Opposition emerges to Australian government’s flood tax package

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Opposition has developed from a number of quarters to the Australian government’s $5.6 billion floods tax package, and there is no certainty that it will pass parliament this month.

Prime Minister Julia Gillard has urged MPs to quickly approve the package, claiming that the funds are urgently needed to assist flood victims in Queensland. In fact, the vast bulk of the fund, nearly $5 billion, is to rebuild economic infrastructure—such as roads, railways and ports—to service the needs of the mining companies and other corporate giants. Devastated families and small businesses, at least 60 percent of whom are uninsured or have been denied flood coverage, will receive almost nothing—an average of about $1,400 each.

Despite Gillard’s pleas, the Liberal-National Party opposition has rejected a proposed $1.8 billion taxpayer levy, which Liberal leader Tony Abbott has derided as a “tax grab”. The Coalition is demanding deeper cuts to other government spending instead, leaving the minority Labor government needing the support of the Greens and independent parliamentarians.

Abbott has also renewed his call for a “flatter” tax system, reflecting concerns in financial circles that the levy marginally taxes the highest income earners at a higher rate. The levy rises from 0.5 percent of taxable income between $50,000 and $100,000, to one percent of taxable income over $100,000 a year.

Abbott’s populist railing has gained some traction, because most of the $1.8 billion levy will be extracted from working people who earn between $50,000 and $100,000. They will pay up to $250 each, or $500 for a dual-income household. Ordinary wage earners are already under siege from higher mortgage and credit card interest rates, skyrocketing utility prices and, as a result of the floods, higher food prices and insurance premiums.

Moreover, there is growing public awareness that not a cent will be paid by those in the corporate elite who bear responsibility for much of the death, destruction and financial ruin—such as the banks that profited from development in flood-prone areas, the insurance companies that have refused to pay for flood damage and the mining companies that drove the rapid building of homes and infrastructure in potential flood zones.

Evidence has continued to emerge that the federal and state governments are directly culpable as well, due to decades of pro-developer land planning and building codes, inadequate dams and flood mitigation measures and ongoing refusal to establish proper emergency warning systems.

This week, it was reported that the federal Regional Flood Mitigation Program was scrapped in 2007-08, leaving only a tiny $15.6 million-per-year Natural Disaster Mitigation Program to cover all natural disasters, including bushfires, cyclones and floods. In 2009, the federal Labor government renamed the fund as the Natural Disaster Resilience Program, but did not lift its funding.

Behind the prominence being given in the media to anti-levy sentiment lies an insistence on the part of the financial markets for the flood crisis to be politically exploited to bring forward far deeper cuts to social spending. Gillard has sought to answer the criticism by emphasising that the levy is outweighed two-to-one by $3.8 billion in spending cuts, and by vowing to make more cuts if the government’s flood bill exceeds $5.6 billion. Estimates of the total damage run as high as $20 billion.

In its January 28 editorial, the *Australian Financial Review* welcomed Gillard’s “courageous decision” to cut “some lower priority education spending” to help pay for the flood reconstruction program. These cuts particularly hit higher education by scrapping both the Australian Learning and Teaching Council and the Capital Development Pool for universities.

The editorial also praised the axing or slashing of climate change-related programs such as solar energy and carbon-capture schemes, the national rental affordability program, some car industry and other manufacturing assistance schemes, and various regional infrastructure programs. The newspaper made clear that it viewed these cuts as just the beginning. “Why was all this lower priority spending in the budget in the first place?” it asked. “How much more of it is there?” It declared that the budget was “groaning with unnecessary, unproductive spending”.

The *Australian* took up this theme in its January 29 editorial. “The floods are a potential circuit-breaker, offering Ms Gillard a chance to distance the government from the perceptions of the Rudd era,” it insisted. The Murdoch flagship described Gillard’s package, “with its mix of a tax, spending cuts and deferral of some projects,” as “the best sign yet that Ms Gillard has learnt from the mistakes of the past three years and is serious about restoring the Labor brand by recovering its reputation for rectitude”.

In other words, the floods crisis must become a vehicle for scrapping what remains of the stimulus packages adopted by the Rudd government at the onset of the global financial crisis in 2008-09, and fully resuming the pro-market offensive of the former Hawke and Keating Labor governments in the 1980s and 1990s.

Some market economists have criticised the Gillard government’s levy on the grounds it could further dampen consumer spending and prolong the slump affecting most sectors of the economy, except for the booming mining industry. *Business Spectator* commentator Stephen Bartholomeusz warned that the levy’s impact on “the already fragile consumer sentiment and the wider economy could be quite material, and quite unpleasant”.

Bartholomeusz suggested that Gillard should modify her much-repeated pledge to eliminate the budget deficit by 2012-13. “While a return to surplus as soon as practicable is a worthy aspiration, it isn’t of any consequence whether the budget has a modest surplus or modest deficit in 2012-13,” he wrote.

Gillard, however, has stuck unwaveringly to the 2012-13 deadline, insisting that it must be met regardless of the flood repair bill. Returning the budget to surplus is part of Labor’s agenda to match the assault being waged on working class living standards by governments in the US and Europe to pay the cost of the multi-billion bailouts and assistance packages handed to the banks and sections of business in 2008-09. Gillard’s dedication to this agenda underscores her government’s commitment to satisfying the dictates of the financial markets.

While the Labor government and the media incessantly claim that Australia substantially avoided the impact of the global crisis, that the banks remain sound and the level of government debt low, no banking system or national state is immune from the ongoing economic turmoil.

This week, the *Australian Financial Review* reported that ratings agency Moody’s had warned that the reliance of Australia’s major banks on wholesale funding for almost half their capital, with about 60 percent borrowed fom overseas investors, could trigger a downgrade to their AAA credit ratings if there were further volatility on international financial markets.

Since 2008-09, the dependence of Australian capitalism on the export of iron ore, coal and other raw materials to East Asia, especially China, has also increased, making the economy and government revenue particularly vulnerable to any downturn or political unrest in China.

These are the real preoccupations dominating the Labor government. That is why the needs of ordinary flood victims and their protection against future such disasters will be completely subordinated to the interests of the corporate elite.