

Analysis of and Comment on “Defence Spending Needs a Check Before Takeoff”¹

An editorial appearing in the *Sydney Morning Herald* on 19 July, with a title as shown above, used as a starting point an article in the same newspaper by Peter Hartcher.² The editorial expressed the view that, for the present time, unfair pressure was exerted on Australia by the representatives of the United States, at the Australian American Leadership Dialogue, to increase its military expenditures from that announced in the May budget. The reasons: (1) Australia’s reduction of military expenditures in the budget reflects a need to bring Australia’s defence establishment into “leaner shape after a decade of indulgence during the ‘war on terror’”. (2) The notion of a “NATO standard” has meaning in terms of a percentage of gross domestic product earmarked for defence expenditure on average, not every year. (3) The figure cited by Admiral Locklear of 2.5 per cent of gross domestic product as a NATO standard is curious since “aside from the two west European nuclear powers and heavily militarised Turkey, the level of defence spending is closer to 1.5 per cent of GDP.

The purpose of this comment is to provide more extensive data to support these three points and to suggest additionally that a standard based on per capita military expenditure is an equally suitable standard (as compared to expenditure as a percentage of GDP) since it converts to a figure that would allow Australian citizens to evaluate it in terms that can be more readily understood. This should be considered an essential element for democratic nations with citizen participation in assessing the budgets prepared by their elected leaders. Although the Internet site of the Australian American Leadership Dialogue (<http://www.aald.org/index/index/page/home>) includes no statement about a commitment to democracy, we should probably take it as a given since the objectives that are listed would most likely become problematic if one or the other nation suddenly became despotic.

The data shown on the tables in the following pages were taken from (1) the database of the Stockholm International Peace Research Institute (SIPRI)³ for the military spending of selected nations, and (2) the International Monetary Fund *World Economic Outlook Database, September 2011* for all other data used here.⁴ The military expenditures are expressed in US dollars at current prices and exchange rates for 2011, and were taken from worksheet 4 of the database.

¹ Editorial, “Defence Spending Needs a Check Before Takeoff”, *The Sydney Morning Herald*, 19 July 2012. Available at: <http://www.smh.com.au/opinion/editorial/defence-spending-needs-a-check-before-takeoff-20120718-22agp.html>.

² Peter Hartcher, “Australia’s Credibility as an Ally at Risk After Defence Cuts, Says US”, *The Sydney Morning Herald*, 18 July 2012. Available at: <http://www.smh.com.au/opinion/political-news/australias-credibility-as-an-ally-at-risk-after-defence-cuts-says-us-20120717-228gz.html>.

³ Available at: <http://milexdata.sipri.org/files/?file=SIPRI+milex+data+1988-2011.xls>.

⁴ Available at: <http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>.

Table 1: Military Spending in 2011 in Selected Countries

	Military Spending (US\$b)	Ranking (by Military Spending)
United States	711.42	1
China	142.86	2
Russia	71.85	3
United Kingdom	62.69	4
France	62.54	5
Japan	59.33	6
India	48.89	7
Saudi Arabia	48.53	8
Germany	46.75	9
Brazil	35.36	10
Italy	34.50	11
South Korea	30.80	12
Australia	26.71	13
Canada	24.66	14
Turkey	17.87	15

America's military spending in 2011 was five times greater than China's military spending in that year, and only slightly lower than the sum of the military spending of all other nations in the selection (refer to Table 1). Australia's military spending in 2011 ranked 13th among the 15 nations selected for analysis. However, the economic size (as indicated by gross domestic product – GDP) and the population size of Australia are both small compared to most of the other nations included in the selection. Adjustments should therefore be made.

The first adjustment is made with GDP and is shown in Table 2 on the following page. The ratio of military spending to GDP is highest for Saudi Arabia at 8.66 per cent of GDP and lowest for Japan at 1.01 per cent of GDP. Australia's ratio was 1.77 per cent of GDP for that year and this ranked 10th among the 15 selected nations. Following the comment in the *Herald's* editorial, after removing the UK and France as nuclear powers, and Turkey as heavily militarised, then adding Australia and South Korea as non-NATO allies of the US, the average ratio of military spending to GDP is 1.6 per cent for American allies, which is consistent with the percentage noted in the editorial. NATO members that were not included in this selection of 15 nations with the largest military spending, would, if included, necessarily lower the average rather than raise it.

Table 3 on the page 4 shows military spending during the year as a per cent of the population. China and India are of course the largest in terms of population, but both are relatively low in the rankings. The United States is clearly the leader in per capita military spending at US\$5,209 per person living in the US. The bottom of the table shows India with

US\$39 per person during 2011. Australia is in third place, with its residents each indirectly contributing US\$1,186 to military spending through the government’s budgetary process.

Table 2: Military Spending and Gross Domestic Product

	Military Spending (US\$b)	GDP (US\$b)	MS/GDP	Ranking (by DS/GDP)
Saudi Arabia	48.53	560.294	8.66%	1
United States	711.42	15,064.816	4.72%	2
Russia	62.69	1,884.903	3.33%	3
India	48.89	1,843.382	2.65%	4
South Korea	30.80	1,163.847	2.65%	5
United Kingdom	62.69	2,480.978	2.53%	6
Turkey	17.87	763.096	2.34%	7
France	62.54	2,808.265	2.23%	8
China	142.86	6,988.470	2.04%	9
Australia	26.71	1,507.402	1.77%	10
Italy	34.50	2,245.706	1.54%	11
Brazil	35.36	2,517.927	1.40%	12
Canada	24.66	1,758.680	1.40%	13
Germany	46.75	3,628.623	1.29%	14
Japan	59.33	5,855.383	1.01%	15

The significant improvement in ranking for Australia using population numbers for the adjustment is consistent with the surge in per capita income for Australia (refer to Table 4) in US\$ and both were affected by the exchange rate revaluation as a result of exports of natural resources to China and India during 2011. This of course can change, and most probably will, so such an adjustment is more volatile than would occur with an adjustment using GDP. The point of applying the adjustment based on per capita military spending is not to suggest that it should replace the one based on the ratio of GDP, but that both should be examined. And when both are examined, the view that Australia is seeking a “free ride” on the US, as was reported from the Leadership Dialogue by Peter Hartcher (refer to footnote 2), tends to fly out the window for 2011 when, with the exchange rate that applied in that year, Australia’s per capita military spending was substantial after conversion to US dollars. What emerges, rather, is a hint of panic and desperation on the part of Australia’s opposite numbers in the Australian American Leadership Dialogue.

Would it not be better to discuss the appropriate targets for military spending within NATO and at the Australian American Leadership Dialogue meetings, rather than having them dictated on a unilateral basis? Would it not be better to use more diplomacy and statecraft to make the allies more allied and to make the “unfriendly” more friendly?

Table 3: Military Spending and Population

	Military Spending (US\$b)	Population (millions)	MS/Pop. US\$	Ranking (by MS/Pop.)
United States	1,630.0	312.891	5,209	1
Saudi Arabia	48.2	28.169	1,711	2
Australia	26.7	22.504	1,186	3
United Kingdom	62.7	62.644	1,001	4
France	62.5	63.248	988	5
Canada	24.7	34.384	718	6
South Korea	30.8	49.006	628	7
Germany	46.7	81.440	573	8
Italy	34.5	60.619	569	9
China	711.0	1,348.121	527	10
Russia	71.9	142.411	505	11
Japan	59.3	127.900	464	12
Turkey	17.9	72.153	248	13
Brazil	35.4	196.933	180	14
India	46.8	1,206.917	39	15

Table 4: GDP per capita in 2011

	GDP per capita (US\$)	Ranking (by GDP per capita)
Australia	66,984	1
Canada	51,147	2
United States	48,147	3
Japan	45,774	4
Germany	44,556	5
France	44,401	6
United Kingdom	39,604	7
Italy	37,046	8
South Korea	23,749	9
Saudi Arabia	19,890	10
Russia	13,236	11
Brazil	12,917	12
Turkey	10,576	13
China	5,184	14
India	1,527	15