Australia: Government unveils pro-business tax reforms

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The Labor government of Prime Minister Kevin Rudd released a major report drafted by Treasury Secretary Ken Henry into the future of the tax system on Sunday, at the same time announcing a series of changes centrally aimed at benefitting business and bolstering the international competitiveness of Australian capitalism.

Media coverage of one of the government's announced new measures—a 40 percent "Resource Super Profits Tax" on mining operations—has overshadowed everything else. On the part of both the Rudd government and the mining companies, the response has been highly exaggerated.

Senior Labor ministers, eyeing the forthcoming federal election due later this year, have engaged in unabashed populism. Treasurer Wayne Swan declared that the measure "will ensure Australians get a fair share from our valuable non-renewable resources that are owned by all Australians". Rudd said that much of the profits made by majority- or part-foreign owned mining companies were "built on Australian resources [and] are mostly in fact going overseas".

Several senior mining executives denounced the government for supposedly threatening investment and jobs. Australian share markets closed lower yesterday, largely due to falls in mining stocks. Rio Tinto was down 4.3 percent and BHP 3.3 percent.

The mining companies' response appears to reflect a knee-jerk outrage that anyone should even appear to challenge their "right" to reap massive profits. The China-fuelled minerals boom has seen a narrow layer of executives and investors secure extraordinary personal fortunes. Resource sector profits were more than $80 billion higher in 2008-09 than in 1999-2000, while taxes paid over the same period increased by only $9 billion. Whereas $1 out of every $3 in resource profits previously went to taxes and royalties, now merely $1 is paid out of every $7 in profit. Supported by myriad direct and indirect public subsidies—not least the free provision of enormously costly rail, road, and port infrastructure without which remote mining operations would be impossible—the minerals magnates are used to having state and federal governments do their bidding.

The new tax amounts to a very modest impost, offset by many tax reductions. The so-called Resource Super Profits Tax is in fact more a reorganisation, than an increase, in resource sector taxation. State-based royalty charges will now be returned to the corporations via a federal subsidy. Wayne Swan declared that whereas royalties discouraged investment, the federal tax would not penalise smaller and less profitable mining operations. Moreover, Canberra's move to claim jurisdiction over taxation of the minerals sector forms part of the Rudd government's long-term agenda of maximising federal control over important areas such as health—areas identified by big business as targets for significant restructuring.

The government forecasts that the new resource tax will raise $9 billion in 2012-2013. However, exactly what the mining companies will end up paying remains to be seen. "The details on this have yet to be hammered out," Reuters noted, "leaving wide scope for mining companies to agree on a more flexible approach".

The government has appointed a Resource Tax Consultation Panel, headed by Treasury Executive Director David Parker and including Business Council of Australia Vice President Greig Gailey, to work out the exact mechanisms. The *Australian*'s business commentator Tim Boreham yesterday wrote that he "sniffs an eventual backflip, if only a tweaking of the details to take the sting out of the impost".

Some mining interests could even end up better off under the new scheme. The Labor government is not going to spend a single cent of the revenue collected through the Resource Super Profits Tax on social services, health, education, or welfare. The money will instead be funnelled back to business via several channels. Firstly, a new resource infrastructure fund aimed at assisting the mining companies' expansion will provide another $5.6 billion for the sector over the next decade. The corporate mining giants will also receive a 30 percent tax rebate for exploration costs, effectively delivering a subsidy potentially worth hundreds of millions annually to the industry.

Secondly, the corporate tax rate will fall from 30 percent to 28 percent, phased in by 2015, with small businesses to benefit from the lower rate by 2012-2013. The appeal to small business is part of Labor's pre-election pitch to this constituency, but the windfall profits delivered under the new tax regime will be reaped by the largest corporations. The new corporate tax rate compares with the 36 percent rate levied a decade ago and 49 percent in the mid-1980s. The ongoing decline in company tax represents an enormous transfer of wealth to big business from the working class, which over the same period has been hit with higher effective income and consumption taxes. Nevertheless, Treasurer Wayne Swan foreshadowed further reductions in the corporate tax rate, saying the government had an "open mind" on the issue.

The other significant tax measure announced on Sunday was an increase in the superannuation guarantee from 9 to 12 percent, phased in over the next decade. The Rudd government has promoted this as a measure to improve the conditions of retirement for "working families". In reality it marks a further stage in the bipartisan assault on the pension system that has been prosecuted over the last two decades. The right of the elderly and retired to a guaranteed income has effectively been torn up, with everyone now expected to personally fund their retirement through superannuation savings.

The result will be that many workers' wages will stagnate or decline as their super contributions increase. The Rudd government made clear its intentions when it declared, on announcing the measure, that the decade-long phase-in period would allow for employers to take the new super arrangements "into account when negotiating future wage agreements".

The primary beneficiaries of the new super arrangements will be the financiers and speculators in the superannuation and equity markets—the new 12 percent guarantee is forecast to add $85 billion to Australia's super pool in the next decade and more than $500 billion by 2037.

The Rudd government's new tax and super measures have incorporated only a small fraction of the Henry Review—fewer than a handful of the report's 138 recommendations will be immediately implemented. Despite this, Labor has won widespread support from business and the media. The *Australian*'s editorial yesterday declared Rudd's response to the report "cautious but reasonable, given the fiscal constraints it faces in an election year". The Murdoch broadsheet encouraged the prime minister to encourage debate on the tax review after the election.

The Henry Review was conceived by the Labor government as the means for outlining the tax and welfare restructuring required by Australian capitalism in the next period. The report itself noted "it is neither possible nor desirable to make all of these changes too quickly". Several commentators compared the review with the 1975 Asprey tax report, whose recommendations were unable to be implemented by the Labor government of Gough Whitlam, but which nevertheless "formed the economic reform program for governments from both sides for the next two and a half decades", as the *Sydney Morning Herald* noted yesterday. The editorial added: "Ken Henry, chairman of the tax review, is also Ken Henry, secretary of the Treasury, which will be advising the government how to implement his ideas. His report can be regarded as the Treasury's taxation agenda for coming decades."

The report contains not just treasury's agenda, it ought to be noted, but that of coming federal governments, Labor and Liberal alike.

Ken Henry began work on the review in 2008, and the global financial crash and unfolding sovereign debt crisis clearly drove his final conclusions. The report is a deeply reactionary document, centred on slashing corporate taxes, reducing public spending, and gutting the welfare system in order to ensure Australian capitalism's long-term global competitiveness.

In the final document, Henry has advocated a 25 percent corporate tax rate. Indicating that further reductions would likely prove necessary, the report highlighted declining corporate tax rates internationally. National governments are engaged in a race to the bottom, encouraging international investment by systematically removing all fetters on the profit-making operations of big business. Henry stressed that corporate income tax rates across OECD countries have declined from an average of 33.6 percent in 2000 to 26.6 percent in 2008.

His review also recommended a regressive flat tax on incomes, with a 35 percent rate for those earning between $25,000 and $180,000 and one other bracket of 45 percent for those earning higher. This would hit many working people with a substantially higher tax rate—currently those earning an annual salary between $6,000 and $35,000 pay a 15 percent rate, while incomes between $35,000 and $80,000 are taxed at 30 percent. High income earners would win a tax cut under the tax report's proposal, with those on $80,000 to $180,000 currently taxed at 38 percent.

Henry's recommendations on welfare include the means testing of aged pensioners and other potential recipients, with the market value of their family home counted, before being approved for payments. He also advised that what remains of the public housing system be effectively destroyed, with tenants charged market rates. "There is likely to be a greater expectation in the future that transfer [welfare] recipients who are able to support themselves through work will do so," the report concluded. "More generally, if Australia is to pursue a high-growth response to the fiscal challenge of an ageing population it is critical that transfer payments are designed to provide a strong incentive to work."

While the Rudd government has ruled out implementing several of Henry's specific recommendations, Labor is in complete agreement with the central thrust of the document. Irrespective of who wins the next election, amid an increasingly volatile international economic climate, the next federal government will quickly move to restructure the tax and welfare system as part of a broader offensive against the social position of the working class.