

Australia: Rudd Labor's budget delivers for business and the wealthy

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Handing down the Rudd Labor government's first annual financial budget last night, Treasurer Wayne Swan claimed that its centrepiece was a "support package" for "working families" worth \$55 billion over three years. Sections of the media have likewise portrayed it as a "Robin Hood" exercise, taking from the rich to give to the poor.

The reality is that the first Labor budget in 13 years hands the largest tax cuts to the wealthy, while slashing health, education and other social spending and diverting billions into the military and police. At the same time, like its Howard government predecessor, Labor has banked on the continuation of the extraordinarily lucrative mining export boom and record commodity prices, based primarily on China's rapid growth, to pour billions into investment funds for infrastructure projects demanded by big business.

Most of Swan's claim of new support for working families rests on \$46.7 billion worth of income tax cuts over four years, largely inherited from the Howard government. From July 1, families on a single income of \$45,000 will get an extra \$20.19 a week, rising to \$34.62 by 2010. But the tax cuts are regressive—the higher your income, the more you benefit. This is on top of the last five Howard government budgets, which gave large tax handouts to the affluent.

In an attempt to appease the discontent that swept the Howard government from office six months ago, the budget contains token measures against better-off people. Higher taxes have been placed on luxury cars, minor tax loopholes closed, and means tests applied to baby bonuses, child care subsidies and family tax benefits. But the \$500 million in new taxes is tiny compared to the multi-billion income tax cuts, while the means-testing (on household incomes above \$110,00 or \$150,000 a year) will primarily hit workers and professional people who can ill afford the slashing of their weekly household income.

The \$20 or so that most people will gain has already been more than swallowed by rising petrol, food and other prices as well as higher mortgage and credit card interest payments and/or rents.

Hidden away in the budget papers are Treasury predictions that 75,000 people will lose their jobs by the middle of next year because of an economic slowdown, on top of some 3,000 public servants who will be axed directly as a result of the budget cuts.

Treasury is also counting on increased housing stress to drive down annual housing spending growth from 7 percent to 2.5 percent. It estimates that 575,000 households are already in stress, paying more than 30 percent of their gross income on housing costs, and this number is set to soar.

Buried in the documents too, and not mentioned at all in Swan's budget speech, are 66 pages detailing 134 new savings measures, on top of the 46 cuts announced during last year's election campaign. All

up, the cuts total \$7.3 billion for 2008-09 and \$33 billion over four years. Drought assistance will be reduced by \$98.9 million over two years, and other programs for farmers worth \$167.5 million over five years will be scrapped. Funding for technical colleges will be cut by \$99.4 million over four years, and apprenticeship programs will lose \$130 million over four years. "Compliance measures" and a means test on Commonwealth Seniors Health Card will raise more than \$150 million over four years, and \$100,000 has been stripped from Chamber Music Australia.

In health care, \$2.6 billion was slashed from areas including mental illness (\$9.7 million over two years), dental health (\$491.4 million over five years), pathology services, diagnostic imaging and health training (\$503.7 million over four years) and enrolled nurses' education (\$169.9 million over five years).

In one of its more cynical measures, the government increased the tax rate on so-called "alco-pops"—sweet alcoholic drinks—in the name of combatting "binge drinking" among young people—particularly young girls—and said the revenue raised would be ploughed into health spending. The budget papers reveal that it is counting on a \$3.1 billion revenue haul from this over four years, up by more than \$600 million. In other words, Labor is factoring in a significant worsening of this growing social problem and reaping benefits from it, without any corresponding boost to the health budget.

Likewise, while Prime Minister Kevin Rudd has promised an "education revolution", the chronically-underfunded public school system received virtually nothing, spending on higher education will go backwards in real terms in 2008-09, and funds will still pour into private schools. In fact, for the first time, federal spending on private schools will exceed spending on universities. By 2012 universities will receive \$7.3 billion while private schools will get \$7.7 billion.

Welfare has also been also targeted, with \$728 million to be saved via a crackdown on supposed overpayments by the government's Centrelink agency. An "income management debit card" will be trialled in selected indigenous communities as another step toward spreading the welfare-cutting measures initiated against Aboriginal people in the Northern Territory. The card will enable welfare "quarantining"—taking away 50 percent of payments and dictating that they be spent on food and essential items—to be extended nationally.

Indigenous people have been treated with particular contempt. In the past months, Rudd has made much of his commitment to close the health and welfare gap between non-indigenous and indigenous people—whose life expectancy is 17 years less than the national average. Half the budget spending on indigenous affairs, however, is dedicated to continuing the former Howard government's NT intervention, aimed at driving residents out of remote communities.

Swan promised \$90 million over five years for indigenous child and maternal health services, a pittance compared to the \$1.84 billion that the National Aboriginal Community Controlled Health Organisation estimates is required over four years to address shortfalls in primary healthcare for indigenous people.

The jobless will also be worse off. Labor has claimed to be softening punitive measures against the unemployed, but employment services will be cut by about 10 percent, or \$350 million, over three years. Under an announced review, the remaining services will be refocussed on pushing people into increasingly prevalent low-paid and insecure jobs.

For all the “Robin Hood” talk, the budget set another historical mark. For the first time, tax concessions on superannuation (\$27.7 billion)—the lion’s share of which go to the better-off—will exceed the cost of aged pensions (\$26.7 billion). This shift is increasingly forcing working people to pay for their own retirement. While backing away from scrapping some seniors’ allowances, the government left pensions at the poverty level of \$273 a week for a single person.

Having signed the Kyoto Protocol to give itself “green” credentials, the government cut its promised “climate change” program from \$3 billion to \$2.3 billion over four years, with a large chunk of that, some \$1 billion, earmarked for so-called “clean coal” projects that further subsidise coal producers. Among the environmental programs slashed were various household water- and energy-savings grants, producing savings of \$73.6 million over four years.

Through these measures the government has produced a record budget surplus of \$21.7 billion, or 1.8 percent of Gross Domestic Product, exceeding business demands for a surplus of 1.5 percent in order to reduce public spending and curb inflation. Like his Liberal predecessor Peter Costello, Swan benefited from unexpected tax revenue increases—\$5.4 billion—almost solely drawn from the commodities boom.

The budget surplus will be diverted into three investment funds, for future spending on infrastructure, health and education, which will reportedly amass \$41 billion by the end of 2009-2010. These funds will be ploughed into increasingly unstable financial markets, with any dividends becoming down payments on proposed “public-private partnerships”. Merchant banks like Macquarie Bank will reap huge profits by financing the construction of toll roads, as well as the new ports, roads, railways and other facilities being demanded by the huge mining corporations and other sections of big business.

The other winners in the budget are the military, police and intelligence agencies. A 3.25 percent “efficiency dividend” has been imposed on every other government department, but military spending will be boosted by 4 percent in real terms each year for the next four years. More than 3,000 troops will remain overseas. For the coming year, \$618.9 million has been allocated for operations in Afghanistan, \$215 million for Iraq, \$174.3 million for East Timor and \$27 million for Solomon Islands. The budget documents show that the Iraq war has already cost \$2.3 billion since 2003 and Rudd will keep most of the Australian forces currently involved in the US-led occupation there for the foreseeable future.

An extra 500 Australian Federal Police positions will be created over five years, stepping up both the domestic “war on terror” and police deployments in Afghanistan and the Pacific. Spending on the political police of the Australian Intelligence Security Organisation (ASIO) will increase by 20 percent this year to \$358 million.

The budget highlights the extraordinary and precarious reliance of the Australian business and political establishment on soaring

commodity prices and mining exports to China. All the budget calculations are predicated on an unprecedented 20 percent rise in the country’s terms of trade this financial year, largely the result of price hikes for coal and iron ore.

The lift in the terms of trade is predicted to boost federal coffers by another \$33 billion in the next financial year. Treasury estimates that the rise will have generated \$87 billion in extra tax revenue in the five years to the end of June 2008, constituting 11 percent of the tax intake.

This dependence has deep-going geo-political and economic implications. It ties Australian capitalism intimately to the fortunes of the Chinese regime, while making the Australian economy extremely vulnerable to the ongoing global fallout from the US financial crisis, which will inevitably affect Asian economies. In his budget speech, Swan repeatedly referred to the dangers of international “turbulence” and high inflation as justifications for Labor’s spending cuts. If and when the export boom collapses, or even begins to falter, savage cuts to social spending, jobs and wages will be demanded by the corporate elite.

Business organisations and media commentators generally welcomed the budget, particularly the infrastructure funds and an unexpectedly large cut in a foreign investment withholding tax from 30 percent to 7.5 percent, which Labor hopes will increase the chances of making Australia a financial “hub” for the Asia-Pacific region.

Greg Gailey of the Business Council of Australia, which represents the 100 biggest corporations operating in Australia, said: “The government has put the brakes on real spending and delivered a significant surplus which will be appropriately reinvested in the future.” Heather Ridout of the Australian Industry Group described the budget as “on-task, disciplined and ambitious”.

Key editorials, however, accused the Labor government of squandering the opportunity in its first budget, with an election not due for two years, to cut more deeply. The *Australian Financial Review* congratulated Labor on its “ambition”, but warned “it still has to deliver”. Murdoch’s *Australian* labelled the budget “responsible” but “lacking courage on reform and in deep cuts to spending”.

At the same time, the *Australian* editorial said it recognised the Rudd government’s “political imperative” to be seen to deliver its election promises of assisting low- and middle-income earners. The latter comment reflects the growing nervousness in ruling circles with Labor’s capacity to accelerate the “reform agenda” required by business, particularly under conditions where the former ruling Liberal-National Party is in open disarray throughout the country. Australian Broadcasting Corporation commentator Heather Ewart said the budget contained “enough pain to satisfy business but not enough to make the electorate kick and scream”.

The trade union movement’s response to the budget was particularly noteworthy. Australian Council of Trade Unions president Sharan Burrow hailed it as “an enormous relief” and “fantastic”, and pledged to work closely with the government to “manage” the public sector job cuts.



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