

Australian government announces \$4 billion budget cut

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Prime Minister Kevin Rudd and Treasurer Chris Bowen yesterday unveiled nearly \$4 billion in spending cuts, to be implemented over four years. The immediate aim is to cover the revenue shortfall caused by Rudd's abolition of the carbon tax, but the Labor government is sending a clear signal to the financial elite that it is committed to imposing far-reaching austerity measures after the federal election.

Since returning to office last month, Rudd has sharply altered the government's rhetoric on the economy. His predecessor Julia Gillard's bromides about Australia's "miracle economy" have given way to dire warnings about the implications of the end of the China-driven mining boom. Rudd has emphasised he will take whatever "tough" measures are required, promising big business that there will be no return to the stimulus spending measures his government introduced following the global financial crash.

Rudd's shift from a carbon tax to an emissions trading scheme (ETS) linked to the European ETS, a year earlier than scheduled, will result in a carbon price plunge from \$25.40 a tonne of carbon dioxide emissions to around \$6. This will reduce government revenue, by \$3.8 billion, as corporations pay less for their carbon credits.

About half the budget cuts affect some of the multi-billion dollar subsidies provided by Gillard to various sections of big business affected by the carbon tax. Large amounts of public funding were funnelled into such schemes, to ensure that corporate Australia directly benefitted from the tax.

These cuts, totalling nearly \$2 billion, include winding up the Energy Security Fund, a slush fund for the privately owned coal-fired power generators, and deferring carbon capture and storage ("clean coal") research. They also consist of returning unspent

revenues allocated to agribusiness under the Carbon Farming Futures program and Biodiversity Fund; changing funding mechanisms for the Clean Technology Program, for manufacturers to reduce their power consumption; and trimming the Coal Sector Jobs package.

Other cuts, worth almost \$2 billion, have nothing to do with the carbon tax. They instead target sections of the working class.

Up to 800 public sector jobs will be axed, as part of another "efficiency dividend" imposed by the government. This is aimed at reducing spending by \$248 million. The government claims that only senior ranks of the public service in Canberra will be affected. The planned redundancies, however, come on top of Gillard's axing of 12,000 jobs, announced in last year's budget.

Workers who receive "salary sacrificed" leased vehicles via their employers will also be hit. Changes to the fringe benefits tax (FBT) are forecast to save the government \$1.8 billion. Under current FBT arrangements, 20 percent of such a vehicle's running cost (including maintenance, fuel and insurance) can be claimed as a tax offset. Under the new measures, the only vehicle costs that can be offset are those incurred when the vehicle is driven for business, as opposed to personal, use. The drivers will need to fill out log books.

The government is attempting to conceal the regressive character of its FBT cuts by insisting that two-thirds of the 320,000 employees who will be affected earn more than \$100,000 a year. Industry analysts have rejected this claim, with Simon Ellis of Smartsalary telling the *Australian Financial Review* that more than a third of those affected had annual salaries lower than \$80,000.

Among those who may be affected are charity and not for profit sector workers, and some in the public sector, such as nurses. Many workers in these sectors rely heavily on FBT arrangements to offset their low wages.

Rudd declared yesterday that his decision to “terminate” the despised carbon tax would “help cost of living pressures for families.” The Labor government claims that the ETS will lower electricity costs and other living expenses by \$380 next year for the average family. This forecast is based on assumptions that power companies and other corporations will pass on their reduced tax burden by reducing prices for consumers—though no section of business has any obligation to do this.

Rudd also trumpeted his retention of the tax and welfare compensation payments that were enacted by Gillard to offset the impact of the carbon tax.

The government’s claims that working people will be better off under the ETS are an utter fraud. Linked to the European ETS, there is no limit to how high the carbon price can be ratcheted up by the activities of the carbon speculators and investors hired by the world’s largest banks and financial houses. The “compensation” devised by Gillard and retained by Rudd involves one-off payments, politically calculated to mask the initial impact of the carbon tax and ETS. As the price of carbon increases substantially over the next few years, as is universally expected, there will be no corresponding government “compensation.” As a result, working class living standards will decline through substantially higher charges for electricity and fuel.

The prime minister promoted the ETS-related spending cuts as the “fiscally responsible thing to do.” Treasurer Bowen boasted that Labor was implementing cuts greater than the revenue shortfall generated by the early termination of the carbon tax, with “a contribution to the budget bottom line of \$177 million over the next four years.” Rudd and Bowen are seeking to demonstrate to the corporate and financial elites that the Labor government is better able to implement their demands than the opposition Coalition led by Tony Abbott.

The ETS will do nothing to help the environment, but it will create a profitable new commodity, carbon, for speculation on the world markets. Abbott’s “direct

action” climate policies—involving emissions reductions to be supposedly achieved by government subsidies to sections of industry—is widely opposed by the ruling elite as being too costly. His rejection of an ETS, in line with the demands with the fossil fuel industries, especially the mining companies, threatens to deprive the banks and financial institutions of a new and highly lucrative commodity to trade.

The issue is opening up divisions in the opposition. Abbott is under increasing pressure from his predecessor and leadership rival, Malcolm Turnbull, a former investment banker and enthusiastic proponent of carbon trading.



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