

# The Australian

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## Captain Kafka running defence

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**DEFENCE is where Kafka meets the Gosplan, with echoes of Yes Minister for good measure.**

This is a world of central planning without a central planner, as endless committees blur responsibility, ensure there are few penalties for being wrong or rewards for being right, and entrench a culture in which to get along is to go along.

This week's saga, revolving around the navy's inability to provide a single amphibious ship, highlights the resulting pathologies. How can it be that there were "insufficient resources to address shortcomings" in the ships' maintenance when the department's 2009-10 annual report says cost reduction targets in maintenance were "over-achieved", that is, exceeded by \$200 million?

Even assuming there were other uses for those funds, how is it that the Defence Department's preparedness management systems were not sounding ever louder alarm signals within the bureaucracy and to the minister?

Moreover, maintaining these ships, the simplest vessels in the fleet, is not rocket science.

How is that it has taken since 2006, when "competence in the System Program Office had fallen well below an acceptable level", to rebuild that competence, especially given the 60 per cent increase in the number of senior Defence staff over the past decade?

These questions, however troubling, are merely manifestations of more deep-seated problems.

Defence spends about \$26.8 billion a year, close to 2 per cent of national income, and directly or indirectly employs 1 per cent of our labour force. The aim of this spending is to be able to defend Australia from attack. The reality is of frequent bumbles.

Defence suffers from all the weaknesses of the public sector, and then some. As in other areas of public sector production, there is no direct link between consumers' valuations and the amount or cost of the output provided.

Instead, what is produced is determined by one group of people spending other people's money.

This in itself creates risks of inefficiency. But those risks are magnified in defence, because performance is hard to define, let alone monitor. Not only does defence entail highly specialised knowledge, but in peacetime at least, it lacks the tangible public feedback available in areas such as health and education.

To makes matters worse, defence capability is frustratingly difficult to measure: it only has utility relative to that of

potential adversaries (our bang for the buck chases their rubble for the rouble) and then only in terms of contingencies with hard to estimate likelihoods, consequences and outcomes. And to the extent that capability can be measured, secrecy often withholds the results from the public, parliament and seemingly even government.

Little wonder Australia's defence history is replete with frustrated ministers launching efficiency drives.

And little wonder these have been more effective in getting immediate savings than in making efficiency an enduring element in defence decision-making.

The lack of focus on efficiency has been especially pronounced over the past decade. True, increased operational requirements have placed major demands on the defence organisation. But there has also been a continuous loosening of budget constraints, letting Defence avoid tough decisions.

Baseline defence funding, excluding supplementation for operations, increased by more than 50 per cent in real terms in the decade from 2000/01.

The 2007 Defence Management Review concluded that the "comparative wealth" that growing funding has provided Defence "undermines respect for cost and efficiency".

Reflecting those concerns, in 2008 the government commissioned an independent Defence Budget Audit which identified \$15bn to \$20.7bn of possible savings over the coming decade.

The 2009 Defence White Paper then set a 21-year plan for defence contingent on a Strategic Reform Program based on the audit's recommendations. The SRP claims to be generating gross savings of \$20.6bn in the decade to 2018-19. However, once clever accounting is removed, only some \$15bn of

actual efficiency measures are planned, corresponding to the budget audit's lower bound.

But even accepting the figure of \$20.6bn, the net savings are merely 6.1 per cent of planned spending, consistent with an annual rate of productivity growth of 1.1 per cent, well below the 1.6 per cent productivity growth rate anticipated by Treasury for the Australian economy. This is not to dismiss the SRP's objectives, nor to minimise the task involved in achieving them. But like its predecessors, SRP addresses symptoms rather than causes.

A fundamental difficulty is that defence acquisition decisions reflect compromises between the services' wish lists rather than any rational allocation of resources.

Those decisions then lock in long-term costs with little regard to what is affordable, much less efficient, in the expectation that faced with shortfalls, governments will blink.

With armies of rent-seekers in the local defence industry chasing a share of the largesse, local projects are then given import protection 10 or more times that for manufacturing as a whole, compounding the cost penalties.

And when the call comes for savings, real priorities, such as sealift capacity, suffer.

These problems will only become more acute. After 2017, real defence budget growth is scheduled to drop to 2.2 per cent annually, well below the trend growth rate of costs.

With no sensible mechanism for setting spending priorities, it will not take long for the force structure to become unviable.

Averting that outcome requires dramatically better processes for taking defence decisions.

That need is hardly new: 40 years ago Arthur Tange, the greatest reformer in the department's history, said the issue was to find "a form of administration that would effectively support

the military forces under ministerial control and under scrutiny of expenditures incurred or committed."

As Freud said of psychoanalysis, meeting that challenge has proven not only impossible but also very difficult.

There is a real willingness in Defence itself to change. But what is required is a clear imperative from government and for Defence to have the incentive and the capability for change to happen. Until then, this week's unhappy tale will be repeated time and again.

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