

## Chapter 9

# The Challenge of Coherence: Strategic Guidance, Capability, and Budgets

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Strategy is the marshalling of means to achieve ends. In the arena of national defence, the allocation of means to ends occurs at a variety of levels. At the most abstract, a country allocates its limited store of flexibility by forging alliances, committing to treaties and conforming to international norms that it perceives to be in its interest.

More tangible, and of relevance to this chapter, is the matching of means to ends in maintaining and developing an armed force. While some of what follows is generally applicable, the focus will naturally be on the ADF.

The remainder of this chapter is divided into three parts. To begin with, I will argue that—even in principle—maintaining and developing an armed force consistent with identified strategic imperatives is a very complex and difficult task. Then—in keeping with the historical theme of ‘History as Policy’—I will survey the last 40 years of Australian defence history and offer some observations about the maintenance and development of the ADF over that period and the influence, or otherwise, of strategic guidance on the shape of the force.<sup>1</sup> Finally, I will turn to the present, and examine how well the Australian Government and its Defence bureaucracy are matching matériel means with strategic ends today, and suggest how greater coherence might be brought to the process of doing so.

### The Challenge of Defence Planning

Designing, maintaining and developing the ADF requires three things to be brought together: strategic guidance, military capability, and the budget.

*Strategic guidance* sets out the approach that Australia will employ to defend itself and protect its interests. Since the 1970s, this package of decisions has been contained in a series of Defence White Papers. These include a series of interrelated decisions about:

- how Australia’s alliances, relationships and commitments to international norms will be used to enhance the nation’s security;

- the ways in which Australia hopes to influence international affairs to its strategic advantage;
- the military strategy for Australia's defence, including the tasks that the ADF might be called upon to perform and a clear statement of under what circumstances and to what extent Australia will employ armed force and other tools of national power in order to achieve its goals; and
- the broad shape, size and preparedness of the ADF to enable it to achieve that military strategy.

*Military capability* is the combination of *force structure* and *preparedness* that provides the government with options to use military force. It is important to remember that military capability includes preparedness—that is, the readiness and sustainability to undertake military operations. Capability also includes a time dimension. Current capability is the force-in-being, while future capability is that which is being planned or under development. In Australia, future capability is set out in a Defence Capability Plan that details a decade-long program of equipment acquisition.

The final element, the *budget*, is the amount of taxpayer's dollars that the government is willing to direct towards defence and security.

Having laid out these three aspects—guidance, capability and budget—it is tempting to view the problem in linear terms. First you formulate a strategy, then you submit it to the generals and admirals who advise you what military capabilities are needed to enable that strategy. Finally you send the bill to the Treasurer, who writes a cheque for the amount in full. If only it were that simple.

Despite apparent recent evidence to the contrary, such a linear approach is not likely in practice, nor is it even desirable. Every dollar of defence spending must be balanced against the potential alternative uses for that money; be it health, education or tax-cuts. In practice, this leads to a process where options for strategic guidance, and especially capability and budget, are iterated to produce an affordable package, taking into account the many competing calls on the public purse.

This point is worth dwelling on; various levels of funding can call for diverse strategies and correspondingly different sets of military capability. If the Defence budget were to halve tomorrow, the optimum response would not be to cut the size of every component of the ADF by 50 per cent. Instead, a new defence strategy would be required that made use of a different set of military capabilities that was affordable within the new budget. In this sense, defence planning is not 'scalable'.

If only these factors complicated the planning of an armed force, it would be bad enough, but there are three further complications.

The first complication is that strategic guidance is usually ill-defined. The ambiguity has its roots in several factors. To start with, the tasks which a defence force must accomplish are rarely unique or specific, and are often neither. This is true irrespective of whether planning is conceived around 'threats' or based on meeting 'capability' benchmarks. Furthermore, potential adversaries will seek to complicate our planning in several ways: they will develop multiple military options to use against us; they will conceal the true details of their military capabilities; and they will adapt to the choices we make so as to avoid our strengths and exploit our weaknesses. We can be sure that this will be the case—because it is also the way we operate.

The second complication is that the link between strategic guidance and specific plans for current and future capability is ultimately a matter of judgement. There is no unique military solution to a given task. Back in the late 1990s the US military undertook concurrent studies to determine the best options for delivering 'deep strike'—disruption of enemy command and control and supply lines 100 km behind the forward line of battle. Each Service managed to produce analyses that showed its particular equipment option to be the most effective. This demonstrates that there are indeed many ways to 'skin a cat', but also that operational analysis is to be used with great caution.

The third complication is that, invariably, it is difficult to accurately estimate the relative cost (let alone the relative cost-effectiveness) of alternative capability options ahead of time.

In summary, planning a defence force is difficult as we cannot be sure of the tasks our armed forces will be required to perform. Even if these were clear, we would be uncertain on the best way to proceed, and we are never sure how much things are likely to cost—nor, in fact, do we know with any certainty how much money Treasury may make available. This is a heavy load of uncertainty to feed into an iterative (a mathematician would say non-linear) optimisation process.

## **Forty Years of Australian Defence Planning**

So how has Australian defence planning progressed over the last 40 years, indeed over the life of the SDSC? At the risk of incurring the wrath of professional historians, I have undertaken a quick analysis that samples Australian defence policy and capability (existing and planned) at 10-year snapshots in the years 1966, 1976, 1986, 1996 and 2006. Given the glacial pace at which the force structure evolves, this nonetheless gives a reasonable picture of how things have changed over the past four decades.

The results are set out below by way of a description of each of the years in chronological order in terms of strategic guidance, budget and operational

demands. Then follows a discussion of how the capabilities of the ADF evolved over the same period.

## 1966

In 1966, confrontation with Indonesia had ended, the conflict in Vietnam had commenced, and Australia's military contributions to Malaysia, Singapore and Thailand continued. The Australian Army alone had 6000 personnel deployed operationally (although our commitment to Vietnam was only around 4000 troops, less than half the size it was to grow to in the coming years) and the RAAF had three squadrons deployed to Southeast Asia. Australia was in the midst of its first substantial post-Second World War military build up—so much so that we had to employ trade credits from the United States to soften the impact on our balance of payments of acquisition purchases.

Conscription was gaining traction and the ADF had a permanent strength of 66 774, having grown by 10 500 in a single year (including a net gain of 3000 personnel from volunteer enlistment)—notwithstanding that unemployment stood at just 2 per cent and significant numbers of casualties were occurring in Vietnam.

It was, of course, the height of 'forward defence'; pre-Guam doctrine, and pre-east of Suez. While the defence of Australia, its territory and its interests were the primary goal of defence policy, as the 1966 *Defence Report* said: 'We believe that this can most reliably and responsibly be done by assisting actively the defence efforts of our regional friends and allies.'

The budget stood just on the psychological milestone of A\$1 billion (or just under A\$8 billion today) representing fully 3.8 per cent of GDP.

## 1976

A decade later saw a much changed world. The communists had taken control of Vietnam but showed no sign of causing trouble—the last domino had fallen flat, without striking its neighbour. Our regional friends had learnt how to get along with each other, and our allies had largely decamped from Southeast Asia and so had we. We found ourselves with responsibility for our own security in a surprisingly benign environment. Accordingly, the 1976 Defence White Paper, *Australian Defence*, set out the core principles of what we now call the 'defence of Australia' doctrine.

Investment in capital equipment had fallen back to close to pre-Vietnam levels representing less than half the peak of nine years earlier, yet Army had just commenced delivery of 102 new *Leopard* tanks that had been ordered by the Whitlam Government two years earlier.

Conscription had ended, but there were still 68 774 people in the ADF. The defence budget stood at A\$2 billion (or just under A\$9 billion today) and amounted to 2.3 per cent of GDP.

## 1986

In 1986 the Dibb Review took the 'defence of Australia' doctrine to its analytic peak, and set the framework for defence priorities for the years that followed. As had been the case for the previous decade, Australia had no major military deployments, and the ADF had settled into a comfortable peacetime routine.

Defence investment had recovered and the force was being re-equipped, including through the purchase of the F/A-18 *Hornet* fighter. In fact, 1986 saw investment reach a post Second World War high of almost A\$5 billion per annum in today's terms—a level only just now being approached again.

Consistent with high investment levels, Defence spending had grown to close to A\$7 billion (or around A\$12 billion in today's terms—a level that was roughly sustained for the next decade). The defence vote accounted for 2.5 per cent of GDP. Personnel numbers had also grown from the decade earlier to 70 048, yet this was below the post-Vietnam War peak of 73 000 reached in 1982.

## 1996

By 1996 the Cold War was securely in the past and the ADF was largely at home, although it had made a limited (largely naval) contribution to the 1990–91 Persian Gulf War and also provided a modest contribution to relatively benign peacekeeping missions to Somalia, Rwanda and Cambodia. Strategic guidance was in the process of softening the strictures of the 'defence of Australia' doctrine although, from a force structuring perspective, the Australian Army remained tethered to the continent. The year 1996 was also the eve of the Sandline crisis in PNG that gave Australia a taste of how surprisingly unstable our 'arc of instability' could be.

Defence spending stood at A\$10 billion, or about where it was a decade earlier in real terms, although it had fallen to only 1.8 per cent of GDP. The absence of spending growth had been made up for, in part at least, by progressive efficiency measures (mainly outsourcing) and cuts to the size of the ADF as a result of the 1991 *Force Structure Review*.

Investment continued at around 75 per cent of the peak reached a decade earlier, but there were looming pressures with a wave of block-obsolence about to hit. Along with dwindling resources for logistics support, this forced a second wave of efficiency measures the following year under the Defence Reform Program.

The combination of cuts to the force and outsourcing had driven personnel numbers down to 55 574, still well above pre-Vietnam War levels and indeed more so once the impact of outsourcing was taken into account.

## 2006

A decade later and the wheel seemed to have turned full cycle. In 2006, the ADF was deployed in multiple theatres overseas, a concerted effort was being made to grow the number of personnel in the force, defence spending was on the increase—at 3 per cent per annum—and there were big plans in place to replace (and in some ways expand) the equipment of the ADF. Defence spending today sits at almost A\$20 billion per annum or just under 2 per cent of GDP. Nonetheless, it would be wrong to draw too close a comparison between 2006 and 40 years ago. For one thing, Howard's development of the ADF and his deployment of troops overseas, pales in comparison with Menzies' massive military build up and the very significant loss of life suffered in successive Southeast Asian campaigns.

Similarly, it would be wrong to depict the emerging strategy of the Australian Government as simply a variant of 'forward defence'—although there is certainly some sense of that in the echoing rhetoric of 1966 and 2006 with regard to Vietnam and Iraq. Rather, John Howard's strategy (to the extent that it is clear) appears to be more a case of an expanded the 'defence of Australia' doctrine that embraces our immediate region more than before, while doing what is perceived as necessary to bolster the US alliance in the face of greater demand from our principal ally.

## Trends

So what can we deduce about the evolution of strategic guidance, capability and budget across the five decades surveyed—what are the drivers of change and do the three components move in some casual unison? Let us begin with spending. The general pattern is clear—there is an underlying long-term rate of increase that is driven by rising intrinsic costs. Superimposed on top of this are peaks and troughs driven by the level of operational activity of the day. Growth is fast in wartime, and slow or static in peacetime. It is important to note that much of the money spent at the peaks of defence spending goes to investment. As a result, it appears that investment for the future is driven by the challenges of the day. No surprise here: people judge that the circumstances they find themselves will persist into the future. It is not hard to find statements to that effect today, such as the risk of conventional war being considered low for the foreseeable future, or that the ADF will remain busy combating terrorism for some time.

Of course, this does not represent incoherence between strategic guidance and budget (I will return to this later). Rather, it simply shows that strategic

guidance and investment for the future is readily captured by the events of the day. The exception is the significant boost to investment by the Hawke Government soon after coming to power in the 1980s.

What of capability? Let us first look at preparedness. The readiness of the ADF for near-term deployments rose and fell over the period largely in accord with the perceived likelihood of near-term deployments—just as you would expect. This is not to say that all was perfect. On several occasions the preparedness of the force was not up to the demands that emerged. The Australian Army did not always have what it needed for peacekeeping operations during the 1990s, the RAN was caught short in 1991 getting ready to go to the Persian Gulf, and parts of the RAAF were well below where they needed to be on several occasions in the late 1990s. These events reflect two things: first, a failure of implementation within the ADF because of peacetime malaise and, second, the consequence of deliberate risk management that kept many parts of the ADF at less than full states of readiness.

Where things get interesting is in looking at the second part of capability, namely force structure. Once the changing technology of warfare is taken into account, there is a surprising degree of continuity across the 40 years. Furthermore, where there are changes, they are sometimes difficult to explain in terms of strategic guidance.

Here is how it looks for each Service:

## RAN

The number of surface combatants remained largely static over four decades although the mix evolved over time. When more money was available, better equipped vessels were in operation; when money was tight, lesser platforms were employed. At the moment, money is plentiful and the RAN is developing the capability of its surface combatants through upgrades and the purchase of three advanced air warfare destroyers. Overall though, the number of hulls has remained around the same, just as it has for support ships and hydrographic/oceanographic vessels. Similarly, ever since the RAN acquired submarines in the 1960s and patrol boats in 1970s, numbers have been maintained at close to constant levels.

Thus, for the bulk of the RAN, it has been a matter of ‘you keep what you’ve got and, when money permits, expand by adding something more, then keep it’. But there have been some exceptions to this trend. For example, the number of minehunters has fluctuated—it seems we are never sure if we really want them. Having said that, there was at least a clear link between strategic guidance and the acquisition of minehunters in the 1990s.

Of more interest are the demise of the aircraft carrier and the emergence of an amphibious force. It was in the early 1980s that the RAN lost its aircraft

carrier. To some extent this represented a tangible shift away from the demands of 'forward defence' (albeit more than a decade after that doctrine had been tossed on the scrap heap). Yet this is far from a complete explanation. In fact, Australia was planning to purchase HMS *Invincible* from the Royal Navy as a replacement until the sale was cancelled by the United Kingdom following the Falkland Islands conflict. It is likely that affordability was as big a factor in deciding to abandon the carrier as any strategic considerations.

The disjuncture between strategic guidance and capability development is most acute in the development of the amphibious force. Over the last two decades, the RAN's surface transport capability has morphed and expanded into an increasingly large amphibious capability based around helicopter carriers. This transformation began back in 1980s and grew steadily—and stealthily—through the 1990s before finally emerging in 2000. Indeed, until *Defence 2000* provided a credible rationale for an amphibious capability such a development was difficult to reconcile with strategic guidance. It is tempting to relate the rise of an expanded amphibious capability with the loss of the carrier—but it is a hard argument to make aside from observing that the latter freed up resources for the former. To some extent, at least, the development of an amphibious capability was the logical response to increasingly foreseeable challenges in the immediate region that strategic guidance was overly slow in acknowledging.

## RAAF

Over the past four decades, the RAAF's maritime patrol and transport fleets have remained largely static apart from the addition of four C-17 *Globemaster* aircraft in 2006. In contrast, the number of fighters and bombers has contracted substantially as previously disparate roles have been progressively consolidated onto single platform types. On the surface this appears to be a substantial shift in the balance of the force structure; however it actually just mirrors changes that have occurred in all Western air forces over the same period.

As the technological sophistication and cost of air combat platforms has increased, the number and diversity of platforms has fallen, mitigated in part by force-multiplier capabilities like over-the-horizon radar, air-to-air refuelling tankers and Airborne Early Warning & Control aircraft (all of which the RAAF currently has or is acquiring). Taking these technological trends into account, the relative *capability* inherent in the RAAF's combat air capability has remained largely static.

## Army

The story with the Army is simple once changing technology is taken into account. The spectrum of capabilities that make up the Army remains largely static, but its size, condition of its equipment, and its preparedness rises and falls with overall defence spending—hardly surprising given that defence

spending correlates with the level of operational activity. This trend encompasses the recent 'Hardened and Networked' Army initiative and the decision to expand the force by two battalions. An important exception is the strategic shift in the Army's disposition northward in the late 1980s and early 1990s (and similarly for two-ocean basing for the RAN that was introduced around the same time).

I do not ascribe to the 'Army as victim' school of thought, which argues that the 'defence of Australia' doctrine caused the Army to be 'run down' or neglected in favour of the other two Services. Under the guidance of the day, the Australian Army (along with the other two 'fitted-for-but-not-with' Services) was equipped on the assumption of warning time being available before a major conflict. In fact, I would argue that the share of resources accorded to the Army under the 'defence of Australia' doctrine far exceeded what was justified had the doctrine been taken to its logical conclusion. For several reasons, a militia force would have been better suited to resisting the occupation of the continent than a standing army.

## The tyranny of the balanced force?

The clearest trend to emerge from our 40 year survey is that the level of preparedness and modernisation of the force (and the size of the Army) is driven largely by the operational tempo of the day. Far less clear is the existence of any nexus between strategic guidance and the evolution of the force structure. In fact, once the impact of technology and the changing face of warfare is taken into account, it is surprising how little has changed—notwithstanding that our survey covers three distinct epochs of Australian defence thinking. Aside from the changes to disposition wrought by the 1980s incarnation of the 'defence of Australia', the really significant changes to the force structure—the demise of the aircraft carrier and the rise of the amphibious force—are difficult to ascribe to a changed strategic vision of how to defend the country (or at least one that was articulated at the time).

The result is that the basic defence force conceived and developed by Robert Menzies back in the 1960s under the doctrine of 'forward defence', persisted through the years of 'defence of Australia'. With a couple of extra bells and whistles, it largely remains with us today, and is planned to continue into the foreseeable future. It is as if strategic guidance does not really matter.

There are at least two factors driving this long-term continuity in force structure. First, and perhaps most important, is the underlying continuity in our strategic guidance that derives from our geography. Despite inflated rhetoric, since the Second World War Australia has been a regional maritime power with a boutique army. Although the narrative developed to explain why Australia needs to do so changes, the reality remains inviolate. Yet while this explains much, it seems insufficient to me, and it certainly fails to explain the development

of an amphibious capability through the 1990s. Nor, I would argue, does it explain some of the more recent ambitious plans that have emerged.

The second factor is that the Services each have their own priorities—independent of strategic guidance—that they push to the fore. Being conservative by nature, they favour continuity and incremental expansion when money is available. They replace what they have with the latest affordable technology and then move to the next item on the list in order to expand. The result is that nothing much changes: the three Services simply roll on—sharing the bounty in good times and sharing the pain in austere times. In some circles this is seen as a sufficient criterion for building the ADF, because it maintains the so-called ‘balanced force’. While many factors, beyond the conception of a ‘balanced force’, influence the shape of the ADF, it would be naïve to think that this factor has been insignificant.

## Australian Defence Planning Today

No doubt Defence would cry foul at the suggestion that such an approach is in operation today. Indeed, they would point to the very detailed and seemingly scientific approach they have to strategic and capability planning. Nonetheless, I assert that, while the bureaucracy surrounding force development is greater now than at any time since the formation of the Department of Defence by Sir Arthur Tange in the early 1970s, the degree of central strategic control is at a low point.

The conditions are ripe for this to occur. To start with, strategic guidance is more ambiguous and opaque than at any time in at least the preceding 30 years. This leaves more than ample room for arguments to be mustered with far fewer constraints than normal. Then there is the fact that defence planning is no longer constrained by a budget bottom line. It is impossible for reliable central planning to occur in Defence when the government is happy to dole out money directly to the Services—as occurred with ‘hardening and networking’ and the follow-on A\$11 billion expansion of the Army initiatives, and similarly with the C-17 *Globemaster* project.

On the surface, this looks good to those who favour stronger defence, and it is fruitless to argue that more capability is not more capability. Yet it is nonetheless undesirable. To start with, such an approach precludes the considered whole-of-force tradeoffs that are necessary when strategically planning an armed force; we don’t just want *more* capability, we want the *right* capability delivered as cost-effectively as possible. Worse still, the present ad hoc approach risks committing future taxpayers to costs that may prove unaffordable. In my estimation, there are already significant unfunded demands built into the budget that the promised 3 per cent growth will not address and, unfortunately, as the

above survey of the past showed, once the pace of military operations falls so too will the government's willingness to fund Defence.

In the longer term the situation will become even more serious, irrespective of the waxing and waning of perceived threat. For the past 30 years 'the Lucky Country' has been able to retain both a 'balanced force' and a decisive capability edge in the region. This comfortable position will get increasingly harder to sustain as an ageing population erodes our economic growth at the same time as neighbouring economies surge forward. Simply sharing available resources among competing bids by the Services will eventually become a luxury we cannot afford. Hard choices will need to be faced about which military capabilities will deliver the most strategic punch. In fact, given the longevity of military equipment, these are choices we need to be making today.

Three things have to occur before this can happen. First, the Australian Government needs to clarify its strategic guidance, preferably through a new Defence White Paper. Second, Defence has to be given a budget to work within. As long as simply coming back and asking for more is an option, no progress is possible. Third, and most important, discipline and strategic control must be imposed on the capability development process. None of this will be easy to achieve, but it presents the only chance of breaking out of a four-decade cycle of structuring the ADF largely on the basis of replacing what came before.

## ENDNOTES

<sup>1</sup> This chapter draws on information contained in Defence *Annual Reports* from 1962 through to 2005. Additional material was drawn from Commonwealth *Yearbooks* for the same period, as well as from (ed.) Ross Gillett, *Australia's Armed Forces*, Nautical Press, Sydney, 1981 and Graeme Andrews, *Fighting Ships of Australia and New Zealand*, Regency House Publishers, Cammeray, NSW, 1973.