

Australian budget levy will seek to mask deep welfare cuts

Mike Head
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Yesterday's meeting of the Abbott government's cabinet decided to go ahead with a symbolic "deficit" levy on wealthier taxpayers in next Tuesday's budget, despite intense opposition in the corporate establishment.

Cabinet's decision points to serious concerns within the Liberal-National government about the popular discontent that will be generated by the budget's deep cuts to welfare, health and education.

Reportedly, the scope of the temporary four-year levy was not finalised, but media leaks indicated that it would be set at 1 or 2 percent, on taxable incomes above \$150,000 or \$180,000—the top 7 or 4 percent of income recipients.

Speaking after the meeting, Prime Minister Tony Abbott denied accusations by business leaders and media commentators, echoed by numbers of his own Liberal and National MPs, that the levy would break an election promise not to impose any new taxes.

Abbott spelled out more explicitly the political calculations behind the levy. "I'm going to be able to look people in the eye on Tuesday night and on Wednesday morning and beyond, and say we are all in this together, we are all doing our bit," he said. "We will honour the commitment we gave to the Australian people pre-election to get the budget back under control, but we will do it in ways that are fair."

The levy is designed to add a fig leaf of "fairness" to the budget—creating the impression that the wealthy elite is being asked to bear its share of the social and economic pain to be inflicted. In reality, the budget will overwhelmingly hit the working class, especially the young unemployed, students, disabled workers, families with children and aged pensioners.

The levy will barely affect the richest layers of the financial and corporate elite, who employ a myriad of

tax avoidance devices, such as family trusts and offshore tax havens, to pay little or no tax. Based on briefings by government sources, today's *Sydney Daily Telegraph* reported: "While it will be pitched as a levy on the wealthy, senior Liberals said the truly rich, who circumvent paying tax through trusts, will be able to dodge it."

Estimated revenues from the levy will be small by comparison to the many billions of dollars to be slashed from welfare entitlements and other social spending. Deloitte Access Economics said a 1 percent tax on incomes over \$150,000 and 2 percent on more than \$180,000 would raise about \$6.2 billion over four years. Another option, a 2 percent levy on earnings over \$180,000, would raise about \$4.6 billion.

Such imposts, if ever collected, will pale into insignificance alongside the burden being imposed on working people. Treasurer Joe Hockey, in an interview published today, assured the *Australian Financial Review* that the levy will barely rate a mention after budget day.

Further government leaks to the media yesterday indicated that the budget could include an increase in the 38.1 cent-a-litre fuel excise. This will reportedly add \$1 billion a year to budget revenues, with a highly regressive impact—falling heaviest on the petrol prices paid by ordinary people.

Education Minister Christopher Pyne also made clear that the budget will permit universities to set their own fees, setting the scene for sharp fee hikes that will make life much more difficult for working class students, already bearing thousands of dollars in tuition debts.

Abbott confirmed that a promised 1.5 percentage point cut in the company tax rate will be delivered in the budget—saving the corporate elite more than they will pay in any deficit levy.

By lowering the corporate rate to 28.5 percent, about 20 percentage points below the top income tax rate, the government is facilitating tax dodging by those who can form companies. More fundamentally, it is continuing a drive by successive governments to make Australian capitalism “globally competitive” by matching the ever-lower tax rates set in Asia, Europe and America.

The National Centre for Social and Economic Modelling estimates that tax cuts delivered by Liberal-National and Labor governments over the past decade alone, between 2002–03 and 2011–12, have taken about \$20 billion out of annual tax revenue. That is more than double the amount spent on unemployment and sickness benefits.

Nevertheless, the fury in corporate circles over the levy has continued, expressing the hostility of the rich to any deduction from their bloated profits and incomes. Representing the country’s 100 largest companies, Business Council of Australia chief executive Jennifer Westacott warned that the levy would send “unpredictable tax signals” to foreign investors.

Brisbane-based Liberal MP Teresa Gambaro condemned the deficit levy as “a breach of a promise” that would have “devastating impacts on the economy.” Murdoch’s capital city tabloids lambasted Abbott, with the *Daily Telegraph’s* headline inciting a political backlash: “TONY’S DEBT WISH—PM defies public fury to lock in broken promise.”

Several government MPs and media columnists defended the levy by invoking similar ploys by previous Liberal treasurers—John Howard in 1978 and Peter Costello in 1996—to quell social unrest over budget cuts by imposing temporary imposts on better-off taxpayers. In the *Australian*, Niki Savva, a former Costello adviser, quoted Costello’s 1996 budget speech, in which he used almost identical language to Abbott, claiming that his “hard decisions” would be “fairly shared” because “we are asking high-income earners to make a contribution.”

That budget provoked such popular anger that when the Australian Council of Trade Unions convened a protest at Canberra’s Parliament House in August 1996 against the budget and a workplace relations bill, about 5,000 people broke off from the official rally and stormed parliament, besieging it for several hours.

Terrified by this development, the Labor and union leaders joined the Howard government in accusing workers of “instigating violence,” called off any further action and dropped any opposition to the workplace laws, which they proceeded to enforce over the next decade.

Today, the Labor and union bureaucrats will work just as strenuously to quell and divert opposition to the social assault outlined in the budget. While the Labor leadership, together with its former governmental partners in the Greens, has demagogically denounced the Abbott government for preparing to attack “working families,” Labor and the Greens have aligned themselves with big business by vehemently condemning the deficit levy.

This line-up also occurs amid a far deeper economic crisis than in 1996, when the China-driven mining export boom was just emerging. Today, the full impact of the 2008 global financial breakdown is starting to hit home. In his interview with the *Australian Financial Review*, Treasurer Hockey warned that government revenues would stagnate for the foreseeable future.

Deloitte Access Economics predicted that the 2013–14 budget deficit would hit \$48.4 billion, \$1.4 billion worse than the government’s mid-year forecast. Chris Richardson, a partner in the firm, published data in the *Australian Financial Review* showing the collapse of a \$80 billion a year “bonanza” delivered to the budget bottom line by the minerals boom and China’s post-2008 stimulus measures.

Richardson concluded by accusing both Labor and Liberal-National governments of making “astounding” social spending commitments during the boom that “the tax system simply cannot pay for.” This sums up the dictates of the financial markets: whether or not lip service is paid to “fairness,” there must be a fundamental restructuring of the entire economy at the expense of the working class.



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