Australia: Political divisions deepen over budget measures

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The Liberal Party's response over the past week to the Labor government's third budget has underscored the deepening factional rifts within the Australian ruling class. Opposition leader Tony Abbott has made a direct appeal to various sectional corporate interests—above all the mining industry—which oppose aspects of Prime Minister Kevin Rudd's agenda, which is oriented toward finance capital and big business as a whole. The internecine fighting points to a steadily developing political crisis amid further turmoil on global financial markets.

The Liberals pledged an additional $46.7 billion in "savings" as part of their campaign against the government's "reckless spending". Among other cuts, Abbott promised a public sector employment freeze, the elimination of several education and health programs, the cancellation of the planned $18 billion national broadband network, and the privatisation of health insurer Medibank Private. The austerity program is intended to capitalise on a growing consensus in business and media circles that the Rudd government must now wind up fiscal stimulus measures that were announced at the height of the 2008 financial breakdown, and instead launch a cost-cutting program aimed at buffering the Australian economy from the unfolding international sovereign debt crisis.

This appeal of the Liberals has, however, been overshadowed by their specific orientation to the mining industry. Nearly one-quarter of their total spending cuts consist of axing various programs that the government expects to fund from its 40 percent "Resource Super Profits Tax". The mining companies have mounted a furious campaign against the impost, threatening to cancel multi-billion dollar investments. In opposing the tax, Abbott hopes to win the support of the mining giants, which have up to now enjoyed the friendliest of relations with the Labor government. The Liberals also hope to pick up some parliamentary seats at the next election in resource-rich Western Australia and Queensland.

Abbott announced that after rescinding the resource rent tax, a future Liberal government would not be able to match Labor's planned reduction of the corporate tax rate from 30 to 28 percent. The decision indicated the opposition's determination to win the backing of the mining companies, even at the expense of other sections of big business, which have long demanded corporate tax rate cuts to bolster Australian capitalism's international competitiveness. The Australian resource sector is currently booming, driven by record commodity prices caused by China's industrial expansion. Much of the rest of the "two track" economy, however, especially manufacturing, is in recession or near-recession.

Abbott has also made an appeal to the Liberals' traditional constituency of small business. The opposition has opposed Labor's plan to increase the compulsory employer superannuation contribution from 9 to 12 percent on the grounds that it will impose too great a cost on business owners. Labor's policy has been widely endorsed in corporate and financial circles, both as a means of further eroding what remains of the pension system and to provide a substantially larger pool of superannuation funds for the financial sector.

There are definite parallels between the political divisions evident over the budget and those that emerged over the Labor government's proposed carbon Emissions Trading Scheme. Carbon trading was never about resolving the climate change crisis. The Rudd government hoped to enact an ETS ahead of the creation of carbon trading schemes in the US and East Asia in order to position Sydney as a regional hub for the expected multi-billion dollar carbon trade. Abbott, however, opposed the scheme, directly appealing to the mining companies and private electricity generators that stood to lose out. He also ran a populist campaign against the ETS, which he derided, ad nausea, as a “great big new tax on everything”.

The Rudd government’s ETS perspective collapsed in the face of this campaign and the debacle at the December 2009 Copenhagen climate conference, which failed to make any progress toward a post-Kyoto international treaty. This meant there was virtually no prospect of a significant Asia-Pacific carbon market emerging in the foreseeable future. Business support for Rudd’s policy collapsed, while Labor proved unable to appeal for popular support in defence of the ETS because the scheme would have seen ordinary people incur greatly increased energy and fuel costs. For this reason, Rudd last month attempted to quietly drop the policy.

His withdrawal of the ETS stood in stark contrast to the prominence given to the proposed scheme during Labor’s 2007 election campaign. Then, carbon trading was promoted as a means of “taking action” on global warming. This policy back down is one of many broken promises announced by the government in recent weeks, leading to a dramatic slide in the opinion polls. According to one survey, Rudd’s personal approval declined by 14 percentage points over a month to 45 percent. Labor’s primary vote has dropped to 35-37 percent.

The Liberals have nevertheless been unable to capitalise, with the decline in Labor’s poll ratings largely benefitting the Greens. Abbott remains widely indentified among ordinary people as the chief headkicker of despised former Prime Minister John Howard.

The Liberals’ credibility as an alternative government for business has also come under question from the media. The opposition’s handling of the budget reply has been pilloried. In his initial response Abbott stuck to generalities, saying that shadow treasurer Joe Hockey would later provide a costings breakdown during a National Press Club speech. However, Hockey failed to do so, drawing the ire of the assembled journalists, who were told to seek details from shadow finance minister Andrew Robb.

Abbott also came under fire for his bumbling performance during an interview with the “7.30 Report” current affairs program. He was pressured about the obvious contradiction between the Liberals’ attacks on Labor’s tax policies and the opposition’s pledge to fund an expanded maternity leave scheme by making Australia’s largest companies pay a special levy. He all but admitted that the populist maternity leave proposal was an unprepared move, and suggested that his promises ought to be taken as good coin only when scripted. Labor seized the opportunity to attack the Liberal leader’s honesty, while media commentators mocked Abbott’s lack of political savvy.

An *Australian Financial Review* editorial last Thursday welcomed the Liberals’ promised spending cuts but insisted that they “now need to knuckle down and develop a comprehensive vision for a coalition government if they are to be serious contenders when the real race takes place in a few months”. The *Australian* similarly endorsed the opposition’s critique of the Labor government’s spending programs, but described Hockey’s Press Club speech as a “sketchy blueprint for the national economy that betrayed two wasted years in opposition which should have been used for more serious policy development”.

The issue of the opposition coalition’s credentials as an alternative government has assumed a greater urgency for the ruling elite amid declining support for Labor and increasing uncertainty in the world economy. The latest declines on global stock markets have hit the Australian dollar, which has plunged by 10 percent this month to an eight-month low of 82.5 US cents. The benchmark ASX200 stock index hit a low this week not reached since July 2009, 17 percent down from last month’s high point. Just a week after Treasurer Wayne Swan claimed in his budget speech that Australia had defied “world economic gravity,” these developments again demonstrate the local economy’s dependence on high commodity prices, largely driven by China’s demand, and its vulnerability to any repeat of the 2008 credit crunch.