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DEFENCE SPENDING AND THE ECONOMY

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DEFENCE AND THE ECONOMY

An Address by the Hon. Malcolm Fraser, M.P., Minister for Defence

INTRODUCTION

I have been asked to speak about Defence spending and the economy. I believe that you would have a particular interest in that part of the Defence Vote, which is spent quite specifically on capital items.

I believe that you would also have a particular interest in the measures that we are undertaking to increase the proportion of our capital equipment vote that is spent in Australian factories.

We have this as an objective not merely because of the nationalistic wish to buy Australian where we can, but because in a hard-headed Defence analysis our Defence forces need adequate and effective support from Australian Industry. In the last resort the most secure lines of supply come from your own factories.

The Australian forces need a firm industrial base as the fourth arm of defence, and it is our objective to achieve this purpose to the maximum practical extent.

DEFENCE AND GOVERNMENT PLANNING

However, before I talk of this aspect, I want to say something about Defence planning within the context of overall Government planning. I also want to say something about the potential difficulties of maintaining an adequate defence vote in the absence of an immediate and evident threat.

The term "Government planning" can give rise to misconceptions. To some, "planning" represents regulation by a central authority and it implies direction and control. This is not the Government's approach, which is empiric and not doctrinaire. It interprets planning as a rational way of proceeding so as to maximise opportunities for private initiative and enterprise.

There are many who would suggest that the Government's involvement over much of our economy should be discreet and selective; that Government encroachment should be the minimum necessary for sound economic management to maintain a stable economy.

When you come to Defence planning, however, the position is quite different. In defence, planning is fundamental. It is an area of prime responsibility for the Government. Without adequate Defence planning the secure environment that is vital

to orderly and continuing development may well be put in jeopardy.

While Defence planning is of great importance it does not mean that it cannot also serve civil ends. Where it is possible, Defence planning and national development should march together. The developments of ports, of roads and of airfields provide a classic example where both objectives can coincide. Where possible, it is our objective to see that they do coincide.

I have indicated that Defence and Defence planning represent one of the major objectives of Government. This does not mean to say that Defence planning can ignore other national objectives.

The objectives of national development, of equality, of adequate social welfare, themselves put significant demands upon the resources of the country which must be met. The task of the Government is to exercise the proper judgement between these competing demands. To justify and support an adequate claim upon resources of the country, it is important that Defence make quite sure that Australia gets the best possible value for every defence dollar.

To this end, for the first time the complementary techniques of programme budgeting and systems analysis which come together in the Five Year Rolling Programme have been instituted. This programme enables the Defence group to review the decisions needed over a forward period of five years to meet the future requirements of the Services.

This review is conducted against the background of the current assessment of our strategic situation which itself attempts to look forward ten years and beyond. It makes an assessment of the capabilities and characteristics of the Forces which will be required within the context of the strategic assessment, and then we assess within the Defence group the most effective means of providing the capabilities that are needed. In these analyses of course we must have firmly in mind the new technological developments that are coming over the horizon.

Henceforth we will get up to five years or more warning of impending decisions especially on major equipment proposals and this enables long range studies to be begun well in advance of the need to make a decision. These studies continue throughout the year.

At the moment two of the most significant concern the future requirements of Air Defence, which has an important place in the judgement we make concerning what replacement is necessary when the Mirage aircraft reach the end of their life; and a second important examination which has begun and which I have mentioned, concerns the relationship between sea and air power and the place of aircraft carriers within our Force structure. As background to both of these and other decisions on future Force structure we are examining the likely environment of the 1980s.

I want to issue a word of warning: the application of programme budgeting and systematic analysis does not imply any intention to replace judgement by analysis. The system and the analysis are merely an aid to judgement to try and make sure that when we come to make a decision all the relevant matters have been fully examined, the alternatives in terms of capabilities and resource allocation are clearly set out, and we are able to see the cost of the alternative choices.

I have mentioned these new planning procedures at this point in my remarks for a specific reason. Development of these procedures and their application will, I hope, persuade Australia that defence planning is being undertaken on a responsible and analytical basis designed to meet stated needs, designed to meet stated objectives. While nobody can give guarantees about anything in the future, we are I believe taking every human precaution available to us to see that defence dollars are well spent and to see that they are properly related to the security of Australia.

PRESSURES ON THE DEFENCE VOTE

Over the next decade, I see an increasing need to be able to demonstrate that this is so, because I believe there will be significant pressures in the possible absence of some immediate and evident threat to put some finite limit on the resources available to Defence which could make it difficult to achieve essential objectives.

The economy dislikes "stop-go" policies in relation to economic control. Business claims all sorts of unnecessary hardship and difficulty as a result. "Stop-go" policies in relation to Defence are just as harmful to the maintenance of an adequate defence effort, to the orderly development of the Forces, the technological competence, to training and morale, which are quite vital in times of emergency.

There were many critics of the fixed ceiling defence votes of the 1950s, which ended up with nearly 80% of the Defence vote being spent on salaries and maintenance.

In the early 1960s circumstances changed. There were the potential dangers of confrontation and there has been the participation in the Vietnam war. National Service had been established and the Government allotted much greater sums to defence. As a result the defence vote rose from \$379m. in 1958/59 to a peak of \$1,165m. in 1968/69, while the proportion spent on capital items rose from 22% in 1958/59 to a high point of 37% in 1967/68, out of a total vote in that year of \$1,110m. By capital expenditure I mean expenditure on new equipment buildings, works and housing. I have excluded land and acquisitions as replacement equipment.

Since 1967/68 total Defence expenditure has varied between \$1,100m. and \$1,170m. but the proportion of capital spending has declined significantly. This year it will be down to only 19%. I want to return to a more detailed discussion of this later.

The increase in Defence expenditure in the 1960s was under the stimulus of two circumstances which caused Australia some concern - Vietnam and confrontation. The latter has changed completely, and we look with enthusiasm to the manner in which Indonesia's new leaders are shaping the course their country must take. We are forging closer and closer links.

On the other hand, the Vietnam war is also running down, and this, in the minds of some, is beginning to create questions about the need for viable and effective Defence forces.

The situation underlines two problems and I want to say something about both. The first concerns the need to perceive adequately and clearly the course of future events and the source of likely dangers before they appear on the horizon, and the second concerns the means that must be used - the persuasions, the explanations which must be clear and firm to enable a democracy to sustain an effort instead of taking another easier course. The pressure to spend money on domestic matters will grow. Some will argue there is no immediate evident threat, therefore what's all this defence spending needed for?

This latter view, coupled with misconception of the kind of world in which we live, represents one of the greatest dangers to democracies. One of the great problems of leaders in democratic countries has been and is, how to maintain the will to do the difficult things which need to be done in the national interest. How do you maintain support for matters which might be hard, which might involve sacrifice, when there is not a clearly seen and evident danger to provide the stimulus, the cohesive force which enables you to marshal your people to a common purpose. I will return to this question.

STRATEGIC ENVIRONMENT:

But let me say something of the first of these problems - about the kind of world in which we live, because this is the basis of all the judgements which need to be made about the resources which must be devoted to Defence. Nobody can say what South East Asia will be like after Vietnam. Our objective clearly is an independent and viable South Vietnam which affords its own people freedom and a choice of Government, which they've wanted, which they've fought for and which they would never have if the totalitarian and aggressive North imposed its will upon Indo China. Whether we can and will succeed in that will depend not only upon the continued courage and fighting effectiveness of the South Vietnamese forces; not only upon the manner in which Saigon can build a loyalty for itself from people in the cities and the countryside, but also upon the political fortitude of people in America and to a lesser extent in Australia. Only this will enable allied support to be given to South Vietnam for a sufficient period to buy some more time to establish themselves.

I offer however, no guarantee about the outcome of this conflict. But one thing I am sure of; after Vietnam, South East Asia is still likely to be an unsettled place. There will be pressures, there will be probings. It is likely there will be further attempts to establish wars of national liberation.

On the other side of the world, we see a dangerous and difficult situation in the Middle East. We have as an implicit Soviet objective the re-opening of the Suez Canal to Russian naval ships. We have an increasing involvement of Soviet naval ships in the Indian Ocean. We see the increase of their strategic influence in an area where they have no specific national interest to protect; they have only their objective of spreading their influence around the world, by whatever means may be available.

If we believe the Soviets respect the right of democracies to an independent and viable existence, we deceive ourselves. Their objective is, as it has always been, to undermine the stability of Governments that have been friendly to the great democracies, to have those Governments replaced, to narrow that part of the world in which freedom can reign. If there are any who believe that a Russian fleet in the Indian Ocean can offer no threat to our strategic interests, then they misread the lessons of history and the use of sea power.

It is not hard to envisage an unstable regime, a potential coup - perhaps in five years, perhaps in ten years. In such a situation a deciding factor could well be the presence on the horizon of a fleet with a certain flag.

If a coup occurred in one country, under these circumstances, it could happen in another, and the result could be a growing situation which would not advance our interests.

You cannot exert this kind of influence unless you first establish a presence. The Soviets are establishing that presence.

I have spoken of alien forces but what of the great friendly powers. The British are remaining in South East Asia and that is very welcome. But the nature of their commitment and the level of their support will be very much less than it was even three or four years ago. Even though their interest remains, it is a lesser interest. If they ever provided a shield, it is a shield for Australia no longer.

The United States has also indicated under the Nixon Doctrine that she will be prepared to help those countries that help themselves. She has made it plain that she is not going to carry the banner of freedom alone, and who can blame her for that? Australia may need to be in a position to take independent initiatives, not to accept unequal responsibilities, but to be in a position to accept additional responsibilities.

The Prime Minister indicated this in an historic statement that has not been properly recognised. On the 25th February, 1969, he accepted a commitment for

Australia to maintain forces in the Singapore/Malaysia region, even though then we thought the British were going to withdraw entirely. We have, incidentally, had the first bonus from that independent Australian initiative because the British have since changed their policy and they are now remaining in the theatre. If Australia had not taken that step the present British Government would not have been able to reverse previous decisions and their interest would have been entirely withdrawn from South East Asia. There may be occasions when, to maintain security, we will have to indicate a readiness to take an action before one of the great friendly powers is prepared to do likewise.

This will pose challenges on Australian leadership that will not be easy to meet. We need always to beware of getting into a situation that would stretch our resources beyond our capacity. We are entering a new era and most of us do not yet recognise it. We are entering an era in which Australia is accepting responsibilities in equal partnership. We are entering an era in which we are the most sophisticated industrial and military country of those immediately located in our own region.

MAINTENANCE OF WILL:

This then is the nature of the environment with which we will be confronted for the next decade. An earlier point I raised concerns the need to maintain the will and determination of a people who are reluctant to accept discipline where there is no clearly seen and present danger.

Let no-one suggest that I criticise the independence or the unwillingness to accept discipline, for in the long term these represent the great safeguard for the freedom of the Australian people; but it does make it more difficult to marshal such people to a particular national objective, than a people who will accept, or even welcome discipline imposed by a State - such as happened in Germany, Japan or Russia.

The maintenance of will to maintain an adequate defence effort will require a clear explanation of the world in which we live, and of our particular strategic circumstances.

Is the explanation I have given sufficient for the Australian people to risk some sacrifice to achieve this particular national objective of security, or is something else required?

It is in this atmosphere of questioning that the Government will need to determine priorities from competing national objectives. We know that the aspirations of the Australian people cannot be met all at once; it is the Commonwealth's task to establish priorities.

We must respect that the Australian people have come to expect that improvement in standards or new benefits from Governments can come more quickly than our resources will allow. It is the task of Governments to match aspirations with reality.

In future years I believe there will be a need for harsher evaluation of Government priorities.

DEFENCE AND INDUSTRY

So far I have spoken about the techniques we are now applying in an effort to demonstrate that we are getting the best value for Defence dollars.

I have mentioned the strategic circumstances in which we see ourselves and the need to maintain the determination of Australians in a situation in which there may not be a clearly seen and evident danger. I have spoken about the need to determine national priorities.

Let me come to the matters of more direct concern to yourselves, the source of equipment supply and the programmes we are introducing in an effort to get a stronger and more viable industrial base in Australia to support our defence forces.

By no stretch of the imagination do I see how Australia, or for that matter any other country, can be completely and entirely self sufficient in providing all the material and equipment for its own defence.

This is partly a question of the supply of basic raw materials. But it is principally a question of not having all the technology and economic strength required to produce modern and complex war equipments. It is impractical for Australia to design, develop and produce all of the various guided weapons and aircraft which our Forces must have. I suggest to you that the experience of other countries proves this point. The U.K. is buying Phantom jets from the U.S.A. but the U.S.A. is in return buying Harrier jump-jets from the U.K. The much publicised Swedish aircraft industry imports engine designs. That country also relies on others for the supply of helicopters and guided weapons. The U.K. has bought Ikara from Australia. The U.S.A. buys Jindivik from Australia.

We must also take into account that the business of developing and producing equipment is a dynamic and competitive process. The continuing technological revolution has a major impact in the Defence field. Indeed Defence requirements are recognized as an important spur to technical progress. Research and innovation are as you will know, enormously costly, not merely in their demand for capital resources, but also for skilled manpower, of which we certainly do not have an over abundance in Australia.

With our small population, limited resources and limited requirements, we have to be concerned to ensure that the Defence equipment we get is the best for our situation; more, that those industries engaged in defence work in Australia involve us in an efficient allocation of our resources seen from the wider perspective of our national objectives.

This is an age of rapid change in technology and to participate with any vigour we must begin to specialize while maintaining a basic competence on as wide a field as possible.

To my mind a crucial question facing Australia in the coming years, as our industry becomes increasingly important to our economy, is in what areas of industry are we to specialise and become market leaders. Where are our strengths? The ship-building industry tells me that it should be ships and this is vital for defence. The aircraft industry tells me that it should be aircraft and this is vital to defence, and the electronics industry feels that it is this industry upon which we should concentrate our efforts.

We want to avoid where possible creating captive defence industries which rely solely on the Defence Vote for their solvency. I suggest that this is in our long term interests. My expectation would be that industry itself would be quick to see where the development and production of non-defence items would benefit from the application of Defence technology and have this very much in mind when bidding for Defence work. There are very few instances where our Defence workload alone has been sufficient in itself to sustain a worthwhile industry. I do not expect this to change markedly in the future.

In our approach to these matters, we must as a nation be more willing to discard sluggish and unattractive projects. Governments particularly need to exercise considerable responsibility in this. The public also must seriously question an attitude which sometimes appears to expect the Government to satisfy all and disappoint none, irrespective of the national worth of the enterprise involved.

GREATER INVOLVEMENT OF AUSTRALIAN FIRMS

I have mentioned some of the factors which make it difficult if not impossible to seek to satisfy all our Defence equipment requirements from local sources.

I would like now to discuss what Defence can do and is doing, to support the growth of industry and particularly of technologically advanced industry.

Perhaps in the past we have antagonised local industry by procuring some piece of equipment or another from overseas without inviting offers from local industry. We are now moving to a situation as quickly as possible where Australian industry will have the opportunity to bid more and more for items of defence eq-

equipment, either in its own right or in association with overseas firms. We are now placing increasing emphasis on closer consultation with industry and to an increasing extent it is now up to industry to respond.

We recognise the need to ensure that defence planning looks sufficiently far ahead to give Australian industry a proper opportunity to compete in the design and in the production stages of our equipment programmes. I think this has particular significance when we are looking for equipment involving the more sophisticated technologies. The Five Year Rolling Programme which we have adopted will assist in this.

We need, through standardisation and consolidation of different Service requirements where possible, to provide a market of sufficient size to justify local development and production involving the high capital and research costs to which I have referred.

For the more complex and sophisticated equipments our limited requirements reduce the possibility of total Australian development and manufacture. Where full local research and development is not possible we look to minimising such costs by adopting or adapting overseas designs for local production under licence.

Alternatively, we would wish to create the opportunity for Australian industry to participate on a joint venture basis with overseas suppliers.

There are a number of ways of achieving this. When we negotiate with prospective overseas suppliers we are in a position to insist that Australian industry be involved, and we have done this. This can take the form of a local firm participating as a major sub-contractor for our requirements, resulting in a co-production arrangement; or as a sub-contractor meeting other unrelated requirements.

The joint venture approach has the advantage of tying in our industry to markets which are usually significantly larger than our own. An expensive but small quantity Australian defence requirement can be made to yield much larger quantity orders for local industry.

The Government's determination to support Defence based industries is demonstrated by the recent decision to establish helicopter production at a total estimated project cost of \$37 million.

The Light Observation Helicopter (LOH) contract is unique in that Bell, the successful tenderer is to manufacture 75 military helicopters in Australia as part of a combined civil/military programme which comprises 191 helicopters, including 116 for civilian use.

This was done because the local production of military helicopters only would not have led to the establishment of a viable, long term manufacturing capability.

The arrangement, for the first time, combines a military aircraft requirement with a civil marketing production programme in Australia. This is a significant achievement.

The Bell Company will be entirely responsible for selling the helicopters for civilian use on the local and export market. No additional commitment can arise for the Commonwealth in relation to these civilian helicopters.

OFFSETS

Where a joint venture is impossible, which is likely to be the case when only a small quantity is being purchased, we seek to obtain offset orders on Australian industry from our suppliers overseas. These orders may be for components for the equipment we are buying, or they may be unrelated to that equipment. We are pursuing these offset arrangements vigorously and with some success.

It is not the Government's intention to confine the seeking of offset orders in relation to overseas Defence purchases, but rather offsets are to be pursued where practical for other major overseas procurements of complex technological equipment.

We will be placing increasing value on offers that include Australian design and development content.

We will be placing increasing emphasis on the technological quality of offset proposals.

For the most part an offset proposal does not mean that orders will automatically flow to Australian firms. It does mean that we can compete for overseas defence contracts on a favourable basis.

Australian industry has demonstrated that it can compete, as evidenced by orders worth more than \$4.6 million which have been received to date, and the contracts met, with quite a significant part of this in the aircraft industry.

NEED TO REFINE EVALUATION PROCEDURES

This approach to increasing industry's opportunity to participate in Defence enterprise is placing increased demands on our procedures for evaluation of tenders. We can for example, be required to compare overseas tenders which include offset offers with local tenders which include sub-contracts out of the country.

We are working to establish machinery to evaluate at the one central point:

- (a) the performance of the equipment offered;
- (b) the product support offered;

- (c) the price;
- (d) the extent to which the offer nourishes Australian industry by generating additional defence capability.

Lessons of the last year have shown that our objective must be to have the full nature of local production explored and available to the Government at the same time as the technical evaluation of the particular piece of equipment has been completed. Delays associated with establishing Australian production should be significantly reduced.

INDUSTRY'S RESPONSIBILITY

These initiatives, however, will come to nothing if the opportunities thereby created are not aggressively and competitively exploited by Australian industry. Those companies, and regrettably they are few, which have already sought work in South East Asia or in the United States can speak more eloquently than I of the difficulties which will confront us in these markets. Patience, hard work and considerable frustration are the hall marks of their efforts. But the prize surely is an assured position in the future of Australian industry.

The Government can in various ways encourage an industry but beyond a certain point the development of industry largely becomes a matter for the enterprise of the particular firm itself.

We believe that the best way to ensure success for our policies is to establish the circumstances in which those industries which demonstrate they have the initiative and ability to exploit the situation come naturally to the fore. The Government has no crystal ball which enables it to recognise in advance who has the enterprise and expertise to meet the challenge.

REDUCING CAPITAL EXPENDITURE

I now want to return to a fuller discussion of a point I raised earlier. That is the need to maintain an adequate level of expenditure on capital items. I have already noted that the total Defence expenditure this year will only be 3.5% more than it was in 1967/68. In fact, for the last four years the total Defence expenditure has changed very little in dollar amount. This is even though we have been suffering from rising costs like everybody else.

Our expenditure on Service Pay and Civilian salaries has been rising by almost 8% per annum over the past four years. The impact of this and the effect of rising costs for other maintenance items has been to raise total maintenance expenditure from \$669m. to approximately \$866m. a year over the four year period. There are pressures for this trend to continue.

In a Defence Vote that has not changed much for four years the effect of the rising maintenance costs has been associated with reduced expenditure for capital items. Four years ago our expenditure on capital was \$406m. This year it will be approximately \$215m. This is a 47% reduction and in the face of rising costs the capital expenditure in real terms is even less.

This year expenditure on capital will be only 19% of the Defence Vote compared to 37% four years ago.

The reason for this changing ratio of capital to maintenance lies to a large extent in completion of payments for major items of construction and equipment associated with our Defence expansion in the 1960s. Moreover, so far there is little impact from the \$400 million expenditure projected for capital equipment items and supporting infrastructure resulting from decisions made over the past eighteen months.

But these figures demonstrate the problem for Defence planners, namely how to preserve adequate funds for capital items. This is now receiving close attention.

Over the next decade we will be making a number of important decisions on our Force structure capabilities for the 1980s and the 1990s. I have mentioned on other occasions that we are undertaking for the first time in Australia the design of a light destroyer. Naval ships for the 1980s and beyond, replacement of aircraft and other equipment now in use will require substantial resources.

The Prime Minister has recognised the importance of our Defence effort. In his Policy Speech of the 8th October, 1969, he said:

"Adequate Defence is the rock on which national security stands. Without it, debate on internal matters could be academic. Over the years ahead we shall maintain and increase our Defence capacity".

He went on to say:

"We shall progressively increase the sums spent on Defence in the years ahead, for to do less would weaken our own security and invite the suspicion of our allies both within the region and without".

It is clear then that our national commitment to defence must be emphasised. I have made those points so that Australians will know there can be no lightening of the Defence burden.

I have already spoken of the responsibility of Government to exercise judgement between competing demands. I have noted the importance of the will of the people in doing this and to have them understand what is involved, the issues that are at stake. Australians will have to make their own judgement between rapidly rising consumption and long term security.

In his speech, the Minister for Defence stated that the Government would like to see the economy growing at a rate of 5% per annum. He said that the Government would like to see the economy growing at a rate of 5% per annum. He said that the Government would like to see the economy growing at a rate of 5% per annum.

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COMMENTARY BY PROFESSOR J. W. NEVILLE

In his commentary on Mr Fraser's address Professor Neville said that while he could claim no right to speak on matters of political or military judgement raised by the Minister, he wished to enlarge on the economic matters which were most important in any discussion of Defence and the Economy.

The first of these was the overall effect of defence spending on the economy, which the Minister had touched on when he spoke of the Government's task in establishing priorities between competing national objectives. Professor Neville said the first impact of defence spending on the economy was clearly inflationary, and the greater the proportion of the defence vote spent in Australia the more inflationary was the overall impact. Spending overseas on capital equipment had virtually no effect on the Australian economy, except in an indirect sense through affecting the balance of payment. But buying our equipment in Australia clearly had an impact which in present circumstances and in the circumstances of the foreseeable future was an inflationary impact.

But before getting too upset about the "dirty" word inflation, it would be good to realise the magnitude of Australian defence spending and to put it into perspective.

When defence spending had been at its peak in 1967/68, it was 4.3% of Australia's gross national product (G.N.P.). Since then it had declined in percentage terms to 4% in 1968/69 and 3.6% in 1969/70. This was certainly not an excessive percentage compared with similar economies.

Sweden spent about 3.5% of its G.N.P. on defence, France 4%, the U.K. 5%. Some countries spent less - Canada less than 3%, Denmark about 2%. But, to be a world power, the U.S. spent 9% of its immense G.N.P. on defence, so that the amount Americans spent on defence was almost three times the total income of Australia.

In all countries mentioned the trend in defence spending was now downward in percentage terms. Even the U.S. spent a smaller proportion of national income on defence in the late 1960s, despite the Vietnam war, than it did in the late 1950s. As Australia's defence spending had also declined as a percentage of G.N.P. over the last four years, it clearly could not be accused of being the villain in the Australian inflationary scene.

Professor Neville said the Minister had put forward arguments why this decline should not continue indefinitely. He had not indicated at what point it should be halted, or what percentage of the G.N.P. he would think it appropriate to allocate to defence

spending. Professor Nevile said he would be interested to hear the Minister's comments on this point. The answer arrived at would affect the present and future living standard of Australians in as much as defence spending in current goods and services might be at the expense of civilian investment.

This was not a matter that could be decided without a knowledge of the present military facts of life, or without a forecast of future likely events. Defence spending was like an insurance policy. The more one spent the better cover one got. But unlike normal insurance policies there were sharp discontinuities. To pluck a figure out of the air, it could be that if it were a 3.5% level of G.N.P. the cover would be barely worthwhile worrying about. But at 4% it could be really worthwhile. This could be the case, if as the Minister had hinted, some minimum level of spending was necessary to enable us to enter into worthwhile alliances.

On the other hand, it might be that the cost of insurance cover was so high as to make an insurance policy hardly worthwhile at all. Apart from hoping to draw the Minister on this point, if a policy of allocating between 3% and 4% of G.N.P. to defence would give some worthwhile cover, some real security, it was certainly not an excessive amount by the standard of other countries with comparable living standards.

Encouraging Research and Development

While defence spending was overall inflationary, there were some offsetting gains which helped to increase the rate of economic growth, Professor Nevile said.

Mr Fraser had mentioned technical progress and the role of defence spending on capital equipment encouraging research and development in Australia. In the short run it might well be cheaper to import research and development from abroad by buying the finished product. In the long run, it was essential for economic progress in Australia to have some home-based research and development to maintain able scientists and technologists in Australia, who could understand what was being done abroad and could adapt this to any peculiarly Australian conditions.

In recent years the Defence Department had shown more awareness than many commercial firms for the need for Australian research and development. Australia often spent a large proportion of its G.N.P. on research and development. But without the qualities pursued by the Defence Department, that proportion would be smaller with consequences to the whole economy.

Because the amount we could spend on defence, or on research and development, was small by world standards it was most important not to spread our resources too thinly.

Mr Fraser had pointed out the need for specialisation. He had also commendably thrown cold water on the aspirations of those who "expect the Government to satisfy all

and disappoint none" irrespective of the national work of the enterprise involved.

Australians were inclined to believe that giving everybody a fair go implied that we should encourage anyone who wanted to produce anything in Australia, irrespective of the cost to the economy of making it here rather than importing it. The economic idiocy of this view needed to be exposed, as Mr Fraser had done.

Professor Nevile continued that he also welcomed the Minister's recognition of the need to ensure that Defence planning looked sufficiently far ahead to give Australian industry a proper opportunity to compete in the production and design of Australia's equipment programme. Not only was it necessary to plan ahead but also to have, as far as changing military circumstances allowed, consistent policies over time. This had not always been the case.

Professor Nevile concluded by congratulating the Minister on his recognition of the importance of wise defence spending for the welfare of the economy as well as on the importance of a healthy economy for the welfare of defence and security.