

The current situation therefore indicates that a fundamental rethinking of the equipment base of the force structure of Australia's three Services is required. Neither increases in the absolute size of the defence Vote, nor the reallocation of priorities within that Vote have proved adequate to overcome the problem of a large and growing equipment backlog. There is nothing sacrosanct about the traditional force structure and equipments of the Services and the loss of some capabilities may not be disastrous, or even very notable to any except those who have made a career in their exercise. However, one might hope that a conclusion to abandon such capabilities has been well supported, and that decisions on the role and nature of the country's Defence Forces would be made on the basis of processes with some inherent logic. Of late it appears to the outsider that the process has been one of reaction to the discovery that the Budget will not stretch to cover the additional programs needed to replace the equipments which have previously supported such roles.

6. FACILITIES - A TRADITIONAL SOURCE OF SAVINGS

Objectives and Achievement

The other area of defence capital investment lies in the provision of facilities, whether newly constructed, purchased on the civil market or, as in the case of Service housing, built by State instrumentalities on behalf of DoD. As mentioned above, the provision of facilities was one of the areas which was to be improved under the planning of both the 1976 white paper and the

response to the situation in Afghanistan. The plan, as stated in Australian Defence 1976, was for the proportion of total Expenditure allocated to facilities to rise from the 6.2 per cent of 1975-76 to 7 per cent by 1980-81, which would entail a real increase over the period of 46 per cent. Instead, the proportion of the total spent on facilities dropped dramatically, bottoming out at little more than 3 per cent in 1979-80. In real terms the allocation declined in every financial year up to that time.

As can be seen in Table III, spending on facilities lost a deal of its priority in the period following the tabling of Australian Defence, and between 1975-76 and 1979-80 almost halved as a proportion of total Expenditure. The reason for this can be seen by reference to Table V. After a small increase in 1976-77, expenditure started a decline (in current money terms) which continued for three financial years but was not significantly arrested till the Government renewed its commitment to defence after Afghanistan. Although the facilities component of the Vote escaped the mauling inflicted upon the equipment component in the expenditure review of mid-1981-82, \$19.5m was nonetheless shaved off the appropriation.¹²⁵ The allocation for the past financial year showed a significant rate of increase, but one not commensurate with the increase in the allocation to equipment in 1982-83. This can be seen by the fact that, although a real increase of about 5.1 per cent was obtained as a proportion of Defence expenditure the amount allocated to Facilities did not change at all in 1982-83.

There are no fewer difficulties in trying to analyse the significance of data about defence facilities than in any of the areas already discussed. Readers should note that some of the data for the period is not strictly comparable because of a decision to charge to Defence a function which previously had been discharged by the department responsible for Commonwealth facilities construction. This can be seen in Table III under the Head of 'Building Consultants under Department of Transport and Construction control', and is explained in detail in the Notes to Table V. This charge was not levied against DoD until the end of 1981-82 at the time when calculations of Budget Outlay were being finalised, and added \$8.5m of transferred obligations to Defence

Expenditure.¹²⁶ The only adjustment that has been made to past Budget figures which allows comparison of the effects of this change was in the Defence Report 1981-82 and extends back only as far as 1977-78. This means that the figures for 1975-77 are understated, but probably by only a small amount as little more than \$3m was paid for this purpose in each of the first three years for which we have those figures.¹²⁷ It is only over the last three financial years that this sub-Division has mushroomed, with \$12.6m being outlaid on this item in 1982-83.¹²⁸ The growing impact upon the purchasing power of the defence facilities Vote of the payment of these consultants fees is shown in Table III. Payments have grown from 0.1 per cent of defence Expenditure to 0.25 per cent in 1982-83.

Real Growth in Expenditure on Defence Facilities

Another point of particular analytical difficulty is that of assessing expenditure on facilities to estimate the changes in expenditure at constant money values. There is no publicly available series of deflators for expenditure on defence facilities or, indeed, no confirmation that any such series exists. The only source to show DoD's own estimate of real growth in the facilities component of the Budget is the answer which was provided to the former Minister for Defence, Bill Morrison (Table II, Source 9). This provides the basis for the calculations shown in section 3 of Table V, but unfortunately the series extends for only four years.

The problems of using a less specific index to deflate expenditure on facilities, even that for "Final Consumption-Government", are just as great as those encountered when considering real growth in the context of defence equipment. The building and construction industry is one affected by many forces different from those at work in the economy at large, and is particularly susceptible to changes in Government policy. The realisation of these problems is shown by the differences in the estimates of the rate of change of real growth of expenditure on facilities which result from DoD's own calculations and those using the implicit price deflator for "Final Consumption-Government".

TABLE V

EXPENDITURE ON, AND RATES OF GROWTH OF, DEFENCE CAPITAL FACILITIES

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1. Total Expenditure on Capital Facilities (\$m)	119.9 ¹	126.1 ¹	123.8 ²	100.9 ²	102.5 ²	133.4 ²	188.2 ²	217.5 ³
2. Proportional Change in total Expenditure at Current Prices (%)		5.2	-1.8	-18.5	1.6	30.2	41.1	15.6
3. Real Change in Rate of Expenditure from Summary of '78-81 FYDP (%)		-8.8	-14.8	-22.7	-4.9			
4. Real Change in Rate of Expenditure from Implicit Price Deflator for Final Consumption Expenditure-Government (%)		-6.4	-9.3	-23.4	-7.1	16.0	24.6	5.1

Sources and Notes

1. Defence Report 1980, 'Expenditure on Defence Function 1975-76 to 1980-81: Major Categories', p.54.
2. Defence Report 1981-82, 'Expenditure on Defence Function 1977-78 to 1981-82: Major Categories', p.44. Note that these two sources are not strictly comparable. As part of the reassessment of Defence Function which occurred towards the end of 1981-82 with the establishment of the Department of Defence Support, the responsibility for payment of consultants engaged on defence works, which was previously that of the Department of Transport and Construction (and its predecessors) was transferred to the Defence Function and charged to DoD. (Budget Paper No. I, 'Statement No. 3 - Estimates of Outlays 1982-83, I. Defence', p.73 - although included under 'General Administrative Expenditure' in the Budget Papers, DoD has chosen to enter this charge under 'Capital Facilities'). Adjustments for this change are only available in Defence Report 1981-82 and thus only extend back as far as 1977-78. Although initially a small amount (\$3.4m and 2.8 per cent of total expenditure on facilities in 1977-78) this charge has now become significant, at \$12.6m for 1982-83, some 5.8 per cent of the facilities Vote.

3. DoD, Estimates of Expenditure 1983-84, Appropriation Bill No. 1, 'Explanatory Notes', p.3.
4. Hansard, Reps., 26 February 1981, p.312.
5. Calculated using, Australian Bureau of Statistics, Quarterly Estimates of National Income and Expenditure Australia, June Quarter 1983, 'Table 42 - Implicit Price Deflators', p.38.

Allowing for these problems, the reasons for the contentions of this section can be seen. Australian Defence had envisaged real expenditure on facilities as constant for the first two years of the 1976-81 FYDP and then rising by 15, 13 and 12 per cent for each of the next three years, respectively.¹²⁹ Instead, real expenditure declined by 37 per cent between the first and fourth years of that period and only then exhibited a substantial rise. However, this rise, beginning in 1980-81, has not been sufficient to divert a greatly increased proportion of the defence Budget back to capital facilities, and especially to the 'Buildings and Works' sub-division of the Appropriations. As can be seen from Table III the proportion of total Expenditure that was spent on Buildings and Works in 1982-83 was at a level slightly below that achieved in 1977-78, a financial year, it will be remembered, which was not the best as far as the defence Budget was concerned.

Delay of Facilities Projects

As with equipment programs, the effect of the lower expenditure on facilities was that schedules stretched and projects were delayed. For instance, the 1976 white paper admitted that 'Much work remains to be done before we have a comprehensive infrastructure capable of supporting a self-reliant Australian defence posture'.¹³⁰ In providing this infrastructure, the white paper emphasised the high ranking of proposals to provide patrol craft bases and airfields in the North.¹³¹ Specifically, it was intended to replace the interim patrol boat facilities at Cairns and Darwin and to build a facility on the north-west coast.¹³² In the event, work on the bases at Cairns and Darwin did not start till 1980, almost the end of the first FYDP period, and the establishments were not to be opened till May and October 1982, respectively.¹³³ The north-west base almost materialised, and in 1980-81 \$250,000 was allocated towards the beginning of a program to build such a facility.¹³⁴ However the program did not advance sufficiently to move to construction in 1981-82 and it has now moved back into the queue of deferred projects created by the fiscal stringencies of recent years.

The fate of the north-western airfield has not been so cruel, but it too has suffered as a result of reductions in available funds. Like many equipment programs, no concrete proposals for a north-western airfield emerged after the tabling of Australian Defence in 1976 and it was early in 1980 when a decision to build a base at Derby, with extensive first line facilities, was announced.¹³⁵ As late as February 1982 it was expected that the airfield would be built in four years¹³⁶ but only three months later, after the cost cutting exercises of February and the FYDP restructuring of April, 1982, this construction schedule was lengthened by 50 per cent.¹³⁷ Judging by the tenor of the Minister's speech, the Derby project had been reviewed kindly for, of facilities the Minister had said, 'Many of the lower priority facilities and infrastructure developments have been slowed down or delayed.'¹³⁸

This "slowing or delaying" was not a new phenomenon in the management of the facilities component of the defence Budget, for in 1978 the Minister had made a similar announcement saying that 'there has been selective rescheduling and revision'¹³⁹ of capital expenditure, an action which encompassed, for instance, removing the funds for the construction of the Defence Force Academy from that year's Budget.¹⁴⁰ Despite some loosening of fiscal controls in the 1979-80 Budget, the Defence Report 1979 still admitted of the facilities component of the FYDP, 'For this program to proceed alongside an increased program of equipment acquisition, there will need to be some delay in starting previously planned projects aimed at replacing existing facilities of poor standard.'¹⁴¹ Thus, while some new operational facilities have been added to inventory, many Service assets have remained below standard. In some instances, ancillary construction needed to allow the efficient functioning of the operational facility, or even its functioning at intended levels, has not been provided.

An example of this contradiction is the protracted history of HMAS Stirling on Cockburn Sound. Stirling has held something of a central place in facilities planning for almost a decade and a half, as well it might, for the naval establishment

has been promised to Western Australians since the days of the Gorton Ministry, as the tangible proof of the sincerity of the Commonwealth's concern for their security. The expedition of construction, to allow Stirling to commission in 1978, was one of the few specifics of the Ministerial Statement announcing the 1976-81 FYDP.¹⁴² The white paper confirmed this determination and added the details that this development included the provision of an armament wharf and armament depot.¹⁴³ Within the year this, like other projections of the 1976 white paper, had to be publicly withdrawn. In Parliament the Minister announced that, contrary to his statements of as recent a date as 17 February 1977, the intention to base seven naval vessels at HMAS Stirling upon its commissioning would no longer be possible, because of 'Budget priorities'.¹⁴⁴ Only three of the vessels now were to be based at Stirling on its commissioning, the other four to be deployed. 'As soon as resources permit, probably in early 1980'.¹⁴⁵ Those ships will not be deployed till the early months of 1984.

The facility on Cockburn Sound was commissioned in July 1978, only a half year earlier than the scheduled completion of works as it existed in 1975,¹⁴⁶ before the decision was made 'to accelerate the works',¹⁴⁷ as part of the 1976-81 FYDP. Furthermore, it was commissioned without the armament depot and this re-emerged as part of the emphasis on operational capacities in the Government's response to Afghanistan, together with increased housing for base personnel on the mainland and enlarged support facilities.¹⁴⁸ Yet it will be 1984 before an RAN fleet unit will be in Western Australia with Stirling as its home port.¹⁴⁹ The requirements for any further homeporting of naval combat vessels at Stirling are increases in accommodation and base support personnel,¹⁵⁰ exactly those elements which were cut back by the first pruning of the FYDP, in the 1977-78 Budget.¹⁵¹

Service Housing

It is not only as a part of the development of operational bases that housing for the Services has not been provided as proposed. As can be seen from Table III the

provision of Housing under the Commonwealth-State Housing Agreement as a proportion of expenditure on defence has dropped dramatically. From 1.8 per cent of total expenditure in 1975-76, this component of defence function has fallen to less than 0.2 per cent in the 1982-83 Expenditure, a proportion now less than that taken by payments to building consultants. In terms of expenditure this fall is the result of only \$8m being committed in 1982-83, compared with \$34m in 1975-76.¹⁵² In real terms the movement between 1975-76 and 1982-83 represents a decline in the Budget sub-division of 88 per cent when deflated by the Implicit Price Deflator for Final Consumption - Government.

It must be noted that allocations under the Commonwealth-State Housing Agreement are not the only means that the Commonwealth possesses for providing accommodation for married Service personnel. Houses may be built specifically for the purpose on Defence land under the 'Building and Works' Vote, or may be purchased on the commercial market by expenditures from the sub-division 'Acquisition of sites and buildings'. Indeed, most accommodation obtained from these latter sources is superior to that provided by the more common procedure, which provides houses to the Commonwealth from the State's stock of welfare housing and in several States the general standard of such dwellings is low. It was this, amongst other factors, that contributed to the hiatus in building of Service accommodation under the Commonwealth-State procedures in 1979-80 and 1980-81, whilst a review of the arrangement was conducted. Yet the inadequacy of existing housing was a problem which had been known for many years and a policy difficulty it took DoD an extensive period to solve.

In May 1977, the House of Representatives Expenditure Committee had reported on the provision of accommodation for married Servicemen and returned a distinctly 'free market' finding that urged the construction of housing only where the commercial market was inadequate.¹⁵³ This finding did not appear to have drawn much attention till 1979-80, when the "Government's consideration" of the Committee's recommendations was the justification given for confining house construction mainly to

Defence bases.¹⁵⁴ It was not till July 1980 that DoD was able to secure a reaffirmation of its earlier policy, albeit with some ambiguity of expression.¹⁵⁵ One of the results of the reviews of this period was a decision to return unsuitable housing to the relevant State authority and this has resulted in some diminution of Defence's stockholdings, 493 houses being returned in 1981-82 alone.¹⁵⁶

The handing-back of houses appears to have occurred where it was considered uneconomical to refurbish and improve them, and a need to improve the standard of existing houses has been acknowledged in recent Defence Reports. As that for 1981-82 stressed, 'These standards (of housing), which are based on those prevailing in the community, have an important bearing on the services' capacity to retain skilled and experienced manpower.'¹⁵⁷ The reduction of DoD's housing stock would be of little concern if it only meant the discarding of sub-standard buildings, in a situation where the number held was adequate. However, it is obvious that the situation which was thought desirable in 1976 has not been achieved and that, if this did indeed represent a desirable level of stockholdings, the situation that now exists must be such that the loss of stockholdings, even of undesirable properties, can only complicate the Services' efforts to retain married personnel.

In Australian Defence (1976) it was noted that there was a shortage of married quarters in most areas (my emphasis). To begin to meet the requirement for accommodation of such adequate standard, the white paper noted an objective to obtain a 'further' 3200 houses by the early 1980s.¹⁵⁸ As in other areas, the provision of service housing has been an activity showing performance falling constantly below aspiration. In 1975-76 938 houses were accepted, the following year 582 and, in the worst year, 1979-80, only 75. During the period to the notional end of the 1976-81 FYDP a little more than half of the objective stated in Australian Defence, some 1664 houses, had been accomplished. Although there was some improvement in 1980-81 when compared with the preceding financial year, this was short-lived as in the following year the net gain in acquisitions, after allowing for

the houses returned to the States, was 86.¹⁵⁹ Of course, it must be remembered that Army manpower has not grown as predicted in the white paper, strength in 1981 totalling only 32,898¹⁶⁰ compared with the 34,000 objective outlined in Australian Defence.¹⁶¹ Nevertheless, permanent Service numbers had increased by 3,744 between 1976 and 1981¹⁶² and, although only a proportion of this increase would have comprised married personnel, the larger size of the Defence did not improve what was described in 1976 as 'a shortage of adequate married quarters in most areas'.¹⁶³ Indeed, by 1983 the housing situation was as bad as that which the white paper had indicated would be improved by the early 1980s, and was assessed as 'some 3,000 (houses) short of the actual demand'.¹⁶⁴ As in other areas the Defence housing program for Service personnel had seemingly stood still, which gives a somewhat piquant perspective to recent comments of a DoD official that, "It is therefore just a question of time before we achieve a balance".¹⁶⁵

The Growth of the Facilities Backlog

The result of the lower-than-proposed expenditures on defence facilities has been similar to that which has been produced in the equipment component. Projects have been deferred or sometimes failed to materialize altogether, and a backlog has now accumulated. This commits the Government to a high level of expenditure on these programs in the immediate future, regardless of what additional projects it might wish to foster. At the end of the last financial year of the pre-Afghanistan period, 1979-80, \$154m worth of facilities projects to which the Government had committed itself were carried forward into subsequent years.¹⁶⁶ By the end of the next financial year the carry over (into 1981-82 and subsequent years) was \$270m¹⁶⁷ and by the end of 1982-83 it was estimated that the carry-over would be \$381m.¹⁶⁸

Whilst the difference between the commitment to new facilities programs and expenditure during 1982-83* is nowhere as

* Expenditure in all categories which can be described as "Buildings and Works" being \$179m in 1982-83.

great as that between equipment commitments and current levels of expenditure it is obvious, nonetheless, that expenditure must be lifted if the facilities program is not to be stalled and new projects postponed indefinitely. In a situation where all Budget outlay for the next few years is likely to be limited, it is unlikely that there will be much increase in the real amount expended on Defence facilities. This implies that few new projects will be approved in the immediate future and, with some projects such as the new RAAF tactical fighter base at either Darwin or Tindal being unavoidable, many other projects must languish.

Yet, as was foreseen in Australian Defence, the national infrastructure which is relevant to our defence requires much work before a substantial level of self-reliance will be attained. Especially in the North West, where the civil infrastructure is only now being developed, the requirement for defence facilities is still largely unmet. How long it will be before the facilities program is sufficiently advanced to enable Australia's Armed Forces to operate adequately in the environment of our own continent is difficult to predict. A marked improvement should have been gained by the end of the decade, with the construction of the airfield at Derby and the fighter base in the Northern Territory. Nevertheless, a large area of Australia's coastline will still be a considerable distance from any regular Defence Force presence and there is, of course, no guarantee that even the two airforce projects will proceed as currently proposed.

The facilities vote has been, and undoubtedly will continue to be, one of the easiest of options when reductions in budgeted expenditure are called for. As a former DoD officer responsible for the facilities program has said:

Another major factor which influences the facilities game is that the construction industry is - within limits - flexible in its output ... It is commonly the target for fiscal control by Governments Treasury usually looks first to the construction industry when planning pump-priming operations, or anti-inflationary measures. The construction program of the Department of

Defence is inevitably caught up in countercyclical fiscal policies which lead to difficulties in achieving sustained programs of development of the more important long lead time facilities.¹⁸⁹

This seems a fitting requiem to the plans to improve defence facilities in a nation with a stagnant economy and under a policy of monetarism. Whilst Government policy might now favour the construction industry in an attempt to stimulate the economy, the Labor Government has already diverted considerable funds to the domestic construction industry, and it is unlikely that much attention will be given to using defence facilities as a vehicle for economic development.

7. MANPOWER AND CONSUMABLES - A NOT UNIMPORTANT ASIDE

The scope of this paper does not allow for a full discussion of the various aspects of spending on the manpower and running costs involved in national defence. Some of the major trends in the allocations made to these areas of the defence Budget over the past seven or eight years have been discussed earlier. However, it must be remembered that, for the period under study, the two areas of manpower and general running costs (when interpreted to include administration) have always constituted more than four-fifths of the defence Budget. The two smaller areas of capital expenditure have been studied because these have attracted the greater popular attention and it can be argued that developments in capital programs determine the nature of the forces available for national defence and the ways in which they can be deployed.

Direct Effects on Equipment Programs

This does not mean that manpower and running costs are unimportant, that they do not shape the nature or deployment of Australia's forces, nor even that they are irrelevant to individual capital procurement programs. On the contrary, restrictions in either of the recurrent expenditure areas can affect capital programs before, during or after the procurement stage. As explained above, the basic impetus of defence

financial management over the period of the Coalition government was to reduce the proportional expenditure on manpower and to tread a careful line between maintenance of force readiness and development of new capabilities. The inherent contradictions which weakened this policy as revised in response to Afghanistan, and its consequential collapse in April 1982, have been mentioned. What must be appreciated is that strong reasons exist for the failure to reduce Budget allocations to recurrent expenditure and that, to some extent, these are driven by the nature of improvements in equipment and facilities.

As the nature of Service equipment changes so too does the nature of the personnel needed to operate and maintain it. Although many military systems are now designed with modular components so that maintenance in the field can be reduced, the overhaul and repair of those modules at depot level remains a task which demands skills which are not freely available in the Australian workforce. The results of the increasingly technological nature of the Services are becoming apparent in an increasing number of areas where manpower shortages now exist. As one might expect there was, by the end of 1981-82, a shortage of enlistments in RAAF electronic trades and navigator trainees, but as well, insufficient enlistments for the Army Officer Cadet School.¹⁷⁰ Perhaps more surprising was the wastage of qualified personnel which, during 1981-82, resulted in shortages of engineer officers in all three Services, submarine qualified officers in the RAN, pilots in the Army, and even of seamen in the Navy.¹⁷¹

The restrictions on manpower establishment, combined with constraints on running costs, do not simply reduce the effectiveness of the Defence Force. Restrictions of this type can result in situations which negate the force development objectives served by the purchase of equipment, for the provision of which manpower and running costs were reduced in the first place. This situation can result in a reduction of the capability that should accrue from a program by limiting the number of units that can be deployed. For instance, the RAAF has kept at least four of its twelve CH47 Chinook helicopters in

storage at any one time since they were delivered in 1973. As a result of the funding pressures of 1977, 31 of the Army's 103 Leopard tanks were withdrawn from service.¹⁷² Such incongruity can lead to well-based criticisms of the evaluative processes which lead to such an "oversupply" of very expensive equipment, but it should be remembered that the Services' requirements were shaped to utilise the manpower that FYDP planning envisaged being available. At the time that Army gained approval to buy a further 14 Leopard tanks (1976-77 Budget) manpower target accepted by the Government was to reach 34,000 by 1978.¹⁷³ That target evaporated and during 1977 and 1978 Army numbers were less than 32,000. Further, it must be remembered that procurement time scales are such that assumptions must be made about the size of the forces available to operate the new equipment when it arrives, and Service project managers can hardly be blamed if the manpower groundrules are changed during the course of the project.

Manpower shortages may effect the mechanics of equipment programs more directly. Evaluation of tenders requires Service personnel with professional experience of the area of warfare concerned. Where manpower shortages exist, relevant personnel may not be available at crucial times and this can have startling results. For instance, the project for construction of prototype minehunters suffered considerable delays, resulting in added expense, due to a lack of qualified manpower.¹⁷⁴ It should be remembered that, under the Government tendering system, delays can compound, since the validity of tender responses is limited by cut-off dates. A failure to complete evaluation by the specified date can result in tenders being reopened and the evaluative cycle beginning afresh.

Limits to the Control of Recurrent Costs

In the ultimate, however, it is in the competition for funds that recurrent costs are crucial. Disturbingly, the trends appear to show that manpower and equipment costs are not part of an inverse relationship, but rather, are complementary. For, if the technology delivered by the procurement programs demands

higher skills from Service personnel, the nation will have to pay the market rate or endure the shortages in technical musterings which have now begun to appear. This is, in effect, what was acknowledged by the rates of pay awarded by the "Coldham" committee¹⁷⁵ in November 1981. The cost of realigning Service pay with community standards and recognising that conditions encountered in military life deserved recompense, during 1981-82 alone, was \$230m.¹⁷⁶

This cost increase was, as I have argued, inherent in the Government's policy as revised after Afghanistan, as was the consequence of the restructuring of the FYDP which was announced in April 1982. Naturally, the Minister highlighted these costs in explaining the necessity for altering earlier planning.¹⁷⁷ Since 1978-79 the average salary of a military officer had increased by 63 per cent, that of the other ranks by 74 per cent, and allowances by almost 70 per cent. The significant statistic that the Minister did not include was that the 1981-82 Defence Outlay represented an increase of only 58 per cent when compared with that for 1978-79. That is, the effect of the "Coldham" review of 1981 was to ensure that manpower costs grew at a faster rate than total Budget over that particular four year period, exactly opposite to the intent of policy.

In fact, over the whole period from the beginning of the 1976-81 FYDP, the growth in Outlay had only just outdistanced the growth in manpower costs (89.5 and 87.6 per cent, respectively), leaving precious little room for expansion of other budgetary components. The "wages pause" has since depressed the manpower component of defence Outlay but, as I asserted earlier, the fact that the Services' "wage pause" had extended twelve months longer than that of the general community, can be expected to lead to another indigestibly large Service pay rate increase in the near future. The fact that civilian manpower costs increased by only 39 per cent during the period used above for comparison,¹⁷⁸ effectively reduces the relevance of one of the favoured means often advocated to reduce the manpower cost component - that of reducing the number of civilians employed by Defence. Sir James acknowledged as much when he stated in April 1982, that some of

the recommendations of the Committee of Review of Government Functions (the "Lynch Committee"), intended to reduce the use of civilian manpower in some areas of DoD, would not proceed.¹⁷⁹

The only approach which now appears open to Defence planners to prevent manpower costs continually absorbing around 50 per cent of the budget, is to reduce the numbers in the Services. This is the course that has been pursued recently, but has only been possible because of the loss of a defence capability - in the main, the retirement of Melbourne and the disbandment of the RAN's fixed-wing aviation. This resulted in a loss of about 400 from the RAN in 1982-83, and a budgeted provision for the loss of a further 450 during the current financial year.¹⁸⁰ The withdrawal of one of the RAAF's squadrons from Butterworth, and some reduction in the Defence science establishment should also see some 200 civilian positions removed, along with more than 170 Army posts in support of the Reserve and school cadets.¹⁸¹

This absolute loss of defence manpower was not at all the method proposed in the earlier FYDPs to achieve a lower proportional expenditure in that component. Australian Defence envisaged an expanding manpower base for the Services, with the Army increasing from 31,500 to 34,000 over the period 1976-81 and the strength of the other two Services increasing as required by the introduction of new equipments or activities.¹⁸² The irony of the situation since then is that Army, which is the most manpower-intensive of the Services, has grown less in proportional terms than the other two, supposedly capital-intensive, Services.

Between June 1976 and June 1982, before Navy began to lose manpower following the retirement of Melbourne, its strength increased by 10 per cent, more than double the rate of Army at 4.6 per cent. Indeed, with a total growth of 1,605 personnel during the period, the RAN outstripped Army's total growth, of 1,435, in absolute terms. Although RAAF numbers did not increase as much as the other two Services, its comparative growth rate was also greater than that of the Army, being 5.5 per cent.¹⁸³

The significance of this trend is more than that the Army may have been outmanoeuvred in bureaucratic infighting by its comrades. Throughout the last decade there has been a presumption that the increasing sophistication of military systems would at least have the compensating benefit of reduced manpower requirements. Obvious examples illustrating this promise are the reduced manning levels of modern destroyers and the reduction in the ratio of direct maintenance manhours to flying hours achieved with the latest generation of fighter aircraft. The trends in Australian manpower employment give credence to growing suspicions that technology does not necessarily reduce military manpower. If it should prove that technology cannot be substituted for manpower in any significant way, one of the last methods of achieving a lasting reduction in the proportion of the defence budget spent on this component of the Vote will have proved a false hope.

Running costs impinge less directly upon procurement policy but there is, at the least, a notional limit below which running costs cannot be reduced, regardless of the need to free finance for equipment. The examples of the Chinook helicopter and Leopard tank are obvious, but professional servicemen would maintain that there is a level of training below which it is simply not safe to descend. This is not surprising when the inherently dangerous nature of the operational use of Service equipment is recalled. Despite the advances in training by simulator, flying military aircraft remains an inherently more dangerous occupation than piloting regular public transport aircraft. One hears frequent reports of RAAF Mirage flying hours having been reduced to the 20 hour mark, which is deemed the limit for safety. Obviously, it would be politically embarrassing, and militarily inefficient, to have purchased expensive equipment and not be able to operate it.

Unfortunately, defence running costs, especially those composing military training and exercising, are as directly linked to the increasing costs of equipment as are manpower costs. This was a fact bemoaned by Sir James Killen on those occasions when he was forced to announce the curtailment of

military training. This is not without some reason, for the costs are high. Some examples which the Minister gave in his last Statement were the cost of replacement batteries for an RAN Oberon class submarine (\$1.3m), the labour component of an Atar Jet engine 600 hour overhaul (\$182,000) and the average cost of a Leopard tank gun round (\$670).¹⁸⁴ If these represent difficulties for financial management, what will be the dimensions of the problem when the Services wish to make a live firing of a Harpoon missile or Mk.48 torpedo (both close enough to costing \$1m each) or even a Standard Surface-to-Air Missile (SAM) ("only" about \$30,000 each, but soon to be an essential part of the armoury of seven RAN ships).

However, the point to be grasped is not just that defence is an expensive business. Neither are running costs an independent variable which can be altered to compensate for price increases elsewhere in the budget. Instead, running costs are, to a large extent, a function of the type of equipment that the Forces have in inventory and the nature of the force structure that is employed to use this equipment. The reality of this situation is recognised by modern procurement evaluation procedures, which assess competing designs on the basis of their "life-time" costs, including manpower implications. What cannot be measured in this evaluation is the extent to which those funds for maintenance, modification, and so on, will be available during the Service life of the equipment. When these funds are reduced, the level of training must reduce or the availability of the equipment suffer, held down by lack of spares or even a decrease of serviceable equipments. This for instance, is apparently a problem on at least some occasions for the RAAF, in which, a senior officer recently acknowledged, some aircraft were cannibalised of parts to supply others.¹⁸⁵

The implicit argument of this section is neither novel nor surprising. Basically, the efficacy of a nation's Defence Force still lies in a combination of equipment, infrastructure, manpower and training. This observation would be trite, were it not necessary to observe the occasional emergence of a presumption that the fiscal problems, which have faced Defence

over the past decade or so, could have been solved by the more ruthless cutting of expenditure in one of the areas of recurrent costs. As a general objective, the policy of the Coalition FYDPs, to restrict expenditure on such recurrent costs and divert funds to investment areas, was undoubtedly correct. However, it was not of itself a sufficient basis to provide that funding necessary to provide the investment items that the Government had selected in 1976. Certainly, now that a crisis in the funding of equipment and facilities has developed, further cuts in manpower and running costs will provide no solution.

8. CONCLUSIONS

The objectives outlined by the Coalition government in 1976 and 1980 rank as perhaps the two most ambitious peacetime programs for Australia's defence. That they were not fulfilled speaks of that ambition but also of the probability that, where a nation faces no crisis of national security, other goals will dominate defence objectives. This is not a startling observation and would be taken for granted in a country like Japan or, indeed, many of the NATO countries. Yet the failures to reach the financial objectives outlined in those two programs have not been without their consequences, for the objective of defence expenditure is not simply the spending of money.

Little time passes in Australia at present without individuals or pressure groups active in the defence area, commenting about the deteriorating state of the nation's defences. It is certainly true that the full range of plans outlined in 1976 in Australian Defence have not yet been achieved, over seven years later. Many of the new capabilities foreshadowed in the white paper have not been added to strength, and many clearly ageing equipments have not been replaced. Indeed, in at least one instance, a capability has been lost with the retirement of equipment. Facilities have not been built as projected, manpower has not increased as planned, and Service activities have generally been sedate.

This situation can be seen as merely the failure of action to follow rhetoric, for it is true that in only one financial year during the period did total defence outlay increase at a rate commensurate with that proposed. Yet the commitment of the Coalition government to defence produced at least as great a diversion of national resources to that end, as at any time when Australian Forces were not engaged in hostilities, and was probably the most accentuated period of real increases in those circumstances. Equally, this rate of increase was of an average similar to that of European nations whose strategic circumstances consistently have been perceived as worse than that of Australia. By the end of the period, the proportion of GDP spent by the nation, at 3 per cent, was close to the average of NATO members.

Yet that effort has not lead to an unquestionable improvement in the capacity of Australia's Defence Forces. True, where new equipments have recently entered service the effectiveness of the forces receiving them is unchallenged in the region. Yet such effectiveness is approached in few areas and is often thinly spread. For, once the Coalition failed to achieve the level of increase they sought in the total expenditure the subsidiary objectives were also lost. What had been conceived as a balanced program of complementary development with the emphasis on equipment, saw instead the restriction of manpower, operational costs, and even the complementary capital component of facilities expenditure, in order to maintain outlays on capital equipment. This fact was not realised sufficiently early, and government policy even tried to reassert the importance of the other elements of the defence Vote, without providing the necessary increase in total outlay. As a consequence, progress in lifting the proportion of capital, to total, expenditure was slow, and in 1982 was reversed.

Despite failing to achieve their policies through what increase in expenditure was achieved, the Coalition government continued to commit the nation to an increasingly expensive list of equipment programs. By the time they left office the accumulated obligations to fund these projects were so great that

the need to severely restrict all other areas of defence expenditure could be avoided no longer. Equally important, these existing commitments are now so large that, even with the highest proportional expenditure on equipment for 15 years, there is practically no scope for initiating new programs. As the financial impact of the largest of these projects, especially the TFF and the Follow-on-Destroyer, will remain at current levels till towards the end of the decade, there is little prospect that the situation will change in the near future.

Thus, in a world where the strategic situation is certainly not static, as is recognised by the Government seeking regular re-examination of its professional advice in this area, the development of important elements of the Australian Services is largely predetermined till near the end of the decade. Undoubtedly, the capabilities provided through the TFF, FOD and other programs are impressive and can be made relevant to the nation's defence, but they do not represent the sum total of elements required for a balanced national defence. This may not be important in the short term, where no one has identified a convincing imminent threat, but is of little assistance in providing for those other basics of national security which are so obviously missing. Expenditure on facilities will probably remain at its present, comparatively low level. Poor logistics will probably continue to restrict the movement of Australian Forces around their own continent. The tightness of funding for equipment will probably continue to hamper the establishment of an expanded base for local production of military items. And many equipments needed to provide capabilities relevant to national security will probably go unfunded.

Thus, at the end of a period of deliberate attempts to overcome the problems of national security by markedly increased funding, many of the basic problems of Australia's defence remain unattended. Despite the failure of the Coalition government to meet its own objectives, there is no reason to suppose that any other Australian government would be able to improve the situation. There is no reason, therefore, to assume that Australia could develop a balanced defence posture within the

framework of current policy and defence force structure without the spur of a major military threat. It seems then, that some hard and logical thinking on the objectives, methods and structure of Australia's defence forces is required if the Services are to maintain a force structure which is relevant to national security, rather than one which is gradually rendered unrealistic through a constant process of equipment requirements exceeding resources.

FOOTNOTES

1. D.J. Killen, 'Defence: Ministerial Statement', Hansard, Reps, 25 May 1976, p.2385.
2. Australian Defence, AGPS, Canberra, 1976, p.10.
3. op. cit., p.43.
4. op. cit., p.59.
5. op. cit., p.58ff. All the data on financial planning for the 1976-81 period immediately following is drawn from this chapter, 'The Outlay on Defence 1976-81'.
6. op. cit., p.39.
7. This figure was not given in Australian Defence and is drawn instead from Defence Report 1980, p.55. Because of small changes to Defence accounting procedures and subsequent recalculations, this figure probably would not correspond exactly with any current in 1976.
8. Malcolm Fraser, 'Afghanistan: Australia's Assessment and Response, Ministerial Statement', Hansard, Reps, 19 February 1980, p.25.
9. Sir James Killen, 'Defence: Ministerial Statement', Hansard, Reps, 25 March, 1980, p.1145.
10. op. cit., p.1137.
11. ibid.
12. Malcolm Fraser, loc. cit.
13. Australian Defence, p.59.
14. Department of Finance, Report on the Forward Estimates of Budget Outlays, 1982-83, 1984-85, 1985-86, AGPS, Canberra, March 1983, p.19.
15. Phillip Lynch, 'Budget Speech 1977-78', 1977-78 Budget Paper No. 1, 16 August 1977, p.10.
16. D.J. Killen, 'Defence Review - Ministerial Statement', Hansard, Reps, 22 September 1977, p.1477.
17. D.J. Killen, 'Defence - Ministerial Statement', Hansard, Reps, 29 April 1982, p.2066.
18. op. cit., p.2069.
19. op. cit., p.2068.
20. D.J. Killen, 'Defence: Ministerial Statement', Hansard, 25 May 1976, p.2386.

21. op. cit., p.2385.
22. D.J. Killen, 'Defence Review: Ministerial Statement', Hansard, Repts, 24 October 1978, p.2192. Speaking of international developments the Minister said "But they have by no means all been unfavourable", and went on to explain that developments did not indicate that a higher level of Service readiness was required.
23. W.G. Hayden, Hansard, Repts, 22 September 1977, p.1484.
24. 'Defence Expenditure: Implicit Price Deflator' (Question No. 4628), Hansard, Repts, 20 and 21 November 1979, p.3255.
25. ibid.
26. 'Defence Equipment Expenditure: Implicit Price Deflator' (Question No. 4627), Hansard, Repts, 20 and 21 November 1979, pp.3254-55.
27. Estimates Committee A, Department of Defence, Hansard, Repts, 23 September 1981, p.462.
28. Response from Minister of Defence to Repts Estimates Committee, letter dated 14 October 1981.

 '1. The calculation of real growth in Defence outlay involves comparison of the outlay figures after adjustment to a constant price/exchange basis.

 2. Achieved outlay in any financial year is the sum of outlays made at price and exchange rates ruling at various times during the year. Conventionally, the price/exchange basis is regarded as being the mid-point i.e., December 1979 prices for 1979-80. However, allowance must be made for significant movements which occur unevenly during the year, such as National Wage Cases and other discrete adjustments.'
29. D.J. Killen, 'Ministerial Statement - Tactical Fighter Force', Hansard, Repts, 20 October 1981, p.2208.
30. Ian Sinclair, 'Speech on Appropriation Bill (No. 1)', Hansard, Repts, 26 August 1982, p.1042.
31. Budget Statements 1983-84, 1983-84 Budget Paper No. 1, 'Statement No. 3 - Estimates of Outlays, 1983-84', Defence, p.74.
32. Department of Finance, op. cit., p.30.
33. Ian Sinclair, op. cit., p.1042. It is to be hoped that people reading this speech do not think it intended that, by citing the rise in outlays and comparing them to the increase in the deflator, the Minister was implying that the extent of the real increase in defence expenditure

could be determined by dividing the difference between the two by the number of years over which the changes had taken place.

34. 'Government Expenditure' (Question No. 1190), Hansard, Reps, 18 November 1981, pp.2324-2326.
35. 'Defence Expenditure' (Question No. 2958), Hansard, Reps, 19 November 1982, pp.2641-2642.
36. Budget Statements 1983-84, 1983-84 Budget Paper No. 1, 'Table 1 - Commonwealth Government Budget Outlays, 1973-74 to 1982-83 and 1983-84 (estimated)', p.358.
37. ibid, p.74.
38. D.J. Killen, 'Ministerial Statement - Tactical Fighter Force', Hansard, Reps, October 1981, p.2208. Calculations by the procedure outlined above would yield a rate of real growth of 3.18 per cent per annum over the period of which Sir James was speaking, that is, to the end of the 1980-81 Financial Year.
39. The International Institute for Strategic Studies, The Military Balance 1982-83, London 1982, 'Indices of NATO Defence Expenditure in Constant Prices', p.118. The figures presented in this table by the IISS can only be taken as approximations. The expenditure figures used are calculated on the definitions used by the nations concerned and may reflect differences arising from national accounting procedures which may exclude items in some countries and not in others. This absence of strict comparability is compounded by the use of the CPI as the means of deflating the current price data, since this general index does not necessarily reflect, in true proportion, those trends of most significance to defence expenditures. For instance, the effect of a devaluation of the currency upon the rate of inflation of defence costs would be significantly higher upon a country which spent a large proportion of its budget on equipment and imported most of this, than would be the case for a nation which both spent little on equipment and imported little.
40. DoD, 'Economic Restraints on Defence Force', Defence Press Release, No. 205/78, 11 December 1978. This release announced the result of reviews commenced some time earlier. It was decided that the RAN's fuel consumption for Fleet activities would be reduced by 2.5 per cent, and 20 Leopard tanks, 20 per cent of armoured personnel carriers and 15-20 per cent of the general service vehicles of the Army would be mothballed. Later reports suggested that the RAAF was considering the sale of aircraft and reductions of flying time of up to 10 per cent, but such economies did not eventuate, (Frank Cranston, 'RAAF could be forced to sell some aircraft', Canberra Times, 13 January 1979).

41. J.W. Howard, 'Appropriation Bill No. 1,' Second Reading (Budget Speech), Hansard, Reps, 21 August 1979, p.49.
42. See for instance, the attack on DoD policy makers by Commander Keith Callins, former Naval Officer Commanding, South Australia in, Alex Greig, '"Disney" defence theorists attacked', The Australian, 15 November 1982.
43. L.H. Barnard, 'Australian Defence, Ministerial Statement', Hansard, Reps., 9 April 1974, p.1237, and Frank Cranston, 'Mr Morrison's defence-buying program: \$289m to be spent on weapons', Canberra Times, 29 April 1975.
44. Defence Report 1977, Table 4, 'Defence Function: Total Expenditure by Major Categories', p.44.
45. Australian Defence, p.59. From Table 7 on p.58 it can be seen that the planning total was \$2320m.
46. Defence Report 1977, loc. cit.
47. Australian Defence, pp.59-60. It should be noted that the category referred to here as "running costs" is not synonymous with the functional classification used in national accounting and which appears in the Defence Report. In the white paper it referred to operating, maintenance and administrative costs, excluding running costs for government factories, etc. These, added to the category used in Australian Defence show that 26 per cent of the notional Year I of the FYDP would have been allocated to total "Other Running Costs", about the same proportion as was achieved in the 1976-77 Budget. When discussing this element of defence expenditures further in this paper, I will combine the military, administrative and industrial aspects of running costs in order to make use of DoD data in its existing form.
48. The figures for the FYDP objectives are deduced from Table 7 of Australian Defence, p.58. Although the table represents a notional plan and is not meant to indicate more than a broad trend for future defence financial management, the achievement of subsequent years is so far from the direction of the white paper that there can be no doubt that its objectives were not achieved.
49. Malcolm Fraser, 'Ministerial Statement', Hansard, Reps, 19 February 1980, p.25.
50. D.J. Killen, 'Ministerial Statement', Hansard, Reps, 25 March 1980, p.1135.
51. D.J. Killen, 'Ministerial Statement: Defence Review', Hansard, Reps, 24 October 1978, p.2197.
52. ibid., pp.2193.
53. Hansard, Reps, 25 March 1980, p.1140.

54. ibid., pp.1140-1141.
55. Malcolm Fraser, Hansard, Reps, 19 February 1980, p.26.
56. ibid., p.25.
57. ibid., pp.25-26. The speed of implementation had already been enhanced by amendments to the Defence Act in November 1979.
58. Kenneth Joachim, 'Running deep in anger', Melbourne Herald, 12 February 1980.
59. D.J. Killen, 'Defence, Ministerial Statement', Hansard, Reps, 29 April 1982, p.2068.
60. Department of Finance, Statement of Savings Expected in Annual Appropriations made by, Act No. 164 of 1981 - Appropriation Act (No. 1) 1981-82; Act No. 165 of 1981 - Appropriation Act (No. 2) 1981-82, 24 March 1982, p.13.
61. Department of Defence, Estimates of Expenditure 1982-83, Appropriation Bill No. 1, "Explanatory Notes", pp.3-5.
62. Defence News Release No. 204/82, 'Effect of Wages Pause on the Defence Force', 23 December 1982.
63. Deborah Snow, 'Body to study defence pay', The Australian Financial Review, 25 August 1983.
64. Department of Finance, Report on the Forward Estimates of Budget Outlays, 1983-84, 1984-85, 1985-86, Attachment I, 'Commonwealth Government Outlays, by Function', 'I. Defence', p.72.
65. ibid., p.6.
66. ibid., p.66.
67. "Budget Basis" calculations in the forward estimates are those used by Finance to attempt to adjust departmental submissions for changes in prices more recent than those considered by the submitting department and, thus, to increase the degree of comparability between estimates. See, Department of Finance, op. cit., p.6.
68. (DoD), 1982-83 Appropriation Bill No. 5, 'Explanatory Notes', p.4.
69. DoD, Estimates of Expenditure 1983-84, Appropriation Bill No. 1, 'Explanatory Notes', p.4.
70. Department of Finance, op. cit., p.72.
71. DoD, Estimates of Expenditure 1983-84, p.4.
72. Budget Statements 1983-84, 1983-84 Budget Paper No. 1, 'Appendix to Statement No. 3', p.258.

73. Michelle Gratton, 'Razor Gang Seeks to Chop Defence', Age, 13 July 1983.
74. Budget Statements 1983-84, 'Statement No. 3 - Estimate of Outlays, 1983-84, 1. Defence', p.74.
75. Department of Finance, op. cit., p.12.
76. Budget Statements 1983-84, 'Statement No. 1 - Summary of the 1983-84 Budget', p.5.
77. Quoted in, Frank Cranston, 'Budgeting funds and needs for defence', The Canberra Times, 5 July 1982.
78. 'Defence Expenditure' (Question No. 2418), Hansard, Senate, 26 & 27 August 1980, p.404.
79. Defence Report 1979, 'Expenditure on Defence Function 1974-75 to 1979-80: Major Categories as Percentage of Total', p.48.
80. This series for the period 1969-70 to 1982-83 is to be found in, Australian Bureau of Statistics, Quarterly Estimates of National Income and Expenditure, Australia, June Quarter 1983, Table 42, 'Implicit Price Deflators', p.38. It is surprising that the then Minister for Defence, Ian Sinclair, should not have used this index instead of the more generally based "non-farm deflator" when he chose to depart from the practice of using a DoD calculated estimate of real growth in his speech on the Estimates in August, 1982 (see above p.17). The definitions given in the National Accounts are quite specific in ascribing most elements of expenditure on defence to the category of "Final Consumption Expenditure." 'All defence expenditure on goods and services is classified as final consumption expenditure'. (Australian Bureau of Statistics 1982-83 Budget Paper No. 10, National Income and Expenditure 1981-82, 'Definitions and Descriptions of Items', 'Item 2. Final Consumption Expenditure - Government', p.26). This simple proposition is spoiled by the fact that the calculations of the Statistician measure the value of equipment purchased overseas in the year it is delivered (rather than measure the amount of remittances overseas in each financial year) in order to calculate the defence equipment component of Government consumption. As is well known, there can be a gap of a decade between initial payments and the delivery of many military capital items, and the Statistician's adjustment for this characteristic - that of subtracting the total of payments overseas from the value of equipment delivered - does not appear to be adequate to accommodate the wide fluctuations in outlays for foreign-built equipment which can occur during the life of many such programs. As well as this caveat, it would appear that the compilation of final consumption expenditure leaves something of the order of 12 to 16 per cent of defence Expenditure unaccounted for in the tabulations provided. (ibid, Table 17, p.19). Thus, as with most aspects of the study of Defence financing, the category of final consumption expenditure, although a more

accurate measure of inflation in a specific area, has its drawbacks. However, it should not have been beyond the wit of the Department's financial experts to advise the Minister of the best use of data drawn from this index when assessing the progress of defence spending, if there were available no Departmental data of greater accuracy. Certainly, for the purposes of measuring inflation in the costs of equipment, 'Final Consumption Expenditure - Government' is a much preferable tool than any other less specific index.

81. Budget Speech 1980-81, 1980-81 Budget Paper No. 1, 'Statement No. 5 - Budget Outcome, 1979-80', pp.250-251.
82. These results can be seen by comparing the Estimated Expenditure for Capital Equipment (Defence Report 1980 'Expenditure on Defence Function 1975-76 to 1980-81: Major Categories', p.54) with the actual expenditure achieved (Defence Report 1981 'Expenditure on Defence Function 1976-77 to 1981-82: Major Categories', p.58). The figure of \$42m is that under the head 'Less estimated slippage on expenditure for Defence Force and Defence Central' in the table on p.54 of the Defence Report 1980. The purpose of this procedure is to allow more accurate claims on the Revenue during the course of a financial year, since it is recognised that circumstances would seldom allow all monies appropriated to be spent on equipment projects. This can be the result of a variety of causes: poor program management; industrial relations problems; unforeseen technical failures and so on. An estimate of likely expenditure on equipment programs is approved in the formulation of the defence estimates and from this is subtracted a notional proportion to allow for the delays which are likely to be encountered in some of these programs. The remainder is the total which is appropriated in that year's Budget for defence equipment. This is a long-standing procedure and is meant to avoid the very problem encountered in 1980-81 where the Department was not able to spend its Appropriation. The problem involved here is, of course, that the monies not appropriated remain in Consolidated Revenue and further payments on delayed programs will be made from future budgets. It is highly unlikely that future budgets would ever be supplemented to compensate for underspending in previous years. If, as has happened increasingly, the Budget is under restraint, the resumed payments can only be made at the expense of new programs which would otherwise have been initiated. Thus, overall, poor project expenditure planning can be one of the causes of a failure to re-equip the Services in the timeframe proposed, and this has been witnessed over recent years.
83. Defence Report 1981, loc. cit., Defence Report 1981-82 'Expenditure on Defence Function 1977-78 to 1981-82: Major Categories', p.44. It is to be regretted that one of the consequences of reformulating the Defence Report in late 1982 was that three tables of financial data were dropped, another was reduced, and in all financial tables the

estimates for the then current financial year (that is 1982-83) were deleted. Thus it was no longer possible for interested members of the public to observe if the Department's control of its expenditure on equipment has improved (although ironically it did in 1982-83, DoD requesting additional funds for equipment in the Additional Estimates).

84. Ian Sinclair, op. cit., Hansard, Reps, 26 August 1982, p.1042.
85. D.J. Killen, Hansard, Reps, Estimates Committee A, 23 September 1981, pp.463-464. The Minister was answering a series of questions from Bill Morrison on the extent of underspending on equipment.
86. Report of the Auditor General for the year ended 30 June 1981, 'Financial Statements Prepared by the Minister for Finance', p.75.
87. Department of Finance, Statement of Savings Expected in Annual Appropriations made by, Act No. 164 of 1981 - Appropriation Act (No. 1) 1981-82; Act No. 165 of 1981 - Appropriation Act (No. 2) 1981-82, 24 March 1982, p.13.
88. DoD, 'Estimates of Expenditure 1981-82', Appropriation Bill No. 3, p.71A.
89. Ian Sinclair, op. cit., p.1048.
90. Deborah Snow, 'The dollar's value hits defence', The Australian Financial Review, 21 October 1982.
91. Ian Sinclair, Speech, on the official opening of the ALWE media seminar, RAAF Williamstown, 11 February 1983, p.2.
92. Budget Speech 1980-81, "Budget Statement No. 3 - Estimates of Outlays, 1980-81: Defence", p.70.
93. Budget Statements 1981-82, "1981-82 Budget Paper No. 1", "Statement No. 3 - Estimate of Outlays, 1981-82: I. Defence", p.67.
94. loc. cit.
95. Budget Statements 1982-83, 'Statement No. 3 - Estimates of Outlays, 1982-83: I. Defence', p.67.
96. Budget Statements 1982-83, 'Statement No. 3', p.74. This figure does not match the total of outstanding commitments one might expect to have developed from the situation that existed at the end of 1981-82, as it appeared from DoD information. This does not itself match the situation the Budget Papers said to exist at almost the same period. In answering a question from Gordon Scholes, the then Opposition Spokesman on Defence, the Minister stated that the commitments at 20 June 1982 totalled \$4.9 billion. New programs which were considered to have commenced but for

which the contracts had not been finalised at that date were said to be worth a further \$900m. The difference between the DoD figure for outstanding obligations at the end of 1981-82 and that of Finance as given in the Budget papers probably reflects another of the interminable problems of definition which afflict the study of Defence finances. 'Defence Programs' (Question No. 4012), Hansard, Reps, 24 August 1982, p.877.

97. In a radio broadcast the then Prime Minister, Malcolm Fraser, stated that in the previous eighteen months his Government had 'more than doubled our commitment to future defence purchases to almost six billion dollars'. Malcolm Fraser, Electorate Talk, Transcript, Prime Minister's Press Office, 2 May 1982, p.2.
98. Department of Finance, Report on the Forward Estimates of Budget Outlays 1983-84, 1984-85 and 1985-86, p.72. The figures for each financial year consecutively from, and including, 1982-83 were \$736m, \$942m, \$1352m, \$1650m. Because these are compilations based on the Budgetary framework, that is the Divisions of Appropriation Bill No. 1, this series of figures does not show the full extent of expenditure on equipment as is detailed by the function dissection of the Defence Vote in the various Defence Reports. Particularly, it does not include the appropriations under the control of the Department of Defence Support for development of defence industrial plant. In the Forward Estimates these figures are principally submerged in the category "Defence Industrial Capacity", but in 1982-83, all appropriations on capital equipment, apart from those in Division 234 of Appropriation Bill No. 1 (which can be considered generally as "military equipment" - there is an element for Defence Central) reached \$67m in addition to the \$791.4m which was eventually spent on Defence capital equipment. DoD, Estimate of Expenditure 1983-84, Appropriation Bill No. 1, p.3.
99. D.J. Killen, 'Defence, Ministerial Statement', Hansard, Reps, 29 April 1982, p.2069.
100. Ian Sinclair, Speech on Appropriation Bill (No.1), Hansard, Reps, 26 August 1982, p.1043.
101. Estimates Committee E, 'Department of Defence', Hansard, Senate, 12 May 1983, advice of Mr. McAlister, pp.153-154.
102. Budget Statements 1983-84, 'Statement No. 3', p.74.
103. loc. cit., 'Appendix to Statement No. 3', p.258 (emphasis added).
104. ibid.
105. Estimates of Expenditure 1983-84, DoD, Appropriation Bill No. 1, p.3.

106. Budget Statements 1983-84, 'Statement No. 3', p.77.
107. op. cit., p.74.
108. Patrick Walters, 'Labor starts to bring Defence closer to home', Sydney Morning Herald, 16 March 1983.
109. Australian Defence, p.19, compared with, Report of the Auditor General on the year ended 30 June 1981, p.32.
110. Australian Defence, p.18, compared with, Estimates Committee E, Hansard, Senate, 12 May 1983, pp.152-153, response of Air Vice Marshal Heggen.
111. Australian Defence, p.21.
112. 'New Underway Replenishment Ship: Costs Up', Navy News, 23 September - 7 October 1983, p.11.
113. Australian Defence, p.19.
114. Australian Defence, p.21.
115. Report of the Auditor General upon audits, examinations and inspections under the Audit and other Acts - May 1983, p.14. The Auditor records the complaints of project personnel that resources have been insufficient at crucial stages of this project, especially where manpower was required to assist in evaluation.
116. DoD, Defence Press Release No. 208/80, 'Prototype Minehunter Catamarans for Navy', 31 October 1980.
117. Australian Defence, p.22, compared with, DoD, Defence Press Release No. 240/81, 'New Artillery for Army', 2 December 1981.
118. Australian Defence, p.18, paras. 26-30. These talk of the range of improvements planned for the FIII force, amongst which were the 'consideration' of the various precision-guided weapons systems then available or under development. Whilst other parts of the FIII development have proceeded there has been no further mention of a firm program to procure attack missiles for the FIII.
119. Australian Defence, p.21. This was a project proposed for the "1980s" but not again mentioned after the release of the white paper. It has now been rendered somewhat redundant by the decision to not replace HMAS Melbourne.
120. Australian Defence, p.23. The white paper mentioned that better systems than Red Eye would be available by the early 1980s and that studies of various alternatives, including composite gun and missile combinations, were underway.
121. Australian Defence, p.23. The replacement of the Caribou was supposed to provide an opportunity for the local aerospace industry to participate in a collaborative

project and hence was mentioned in the white paper as a demonstration that sufficient advanced planning was being done to allow industry time to respond, even though the aircraft would serve till the mid-80s. Since then, the subject of the Caribou replacement has disappeared without trace and there is now insufficient time to replace it with an "off-the-shelf" purchase, let alone an Australian produced aircraft. There is instead some evidence that the RAAF will not seek a replacement aircraft in the same class.

122. Malcolm Fraser, op. cit., p.25.
123. ibid.
124. Frank Cranston, 'General calls for more soldiers and equipment', The Canberra Times, 3 March 1983. This piece reports a meeting of the United Service Institute of the ACT at which Major-General K.J. Taylor, Army Chief of Materiel, spoke of current deficiencies in Army's capabilities.
125. 'Defence: Capital Facilities' (Question No. 4070), Hansard, Reps, 6 and 7 May 1982, p.2496.
126. 1982-83 Budget Paper No. 1, 'Statement No. 3 - Estimates of Outlays, 1982-83, I. Defence', p.73.
127. Defence Report 1981-82, 'Expenditure on Defence Function 1977-78 to 1981-82: Major Categories', p.44.
128. DoD, Estimates of Expenditure 1983-84, Appropriation Bill No. 1, p.3.
129. Australian Defence. These figures derived from the data in Table 7, 'Defence Program', p.58.
130. Australian Defence, p.43.
131. ibid.
132. op. cit.
133. Defence Report 1981-82, p.20.
134. Estimates Committee A, Hansard, Reps, 23 September 1981, p.472.
135. D.J. Killen, 'Defence: Ministerial Statement', Hansard, Reps, 25 March 1980, p.1142.
136. 'Derby Airfield, Western Australia' (Question No. 3666), Hansard, Reps, 16 February 1982, p.188.
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150. ibid.
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152. DoD, Estimates of Expenditure 1983-84, Appropriation Bill No. 1, p.3 is the source for the 1982-83 and 1983-84 data and, Defence Report 1975, Table 4, 'Defence Function: Total Expenditure by Major Categories', p.44, the source of the 1975-76 expenditure.
153. House of Representatives Standing Committee on Expenditure, Accommodation for Married Servicemen, Parliamentary Paper No. 99/1977, May 1977, pp.viii-ix.
154. Defence Report 1979, p.23.
155. Defence Report 1981, p.35.
156. Defence Report 1981-82, p.21.
157. ibid.
158. Australian Defence, p.46.
159. These figures are shown in Defence Reports in the sections dealing with defence for the period between 1975 and 1981-82. The format of these reports is not consistent and

although there is often a specific section on 'Housing' in the chapter on facilities, the information is sometimes buried in unlabelled paragraphs in chapters devoted to a more general entry, such as 'Support'.

160. Defence Report 1981, 'Australian Defence Force 1967 to 1981: Numbers of Permanent Service Personnel', p.64.
161. Australian Defence, p.32.
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163. Australian Defence, p.46.
164. Estimates Committee E, Hansard, Senate Estimates Committees D,E, and F, 15 September 1983, p.295, response of Mr Anderson.
165. ibid.
166. Budget Statements 1980-81, 1980-81 Budget Paper No. 1, 'Statement No. 3 - Estimates of Outlays, 1980-81, I. Defence', p.73.
167. Budget Statements 1981-82, p.70.
168. Budget Statements 1982-83, p.71.
169. M.W. Buckham (First Assistant Secretary, Defence Facilities Division) 'Defence Facilities', Australian Defence Seminar, DoD and Australian Defence Force, Brisbane, 10-11 June 1980, pp.3-4.
170. Defence Report 1981-82, p.12.
171. ibid.
172. Report of the Auditor General, op. cit., p.182.
173. 'Australian Army: Size' (Question Without Notice), Hansard, Reps, 4 March 1976, p.527.
174. Report of the Auditor General, May 1983, p.14.
175. The Committee of Reference for Defence Force Pay, chaired by Mr Justice PA Coldham, is the body charged with independently evaluating pay rates and allowance scales for all categories of Service pay. On 4 November 1981 the Committee recommended substantial changes to the assumptions behind, and the rates of, Service pay and allowances. (see Defence Report 1981-82, p.13). At the time, such recommendations required acceptance by Cabinet. The policy of the Labor government is to endow the Services' pay tribunal with power to grant its own determinations.
176. Defence Report 1981-82, p.13.

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178. loc. cit.
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180. Budget Statements 1983-84, 'Statement No. 3', p.75.
181. ibid.
182. Australian Defence, p.38.
183. Defence Report 1981-82, "Australian Defence Force 1968 to 1982: Numbers of Permanent Service Personnel", p.48. All information on Service numbers in this paragraph is drawn from this table.
184. op. cit., pp.2069-2070.
185. 'RAAF sets sights on more funding', The Australian, 4 May 1983. This quoted Air Vice Marshal BH Collings, head of Support Command in an address to the National Aviation Press Club. AVM Collings was quoted as saying that approximately \$60m was needed to overcome deficiencies in the RAAF's maintenance budget.

APPENDIX I

FIVE-YEAR DEFENCE PROGRAM
(August 1979 prices)
(\$m)

Five years 1975-80

	1980-81 Budget	1975-76	1976-77	1977-78	1978-79	1979-80	Total
Capital equipment	579	253	370	396	463	488	1970
Defence facilities	130	170	155	132	102	97	656
Defence co-operation	36	45	31	32	26	29	163
Manpower	1,572	1,529	1,524	1,531	1,521	1,531	7,636
Other running costs	902	777	813	822	814	863	4,089
Total expenditure	3,219	2,774	2,893	2,913	2,926	3,008	14,514
Less: revenue	101	108	88	108	94	97	495
Outlay on defence function	3,118	2,666	2,805	2,805	2,832	2,911	14,019

Source

Table prepared by the Department of Defence, tabled in W.L. Morrison, speech on 'Governor General's Speech', Hansard, Reps, 26 February 1981, p.312.

APPENDIX II

DEFENCE OUTLAY, 1964-65 TO 1981-82,
AT CONSTANT PRICES

Year	Actual Defence outlay 1981-82	Price deflator = 100	Defence outlay in 1981-82 prices
	\$m		\$m
1964-65	583	24.3	2399
1965-66	711	25.2	2821
1966-67	912	26.1	3494
1967-68	1065	27.1	3930
1968-69	1100	28.2	3901
1969-70	1044	29.6	3527
1970-71	1091	31.4	3475
1971-72	1157	33.5	3454
1972-73	1227	35.7	3437
1973-74	1332	40.6	3281
1974-75	1635	49.5	3303
1975-76	1862	57.8	3222
1976-77	2191	64.3	3408
1977-78	2385	69.6	3427
1978-79	2614	74.3	3518
1979-80	3017	81.4	3706
1980-81	3550	89.6	3962
1981-82	4135	100.0	4135

Source

'Defence Expenditure (Question No. 2958)', Hansard,
Senate, 19 November 1982, p.2642.

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