



## Background Sheet 6: Economic

### *People's Inquiry: Exploring the Case for an Independent and Peaceful Australia*

*What are the costs and consequences of Australia's involvement in US-led wars and the US-alliance?*

#### Some Key Facts on Economics and Defence Spending:

- There is now a bipartisan commitment to spend 2% of Australia's national income (about \$40 billion) on defence every year.
- In 2018, the government launched a 10-year plan to make Australia a top ten defence exporter. See its *Defence Export Strategy*. An assortment of policies have been put in place to meet this goal. Notably, a \$4 billion fund called the *Defence Export Facility*, administered by *Export Finance Australia* (a Commonwealth-owned credit agency) is providing defence exporters with loans and guarantees to help them expand.
- This has helped grow approved defence export permits from around \$1 billion before these plans to \$5 billion worth in 2019-20.
- The latest *Defence Strategic Update* and *Force Structure Plan* were released

in July 2020. The latter outlines the government's commitment to spend around \$575 billion on defence over the next ten years, including some \$270 billion to 2029-30. These figures could well be understating the true extent of defence spending. It depends on how one defines and measures the term (e.g. forms of R&D in universities and other institutions which indirectly benefit defence may not be covered).

- The biggest new spending item in this plan is a \$15.8-\$23.7 billion procurement of ballistic and high-speed missile defence equipment between 2025 and 2040.

#### Economics and Defence Spending

Australia's military position is intimately tied in with the US. 'Interoperability' is a key expression used to describe this close relationship and the ability for Australian forces to be integrated with those of the US.

This extends to the purchase of weaponry and the use of 'joint facilities' for military purposes.

Australia provides military facilities on its own territory that are used by US forces. Much of the cost of maintaining these facilities falls on Australia. For example, recently the Australian government announced that a total of \$1.6 billion will be spent upgrading the Tindal airbase. The upgrade will make the base suitable for use by large US long-range bomber aircraft, potentially nuclear-armed.



### Opportunity cost of Defence Expenditure

Our defence spending comes at the expense of spending on health, social welfare, and education.

Each additional Australian sent to a foreign theatre of war comes at the expense of these alternative spending programs. Even if some of these alternatives were poorly designed, they would likely still protect or improve the

livelihoods of tens of thousands of Australians—an opportunity forgone when spending on wars (which often do not play out as intended) is undertaken.

The full cost of military action must include the pain and suffering of, and pensions paid to, soldiers and their families, especially those that have died or suffered severe damage as a consequence of their service.

Defence issues and knowledge imbalances  
There are huge knowledge imbalances between defence/security agency officials and politicians. These officials, who largely remain the same regardless of who occupies the government, have huge power over politicians as a result.

Politicians ultimately have no clue about the true needs of defence. They have to ask these officials for advice. It is difficult, though not impossible, to push back against their recommendations.

Voters are also highly ignorant about defence issues. This is partly a conscious and rational decision, as many voters simply do not care about defence. After all, it does not impact them directly in their daily lives.

Boondoggle expenditures (e.g. the \$1 billion Seasprite Navy helicopters which had to be

grounded in 2006 as they couldn't be safely used over water, in bad weather, or at night) are common in defence as accountability is difficult to achieve in the presence of these knowledge imbalances.

Journalists recently lodged Freedom of Information requests to get details about Australian weapons export destinations. Due to their sensitive classification, much of the information was redacted. This secrecy is attractive for some investors.



### Two-way revolving door between defence and politics

There is a two-way revolving door between defence and politics. Former defence minister Christopher Pyne's private sector lobbying activities are the latest example. Also look at Kim Beazley being defence minister, then a Lockheed Martin board member, US


Ambassador, and Governor of Western Australia.

There are also plenty of military officials going into politics, e.g. Senator Jim Molan. These individuals can be seen as entrepreneurs. The politicians are capitalizing on their scarce knowledge about how public policy gets made, and their personal contacts, which defence industries find highly valuable. Likewise, former defence personnel going into politics can use their scarce information about defence matters to get influential government positions. This analysis says nothing about ethics.

### Uncompetitive contracts

Alliance vetting shrinks the pool of defence manufacturers with which our government can consider doing business to a very small number of candidates. The market is highly uncompetitive.

Australia is committed to purchasing defence equipment from the US as part of our joint interoperability. Given the aforementioned knowledge imbalances, our government typically has little idea of how much this equipment is truly worth, whether it is being overcharged, or whether equipment will be delivered on time. Much largess and profiteering goes undetected, and cost



overruns are par for the course in defence. Getting replacement parts or repairs for advanced defence equipment can often only be done through the original manufacturer, which possesses the specialised know-how and experience. This further exacerbates the uncompetitive nature of the defence industry and also raises questions of reliability in times of emergency.

The central purported economic benefit of the US alliance Australia has joined the US in many military actions. The central argument in favour of joining such actions has been that, were Australia not to demonstrate its commitment to the US alliance in these costly ways, we would be seen as free riders, and the alliance would end. In this case, Australia would have to spend much more on its own defence to make up the shortfall in US protection.

This argument is based on a questionable assumption. It assumes that if Australia adopted a genuinely independent foreign policy, it would face geopolitical threats beyond ‘bread and butter’ border control issues which, given its status as an island nation, could almost certainly be funded with less resources than our current approach, which involves deep military interoperability with the US armed forces.

There is also a case to be made that the US alliance, and especially the US military presence in Australia (e.g. Robertson Barracks outside Darwin, where around 2,500 US marines are routinely stationed), invites and amplifies the very threats against which this approach seeks to guard.

**Written by:**

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