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## Deciphering Australia's Defense Budget

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**Mark Thomson, Senior Analyst at the Australian Strategic Policy Institute (ASPI), explains that “If the symbolic political target of a budget surplus cannot be reached, the remaining constraints on spending are weak. So, counter intuitively, the failure to deliver a surplus has enabled an increase in defense spending.”**

At a time when most developed nations are trimming their military budgets in response to mounting debt and slow economic growth, the Julia Gillard-led Labor center-left government in Australia has confounded expectations by boosting defense spending. If all goes according to plan, defense expenditure will grow from US\$25 billion next year to US\$33 billion early next decade as measured in today's dollars. Consequently, the average planned rate of growth will be a respectable of 2.9 percent a year above inflation over the next decade.

The mid-May announcement came two weeks after the release of the government's new Defense White Paper. It represents a partial reversal of substantial cuts to defense spending made over the past four years; the most dramatic of which occurred last year when the budget was slashed by 10 percent, driving the share of GDP spent on defense down to 1.56 percent—the lowest level since 1938.

A year later things are looking very different. Not only is defense spending on the increase, the government has also just announced the purchase from Boeing of twelve Super Hornet fighters equipped with the Growler electronic-attack package to augment the 24 regular Super Hornets already in service with the Royal Australian Air Force.

At the same time, almost all of the long-term acquisition plans made prior to the cuts of recent years have been reconfirmed. There will be 72 F-35 Joint Strike Fighters to replace the existing early-model F/A-18 Hornets, and the strength of Australian defense force will be maintained at around 59,000 personnel, the peak reached during the height of sustaining operations in Afghanistan.

Perhaps more importantly, the government reconfirmed that it plans to double the size of the submarine fleet from six to twelve boats. In addition, the options for the next generation of submarines have been narrowed to the two most capable and expensive alternatives: a completely new design and a substantial evolution of the existing Collins class.

With an election scheduled for September this year, this renewed commitment to defense might appear to have been just a matter of politics. However, that is unlikely to be the case; defense is not a major issue in Australia at this time, and the opposition Liberal Party did little to put pressure on the government over earlier cuts. Rather, it looks as though the Gillard government has taken advantage of

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changed economic circumstances to restart the modernization of the Australian Defense Force.

Ironically, it is not that the Gillard government is flush with cash. To the contrary, they have just been forced to abandon a long-standing promise to return the federal budget to surplus this year—and at great political cost. Although the Australian economy is doing relatively well, government revenues have fallen dramatically due to weak commodity prices and a strong Australian dollar. As a result, a surplus is now three or four years away.

Only in the peculiar world of Australian politics could this mean a loosening of the fiscal purse strings. Because Australia’s overall debt is small in absolute terms—around 11 percent of GDP—deficit spending is of little economic consequence. If the symbolic political target of a budget surplus cannot be reached, the remaining constraints on spending are weak. So, counter intuitively, the failure to deliver a surplus has enabled an increase in defense spending.

There were any number of more politically expedient alternatives available for the government; the boost to defense spending was accompanied by small cuts in social spending and the cancellation of some planned tax cuts. This would seem to signal that the Gillard government is getting serious about strengthening Australia’s defense. That said, more money than is now planned will eventually be needed to deliver everything that is required to upgrade Australia’s military, but the government is off to a credible start.

The new Australian Defense White Paper provides few clues to the government’s thinking. It is so anodyne and diplomatic, that one is almost left wondering why Australia needs as strong a defense force as it outlines. Unlike its 2009 predecessor, the new document carefully avoids offending China. Instead, it cleverly focuses on the relationship between the United States and China. In doing so, it manages to remain somewhat detached on US-China competition while elsewhere stressing the importance of the ANZUS alliance to Australia’s security.

While a few commentators have accused the government of unnecessarily pandering to Beijing, the White Paper has been lauded in the local media as more nuanced and sophisticated than its blunter 2009 predecessor. In the current environment it was always going to be impossible to be both diplomatic and honest.

In substantive terms, it does not matter. Everyone knows that Australia is hedging against China’s growing power by simultaneously drawing closer to the United States and developing its own military capabilities. The only question is how much it will rely on the former as opposed to actually doing the latter. Like just about every other US ally since WWII, Australia has long been a free-rider on US military power.

With the White Paper watered down to avoid giving offense to anyone, Australia’s intent must be understood by its actions rather than its words. That gives a mixed picture. The most favorable interpretation is that the Gillard government is providing itself with the leeway to pursue a more concerted effort if circumstances demand.

Two decisions contained in the new White Paper hint at how the government views the risks it might have to face. By expanding its Super Hornet fleet and recommitting to an eventual F-35 purchase, the government is acquiring the most potent air combat assets available for it to purchase. Similarly with the submarines, by setting aside off-the-shelf options, Australia has signaled that it is willing to shoulder the massive cost of a bespoke design in order to develop large long-range boats that can operate in the dangerous waters of North Asia. If ever there is a key indication of what Australia fears, this is it.