Australian budget bonanza for the wealthy

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As could be expected from a government that joined the invasion of Iraq based on bare-faced lies, falsely accused refugees of throwing children into the sea and denies even basic psychiatric care to detained immigration "suspects," the 2005-06 Australian budget has handed billions of dollars to the wealthiest layers of society in the name of "tax cuts for all" and "providing for the future".

True to form, Prime Minister John Howard and Treasurer Peter Costello have targeted the most vulnerable members of the working class—sole parents, the disabled and the mature-aged jobless—declaring that 190,000 of them will be pushed off welfare and into work. This "dog whistle" politics—seeking to demonise the victims as "bludgers"—was immediately picked up by the Murdoch media, with tabloids such as the Sydney *Daily Telegraph* hailing Costello as a "working class hero" for rewarding "workers" not "shirkers".

But who are the workers that benefit from the $22 billion worth of tax cuts? The highest income recipients, those on $125,000 a year or more, were handed tax windfalls of $87 a week over the next two years, while the 75 percent of taxpayers who earn less than $58,000 a year will get only $6 a week. This is less than the cost of one workday lunch.

In addition, high income elite received a further hefty $2.5 billion handout over four years with the abolition of the 12 percent surcharge on their superannuation contributions. With the tax cuts they received in last year's budget (which gave 80 percent of the population nothing), the total weekly benefit to the rich is estimated to be $130 a week.

This is on top of the underlying shift of the tax burden to the poor imposed by the introduction of the highly regressive Goods and Services Tax in 1999, a consumption tax that now rakes in $37.3 billion annually.

This year's budget contained yet further bonanzas for the corporate elite. One consisted of business tax concessions worth $1.8 billion, with the removal of a tariff scheme and addition of deductions for so-called "black hole" expenditures.

An even greater bonanza was the creation of a $16 billion "Future Fund" into which budget surpluses will be poured. Proceeds from the planned $30 billion complete sale of Telstra, the telecommunications carrier, will also go into the fund. Its immediate justification is to meet the unfunded superannuation liabilities that will accrue to federal public servants as they retire in coming years.

However, the larger purpose of the fund, forecast to grow to $140 billion by 2020, is to create a giant slush fund for investment on stock exchanges. It will "pump fresh cash into share markets," enthused Murdoch's *Australian*. Because high income recipients own more than 90 percent of shares on Australian exchanges, they will reap the lion's share of the expected pump-priming. At the same time, the retirement benefits of public servants will be gambled on the markets.

The central thrust of the budget's "welfare to work" blueprint is to ensure the continued supply to business of workers who are forced to accept low-wage, part-time and casual employment.

From July next year, the poorest working class parents will be expected to leave their children to fend for themselves before and after school while they are working, or looking for work. Parents, both single and partnered, who receive parenting benefits, will have to seek part-time work once their youngest child turns 6. If they are already receiving parenting payments they will continue to do so until their child turns 16, the current cut-off age. But they will be subjected to "work test" rules, such as going for 10 job interviews a fortnight.

From 2006, new parents will be denied the benefit altogether once their child turns 6. Instead, they will be shifted to the lower Newstart allowance—an income cut of $44 a fortnight for those already living below the poverty line. This also has draconian "work test" conditions. Within a few years the government will have completely abolished parenting benefits for people with children over 6.

The blatant double standard involved was highlighted by an article in the *Financial Review* comparing the treatment of two stay-at-home mothers. One is married to a millionaire, while the other is a single parent on benefits. The rich mother is now entitled to $2,385 a year in a special family benefit, which lasts until her youngest child turns 18, is not means tested against her husband's income and allows her to earn up to $16,000 a year before losing payments altogether.

By contrast, the second mother, who has been trying to live on $12,220 a year ($235 a week), will lose $1,976 a year and be required to apply for 10 jobs a fortnight. If she has not found a job within six months, she could be forced onto a work-for-the-dole program. If she finds a job, she can only earn $31 a week before her dole starts to be reduced and even if she finds a subsidised after-school care place for her child, she could still be required to pay about $40 a week more for childcare.

Equally vicious are the measures in store for the disabled, whom Costello maligned as likely sufferers of fabricated "bad backs". In reality, they include not only the handicapped but also the growing toll of injured workers, the sick, and the mentally-ill. Those deemed able to work 15 hours a week, double the current level, will no longer be entitled to the disability support pension. They too will be shifted onto the lower Newstart allowance and forced to hunt for jobs, regardless of their disabilities.

Likewise, jobless workers between 50 and 55 will be pushed into the often demeaning and pointless "work-for-the-dole" schemes, while even those over 55 will be required to meet the "work test". Most of these workers have been retrenched by the thousands from factories, offices and other workplaces and have little prospect of obtaining decent work.

Welfare penalties will also be increased to intimidate and punish recipients so that they have no choice but to accept work, no matter how low the pay or substandard the conditions. Job seekers who fail the "work test" or refuse to join "work-for-the-dole" projects will have their benefits suspended until they do so. If they breach the requirements more than once, they can lose all payments for eight weeks. Numerous reports have condemned the existing penalty system for subjecting people to extreme hardship. This misery will now multiply, inevitably producing more poverty, homelessness and ill-health.

By delaying some of these attacks until next year and partially quarantining existing sole parent and disabled recipients from the new regime, the government is conscious of the need to dissipate public anger. In the lead-up to the budget, carefully placed media leaks suggested even harsher measures, in an effort to portray the budget as less stringent than expected. Now the brutal impact of the most sweeping scrapping of welfare rights in 30 years will be partly buried by being spread over several years.

Despite achieving a massive budget surplus of $8.9 billion, primarily as a result of booming Chinese markets and high commodity export prices, the government has continued its assault on public health, education and other social services. While pouring money into the pockets of the rich, its budget papers barely mentioned that families will have to spend hundreds of dollars a year more on medicines and visits to the doctor.

Buried in the fine print was the already announced decision to tear up a key election promise by reducing the much-vaunted Medicare "safety net". Families will have to spend $500 a year on out-of-pocket medical expenses (up $200) and singles and the wealthy $1,000 (up $300) before they get back 80 percent from the Medicare health insurance scheme. As soon as the phoney "safety net" was unveiled for last October's federal election, doctors, notably expensive specialists and medical entrepreneurs, began putting up their fees, more than doubling the government's forecast cost of its election promise.

The budget contained another nasty surprise for the ill. Cuts and clawbacks to the Pharmaceutical Benefits Scheme will mean that general patients will have to spend an extra $228.80 a year and pensioners $36.80 more to get free or cheap medicines. At the same time, the over-stretched and decaying public hospital system received no relief, while some $3 billion a year continues to be funnelled into subsidising private health funds.

Nor did any of the budget bonanza go to the universities or public schools, all of which are being deliberately run-down to make way for private operators. The budget confirmed the government's refusal to fully index university grants to cover the costs of salary increases, effectively cutting more than $500 million a year off their already depleted funding. By contrast, vocational and technical education was boosted by $280 million, part of an ongoing shift away from higher education toward business-oriented training.

The only sizeable new social spending is to subsidise 87,800 new childcare places over four years. This was presented as an ingredient of the "welfare to work" agenda, yet will provide only a fraction of the places needed if 190,000 welfare recipients are to join the workforce. Together with a new 30 percent rebate for childcare fees, due to commence in 2007, the funding will largely benefit the corporate chains that are taking over the childcare industry.

The most generous budget increases were reserved for the military and security agencies, which have all already received major cash injections over the past four years, as a result of the "war on terrorism", military operations against refugee boats, the Iraq invasion and interventions in the Solomon Islands and other Pacific states. The defence budget will rise to a record $17.5 billion, including $402.5 million for the current deployment of 450 troops in southern Iraq. "Law enforcement" programs in the Solomons will cost $800 million over the next four years. Various "counter-terrorism" measures will consume an extra $240 million over the next four years, mostly for ASIO and other spy agencies. Since 2001, the government has now devoted $5.6 billion to "enhanced security".

While trying to create the image of a "good news" budget, the Howard government confronts mounting economic and political pressures.

The budget has underscored its dependence on rapid economic growth in China, which has become the biggest export market for Australian coal, natural gas and iron ore. Largely because of China's appetite for raw materials, Australian-based corporations are enjoying their best terms of trade (exports prices compared to import prices) in 50 years. For the moment, this is producing huge profits and corporate tax payments.

There are many signs, however, that these extraordinarily favourable circumstances will not last much longer. They include a slowing world economy, warnings of over-heating in the Chinese economy and the certainty that new suppliers of minerals will undercut Australian prices. Despite the export boom, Australia's current account trade deficit is running at a record 7 percent of gross domestic product, with CS First Boston noting that the deficit would be 10 percent if commodity prices were at their historic norm. That is far above the 6 percent level at which treasurer Paul Keating issued his famous 1980s warning of a slide into a "banana republic".

Domestically, the "bubble" economy of soaring property prices and debt-fuelled consumer spending on which the Howard government has rested since the late 1990s, has started to burst as interest rates rise. Under these conditions, worried by potential public hostility, the government has not been able to deliver the demands of the corporate establishment for far more radical economic restructuring in its first post-election budget.

For all the budget's windfalls, big business has labelled it a "missed opportunity" to implement genuine "economic reform"—the euphemism for removing progressive tax rates altogether and abolishing entire welfare programs. The criticism is all the greater because this is the first budget since the government took office in 1996 where it has a majority in the Senate, removing the need to make any adjustments to its measures to push them through parliament.

The May 11 *Financial Review* editorial pointedly compared Howard's government to those of his Labor predecessors, which carried through the greatest "free market" redistribution of social wealth away from the working class in history. After expressing gratitude for some of the budget's contents, it stated: "Even so, after almost a decade in power the government still struggles to match the reform record of its Labor predecessors under Paul Keating and Bob Hawke. After July 1 it will no longer have the excuse that it can't get unpopular reforms through the Senate, and the best time to enact such reforms is in the first post-election budget."

Over the coming period, as the economic situation inevitably worsens, these demands will only intensify. Yet, for all its parliamentary numbers, the government remains politically precarious. In the absence of any real alternative offered by Labor, heavily-mortgaged voters swung behind the government at last year's election when it ran a scare campaign that interest rates would rise under Labor. Many in Howard's constituency are now confronting higher rates and falling property prices, while seeing the fruits of the government's victory going to the wealthy.

Financial Review columnist Brian Toohey highlighted the government's dilemma by pointing out that if the corporate demand for cutting the top income tax rate of 47 percent to 30 percent had been granted, a banker on $3 million a year would have received a tax cut of more than $500,000.

Notably, Labor's criticisms of the budget have substantially echoed those of the business chiefs. After paying lip service to the plight of the lower-paid, Labor leader Kim Beazley objected that the government had fudged the opportunity for genuine "tax reform" and made "irresponsible" tax cuts while not addressing business concerns about low levels of infrastructure spending.