

# Australian mining tax debacle intensifies pressure for deep budget cuts

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Corporate and media demands on the Labor government, and the Liberal-National opposition, for “structural” cuts to social spending have intensified following Treasurer Wayne Swan’s belated admission, last Friday, that the government’s mining tax raised virtually no revenue in its first six months.

After attempting to block the release of the tax data—alleging that to do so would illegally invade the corporate privacy of the mining companies—Swan eventually revealed the minuscule amount raised by the Minerals Resource Rent Tax (MRRT) during the first half of the 2012-13 financial year.

Swan said the tax on iron ore and coal profits generated \$126 million between July and December, a fraction of the \$2 billion that the government had forecast, just last October, would be raised during 2012-13. In fact, the net revenue will apparently be no more than \$88 million, because the mining companies can use their mining tax payments to reduce their company tax.

This is a far cry from the initial forecasts by Swan and Prime Minister Julia Gillard in 2010, after they had drafted the tax in partnership with the mining conglomerates, that the MRRT would raise \$10.6 billion over four years. As late as last May, when he handed down the 2012-13 budget, Swan projected a first-year revenue intake of \$3.7 billion. That figure had to be revised to \$2 billion in October’s mid-year budget update, following a sharp downturn in iron ore and coal prices.

While the Liberal-National opposition led by Tony Abbott blamed the mining tax fiasco on Swan’s supposed “ineptitude,” the MRRT debacle is the result of far deeper processes. The first is the disintegration of the government’s predictions, and budget calculations, that the decade-long record export commodity price boom would last indefinitely, powered by China’s rise and the flowering of an “Asian Century.”

The breakup of the mining boom—which has already led

to the closure of some mines, the mothballing of several major projects, mounting job losses, and a drive to impose speedups and wage cuts on mine workers—is one of the forms through which the global economic breakdown that began in 2008 is being brought home to Australia.

That is leading to increasingly strident demands by the financial and corporate elite for an historic reversal of past social concessions to the working class, to match those being inflicted on workers across Europe and North America. The Gillard government has already slashed spending, for example by cutting the benefits paid to sole parents, but such measures are regarded by the corporate establishment as merely cosmetic first instalments.

Yesterday’s editorial in the *Australian* declared that not just this year’s budget, due in May, but “future budgets” as well, “must deliver substantial spending reform, especially in welfare.” If not, Australia would be “on the path to European-style penury.”

In today’s editorial, the *Australian Financial Review* reinforced the clamour for the elimination of the supposed culture of “entitlement” to welfare, health, education and other basic programs. It said the mining tax results had exposed the “phantom budget debate” in Canberra. “Getting the budget out of its deficit hole is likely to dominate politics for the rest of the decade.”

These demands make clear that regardless of which party forms government after the scheduled federal election date of September 14, the “phantom debate” will be quickly discarded to unveil a far-reaching austerity program.

Trying to explain the MRRT shortfall last Friday, Swan said no commodity analysts or economists had forecast the “tumble” in iron ore prices late last year. In reality, it has long been clear, as reported by the *World Socialist Web Site*, that the tax’s commodity price assumptions were based on entirely false assertions that China’s economy could somehow defy the deepening world financial

turmoil. (See: “Australian government ‘delivers’ on mining tax”).

By last October’s budget update, the iron ore price had already fallen to a three-year low of \$85 a tonne, before recovering to about \$110. Since then, the price has climbed back to \$155, but only on the back of unsustainable stockpiling and infrastructure pump-priming by the Chinese regime. Coal prices have continued to languish at around the lows they hit last August and September.

The mining tax outcome delivers exactly what Gillard and Swan pledged to the three biggest corporations in a Heads of Agreement signed in June 2010—just after the backroom coup that ousted Kevin Rudd and installed Gillard as prime minister. BHP Billiton, Rio Tinto and Xstrata were assured that they would pay little or no extra tax at all.

In dropping its original Resources Super Profit Tax proposal, the government not only lowered the headline tax rate from 40 percent to 22.5 percent. It also agreed to compensate the companies for any rise in state government-imposed mining royalties—a concession worth about \$2.1 billion over four years, according to Parliamentary Budget Office estimates. In order to further reduce MRRT liabilities, companies could transfer losses between projects, and carry forward losses from previous years.

In addition, the government permitted the mining giants to offset the depreciation of their capital assets assessed at market value, rather than far lower book values. According to the Parliamentary Budget Office modelling, this will save the companies \$2.5 billion over four years. Moreover, the depreciation mechanism contradicts Swan’s claim that the MRRT would raise revenue when profits were high. The market value of a mine primarily depends on the price of the commodity being mined. Any upward fluctuations would see mining assets valued more highly, thus increasing the depreciation offsets.

These concessions have helped the corporations maintain massive profits, despite the global slump. BHP Billiton and Rio Tinto are expected to shortly announce half-year profits of nearly \$10 billion between them, even after multi-billion dollar write-downs on numbers of projects.

Rudd’s “super profits” tax was itself a pro-business initiative, aimed at redistributing some of the unprecedented wealth generated in the mining sector to other sections of corporate Australia, via subsidies and tax concessions. Nevertheless, the mining companies waged a

ferocious campaign against it, determined to block any reduction in their profits. Rudd had also prepared a plan to appease the miners, but was deposed before he could announce it.

Rudd’s removal was a warning of the increasingly ruthless and anti-democratic methods to which the corporate and financial elites will resort in order to impose their dictates. The façade of parliamentary democracy was torn asunder to deliver the results demanded by those who orchestrated Rudd’s axing.

The Labor Party factional and trade union bosses who ousted Rudd had strong ties to the mining companies. But the coup was also driven by the Obama administration’s hostility to Rudd’s attempts to moderate tensions between the US and China.

From her very first day in office, Gillard made it abundantly clear that her government would stand unambiguously with Washington’s provocative efforts to undermine China’s influence throughout the Asia-Pacific region. She chose to underline that commitment in her first major speech for 2013, on “national security.”

In order to assure the US that the Australian military would be a reliable partner in any conflict, Gillard pledged that Australia would remain “one of the top 15 nations for absolute defence spending.” While the Labor government is gutting social programs, it has committed itself to spend billions of dollars on military hardware, including a new generation of jet fighters, warships and submarines, as well as to construct or modify airbases and ports for American use in Australia’s north and west.

The MRRT’s collapse completely exposes Labor’s bogus rhetoric about “spreading the benefits” of the mining boom and looking after the interests of “working families.” It signals a sharp shift to a deeply unpopular program of austerity, militarism and repudiation of basic democratic rights, irrespective of the political posturing to be staged during the 2013 election campaign.



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