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THE DEFENCE OF AUSTRALIA:
A BLUEPRINT FOR THE NEXT GOVERNMENT

PAPER 4: Funding the Defence of Australia

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The Defence of Australia: A blueprint for the next government
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Overview

The Defence of Australia: A blueprint for the next government.

Australia is facing its most challenging security environment since the Second World War.

Defence planners and political leaders of both major parties agree that Australia no longer has the luxury of the once operative ten-year warning time before we need to be ready for a major conflict in our region.

Yet we are unprepared for such a crisis. For at least the past decade governments of all persuasions have struggled to translate changing perceptions into decisions and action. It is time for a reboot built on a sense of urgency. The lead up to the 2025 Federal Election is an opportunity for the Australian public, the defence community, and elected representatives, to drive that change.

To aid this process the Institute of Public Affairs, an organisation dedicated to securing the freedom, security and prosperity of Australia, is partnering with Strategic Analysis Australia to produce a blueprint for what the next Australian government needs to do to ensure that Australia can help deter a major conflict in our region and/or defend our national sovereignty if deterrence fails. In a six part series to be completed before the end of 2024, the main components of the blueprint will be mapped out:

1. National Security and Australia's Northern Defence

2. Supporting and Equipping the ADF

3. Acquisitions and the Australian Defence Industry

4. Funding National Security

5. Fixing Defence Infrastructure and Energy Vulnerabilities

6. Northern Australia and What is Required

Strategic Analysis Australia is an independent strategic consultancy with decades of combined experience at the highest levels of defence and national security policy and implementation in Australia. This collaboration between the IPA and SAA will produce recommendations that are practical, achievable, and about which decisions can and should be made in the next term of government. The focus is on dealing with the challenges we face right now. Long-term planning is always needed, but in the window of vulnerability Australia is in, long-term capabilities might not materialise in time.

This series intends not only to inform defence policy makers and all Australians of the immense security challenges we face but, just as importantly, to demonstrate that something can be done about them if we start with a bias towards action, and act with resolve.

Foreword

*Money talks, bullshit walks**

The IPA/SAA *Defence Blueprint* series has comprehensively outlined our national security and defence challenges, and what needs to start happening right now. It has also revealed the gaps between rhetoric and action.

This paper examines the limiting factor between the rhetoric of upgrading our defence capability, as opposed to reality, *i.e.* $$$. Hence our key recommendation, to move defence expenditure from 2 per cent of GDP, to 3 per cent of GDP.

There will be a federal election in the first half of 2025. We are calling on all political parties, but particularly the ALP and the Liberal/National Coalition as the alternative candidates for majority government, to commit to achieving the target of 3 per cent of GDP by the end of the next term of Parliament (2028).

A TURNING POINT CAN COME BEFORE WAR

One observation in this, Paper #4, is worthy of further and deeper examination, namely: 'Australia never spends big on Defence until there is a war'. The authors did well to use the word 'big', as otherwise it would be a counsel of despair, suggesting that democracies like Australia always sleep until they are physically attacked.

Certainly the really big numbers, like 34 per cent of GDP, were not reached until the middle of WWII under the ALP government led by John Curtin, which correctly instituted a war economy when necessary. But long prior to that, by the mid-1930s Australia, was definitely rebuilding its defence capability.[1] From 1937 defence expenditures began to noticeably accelerate.[2]

Frederick Shedden, Secretary of the Department of Defence (1937-1939), later wrote:

> The military results of Curtin's miraculous conversion through responsibility when he came to power, and the measures he took at great personal political risk to have the Defence platform of the Labor Party amended, could not have been immediately effective, but for the foundations laid by the Defence Programming of the preceding United Australia Party Governments. Curtin generously acknowledged the inheritance he had received.[3]

So it is up to our political leadership to call the crisis now. Let this be our 1938 wake up call (as was the failure of the Munich Conference). If nothing else, we should not let the absence of kinetic warfare in our region blind us to the attacks in the Grey Zone that are already taking place. We are not prisoners of history, unable to act until physical conflict and casualties engage the attention of the wider population. Leaders should act now, and engage Australians in the drivers of that action.

THE DANGEROUS INSULARITY OF DEFENCE INSTITUTIONS

In Paper # 2 we recommended the Commonwealth government re-open our embassy in Kyiv, not just because it is the right thing to do, but to establish a base from which we can learn in real time about evolving military tactics and strategy, and national mobilisation, in one of the most consequential conflicts of our time. That we have yet to do so is just another data point establishing how narrow and insular is the perspective of our political leadership and defence institutions.

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1 Beavis, J, The Years of Decay, Australian War Memorial, 10 Oct 2022, https://www.awm.gov.au/wartime/100/articlethree

2 (ASPI) ANNEX: Counting the cost, Pay Your Money & Take Your Pick: Defence Spending Choices for Australia, 1 December 2003, pp. 42-51, https://www.jstor.org/stable/resrep04132.10

3 Unpublished manuscript, National Archives, via Anne Henderson, Media Watch Dog, 14 August 2015.

On page 19 you will read that the report authors—who remain part of the broader national security/defence ecosystem—have been met with a certain amount of pearl-clutching on the part of officials when they have floated the idea of establishing 3 per cent of GDP as a goal. They quite rightly in response pointed out the rapid expansion in spending (and capability) seen in (to take some examples) Finland, Poland, and (prospectively) Japan.

This is also why in a series of recommendations we have argued for the establishment of parallel institutions, through parliament, and also ones reporting directly to the prime minister. Building capacity quickly will require a more far-sighted approach, with more far-sighted people involved.

It is also behind our recommendations for a radical decentralisation of the major defence institutions, including various functions of the Department of Defence, to put them in northern Australia which has much more skin in the game.

WE'RE NOT CANADA AND, FRANKLY, WOULD NOT WANT TO BE

Canada has failed to meet the NATO target of 2 per cent of GDP for a very long time, with a risible 1.37 per cent expected in 2024. It is obviously 'free riding' underneath the nuclear and strategic umbrella of its much larger neighbour. President-elect Trump's recent trolling of Justin Trudeau as the 'Governor of the Great State of Canada' reflects more than ideological differences; it also captures the sense that Canada is an unserious nation.

But, as is well spelt out in this paper, that option is not available to Australia. We control a continent and a number of island chains, and have an extended zone of influence matched by very few countries in the world in scope and complexity. Considering the great responsibilities that go with this, our spending on defence needs to be correspondingly larger. Just as Poland, which shares a border with Russia, is more focused on the threat environment than, say, Belgium, Australia has to rise to the occasion.

It might also be said that fostering a greater understanding of the many different aspects of our strategic and geopolitical environment would enable Australia to make better decisions across a range of fronts, including energy, diplomacy, industrial policy, taxation, and trade, as well as defence. (See also *Australia's Rightful Place*.)[4]

RECOMMENDING 3 PER CENT OF GDP IS FULLY CONSISTENT WITH IPA PRINCIPLES

I have no doubt that some who are aware of the IPA's commitment to limited government and reduced government expenditure—and who have a more statist vision—will take a moment to enjoy the one occasion on which the IPA calls for more government spending. That would nevertheless be childish and unserious, and also display a category error.

The IPA in following classical liberal principles believes government should give greatest possible scope for the freedom of the people, and that excessive regulation and taxation constrains that freedom. Freedom in turn is conducive to human flourishing and, typically, prosperity.

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4 Scott Hargreaves, 'Australia's Rightful Place' (2023) 74(1) *IPA Review*

But as the IPA has also pointed out, such freedoms are only guaranteed within the context of the nation-state—our sovereign authority—and we must therefore in a democratic manner ensure that the nation-state has the ability to defend itself and transmit those freedoms to the next generation. This is evidenced for example:

- When the IPA was founded in 1943, loyalty to King and Constitutional Government was the first formal Object listed, and the second was 'To support and assist the Government in the prosecution of the war'; and

- This also means we must *exercise* our sovereignty and take responsibility for our own defence:

  'the resurgence of the nation-state on international affairs...is a response to perceived encroachments on states' ability to pursue their interests by international institutions, changing geopolitical realities, and economic globalisation. It is important to note that these concerns are continuous with domestic concerns about the disestablishment of national identity and the weakening of popular sovereignty and democratic accountability.'[5]

Libertarians are rightly concerned that governments assume powers and restrict freedoms in wartime in a manner which can become permanent, and hence are sceptical of reasons for war. This is just another reason for investment in deterrence, to reduce the possibility of war by changing the calculus for potential aggressors: 'Not today.'

In 2023 we formally endorsed 'Security' as one of the Five Pillars that guide our work: *Furthering measures to secure our borders, our property rights, and the essentials of a free and prosperous society.*[6]

And, finally, the IPA is firmly of the view that better economic management—through red tape reduction, elimination of government waste, and a radical decentralisation of the Canberra bureaucracy—can deliver faster rates of economic growth that ensure we meet our defence targets while still funding the democratically determined essentials of government. Yes, there will be and should be some hard choices, but a rising tide lifts all boats. As the economist Robert Lucas once said: 'Once you start thinking about [economic] growth, it's hard to think about anything else'. That should be the case in Canberra also.

Scott Hargreaves

Executive Director
Institute of Public Affairs, Melbourne
September 2024

* *Definitions: Money Talks, Bullshit Walks*

- *Here talk is used metaphorically to means 'has actual effect, shows seriousness'. (Wiktionary)*
- *It means that money can influence people and be used to get things done, but 'bullshit' like sales pitches, marketing, deceit and so-on usually get seen through by most people. (ELL)*
- *Money is the most effective means of persuasion and motivation, while empty talk achieves nothing. (The Free Dictionary)*

5 Daniel Wild et al, *Australian Values and the Enduring Importance of the Nation State,* (Institue of Public Affairs, 2019)

6 www.ipa.org.au/about

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Executive summary

No-one wants war, but the risk of conflict in our region is substantially growing, and we could well find ourselves in war whether we want it or not. The challenge now is to rapidly strengthen the Australian Defence Force with the goal that our efforts, along with our allies, can deter our adversaries from war.

Our key recommendation in this paper is to lift Defence spending from its current level of just below 2 per cent of gross domestic product to 3 per cent of GDP by 2028-29.

- This proposed funding would provide an additional $40.9 billion to Defence over the four years of the forward estimates (compared to the current government planning for additional spending of $5.7 billion).
- Over a decade this new funding adds $206.9 billion to planned defence spending. By contrast the current plan adds $50.3 billion over the coming decade.

In this paper we set out why Australia has fallen so dramatically short of maintaining an adequate defence capability. The reason is a perhaps natural desire to take advantage of a peace-dividend after the end of the Cold War. Second, over many decades Australian governments have been prepared to free-ride on American commitments to global and regional security. Free riding is no longer an acceptable response to our bleak security outlook.

Our other recommendations in this paper bolster the case for how a government could dramatically lift Defence spending and see quick and positive increases in military capability. Governments need to do a better job making the public case for a bigger effort on security. Taxpayers need to be convinced that this is a necessary expenditure and one that will be spent wisely. We argue that Parliament's Committee on Foreign Affairs, Defence and Trade must produce an annual inquiry on Australia's regional threat environment, recommending urgent policy steps, including on the scale of defence spending needed to address our worsening strategic environment.

With a new administration about to assume power in Washington DC, we judge that Australia's efforts to lift its performance as a contributor to global security mean that the Commonwealth government should engage the incoming US administration to discuss burden sharing on both defence spending and capabilities. A stronger Australian defence effort makes us not only more self-reliant, but also a more credible ally. Frankly, the urgency of our strategic outlook is such that deterrence must be strengthened as a framework across all like-minded and consequential democracies. This means burden sharing and a willingness to plan more openly with our key partners.

We also recommend that the Defence budget should be regularly increased to compensate for the effects of inflation, particularly on military systems. The accumulated effects of inflation over recent years mean that current Defence spending plans are imposing real cuts on Defence capabilities even when nominal dollar allocations increase.

Government should also establish an advisory board of eminent persons separate from the Defence Department and reporting to the Prime Minister, like the US Defence Policy Board, to advise on required military capabilities, assess progress and risks in equipment delivery, identify efficiencies in spending and promote speedy innovation. Australia's defence situation is too difficult to leave planning and implementation just to the Defence Department and the Australian Defence Force. We need some of the nation's smartest minds to help drive better, more innovative results.

Finally, we recommend that Defence must be radically overhauled to stress openness and accountability in delivering equipment projects. Government must itself commit to greater openness in policy making and not hide behind false claims of the need for secrecy.

Recommendations

RECOMMENDATION 19: The parliamentary Committee on Foreign Affairs, Defence and Trade must produce an annual inquiry into Australia's regional threat environment, recommending necessary policy steps, including on the scale of defence spending needed to address our worsening strategic environment.

RECOMMENDATION 20: Australia must lift its performance as a contributor to global security. The Government should engage the incoming US administration to discuss burden sharing on both defence spending and capabilities.

RECOMMENDATION 21: The Commonwealth government must put the Defence budget on a rapid trajectory to reach 3% of GDP in the next term of government.

RECOMMENDATION 22: The Defence budget should be regularly reviewed and increased to compensate for the effects of inflation, particularly on military systems.

RECOMMENDATION 23: The Commonwealth government should establish an advisory board of eminent persons separate from the Defence Department and reporting to the Prime Minister, along the lines of the US Defence Policy Board, to advise on required military capabilities, assess progress and risks in equipment delivery, identify efficiencies in spending and promote speedy innovation.

RECOMMENDATION 24: Defence must be radically overhauled to stress openness and accountability in delivering equipment projects. Government must itself commit to greater openness in policy making and not hide behind false claims of the need for secrecy.

Introduction

How much should Australia spend on its defence and security? Australia's leaders have answered that question very differently over time. Quite rightly, they have been reluctant to increase defence spending in the absence of a clear threat. That's because spending on defence takes productive resources from the rest of the economy and devotes them to activities that have limited economic benefit at the national level. Even if individuals and particular companies or regions may benefit, that comes at the cost of reduced public spending on other services and higher taxation.

But the economic benefit of defence is very great—strong defence policies preserve peace and deter war. And peace is significantly cheaper than war. The human cost of war in lost and damaged lives can be massive. Moreover, the costs of war can extend for generations as survivors and their families endure pain, loss, and disruption.

The financial cost of wars is also huge. Australia's spending on defence in 1942-43 at the height of the Second World War, when our country was under direct attack, was equivalent to 34 per cent of GDP. That's similar to the 37 per cent of GDP that Ukraine is spending this year.[1]

On top of the direct spending there is the cost of rebuilding damaged and destroyed infrastructure. At the end of 2023, the World Bank estimated the cost of rebuilding Ukraine at US$486 billion, a figure that is increasing significantly after a further eleven months of war.[2] The cost of supporting US veterans from the wars that followed the 11 September 2001 terrorist attacks range into the trillions of dollars.[3]

Investing in peace with strong defence forces that strengthen deterrence is much more cost effective than waging war. But there's no simple calculus to determine how much spending in peacetime will prevent the need for substantially greater spending in war. The deterrent effect of defence spending is subjective and difficult to assess. It's hard to say how much military capability will deter an adversary from attacking us; they may be willing to pay a very high price to achieve their aims. History shows that enemies may miscalculate and attack us even if they end up losing.

But as our strategic situation worsens, as recent governments from both sides of politics agree, it is irresponsible to wish away hard decisions on defence spending.

1 Stockholm International Peace Research Institute, 'SIPRI Military Expenditure Database': https://www.sipri.org/databases/milex.

2 World Bank, 'Ukraine - Third Rapid Damage and Needs Assessment (RDNA3) : February 2022 - December 2023 (English),' 31 December 2023. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099021324115085807/p1801741bea12c012189ca16d95d8c2556a

3 Watson Institute for International & Public Affairs, Brown University, 'Cost of War,' https://watson.brown.edu/costsofwar/figures/2023/IraqWarCosts.

4.1 The historical trajectory of Australian defence spending

There are four consistent themes in Australian defence spending going back to Federation:

1. Australia never spends big on Defence until there is a war. We are used to relying on a powerful ally and make this an excuse for underinvesting in our own security.
2. We are bad at anticipating the need for additional defence spending until the crisis hits.
3. We stop spending as soon as possible after a conflict and return to minimal spending levels.
4. This means investment in defence is reactive rather than anticipatory. Overall, our defence efforts are not sufficient to deter potential adversaries.

None if this is to decry the battlefield heroism of our military personnel in past wars. Our point is that, before conflicts start, Commonwealth governments have always underinvested in our security. Over many wars our servicepeople have paid a high price for this national failing.

Australia has been able to get away with this because of our alliance with the United States. Menzies made the right call by making the ANZUS treaty the price of our participation in the Korean War. Our involvement in ANZUS has paid for itself by getting the US to extend nuclear deterrence over its Pacific allies so we have not needed to think about investing in nuclear weapons of our own. America's extended military reach into Asia has limited what our own defence forces have needed to do beyond tailored contributions to coalition operations.

Commonwealth governments since the 1950s have happily taken the benefit of American security, spent little on our own defence, and doubled down on this approach when strategic developments turned negative. Rather than the alliance compromising Australian sovereignty, the truth is that American taxpayers have been subsidising our sovereignty for decades.

Our story since the Second World War shows how we have enjoyed unparallelled peace and prosperity under this arrangement. With constant competition for public resources, it's almost universal that governments reduce defence spending in the absence of a clear, direct threat. From the 34 per cent peak in the Second World War, Australia's defence spending declined rapidly, but with the Cold War enduring it did not return to the extremely low pre-war levels of the 1930s.

Over the course of the Cold War until the fall of the Berlin Wall, defence spending averaged around 3 per cent of GDP. There were spikes during the Korean and Vietnam Wars but even during the 'cooler' stages of the Cold War, spending remained above 2 per cent and often hovered around 2.5 per cent.

With the end of the Cold War, the Commonwealth government, like many others, sought to harvest the 'peace dividend' and spending declined under governments of both sides of politics, often justified by ill-considered efficiency measures that stripped out defence-related human and industrial capability from both the public and private sectors. Australia's intervention in Timor-Leste was a near run thing that succeeded in large part because there was only limited armed resistance on the ground, and enjoyed substantial behind the scenes support from the US. The operation showed how far the ADF's capabilities had fallen but even that didn't fundamentally turn things around; defence spending as a percentage of GDP was lower at the end of John Howard's government than at the start.

The low point was reached in 2012-13 as the Gillard government sought—unsuccessfully—to return the budget to surplus after its heavy spending to weather the global financial crisis by cutting the defence budget. Defence spending fell to 1.59 per cent of GDP, the lowest point since before the Second World War. Defence's acquisition program was particularly hard hit, with scores of projects delayed, reduced, or cancelled—a phenomenon we have seen repeated in the wake of the Albanese government's *2023 Defence Strategic Review.*

By the 2010s, however, it was becoming clear that history had not ended with the fall of the Berlin Wall. Gruelling wars in the Middle East and central Asia continued and it was becoming increasingly clear that China would use its growing economic and military power to reshape the regional and global order in its own interests, if necessary by force. On coming to power, the Abbott government increased defence spending and made a commitment to reach 2 per cent of GDP by 2020-21, which it broadly met.[4]

The Coalition government did not, however, tie defence spending to 2 per cent of GDP. In its 2016 Defence White Paper, it set out a ten-year funding trajectory that aimed to grow the defence budget well past 2 per cent. Despite the impact of the Covid-19 pandemic on the government's bottom line, it adhered to that funding line in its *2020 Defence Strategic Update* and extended it for a further four years out to 2029-30.

The Coalition and Labor governments have largely delivered the dollars set out in those ten-year plans. Nevertheless, Defence's funding has stagnated around 2 per cent of GDP or just below and it has not risen above that level. That's because nominal GDP has grown rapidly due to high rates of inflation since the pandemic. Defence's funding, however, has remained on the trajectory set out in the 2016 White Paper and 2020 Defence Strategic Update, so while it has received the number of dollars set out in those documents, it's a smaller percentage of GDP than originally planned. And, most crucially, the buying power of those dollars has declined due to inflation.

The impact of inflation on the defence budget has been considerable, wiping out much of the planned real growth built into the ten-year funding line. For example, in 2022-23 nominal growth of 8.3 per cent translated into real growth of only 1.2 per cent due to high inflation. The cumulative effect of several years of inflation well above the longer-term average of 2-to-3 per cent means that Defence has lost significant buying power by as much as $4 billion to $5 billion per year.

Spending constraints mean that it is hardly surprising that we are getting less defence "bang for the buck" and that Defence has spent much of the last few years cutting its acquisition programs to accommodate spending on AUKUS and deal with inflation. And note that, even at 2 per cent of GDP, what that buys is a small ADF. In other words, the alliance with the US rather than military self-sufficiency is the bedrock of our security.

4 It fell just short at 1.98 per cent but hit 2.01 per cent the following year.

The lesson from history is that Australia must get ahead of the threat curve and move beyond a reactive approach to defence spending; Defence spending must be proactive to provide a deterrent. Due to the intense competition for public dollars it's crucial to bring the Australian public along in this approach. It is the responsibility of the government to lead this conversation, explaining to the public why this investment is needed. Threat perception drives spending patterns; a public that doesn't understand our strategic environment and the rapidly developing threats in it will not support additional spending.

The Albanese government has failed to explain Australia's worsening strategic outlook. It seems reluctant to do so because there is an over-riding priority to claim that the government has "stabilised" relations with China. Our view is that Beijing's strategic intent to be the dominant military power in the Indo-Pacific has not changed even though some trade embargos have been lifted on Australian commodity exports to China.

The next government needs to do a much better job explaining the strategic outlook to the Australian people. Other entities can contribute to this dialogue—but this has to come from outside Defence and other agencies because they (tragically) shape their advice to government into the limited funding envelope the government has itself set. We think parliament must help raise the public level of discussion about security. Parliamentary committees have the responsibility to examine our strategic circumstances and how the government is addressing them in order identify any shortfalls between them. Parliament should also be recommending measures to address those gaps.

An empowered parliamentary committee inquiry would add value, not least by forcing members of parliament to examine and take ownership of these issues. We see this as a standing responsibility of the parliament and not a one-off requirement. Therefore, we recommend that the Joint Committee on Foreign Affairs, Defence and Trade should produce an annual inquiry on our regional threat environment recommending appropriate responses, including the scale of defence spending needed to address that environment.

RECOMMENDATION 19: Parliament's Committee on Foreign Affairs, Defence and Trade must produce an annual inquiry into Australia's regional threat environment, recommending necessary policy steps, including on the scale of defence spending needed to address our worsening strategic environment.

4.2 Is 2% of GDP appropriate or just free riding?

It is often claimed that spending 2 per cent of GDP on defence is "about" the right number for countries that are serious about preserving their own security and contributing to regional peace and stability. For example, the members of NATO set 2 per cent as a benchmark after the first Russian intervention in Ukraine in 2014. After a slow start, most of them are now actually hitting it, spurred on by the second Russian invasion of Ukraine in 2022.

But there's nothing carved in stone that says 2 per cent is the right number. It certainly doesn't guarantee a country's security. Countries that face serious threats spend more. For example, Israel spends over 5 per cent and Poland, now NATO's frontline directly facing Russia, has increased spending to over 4 per cent.[5]

Moreover, NATO's 2 per cent of GDP benchmark is not a good model for us because Australia and the non-US members of NATO are in a vastly different strategic position. Certainly, both Australia and the non-US members of NATO share a robust alliance with the US and benefit from the US spending 3.38 per cent of the world's biggest economy on defence. That US component alone increases NATO's defence spending from US$507 billion to US$1,474 billion and from 2.02 per cent of GDP to 2.71 per cent averaged across all 32 members.

But if we put the US to the side, it becomes quickly apparent that the strategic situations of Australia and the non-US members of NATO are very different. The non-US members of NATO are collectively spending 2.02 per cent of GDP on defence, which still generates an estimated US$507 billion in defence spending. They face one clear threat: Vladimir Putin's aggressive Russia. However, Russia is spending only around a quarter of this sum, at US$126 billion. Much of this is recent growth (now around 6% of GDP) to conduct its war in Ukraine and arguably Russia is losing military capability faster than it can generate it.

Moreover, the GDP of the non-US members of NATO is around US$25.3 trillion, over 12 times greater than Russia's. Even if we use GDP by Purchasing Power Parity (PPP), which considers Russia's greater domestic buying power, the GDP of the non-US members of NATO is still 6.5 times greater than Russia's. [6]

So the strategic position of any non-US member country of NATO is quite different from Australia's. Every NATO country is in a close alliance with nine of the twenty largest economies in the world, six of which alone are larger than Russia's.[7] Even without the US, NATO has far greater strategic weight than Russia.

5 Defence spending figures for NATO countries are taken from NATO's own figures: NATO Public Diplomacy Division, 'Press Release: Defence Expenditure of NATO Countries (2014-2024),' https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf. Figures for non-NATO countries are taken from the Stockholm International Peace Research Institute's Military Expenditure Database: https://www.sipri.org/databases/milex.

6 Following Donald Trump's election as President of the United States in November 2024, the future of US support for Ukraine is uncertain, as is Ukraine's ability to continue to resist Russia's occupation and annexation of Ukrainian territory. If Ukraine is to continue to fight, non-US NATO members will need to substantially increase their support. However, in light of the size of Europe's economy compared to Russia, even a few tenths of a percent of Europe's GDP dedicated to supporting Ukraine would go a long way to replacing US support, should it be reduced or withdrawn. For example, an increase of 0.2% of GDP dedicated to supporting Ukraine, growing overall non-US NATO defence spending from around 2.0% to 2.2% of GDP, would generate around US$50 billion per year.

7 Granted only the US and Germany are larger in PPP terms.

NATO represents the gold standard in alliances, so much so that it continues to grow, despite—or better said, because of—Russia justifying its invasion of Ukraine on the grounds of the latter's desire to join the alliance. Sweden and Finland, which had long demurred over becoming members, cast any hesitation aside and became members after the Russian invasion of Ukraine. For democracies, there is safety in numbers.

Moreover, because of the close and robust nature of the NATO alliance, individual members can rely on other members to generate capabilities that will be used to benefit all members. Therefore, each country does not need to duplicate every conceivable capability, promoting efficiency.

Unlike the European members of NATO Australia has only two formal treaty allies, the US and New Zealand. While we have the US in common with the European NATO members, we simply can't say that New Zealand with the 52nd largest GDP in the world and a defence budget of around US$3 billion has similar strategic or military weight to the European members of NATO. Moreover, China, the country that poses the greatest security concern to Australia, has a GDP nine times greater than Russia's and a vastly more capable military.

When we compare our situation to other democracies such as NATO members, it's difficult to conclude that a defence-spending benchmark of 2 per cent of GDP is all that Australia plausibly needs to spend for its security.

Certainly, Australia has good relations, and indeed strengthening military ties, with countries in our near region, but they are not formal treaty allies and that matters. Moreover, regional countries' economies are growing relative to Australia's and along with it, their military power. Indonesia's GDP is closing in on Australia's and in PPP terms has greatly surpassed it. That is of course a potential opportunity for Australia and by no means an inevitable threat. But strategic analysts assess threat as the combination of capability and intent. Not only are regional capabilities steadily growing but intent—how a country employs those capabilities—can change rapidly. Assuming those regional capabilities will be used to support Australia is not a sound basis for strategic planning.

Moreover, unlike NATO countries who can rely on allies to generate and deploy military capabilities on their behalf, reducing the need for all members to have all capabilities, Australia has limited options in this regard. We rely on the US for extended nuclear deterrence, but would we rely on another country for submarines or air combat aircraft?

It's important to make our assumptions around burden sharing with the US explicit. The new Trump administration will lose no time in pressing America's allies to do more, particularly those like Australia that are only spending around 2 per cent of GDP on defence but rely on the US spending 3-to-3.5 per cent for their security. The US public that returned Trump to the White House has run out of patience with freeloaders.

Despite AUKUS, Australia will not be exempt, particularly when it is difficult to point to any significant increases in Australian military capability in the 2020s by our current planned defence spending. So we should do more. This is not because of Trump—as we've discussed there are pressing strategic reasons for this—but his return to the White House will shine a spotlight on our underperformance.[8] We are no longer in the post-Cold War era of Pax Americana. We need to do more as a contribution to alliance and global security. It makes sense for us to think about that challenge by discussing options with our closest partner, the US.

Australia has always intelligently managed its alliance relationship with the US by being on the front foot—by starting strategic conversations (like creating ANZUS or AUKUS) rather than by waiting for the US to come to us. Indeed, coordinated burden sharing around investment in emergent, disruptive technologies is the underlying logic of AUKUS.

The next Commonwealth government will have nothing to lose and a lot to gain by opening a discussion around burden sharing both in terms of spending and in terms of which capabilities Australia should hold as sovereign capabilities and which it can 'offshore' to the US. This is also a way for the next government to have a discussion with the Australian public on necessary responses to our worsening strategic outlook. A failure to do this cedes the debate to our home-grown appeasers who will never acknowledge a threat until it has materialised (if then).

RECOMMENDATION 20: Australia must lift its performance as a contributor to global security. The Government should engage the incoming US administration to discuss burden sharing on both defence spending and capabilities.

8 Peter Jennings, 'The Hulk is back, and he won't like our defence weakness,' *The Australian*, 7 November 2024, https://www.ussc.edu.au/japan-s-defence-spending-drivers-and-headwinds

4.3 What if we just keep ahead of inflation?

One might argue that if the Defence budget continues to grow in real terms, just keeping its nose ahead of inflation, it would be sufficient to deliver a steadily improving ADF that could meet our current strategic circumstances. Unfortunately, that it not the case. Defence needs funding increases greater than inflation just to tread water. Significant funding increases well beyond inflation are needed to increase our military capability.

We should note that the Australian economy also grows in real terms. That's why the defence budget hasn't really grown as percentage of GDP over the long term even though it has far outstripped inflation. 1969-70 was the last year the defence budget exceeded 3% of GDP (at 3.25%) – significantly more than this year's predicted 2.02 per cent—but it was only $16 billion when adjusted for inflation, less than one-third of this year's $55.7 billion defence budget. So, while the defence budget has grown 281 per cent in real terms over the past fifty years, the ADF has broadly remained the same size (or indeed become smaller) as we discussed in earlier papers in this series.

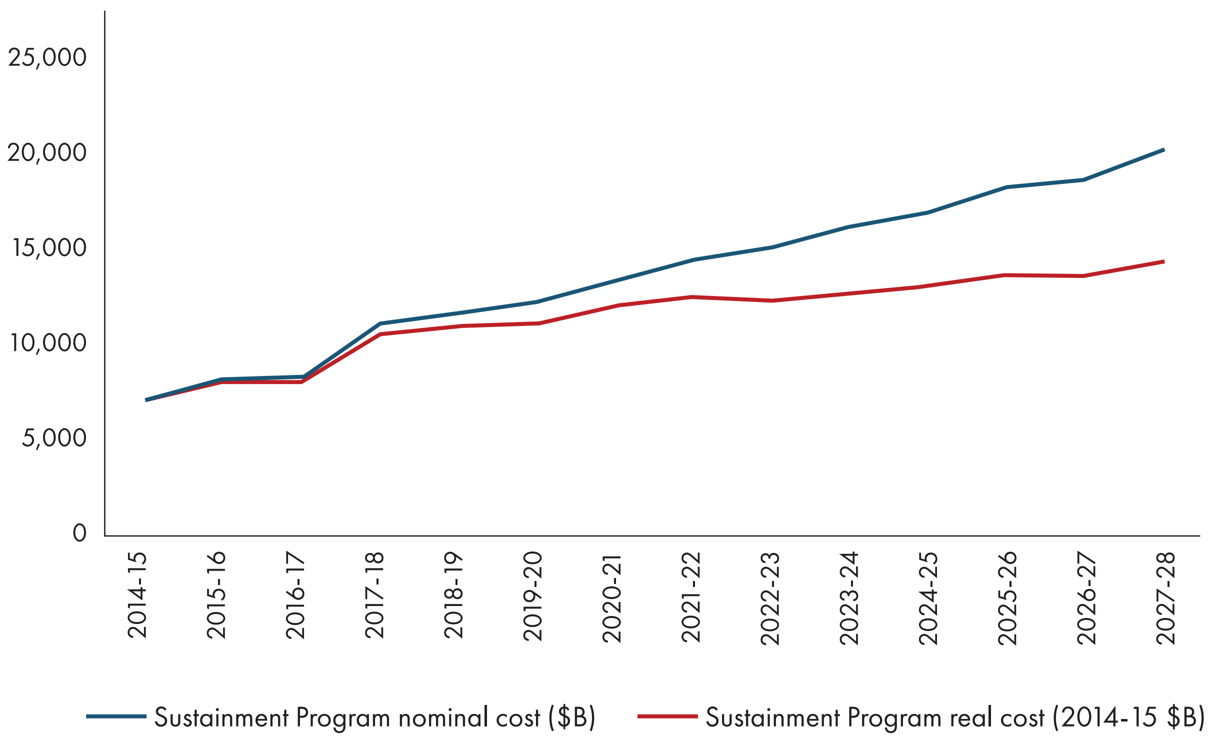
Keeping up with inflation isn't enough, because the cost of people and military equipment grows at a much faster rate than inflation in the broader economy. Studies of the cost of military equipment show that cost growth in key equipment such as ships and aircraft far outstrips inflation and exhibits exponential growth. Military aircraft cost tens of thousands of dollars in the Second World War; they now cost hundreds of millions. That's driven in part by size as military platforms get bigger, but primarily by complexity. As technological threats to the survival of military systems proliferate, so does the need for defensive systems to protect them and their precious human cargo, creating an exponential increase in complexity. They need to incorporate more sub-systems such as sensors, communications systems, processors and weapons. Those sub-systems are held together by more and more lines of software code. That drives the exponential increase in cost.

This is a phenomenon we can see occurring right in front of us in the increasing cost of Australian warships. The eight 3,600 tonne ANZAC-class frigates were delivered between 1996 and 2006 for around $5.4 billion, or around $675 million each. The three 7,000-tonne Hobart-class destroyers were delivered between 2017 and 2020 for around $8.5 billion, or around $2.8 billion each. The six 10,000 tonne Hunter-class frigates recently ordered for delivery from 2032 will likely cost over $45 billion, or around $7.5 billion each.

This phenomenon can also be seen in workforce and operating costs. Personnel costs have been steadily rising in real terms over the past decade even though ADF personnel numbers have stagnated. Should the ADF achieve anything like its planned 30 per cent increase in personnel numbers, the budget impact will be significant.

The operating cost of Defence's systems (sustainment, to use its terminology) has increased even faster, doubling in real terms over the past decade. That means it's growing at a far greater rate than inflation. And it's hard to screw down sustainment costs; ADF personnel need to train, units need to exercise, and equipment needs to be kept ready to deploy. Ultimately there's no point acquiring equipment we aren't going to use.

FIGURE 1: INCREASE IN ADF SUSTAINMENT COSTS, 2014-15 TO 2027-28

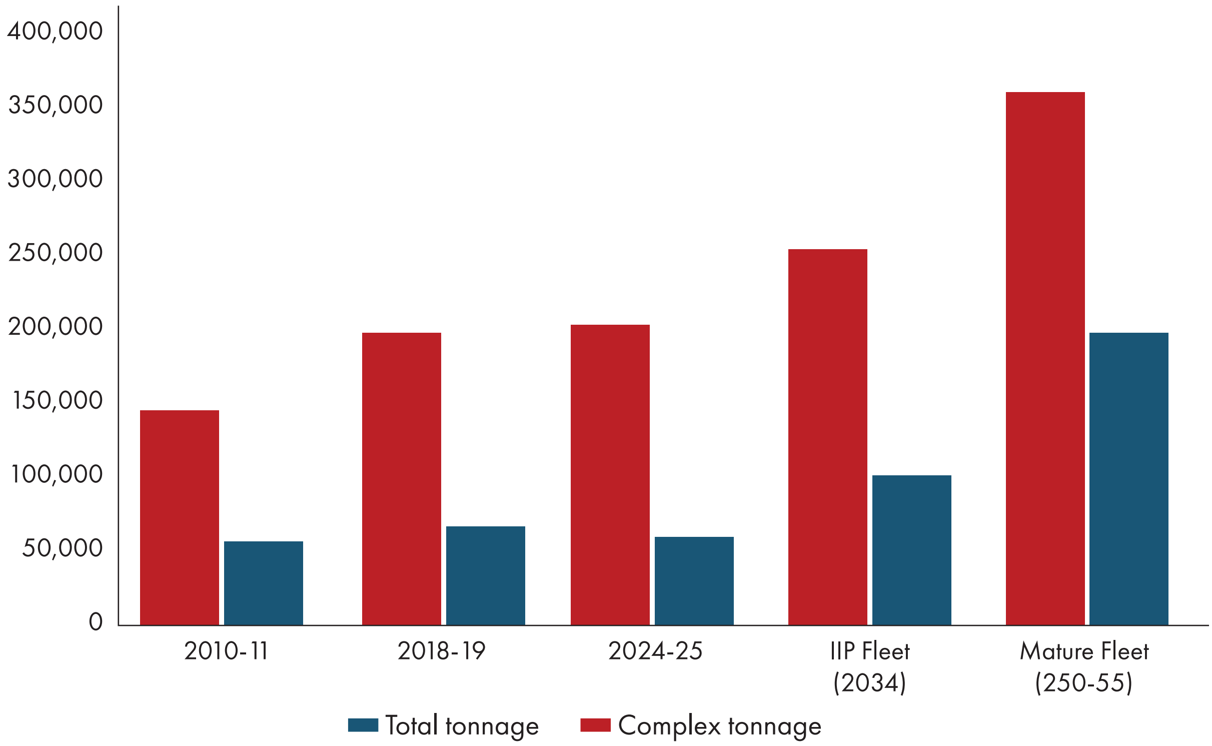


Source: Department of Defence portfolio budget statements

As with acquisition costs, sustainment costs are driven by size and complexity. And with large increases in the size and complexity of ADF systems such as ships, submarines, aircraft and armoured vehicles built into its acquisition plans, that rising cost trajectory will continue.

As an example, the growth in the tonnage of the RAN, based on Defence's public acquisition plans, is set out in Figure 2 below. Not only is the total tonnage growing significantly, but the growth is particularly marked in what we are calling 'complex' tonnes, namely submarines and surface combatants. Those complex tonnes are more than tripling in number from where we are now. That's concerning because each of those tonnes is likely to be at least as expensive in real terms as the one it is replacing.

FIGURE 2: THE GROWING TONNAGE OF THE ROYAL AUSTRALIAN NAVY



Source: Department of Defence documents

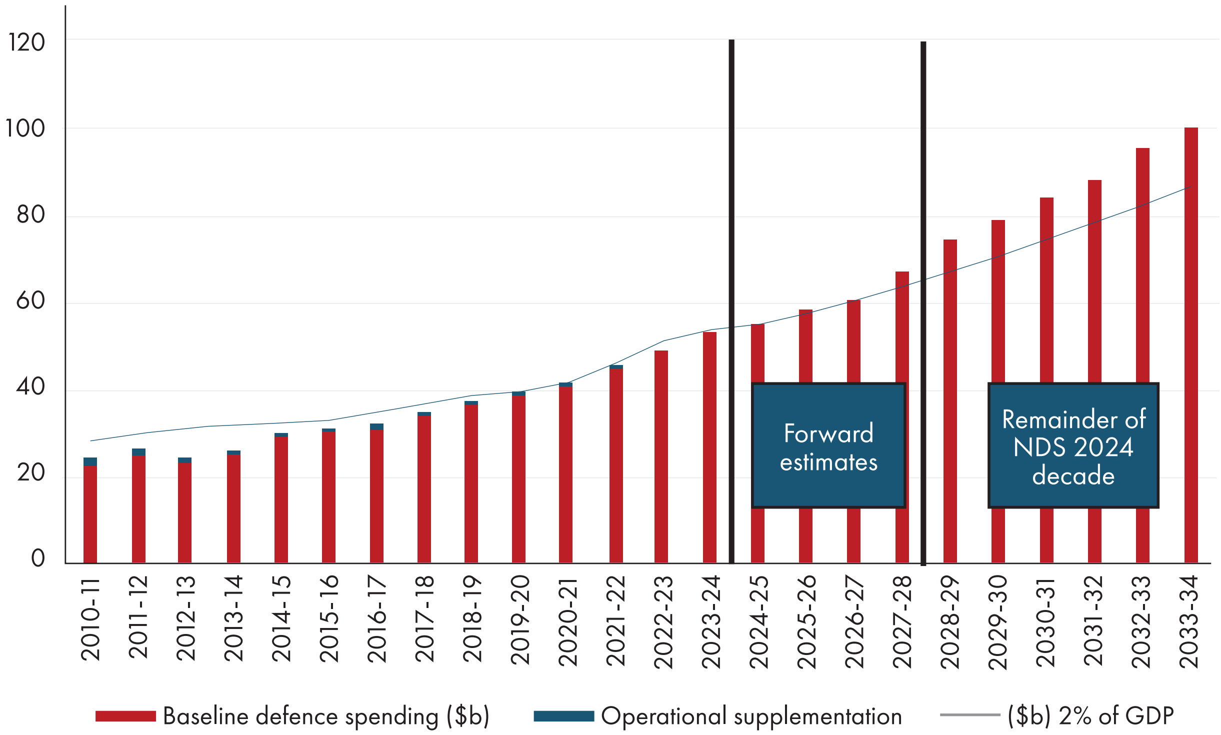
For example, the annual sustainment cost of the Anzac frigate fleet over the past five years averages out at around $46.1 million per ship or $64,000 per tonne. The Hobart-class destroyers, which are a generation more advanced, are around twice that. They cost around $93.1 million per ship (when we factor in the cost of their advanced Aegis combat system), or $66,500 per tonne. Based on this data, it's reasonable to assume that the planned combatant fleet at three times the size of the current fleet will cost at least three times as much to operate.

What this means is if we want significant increases in the size or capability of the ADF, they need to be accompanied by more than mere tweaks to its funding. A few tenths of a percentage point of GDP will not deliver a fundamentally more powerful force.

4.4 Why the current Defence funding line falls well short

The government's defence funding plan is set out in its 2024 National Defence Strategy. Importantly, it sets out a 10-year funding line, continuing the practice started by the previous government in its 2016 Defence White Paper. That plan is set out in Figure 3 below, along with historical funding over the past decade or so.

FIGURE 3: DEFENCE PORTFOLIO FUNDING 2010-11 TO 2033-34



Source: Defence portfolio budget statements

Certainly, that trajectory looks good on paper. It continues the past ten years of growth and takes defence funding from $55.7 billion this year to $100.4 billion by 2033-34. Assuming inflation returns to something like the longer-term average of between 2 and 3%, that trajectory will deliver significant real growth. According to the Government's predictions (noting that predicting GDP is a particularly fraught activity, particularly ten years out), that figure will reach around 2.3 per cent of GDP.

But the picture is not as rosy as it may appear. While that row of columns marching into the future looks impressive, as does the ramp up as a percentage of GDP, looks can be deceiving. Several key factors mean that funding will not be sufficient for the force set out in the latest Defence Integrated Investment Program, let alone the force Australia needs.

First, remember that the current defence funding line is a relic of the previous government's 2016 Defence White Paper. That document set out a ten-year funding line that steadily increased in real terms. Both the current and previous governments have largely delivered that funding. But the 2016 White Paper was a product of its time, for example when China's true intentions around its willingness to enforce its illegal claims on the South China Sea were only just becoming apparent. The 2016 White Paper judged, for example, that "major conflict between the United States and China is unlikely" [2.16].

The bi-partisan assessment of Australia's worsening security situation has moved on considerably from that document. The 2020 Defence Strategic Update acknowledged our rapidly deteriorating strategic circumstances and assessed that Australia no longer had 10-years of warning to prepare for potential regional conflict. But the DSU didn't provide any near-term increase to the Defence funding line, and merely extended the outer years for a further four years. That meant no immediate increases to capability, worsening the growing disconnect between assessments of our increasingly dire strategic situation and the defence funding that was meant to address it. Moreover, the acquisition program that accompanied the DSU included more capabilities than there was money for – yet another disconnect between ambition and reality.

The result was that by the time the Albanese government commissioned its Defence Strategic Review led by Stephen Smith and Sir Angus Houston, Defence's acquisition plans were an 'exploding suitcase' – the wish list was considerably greater than the funding available.[9] That's because the acquisition plan included not just replacements for existing capabilities (at significantly greater cost, as we have discussed), but entirely new capabilities such as air and missile defence. Step changes in capability require significantly increased funding, not small boosts.

The biggest step change of all, the AUKUS nuclear submarine program, required massively more funding than the amount that had been programmed for the cancelled Attack-class conventional submarines. The gap was over $30 billion just in the first decade (based on Defence's heroically optimistic AUKUS costings).

The DSR made some broad recommendations for Defence's force structure that were largely accepted by the Albanese government. But it did not address the fundamental underlying gap between our capability requirements and the funding needed to deliver them.

The Department of Defence spent nearly a year restructuring its acquisition plan to implement those recommendations. The Albanese government released its new Integrated Investment Plan along with its 2024 National Defence Strategy earlier this year. The NDS sets out funding increases on top of the previously planned funding line, adding $5.7 billion in the forward estimates (i.e., 2024-25 and the subsequent three years) and $50.3 billion over the coming decade out to 2023-24.

While that additional funding may sound like good news, the resulting plan is, in our view, not deliverable, despite the 'new' money set out in the National Defence Strategy. Even if it were, it doesn't deliver the force we need to credibly handle our strategic circumstances.

First, there is no compensation or adjustment for inflation which has eaten into the Defence budget's buying power, potentially reducing it by $4-5 billion per year. Defence is still starting in a big hole. Considering this year's Defence budget is $55.7 billion, those 'missing' funds will have a very real impact. Moreover, unless we experience significant deflation, that reduction in buying power continues into the future. In fact, that hole may consume the bulk of the new money over the decade.

9 Michael Shoebridge, *Marles' Defence Strategic Review—an exploding suitcase of challenges to resolve by March 2023*, ASPI, 17 August 2022, https://www.aspi.org.au/report/marles-defence-strategic-review

Second, there is virtually no new money until the last year of the forward estimates, which is three years away. The result is, given its funding for 2024-25 and the next two years, Defence will still be working with the same funding set out in the 2016 White Paper developed nearly a decade ago. The increasingly bleak strategic assessments set out in the 2020 Defence Strategic Update, the 2023 Defence Strategic Review and the 2024 National Defence Strategy have not changed that. In addition, much of the growth in spending over the forward estimates is in the form of contributions to the US and UK's submarine industrial base and does not deliver an increase to Australia's military capability over the coming decade.

That gets us to the third reason why the Albanese government's defence strategy fails to address our strategic outlook. Putting aside the impact of inflation, the government has assigned most of the new money to cover the submarine funding gap between what was programmed for the cancelled Attack-class conventional submarines – the French boats – and what is required for the nuclear submarine (SSN) program. The bulk of the rest goes on the front end of the new general purpose frigate program announced early in 2024 by the government to rapidly fill a looming naval capability gap as the Navy's current frigates age out. That leaves only $1 billion in new money for any other efforts to deliver any new capability sooner. That's $1 billion out of a $765 billion Defence budget over the decade.

Since there is no funding to address inflation or the pre-existing unaffordability of the plan, the only way for Defence to address the exploding suitcase has been to eject capabilities wholesale from its acquisition plans – the suitcase has indeed exploded. We discussed some of these in the second paper in this series. They include critical capabilities such as air and missile defence, whose loss is hard to reconcile with the NDS's assessment that distance no longer protects Australia from long-range missiles. Also gone are a long-planned increase to the Air Force's front line fighter aircraft and the logistics ships needed to support a large fleet and the Army's amphibious role.

In sum, a funding line that may hit 2.3 per cent of GDP does not deliver the force we need. Just as importantly, it doesn't deliver key new elements of the planned force until deep into the 2030s and beyond.

In effect the NDS makes a bet that major conflict in the Asia-Pacific either will not happen or, if it does, that Australia will remain immune from the consequences. Nothing in our reading of the strategic outlook gives rise to confidence that the Albanese government has made the right call. Its strategic judgement does, however, fall comfortably within the pattern of Australian defence planning since Federation, which is that we will ignore even obvious potential crises until such time as they have started.

Even assuming that the Albanese government's fundamental strategic bet is correct – that a large scale conflict is not likely – the resulting 2024 plan is still not deliverable during a period of troubled and contested peace despite the 'new' money set out in the National Defence Strategy. Worse, even if all the equipment projects could be paid for by the current budget, they do not deliver the force we need.

4.5 How much funding does Defence need?

The Defence budget requires additional funding to deliver three key categories of activities and capabilities.

The first is to be able to deliver the core capabilities set out in the current acquisition plan. Considering the growing size and complexity of systems in the current plan discussed above, which will drive significantly higher acquisition and sustainment costs, we have little confidence that the planned force can be delivered and operated within the NDS's funding line. Our scepticism is reinforced by Defence's poor track record in costing future capabilities accurately. In addition, this funding is needed to compensate for the loss of buying power caused by inflation over recent years. As discussed, this requirement could be in the order of $40-plus billion over the decade. This funding will also be required to pay for the planned 30 per cent growth in ADF workforce.

The second category consists of important capabilities that were cancelled, reduced or delayed as Defence sought to fit the planned force into the NDS's funding line. We discussed these in Paper 2 in this series. They include crucial capabilities which appear to have been removed from the acquisition plan for no other reason than lack of funding. They include:

- The removal of actual missiles that can provide air and missile defence.
- The cancellation of logistics ships to support maritime and amphibious operations.
- The cancellation of a long-planned additional squadron of fighter aircraft.
- Severe reductions to the number of Infantry Fighting Vehicles.
- Cancellation of sovereign space assets.

A list of cancellations, reductions and delays released by Defence (and reproduced in Paper 2) included the funding associated with each of these changes. They sum to a total of 'up to' $40.5 billion. Moreover, the list does not include ballistic missile defence that was budgeted in the 2020 Force Structure Plan at $15.8—23.7 billion (noting that much of this sat outside the financial decade) and medium-range ground-based air defence at $4.9-7.3 billion; both capabilities appear to have been removed completely from the program. Those bring the capability cuts to around $60-70 billion.[10] Restoring those capabilities to the acquisition plan will also require funding to operate them, in the order of 5 per cent of the acquisition cost per year.

In addition to these headline adjustments, there were large numbers of smaller measures not made public that constitute a 'death by a thousand cuts' and simply push problems further off into the future. The funding associated with those measures is not known.

We are not suggesting that every adjustment made to the investment program in the wake of the DSR should be automatically reversed. Rather we are indicating the scale of the cuts that were made to the planned force without clear strategic justification.

10 It is hard to comprehend how Defence could have developed and provided an acquisition plan that was at least $60-70 billion underfunded even without SSNs. The charitable explanation is that inflation has had a massive impact on Defence's buying power, but nevertheless, there is still a huge gap between aspiration and affordability.

We reiterate the following recommendations presented in Paper 2:

RECOMMENDATION 10 The Government must restore air and missile defence procurement plans that were cut in the April 2024 National Defence Strategy. Protecting Australia from missile and air attack cannot be regarded as a low priority that can be traded off in Defence's capability planning.

RECOMMENDATION 11 The Government must direct Defence to publicly report, no later than 100 days after the election, on the capability impact of deferrals, removals and reductions in the April 2024 National Defence Strategy. The government should then decide which equipment projects must be returned to actively funded programs in order to restore a capable ADF in the 2020s.

The third category of measures requiring funding are the measures we have discussed in previous papers that are intended to deliver the defence force Australia needs. These include:

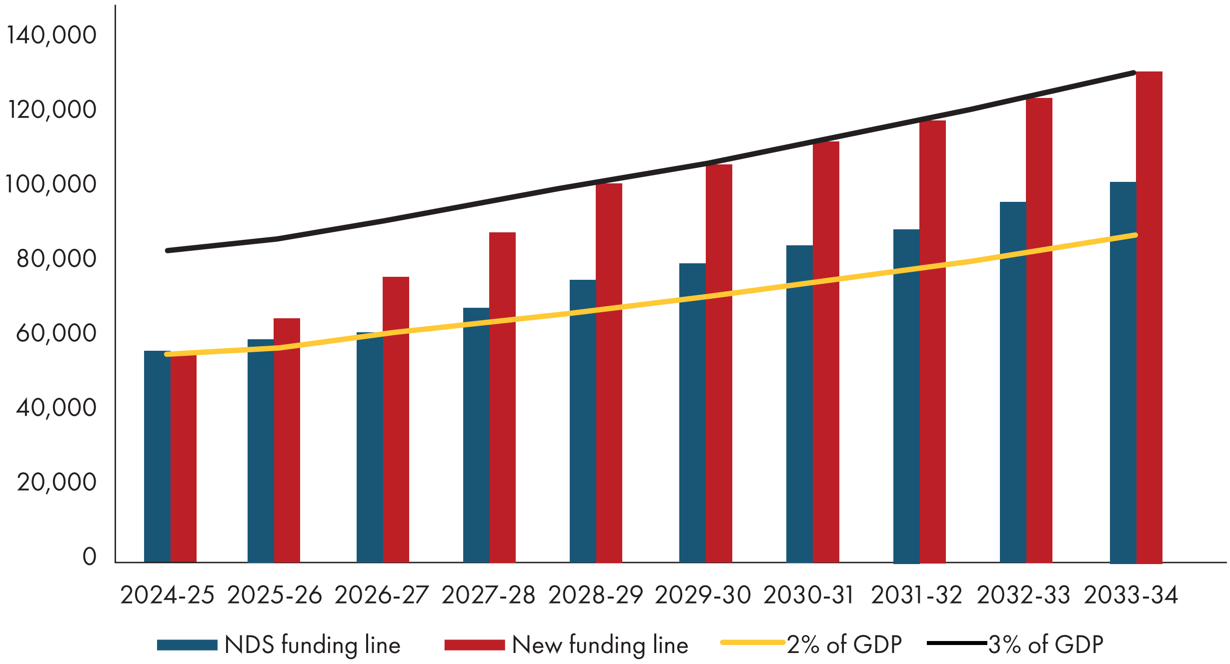
- Acquisition of a B-21 bomber capability. The cost would of course depend on the size of the fleet, however, we have previously costed the acquisition cost of a single squadron of twelve aircraft at $25-28 billion, which we are confident could enter service this financial decade. The additional operating and personnel costs would be around $1 billion per year.
- The rapid ramp up of Australian defence industry, in particular medium and small companies to design and deliver the consumables of modern conflict such as drones and munitions. We recommended in Paper 3 a specific funding line for this purpose starting with annual funding of $1 billion, but it would need to grow well beyond that. This does not mean committing to production at wartime levels, but it does require creating an industrial base that is capable of rapidly scaling. That will require not only increased funding in R&D but commencing a moderate level of production of these systems.
- Hardening northern infrastructure with both active (i.e., air and missile defence) and passive means as well as enhancing the ADF and its partners' ability to conduct operations and project force from northern Australia.
- More capable reserves capable of mobilising quickly. Larger numbers of reserves will require relatively modest funding, although there will be costs associated with equipping them properly.
- Measures to strengthen national resilience in energy and critical infrastructure that we will discuss in the next paper in this series. However, our recommended 3 per cent of GDP is only intended to cover Defence's share of this investment; it is not for the Defence portfolio to create a resilient power grid for the entire nation.

Addressing these three categories will require substantial additional funding. The exact amount will of course require detailed analysis, but we believe funding in the order of 3 per cent of GDP is necessary. Certainly, this is substantially more than the currently planned funding. But we are deceiving ourselves if we believe a fundamentally stronger, more robust and resilient ADF can be delivered without a step change in funding.

Just as important as the funding target is the trajectory to get there. We need to ramp up additional funding much faster than the current plan. As noted above, the NDS only includes $1 billion over the decade for anything other than SSNs and general-purpose frigates. If we no longer have warning time, as the 2020 Defence Strategic Update and the 2024 Defence Strategic Review both assess, we can't afford to wait years for increases in funding to deliver enhanced capability sometime in the 2030s. Ultimately, we need to start spending more on defence now.

Going from 2 per cent to 3 per cent overnight is not achievable, but we should still be ambitious. Figure 4 below sets out an indicative trajectory that grows by 0.25 per cent per year to achieve 3 per cent by 2028-29. This trajectory remains at 3 per cent, but just as 2 per cent is not the right number for all time, neither is 3 per cent. Should our region spiral further into instability and conflict, that level of spending should be increased.

FIGURE 4: A FOUR-YEAR GROWTH TRAJECTORY TO 3 PER CENT OF GDP



The proposed funding line would provide an additional $40.9 billion over the four years of the forward estimates (compared to the NDS funding line's $5.7 billion) and $206.9 billion over the decade (compared to $50.3 billion).

TABLE 1: ADDITIONAL DEFENCE FUNDING REQUIRED TO REACH AND STAY AT 3 PER CENT OF GDP BY 2028-29

	2024 -25	2025 -26	2026 -27	2027 -28	2028 -29	2029 -30	2030 -31	2031 -32	2032 -33	2033 -34	Decade total
NDS funding line ($b)	55.7	58.4	60.9	67.4	74.8	79.1	84.2	88.3	95.6	100.4	764.8
3% trajectory ($b)	55.7	64.5	75.7	87.4	100.4	105.8	111.4	117.3	123.5	130.0	971.7
Additional funding ($b)	0.0	6.1	14.7	20.0	25.6	26.7	27.2	29.0	27.9	29.6	206.9
Annual increase under 3% trajectory ($b)		15.8%	17.4%	15.6%	14.9%	5.3%	5.3%	5.3%	5.3%	5.3%	

Note: NDS funding line refers to the proposed funding levels in the 2024 National Defence Strategy.

Some might suggest that Defence would be hard pressed to spend that money, and indeed some senior Defence officials have told us that the Department couldn't spend more money, even if it got it. That mindset – and the organisational behaviours and processes it tolerates – is not acceptable in our current circumstances. Other countries are more ambitious and have achieved what these officials have said is impossible. Finland's defence spending has grown from 1.68 per cent to 2.41 per cent in two years. Poland's has grown from 2.23 per cent to 4.12 per cent over the same time. In its December 2022 National Security Strategy, the Japanese government announced its intent to increase defence spending from 1 per cent of GDP to 2 per cent by 2027.[11] This trajectory started with a 26 per cent budget increase from 2022 to 2023 and a further 17 per cent in the following year.[12]

Certainly, the initial ramp up will be challenging, with annual funding increases in the order of 15 per cent being required (and spent). Nevertheless, the constraint is not industry's ability to absorb additional funding and deliver capability – Australian defence companies are ready to ramp up production and deliver capability to the ADF, just as they have been doing for Ukraine. Rather, the bottleneck is Defence's inability to imagine a future in which it can accelerate its internal processes sufficiently to spend that funding. Defence could perhaps be inspired by its forebears who managed to increase defence spending from around 1.5 per cent of GDP in 1938-39 to 34 per cent in 1942-43 only four years later.

The funding line we propose certainly represents substantial additional funding and a major call on the public purse. Governments will not commitment to that level of funding lightly considering the opportunity cost to other services and programs such as health, aged care, disability support and education. But as we have noted, Australia averaged around 3 per cent of GDP during the Cold War. Considering that both major parties have assessed that our strategic circumstances are as dangerous as any time since World War 2, similar levels of spending to the Cold War are not merely appropriate but a national necessity.

RECOMMENDATION 21: The Commonwealth government must put the Defence budget on a rapid trajectory to reach 3% of GDP in the next term of government.

RECOMMENDATION 22: The Defence budget should be regularly reviewed and increased to compensate for the effects of inflation, particularly on military systems.

11 'National Security Strategy of Japan,' December 2022, https://www.cas.go.jp/jp/siryou/221216anzenhoshou/nss-e.pdf

12 Yuki Tatsumi, 'Japan's defence spending, Drivers and headwinds,' United States Studies Centre, 1 March 2024, https://www.ussc.edu.au/japan-s-defence-spending-drivers-and-headwinds; Xiao Liang and Nan Tian, 'The proposed hike in Japan's military expenditure,' Stockholm International Peace Research Institute, 2 February 2023, https://www.sipri.org/commentary/topical-backgrounder/2023/proposed-hike-japans-military-expenditure

4.6 How do we make sure it is spent well?

There's no point spending more on Defence if it is not spent well. We won't retrace the endless cycle of reviews and reports into Defence's record of underperformance, particularly in its delivery of capability. This vast literature includes independent reviews appointed by governments of both sides of politics, reports by parliamentary committees, the invaluable investigations by the Australian National Audit Office, and masses of analysis by think tanks and commentators.

The aggregated recommendations of these reviews and reports run to hundreds of pages. While all are well intentioned, their combined impact may well have made the problem worse, as they have contributed to Defence's culture of risk aversion and created even more requirements for processes that will supposedly identify and eliminate any risk in acquisition projects.

It's easy to despair after yet another report of a key project being years behind schedule, or the cost of a project doubling or tripling as it makes its slow journey from concept to capability. On the other hand, we can't sit and wait for perfection in project design and delivery before we increase spending to deliver the capabilities the ADF needs.

One thing we do know is that increasing process and paperwork in the vain hope of identifying and eliminating every conceivable risk has not succeeded and has only resulted in a system that is grinding to a halt under the weight of its own regulatory requirements. When you reach a situation where it's taking nearly two decades to deliver the first ship in the Hunter-class frigate program, it's time to admit the system is broken.[13]

But it is not only outside reviews and recommendations that are to blame. Unfortunately, one has to conclude that Defence is incapable of reforming itself and, regrettably, incapable of innovating, no matter what the state of our strategic outlook. In any case, gradual, incremental reform of a fundamentally broken system will not result in an agile system capable of rapidly delivering what the ADF requires, even if it could identify what the ADF requires.

If we are to accelerate delivery, greater accountability is necessary. This does not mean hanging people out to dry if things go wrong, but it does mean the government and public must know what projects are failing and why, so that action can be taken. Before any significant improvements in delivery are possible, the Government, parliament and public need to be able to exercise greater scrutiny over Defence's performance. What remains hidden can never be improved.

In sum, Defence must be held accountable for underdelivery. And there must be transparency to support accountability. We have two main recommendations to improve transparency and accountability.

First, the Government needs advice on military strategy and the performance of the Department of Defence from sources other than the Department itself. The Chief of the Defence Force is the government's principle military adviser. We are not suggesting that any entity should come between the Government and the CDF; it certainly should not have any role in the conduct of military operations. However, the government does need access to other voices that can speak with experience and authority. Those voices may indeed endorse the advice that the government receives from Defence. At other times, however, alternative viewpoints will be necessary even if they are critical of the Department's performance.

13 The Defence Strategic Review did in fact admit that the system is broken with its assessment that it was 'not fit for purpose,' nevertheless we are still continuing with such failed programs.

There are many potential models for providing this input. It is crucial that whatever body is established, it has access both to the government as well as to Defence's data. Defence's tried and tested tactics of avoiding disclosure due to national security classifications or commercial sensitivities will not apply.

One model that we believe would have impact is the US Defense Policy Board. The mission of the DPB states:

> The Board, through the Under Secretary of Defense for Policy (USD(P)), shall provide the Secretary of Defense and the Deputy Secretary of Defense, independent, informed advice and opinions concerning matters of defense policy in response to specific tasks from the Secretary of Defense, the Deputy Secretary of Defense, or the USD(P), as set out in paragraph four of our charter.

That paragraph states:

> The DPB shall focus on matters pertaining to (a) issues central to strategic Department of Defense (DoD) planning; (b) policy implications of U.S. force structure and modernization on DoD's ability to execute U.S. defense strategy; (c) U.S. regional defense policies; and (d) other defense policy and national security issues of special interest to the DoD, as determined by the Secretary of Defense, the Deputy Secretary of Defense, or the Under Secretary of Defense for Policy.[14]

A key difference in the Australian context is that the board would need to report to the Prime Minister as well as the Minister for Defence. The way our political system has developed over the last few decades, nothing substantial in policy development happens unless the Prime Minister personally drives the process. If this leaves the Defence Minister as an implementor rather than a driver of policy, so be it.

RECOMMENDATION 23: The Commonwealth government should establish an advisory board of eminent persons separate from the Defence Department and reporting to the Prime Minister, along the lines of the US Defense Policy Board, to advise on required military capabilities, assess progress and risks in equipment delivery, identify efficiencies in spending and promote speedy innovation.

Our second recommendation for strengthening transparency and accountability is that Defence must disclose more information about its internal workings, including budgets and project performance. Opposition parties talk a good game on enhancing transparency, but once they are in office those sentiments evaporate. After all, sharing information with the public by default means sharing information with the opposition, the last thing any government wants to do. And the Department has no interest in sharing any more information than it is required to by law. Even then, Defence has a poor track record; it's easy to use claims of national security or commercial confidentiality to refuse to release information that is simply inconvenient or embarrassing.

Unlike the US, where Congress rigorously insists on maintaining its prerogatives as a separate branch of government and passes legislation directing the Administration to disclose information or provide reports on defence initiatives and programs, parliament is largely controlled here by the government, which as we have noted, has no interest in disclosing more than a bare minimum of information. The exception is the Senate in estimates hearings or its ability to make Senate orders for information. But in the absence of the routine disclosure of information, it's difficult for senators to even know what questions they should be asking.

14 https://policy.defense.gov/OUSDP-Offices/Defense-Policy-Board/

Naturally, the Department believes it is releasing copious amounts of information. Its annual report is hundreds of pages long, yet this is largely a grab bag of historical requirements on the Department to disclose particular pieces of information. But one can read the entire document and still have no idea about how the Department is performing in its core business of conducting operations.

It's time to reset the Department's disclosure obligations. The US Department of Defense discloses far more information. In fact, any analyst who wants to understand what is going on inside the Australian Department of Defence starts by looking at US information.

This would include information on all the Department's projects over a certain threshold, say $10 million, not just the small subset that makes it into the Portfolio Budget Statements Top 30 list. This information would include budget information as well as schedule performance. Importantly, this would include not just military equipment projects but also information technology projects, whose chronic underperformance is the Department's dirty, unreported secret.

The amount of information included in public versions of the Department's acquisition program (variously known as the Defence Capability Plan, the Force Structure Plan and the Integrated Investment Plan) has declined dramatically over the past decade to the point that it doesn't even contain basic information such as project names and numbers. This decline is broadly lamented by the people who have to deliver these plans, namely defence industry. How can they plan to deliver in the absence of useful information? How can Defence be held accountable if nobody knows what Defence is planning to acquire and by when?

Greater disclosure would also depoliticise announcements. Now project approvals are announced at the government's pleasure, meaning some are not announced at all and announcements that do occur focus on issues such as jobs rather than capability, schedule, and budget. A process focused on accountability would require the Minister to announce all project approvals within one month of approval and include relevant capability, cost and schedule information that the Department can be held accountable to.

We note that Defence's disclosure obligations are in many ways less stringent than publicly traded companies, a particularly strange thing in a democracy.

The Department will not release more information than it is directed to by the government. The government must take the lead here. Much can be done by simple fiat from the relevant ministers. However we would also recommend a non-partisan working group consisting of experts and industry that can recommend to ministers which information should and can be disclosed to enhance disclosure and support industry. The starting assumption is that the working group's recommendations will be implemented. This working group could be the Defence Policy Board entity in our previous recommendation. It's guiding philosophy must be that greater transparency is a good thing and can only improve performance and delivery.

RECOMMENDATION 24: Defence must be radically overhauled to stress openness and accountability in delivering equipment projects. Government must itself commit to greater openness in policy making and not hide behind false claims of the need for secrecy.

In Paper 5 of this series we expand our discussion beyond defence to broader issues of national security and resilience.

APPENDIX A
The price for deterring war is far better than the alternative

> *For hundreds of miles, for thousands, there was not a standing or living object to be seen. Every town was flat, every city. There were no barns. There was no machinery. There were no stations, no water-towers. There was not a solitary telegraph-pole left standing in all that vast landscape, and broad swathes of forest had been cut down all along the line as a protection against ambush by partisans.*

This paper argues that Australia must rapidly increase its defence budget to 3 per cent of GDP. That is a lot of money. But if it helps avoid the outcome described above, it will have been an investment worth every cent.

The above depiction was from an eyewitness travelling by train through a recently liberated section of the Eastern Front during World War II. The devastation caused to life and property as the military battle lines passed over farms, villages, and houses was described by Winston Churchill as the "hot rake of war". The hot rake passed over large parts of Eastern Europe at least twice during World War II, as first the Germans invaded, and were then expelled. The result was to entirely denude vast swathes of territory of all buildings, animals, crops, people, even trees. The Eastern Front in 1941-45 saw some of the most intense and destructive combat in history. The armies were the largest ever, equipped with the destructive firepower of the industrial age, and the methods of war adopted were barbarous, infused with the totalitarian ideologies of the two combatants.

What price would a nation pay to avoid such a calamity?

The enormous material, economic, and human costs of war make peacetime concerns and penny-pinching seem trivial. 3 per cent of GDP is a rounding error compared to the enormous costs of fighting an existential war. As this paper identifies, Australia's expenditure on defence was an enormous 34 percent of GDP at our most vulnerable, when under attack from the Japanese in 1942-43. In 1944, the United States was spending 45 per cent of GDP on defence and Germany an unfathomable 75 per cent.

But there is no precise level of military capability and defence spending that can guarantee the calamitous costs of a war can be avoided. Increased defence capabilities can logically help deter aggression by decreasing the chance an aggressor can achieve their goals through military means, and by increasing the likely costs an aggressor will occur in trying. However, there is no magical formula for determining how much a nation must spend to deter an aggressor. Some potential aggressors will be easier to deter than others, depending on their attitude, objectives and risk appetite.

But how much a nation invests in deterrence should be informed by both the *threats* it faces and the likely *costs* it will incur if it must fight a war. Like taking out an insurance policy, the higher the threat and the higher the costs, the higher the premium a nation should be willing to pay to prevent that from happening.

Neither of these considerations are easy to calculate. But regarding threats, it is now a bipartisan position in Australia that we face the most challenging strategic environment since World War II. Regarding the costs of war, that is even harder to calculate in advance, but not impossible to reasonably predict likely future trends.

The trends suggest longer and more costly wars in the future than those of recent decades.

Not all wars are as catastrophic and costly as the Eastern Front during World War II, and as this series has identified, the wars that Australia has been involved in since 1945 have been smaller wars of choice against technologically inferior foes. Expensive, yes, but not cripplingly so. But changing geographic, political, technological, and psychological factors suggest that a possible future war will be far more costly.

For example, if a country involved in a war is attacked directly it will suffer more in human and material terms than it would if merely sending an expeditionary army to fight far away. If a war is fought between nation states, especially powerful large nations, it will generally more costly and damaging than a peace keeping or counter terrorism operation. And an existential war, in which one or both sides face complete destruction, is liable to be more intense than limited wars of choice.

All these factors suggest that any war Australia might be forced to wage in the near future will be far costlier than those we have fought since World War II. New long-range missile, drone, and cyber technology has eliminated much of the protection offered to Australia by our remote geography. The Russia-Ukraine war, the war in the Middle East (which has seen Israel and Iran directly attack each other), and China's bellicosity in the South China Sea, all suggest a return to open conflict between nation states in ways not seen since World War II. And Ukraine, Israel and Taiwan are (or might be in the case of Taiwan) fighting for their national survival. These are not wars of choice.

But just as important as any of these factors in influencing how costly a war will be is simply how long a war will be fought. A short war will almost certainly be less costly than a long, grueling war of attrition. And the new technologies appearing on today's battlefields make long wars of attrition far more likely.

Cheap but precise artillery and missile systems and various armed and unarmed combat drones appear to have two key features. First, they tend to give an asymmetric advantage to even small military forces so that they can impose disproportionate costs and damage on larger forces. This has been seen in Ukraine, where the smaller and notionally less well-equipped defenders have imposed such damage that the Russian assault has been ground to a halt and stalemate. This is despite Russia being substantially better equipped with more traditional military gear like tanks and other armored fighting vehicles, artillery tubes, helicopters, and warplanes.

This asymmetry has been even more dramatically demonstrated in the Black Sea and Red Sea where Ukraine and the Houthis rebels of Yemen have been able to achieve significant naval victories despite not even having a navy of their own. Cheap drones and missiles are such a threat to expensive surface combatant vessels that they have been able to prevent the Russian Fleet from operating in the Black Sea, most starkly demonstrated by the destruction of the Russian flagship, the *Moskva*, by improvised Ukrainian missiles. The Houthis have also been able to block traffic in the crucial international sea lanes that run through the Red Sea, despite being opposed by the mightiest naval powers on earth.

The simple mathematical logic of these new forms of warfare is that weapons that cost mere thousands or tens of thousands of dollars can destroy equipment that costs hundreds of thousands or millions of dollars.

The second feature of these weapons is that because they are relatively cheap, they are easy and quick to produce on mass. As the third paper in this series made clear, modern weapon systems are so expensive and complex, they take years or even decades to produce. Thus, in wartime conditions, they cannot be produced in time to replace losses. But as is being demonstrated in Ukraine and the Middle East, drones and other cheaper systems can be produced so rapidly that even in the face of high attrition, loses can be replaced and military forces continue to be adequately equipped. Thousands and thousands of drones are destroyed each month – big and small – and thousands and thousands more enter service.

Such military dynamics increase the risk of long wars of attrition. If smaller forces can frustrate larger ones, and if military forces can be relatively easily resupplied and equipped, then wars are likely to be much longer and drawn-out affairs. When no quick knockout punch is possible, wars become tests of national will and stamina as to who can impose, and withstand, the casualties and costs the longest.

That means nations faced with the prospect of fighting a modern war against a powerful foe must anticipate that they will need to deploy substantial forces for very long periods of time, requiring a total national effort to maintain them.

This of course should primarily be a warning to potential *aggressors* in our region. A seemingly simple military operation against a smaller foe may prove to be anything but quick or simple, and is likely to be far longer and costlier than expected. Russian President Vladimir Putin could testify as such, the third year into his "special military operation" in Ukraine. But it is also a lesson for countries like Australia. Future wars are likely to be long drawn-out affairs, requiring enormous commitments of human and economic capital to sustain.

The more expensive and costly a likely future war is liable to be, the more we should sensibly be willing to invest to deter such an outcome. And all the indicators are that a future war, unless it can be deterred, will be very expensive indeed.

But deterrence is not created by spending money on military equipment alone. As retired US Army general and former national security advisor HR McMaster has said, deterrence is "capability *times* will." In particular, the perception an aggressor has that a nation is willing to fight.

The tragedy of World War II is that the aggressor in each phase of that war (Germany's attack on Poland in 1939, Germany's attack on the Soviet Union in 1941, and the Japanese attack on the United States Pacific Fleet at Pearl Harbor in 1941) were all economically and militarily weaker than the victims of their aggression. So in principle, they should have been deterred from such aggression. But due to years of diplomatic and political weakness, appeasement and isolationism on the part of the various Allied nations, the Axis powers did not believe the foes they attacked would fight.

Germany did not believe France and Britain would stand by their ally Poland, but they miscalculated and their attack on Poland started a broader war (in a way that their previous aggression in the Rhineland, Austria and Czechoslovakia had not). Germany perceived the Soviet Union to be weak because of Stalin's purges of his officer corps, his keen willingness to collude with Hitler under the Molotov-Ribbentrop Pact, and the poor performance of the Red Army in its war against Finland in 1939-40. But this was a miscalculation. The Soviet Union had a huge army and substantial industrial capabilities, which did not crumble as expected. The result was the most brutal conflict in the annals of war, after which those "weak" Soviet soldiers were waving the hammer and sickle over the ruble of the German capital. Japan did not believe the soft citizens of a rich democracy like the United States would be willing to sacrifice their blood and treasure to defend and liberate Asia and the Pacific. After all, America stood by and did nothing as London, the capital of its closest friend, was set ablaze by German bombers. But ultimately the Japanese miscalculated the righteous fury the United States felt and it proved to be an epic mistake to preemptively attack the world's greatest industrial powerhouse.

If the allies had instead demonstrated strength, resolve, and unity, rather than weakness, appeasement, and collusion, they may have deterred the Axis powers from attacking them in the first place, and the tragedy of World War II might never have occurred.

In the case of Australia, as well as having a deficiency in the capabilities we need to deter aggression, we also have a deficiency in will. The Institute of Public Affairs recently updated our polling on the willingness of Australians to fight for their nation. Asked "if Australia was in the same position as Ukraine is now, do you think that you would stay and fight or leave the country?" Only 46 per cent said they would stay and fight (the same as 2022). 30 percent said they would leave the country (up from 28 percent in 2022). But among the key demographic, military age Australians between 18 and 25, only 27 per cent were willing to stay and fight, barely one in four, down five percentage points since 2022.

Such sentiments are not helpful in convincing Beijing or anyone else that we are ready to defend ourselves and our interests, or that starting a war in our region will not be worth the cost.

Turning this perception of weakness around will not be easy. But one of the clearest ways to demonstrate Australia's willingness to take its defence seriously would be to start matching actions to words and lifting the amount we are willing to spend on our defence. 2 per cent of annual GDP has become the de facto minimum expected of developed countries to invest in their defence in order to maintain the confidence of alliance partners. Spending the bare minimum does not signal strength or willingness to do whatever it takes to defend national sovereignty. It signals complacency.

Increasing defence spending to 3 per cent of GDP would be a very powerful, and very public, signal that Australia is getting serious about its defence. It would definitely get the attention of the military planners in Beijing. It might even change the mind of some of those Australians who say they are not willing to stay and fight for their country, if their government were investing big to defend that country.

Changing the perceptions of potential aggressors would be worth even more than the weapons and capabilities we could buy with that money. If Australia can navigate the rough international waters that loom over the coming decades ahead without being attacked or dragged into a major war, whilst maintaining our national and economic independence, and without sacrificing any allies or the core values of our nation, then spending 3 per cent of GDP will have been a far sounder investment of Australian taxpayer money than we are accustomed to expect from our leaders in Canberra.

John Storey is the Director of Law and Policy at the Institute of Public Affairs and the author of *Big Wars – Why do they happen and when will the next one be?*

APPENDIX B

ACHIEVING 3% OF GDP ON DEFENCE

The additional defence expenditure outlined in this paper may appear sizeable, yet with the right political will, economic ambition and fiscal responsibility, funding the additional defence expenditure is entirely achievable.

Over the past decade, Australia's defence investment has stagnated, meaning our capabilities—relative to our adversaries—have deteriorated. To make matters worse, geopolitical tensions are continuing to rise across all regions of the globe.

Preserving and defending Australia's national security is of paramount importance. To ensure that Australia remains a safe and prosperous country, there must be adequate funds set aside to invest more on Australia's defence capabilities in the years to come. The present trajectory, outlined in the Commonwealth's 2024 National Defence Strategy (NDS), of lifting spending on defence from the present level of 2 per cent of GDP to about 2.4 per cent of GDP by 2033-34, does not address the fundamental underlying gap between Australia's capability requirements and the funding needed to deliver them. This paper proposes instead that Commonwealth government spending on defence must increase from 2 per cent of GDP to 3 per cent of GDP by the year 2028-29 to deliver the force that Australia needs. Meeting this new target would require:

- An additional $40.9 billion in funding by 2027-28 compared to the NDS plan; and
- An additional $206.9 billion in funding by 2033-34 compared to the NDS plan.

This paper outlines, at a high level, how the increase to defence spending can be funded. The recommendations are not exhaustive, and are designed to demonstrate that the additional funding is achievable. The purpose of this working draft appendix is to start a discussion with policymakers and the community about how an increase to defence spending may be achieved in a revenue neutral manner, and to encourage debate and future ideas.

This paper proposes that the additional funding to reach 3 per cent of GDP by 2028-29 should come mostly from savings in government spending (two-third), with the remainder to come from additional revenue from higher economic growth (one-third). Over the forward estimates, an additional funding of $40.9 billion is required, with the money found in the below reforms:

- $33 billion in savings from reduced Commonwealth government spending—which exceeds the two-thirds target of total additional funding over this period.
  - Reducing spending growth across all non-defence and debt servicing government departments by 0.5 percentage points to produce $20.3 billion in savings, which is 43 per cent of the savings generated over the forward estimates.
  - Reducing spending by way of a public sector hiring freeze to produce $4.5 billion in savings, which is 9 per cent of the savings generated over the forward estimates.
  - Reducing spending on net zero and net zero-related programmes to produce $7.9 billion in savings, which is 17 per cent of the savings generated over the forward estimates.
- Increase economic growth by 0.3 percentage points per year would generate approximately an additional $15 billion in taxation revenue over the forward estimates.

REDUCE SPENDING GROWTH

Unlocking additional funding from the budget will require policy makers to implement responsible fiscal practices. As it currently stands, expenditure is growing across all areas of the federal government. Total expenditure (excluding defence and debt servicing) is budgeted to rise by 5.8 per cent in the 2025 financial year, and is expected to remain elevated throughout the future.

We have modelled potential savings to the Commonwealth budget if future expenditure growth (excluding on defence and debt servicing) was reduced by 0.5 percentage points per year in the 2026, 2027, 2028, and 2029 financial years. This recommendation does not involve reducing the level of government spending, rather, it is a reduction to the amount by which spending is forecast to increase from one year to the next. Spending across all areas of government will continue to rise, albeit at a slower rate than has been committed to in the budget.

TABLE 2: SAVINGS FROM REDUCED COMMONWEALTH GOVERNMENT EXPENDITURE GROWTH (EXCLUDING DEFENCE AND INTEREST)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Total expenditure (excl. defence and interest) ($m)	645,417	674,634	693,732	721,171	759,104	797,014	832,229	873,627	915,303	960,172
Yearly change (%)	5.8%	4.5%	2.8%	4.0%	5.3%	5.0%	4.4%	5.0%	4.8%	4.9%
Yearly change ($m)	35,427	29,217	19,099	27,439	37,933	37,910	35,215	41,398	41,676	44,868
Yearly change (%) (reduced spending)	5.8%	4.0%	2.3%	3.5%	4.8%	5.0%	4.4%	5.0%	4.8%	4.9%
Yearly change ($m) (reduced spending)	35,427	25,989	15,650	23,740	33,833	37,231	34,402	40,813	41,140	44,013
Total expenditure (excl. defence and interest) ($m) (reduced spending)	645,417	671,406	687,057	710,797	744,630	781,861	816,263	857,076	898,216	942,229
Savings from reduced expenditure ($m)	**-**	**3,227**	**6,675**	**10,375**	**14,474**	**15,153**	**15,966**	**16,551**	**17,087**	**17,943**

Source: IPA; Parliamentary Budget Office, 'Make Your Own Budget Tool'

To summarise Table 2, in the 2026 financial year, under the baseline budget figures, spending growth is forecast to rise by $29.2 billion, or 4.5 per cent from the previous year. However, under the scenario whereby expenditure growth decreases by 0.5 percentage points, spending will instead increase by $26 billion, or 4 per cent from the previous year. This means, that by implementing the reduced spending recommendation there will be $3.2 billion less expenditure in the 2026 financial year. By the same approach, the reduction in expenditure resulting from the implementation of the spending recommendation is forecast to be $6.7 billion in the 2027 financial year, $10.4 billion in the 2028 financial year, and $14.5 billion in the 2029 financial year.

REDUCE EXPENDITURE ACROSS SPECIFIC GOVERNMENT PROGRAMS OR FUNCTIONS

In addition to applying broad based cuts to government spending growth, policy makers could also reduce and cut spending on specific programs or functions, which are forecast to grow over the forward estimates, thereby freeing up resources to be allocated towards more critical matters, such as defence and national security.

Listed below are examples of current spending programs or functions which if scaled back, would unlock additional funds from the budget.

Federal general government sector hiring freeze

The public service is growing rapidly in Australia, placing a significant burden on taxpayers. It also places additional pressures on businesses, as an expanding bureaucracy creates new rules and impose red tape and regulation on productive sectors of the economy.

In the 2024-25 budget, the federal government committed to increasing the number of staff in the Australian General Government Sector (GGS) from 191,861 in the 2023-24 financial year to 209,150 in the 2024-25 financial year. This represents a yearly increase of 17,289 staff, which the IPA has estimated would cost federal government an additional $1.9 billion in public sector wages. If the number of APS staff continues to rise in the years to come, the total wages expense to employ these public sector workers will continue to rise also.

Table 3 estimates how much it will cost to employ the increasing number of APS over the next decade. The federal government does not provide estimates for the average staffing levels (ASL) (excluding military and reserves) past the 2024-25 financial year.

Therefore, for the purpose of this analysis, we have assumed that the GGS ASL (excluding military and reserves) will continue to rise at the same yearly rate of growth as occurred between the 2021-22 and 2024-25, where the number of APS staff grew on average by 12,003 individuals each year, or an increase of 6.5 per cent per annum. Furthermore, as at May 2024, the full-time adult average public sector weekly total earnings was $2,091.8, which equals an annual wage of $108,773. For the purpose of this analysis, we have assumed that the average public sector weekly total earnings will continue to rise 3.5 per cent per annum, in line with the recent APS wide pay increases of 11.2 per cent over three years.[1]

By multiplying the additional number of APS staff each year by the average yearly earnings for APS employees in that same year, we estimate the additional cost associated with hiring more APS staff over the next decade.[2] The analysis demonstrates that if the federal government ensured that staff remained either at or below 2023-24 levels, there would be significant yearly savings to the budget over the next decade.

The analysis estimates that an GGS ASL (excluding military and reserves) increase of 13,629 people in 2025-26 is associated with an additional $1.5 billion in wages. In 2026-27, an additional 14,525 GGS ASL is associated with roughly an additional $1.5 billion in wages. In 2027-28, an additional 15,472 GGS ASL is associated with an additional $1.5 billion in wages. It is worth noting that these are considered conservative estimates, given the increase in ASL for 2024-25 was larger than what has been estimated in the 2026, 2027 and 2028 financial years.

1 Australian Public Service Commission, August 2024: https://www.apsc.gov.au/apsbargaining.

2 Note: In order to avoid double counting, this analysis has also adjusted the estimated savings that this recommendation would generate to account for a 0.5 percentage point government-wide reduction in spending.

TABLE 3: SAVINGS FROM REDUCED SPENDING ON ADDITIONAL GENERAL GOVERNMENT SECTOR EMPLOYEES

YEAR	2024 -25	2025 -26	2026 -27	2027 -28	2028 -29	2029 -30	2030 -31	2031 -32	2032 -33	2033 -34
Federal government employees*	209,150	222,779	237,304	252,777	269,258	286,813	305,513	325,433	346,651	369,253
Yearly increase	17,289	13,629	14,525	15,472	16,481	17,556	18,700	19,919	21,218	22,602
Average yearly earnings ($)	112,580	116,520	120,599	124,820	129,188	133,710	138,390	143,233	148,246	153,435
0.5pp spending reduction adjustment ($m)	-	117	258	426	625	-	-	-	-	-
Estimated wages expense for new staff ($m)	**1,946**	**1,471**	**1,494**	**1,505**	**1,504**	**2,347**	**2,588**	**2,853**	**3,146**	**3,468**

Source: IPA; Parliamentary Budget Office, 'Make Your Own Budget Tool'
*Note: * Average staffing level. Excludes military and reserves*

Abandon the net zero policy and cancel all future net zero spending.

At present, a primary focus of the Australian federal government has been reducing Australia's carbon emissions to net zero by 2050. The plan—which involves dismantling and restructuring Australia's energy system—is extremely expensive, and to date, has only been made possible by large amounts of spending and subsidisation from the Australian federal government.

Net zero spending is projected to rise rapidly over the next decade. In 2024-25 budget, the federal government committed to roughly $5 billion of new spending measures over the forward estimates (2024-25 until 2027-28), and a further $24 billion over the medium term (2028-29 until 2034-35) is expected to follow.[3] This amounts to $29.2 billion of projected spending spread over eleven years. As the budget does not allocate spending on a per year basis, this analysis divides the total amount by eleven, putting the average annual commitment to net zero spending at $2.7 billion. As outlined in Table 3, abandoning net zero and cancelling net zero-related spending would free up this amount each year over the next decade.[4]

3 2024/25 Federal Budget, Budget Paper Number 4, page 181.

4 Note: In order to avoid double counting, this analysis has also adjusted the estimated savings that this recommendation would generate to account for a 0.5 percentage point government-wide reduction in spending.

TABLE 4: SAVINGS FROM REDUCED SPENDING ON NET ZERO MEASURES[5]

YEAR	2024 -25	2025 -26	2026 -27	2027 -28	2028 -29	2029 -30	2030 -31	2031 -32	2032 -33	2033 -34
Forward estimates and medium-term net zero commitments ($m)	29,231									
0.5pp spending reduction adjustment	-	13	13	13	13	-	-	-	-	-
Average yearly net zero commitments ($m)	**2,657**	**2,644**	**2,644**	**2,644**	**2,644**	**2,657**	**2,657**	**2,657**	**2,657**	**2,657**

INCREASE GDP GROWTH TARGETS BY 0.3 PERCENTAGE POINTS PER ANNUM

More funds can be made available in the budget by targeting higher government revenue. Policymakers must abandon mediocre growth targets and seek greater national economic performance, which will in turn generate more taxation revenue -without increasing tax rates.

Currently, Australia's economy is forecast to rise by only 1.2 per cent in real terms in the 2024 financial year, be flat at 0.0% in the 2025 financial year, and is expected to remain low throughout the future (based on analysis conducted prior to the release of MYEFO in December 2024). This is low by historical standards: real annual GDP growth has averaged around 3 per cent over the last two decades. There is an opportunity for more ambitious economic growth targets.

As outlined in Tables 4 and 5, increasing real GDP growth by 0.3 percentage points per year between the 2026 and 2029 financial years would realise a significant increase in government revenue of approximately $2 billion in the 2026 financial year, $5 billion in the 2027 financial year, and $8 billion in the 2028 financial year.

5 Note: The annualised medium-term commitments have been calculated by taking the sum of the forward estimate and medium-term commitment, $29,231,800,000, and dividing it by 11 years

TABLE 5: FEDERAL GOVERNMENT TAXATION REVENUE FROM RAISING REAL GDP GROWTH TARGETS

YEAR	2025 -26	2026 -27	2027 -28	2028 -29	2029 -30	2030 -31	2031 -32	2032 -33	2033 -34
Nominal GDP ($m)	2,868,996	3,022,841	3,182,464	3,350,566	3,526,322	3,710,005	3,901,899	4,102,289	4,311,469
Real GDP growth (%)	1.3%	2.9%	2.8%	2.8%	2.7%	2.7%	2.7%	2.6%	2.6%
Total taxation revenue – Baseline ($m)	679,470	721,171	762,989	803,895	854,532	906,705	959,053	1,015,344	1,074,697
Real GDP growth (%), (revised growth targets)	1.6%	3.2%	3.1%	3.1%	2.7%	2.7%	2.7%	2.6%	2.6%
Revised nominal GDP ($m)	2,877,391	3,040,591	3,210,384	3,389,783	3,567,595	3,753,429	3,947,568	4,150,303	4,361,932
Revised taxation revenue ($m)	681,503	726,158	770,993	815,056	866,816	919,496	972,366	1,029,237	1,089,215
Additional taxation revenue from raising real GDP growth targets	**2,033**	**4,987**	**8,004**	**11,161**	**12,284**	**12,791**	**13,313**	**13,893**	**14,518**

Source: IPA; Parliamentary Budget Office, 'Build Your Own Budget Tool'
Note: Increased growth forecast applied to 2026, 2027, 2028, and 2029 financial years, with growth forecasts at baseline rates in subsequent years.

To achieve the additional GDP growth targets, policy makers have several levers at their disposal which can be immediately implemented to accelerate economic growth. Cutting red tape and overregulation, repealing recently updated industrial relations laws, and abandoning net zero targets and commitments are all within the federal governments scope, and if implemented, would make it easier for businesses to become more productive, expand, employ more people, and fuel overall economic growth.

OVERALL RESULTS:

TABLE 6: ADDITIONAL DEFENCE FUNDING REQUIRED

YEAR	2025 -26	2026 -27	2027 -28	2028 -29	2029 -30	2030 -31	2031 -32	2032 -33	2033 -34	FE TOTAL	DECADE TOTAL
Current NDS funding line ($m)	58,400	60,900	67,400	74,800	79,100	84,200	88,300	95,600	100,400	242,400	764,800
Proposed 3% trajectory ($m)	64,500	75,700	87,400	100,400	105,800	111,400	117,300	123,500	130,000	283,300	971,700
Additional funding required ($m)	**6,100**	**14,700**	**20,000**	**25,600**	**26,700**	**27,200**	**29,000**	**27,900**	**29,600**	**40,900**	**206,900**

TABLE 7: THE FUNDING GENERATED FROM RECOMMENDED POLICY MEASURES AND THE OVERALL IMPACT ON THE BUDGET POSITION

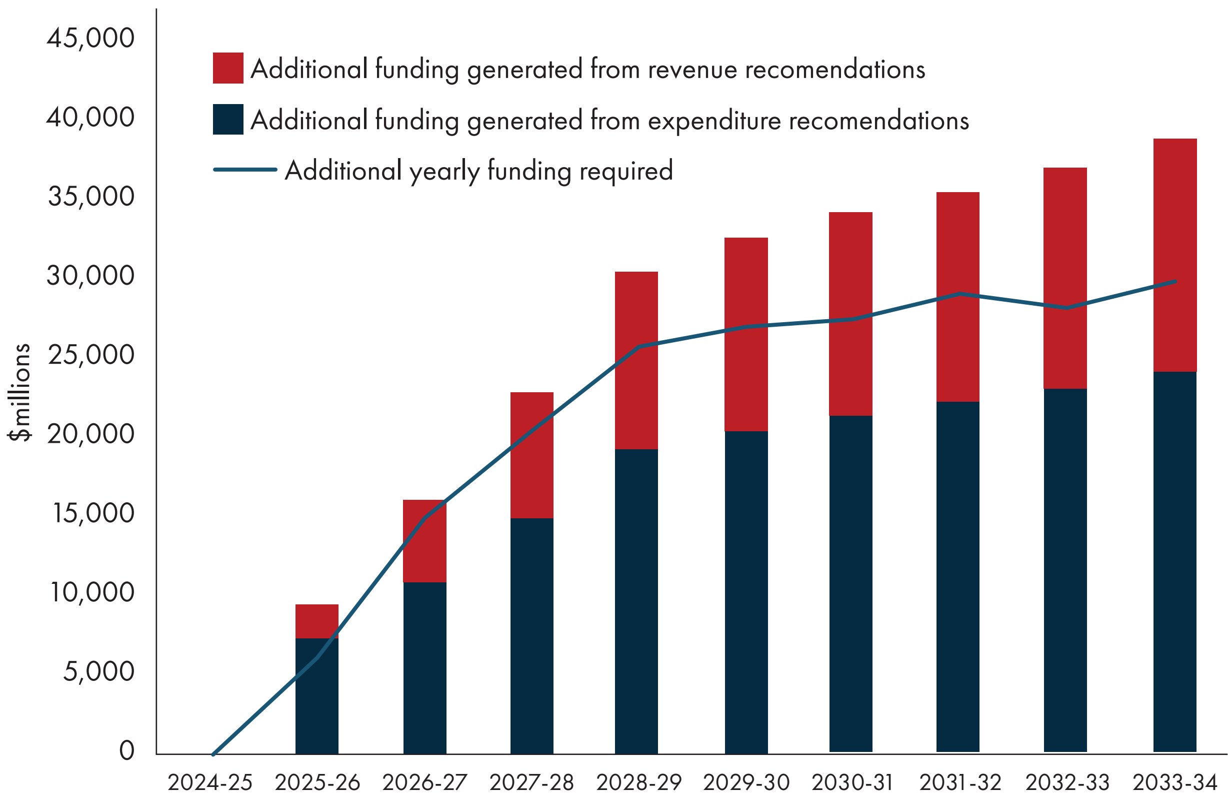
YEAR	2025 -26	2026 -27	2027 -28	2028 -29	2029 -30	2030 -31	2031 -32	2032 -33	2033 -34	FE TOTAL	DECADE TOTAL
Savings from reduced spending (0.5 p.p) ($m)	3,227	6,675	10,375	14,474	15,153	15,966	16,551	17,087	17,943	20,277	117,452
Savings from reduced spending (APS hiring freeze) ($m)	1,471	1,494	1,505	1,504	2,347	2,588	2,853	3,146	3,468	4,470	20,376
Savings from reduced spending (Net zero) ($m)	2,644	2,644	2,644	2,644	2,657	2,657	2,657	2,657	2,657	7,932	23,861
Additional taxation revenue from GDP growth ($m)	2,033	4,987	8,004	11,161	12,284	12,791	13,313	13,893	14,518	15,024	92,984
Total Savings ($m)	9,375	15,800	22,525	29,784	32,441	34,002	35,374	36,783	38,586	47,704	254,673
Minus additional funding required ($m)	6,100	14,700	20,000	25,600	26,700	27,200	29,000	27,900	29,600	40,900	206,900
Overall impact on budget ($m)	**3,275**	**1,100**	**2,528**	**4,184**	**5,741**	**6,802**	**6,374**	**8,883**	**8,986**	**6,804**	**47,873**

Note: FE=forward estimate period (2025-26 to 2027-28)

Table 6 outlines the additional funding required under the proposed NDS funding line. Table 7 outlines the reduced spending and increased revenue generated from the spending and growth recommendations, and also the overall impact that these recommendations will have on the budget after accounting for the additional defence spending. The analysis demonstrates that for all years the recommendations outlined in the budget would generate enough savings to cover the funding required to spend equivalent to 3 per cent of GDP on defence in each year.

Over the forward estimates, additional funding of $40.9 billion is required. This analysis identifies $47.7 billion savings, with roughly two-thirds of overall savings generated through spending reductions ($33 billion) and roughly one-third from growth-based taxation revenue ($15 billion). Over the forward estimates, our recommendations generate $6.8 billion more than what is required.

FIGURE 5: ADDITIONAL FUNDING GENERATED FROM RECOMMENDATIONS AND ADDITIONAL YEARLY FUNDING



Australia's strategic outlook continues to worsen. Our adversaries, by choosing to invest in and expand their own defence capabilities, are becoming stronger and more powerful. To make matters worse, these adversaries are also continuing to demonstrate an increasingly hostile and combative attitude towards Australia and other Western allied nations. The threats posed by such developments are real, and they are happening now. Therefore, it is critical that our leaders ensure that there is adequate funding allocated towards defending Australia in the years to come.

About the Institute of Public Affairs

The Institute of Public Affairs is an independent, non-profit public policy think tank, dedicated to preserving and strengthening the foundations of economic and political freedom. Since 1943, the IPA has been at the forefront of the political and policy debate, defining the contemporary political landscape. The IPA is funded by individual memberships, as well as individual and corporate donors.

The IPA supports the free market of ideas, the free flow of capital, a limited and efficient government, evidence-based public policy, the rule of law, and representative democracy. Throughout human history, these ideas have proven themselves to be the most dynamic, liberating and exciting. Our researchers apply these ideas to the public policy questions which matter today.

About Strategic Analysis Australia

Strategic Analysis Australia exists to provide policy insights into national security, defence and international relations challenges for government and corporate users, and to inform the public debate.

Our analysts bring different perspectives and insights – so we can and do disagree.

Our work is intended to be: policy relevant; not academic but following the highest standards of independent research; non-partisan; and supporting liberal democracy, the rule of law and free speech.

SAA analysts are available to undertake commissioned research and analytical work for private customers, however, SAA is not a lobbying agency.

We see companies in the defence sector as essential contributors to Australian, regional and global security. As a result, defence companies are key, positive stakeholders for SAA.

We bring expertise from government agencies and academia as well as from working with corporate and international partners over our careers. The result is a more diverse set of ideas and inputs to inform readers' own thinking.

We are a small team who value and challenge each other's contributions. We enjoy dealing with difficult policy questions in the more dangerous world Australia and Australians live in.

About the authors

Peter Jennings is the Director of Strategic Analysis Australia , the Principal of Peter Jennings Strategy Consultants Pty Ltd, providing strategic advice to several Australian and international businesses and to Commonwealth agencies, and a member of the Fortinet Strategic Advisory Council for Fortinet and a columnist for *The Australian*. Peter was the executive director of the Australian Strategic Policy Institute (ASPI) between 2012 and 2022. He worked in senior roles in the Australian Public Service on defence and national security, including being Deputy Secretary for Strategy in the Defence Department (2009-12); Chief of Staff to the Minister for Defence (1996-98) and Senior Adviser for Strategic Policy to the Prime Minister (2002-03).

Michael Shoebridge is Director of Strategic Analysis Australia. From 2018 until September 2022, he was the Director of the Defence, Strategy and National Security Program at the Australian Strategic Policy Institute (ASPI) in Canberra. Before the think tank world, Michael was a deputy in the Australian Signals Directorate and the Defence Intelligence Organisation. As the First Assistant Secretary for Strategic Policy in Defence, he led the team that wrote Australia's 2013 Defence White Paper and also administered defence exports policy and legislation. In his first Senior Executive Service role he led the tender evaluation, selection and contract negotiations for the Australian Navy's Armidale Class Patrol Boats. His last role in the Defence organisation was as the head of the Contestability Division that provides objective analysis of the overall $270 billion investment program. He has also served in the Senior Executive Service in both Australia's Finance Department and the Prime Minister's Department, where he was head of the Defence, Intelligence and Research Division.

Marcus Hellyer is Head of Research at Strategic Analysis Australia. Previously he was a Senior Analyst at the Australian Strategic Policy Institute where he unpacked defence budget, capability, and industry issues. Marcus worked for 12 years in the defence department, primarily in its contestability function where he held several Senior Executive Service positions. This involved conducting independent capability and cost analysis of investment proposals as well as ensuring the best advice possible was provided to the government and senior decision makers on major capital acquisitions. He also administered Defence's capital acquisition program. Marcus has also worked in the Australian Intelligence Community.

Scott Hargreaves is a the Executive Director of the IPA. He is passionate about Australia and its people, and securing their freedoms and prosperity for the next generation. He joinde the IPA staff in 2015 after having been an IPA member for over twenty years. During that time he gained experience in a range of private and public organisations, including periods inside government, in the corporate world, and running small businesses. He has a Bachelor of Arts in Politics and Economics, a Post Graduate Diploma in Public Policy, an MBA from the Melbourne Business School, and a Master of Commercial Law.

John Storey is the Director of Law and Policy at the Institute of Public Affairs. John is a lawyer, author, and military historian. John has been a practicing lawyer for two decades. He was a partner in a large national law firm and founded and managed his own law firm as managing director. His recent book *Big Wars – Why do they happen and when will the next one be?* looks at global historical trends in military technology and tactics and what they can tell us about how warfare will look into the future.

Lachlan Clark is a Research Fellow at the Institute of Public Affairs. Lachlan has a Bachelor of Business from the Royal Melbourne Institute of Technology majoring in Economics and Finance. It was Lachlan's passion for learning and his love for the Australian way of life that motivated him to join the Institute of Public Affairs. Prior to the IPA, Lachlan worked for one of the big four banks with a focus on commercial banking. He is most interested in researching areas relating to economics, geopolitics, anthropology, and history. Lachlan enjoys spending time in the outdoors and loves exploring new places, camping, hiking and four-wheel driving.

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