The Australian budget and the dictatorship of finance capital

Nick Beams
22 May 2014

The central feature of the Australian federal budget brought down on May 13 is not that it is based on “broken” election promises. Nor is it simply the outcome of some misplaced “ideological” views of the Abbott government that can and should be replaced by another outlook.

Ideology has undoubtedly played a powerful role, but not an independent one. The doctrine espoused by Treasurer Joe Hockey for ending the “age of entitlement” is not a slogan invented for the purposes of the budget but the articulation of the material interests of definite and powerful social forces—above all, the elites of finance capital that determine the economic and political agenda.

At its core, the budget represents a qualitative advance in the program, developed by global and Australian financial capital in response to the financial breakdown in 2008, to destroy all the social gains won by the working class in the post-war period.

The fight against the Abbott government and its budget measures must therefore start from recognition of this economic and political reality, and a corresponding rejection of the delusion that the return of a Labor-Green government, which initiated the austerity agenda, would result in a different outcome.

Both the program embodied in the budget and the financial interests driving it were well illustrated in editorials published in the *Australian Financial Review* and the *Australian* on May 20.

The opening paragraphs of the *Financial Review* editorial, entitled “The truth about our welfare state,” were carefully positioned on the front page, contrary to usual practice. They were placed adjacent to the lead article, based on an interview with a sovereign analyst for the S&P ratings agency, Craig Michaels, warning that if the budget measures were significantly watered down because of the political cost “that would concern rating agencies looking at Australia over the longer term.”

Michaels emphasised that Australia was unique among AAA-rated countries because, unlike others, it depended heavily on foreign capital inflow, including into the four major Australian banks.

Like some gangster or Mafia don, finance capital demands that the sentiments, aspirations, needs, social rights and interests of the population be shoved aside. The government of the day, whatever its political colouration, must toe the line or finance will impose its dictates by withdrawing cash and creating a crisis in financial markets.

Having drawn attention to these threats, the *Financial Review* editorial spelt out what must be implemented. The task, it said, went “far beyond convincing a clear majority of Australians that it is imprudent and even financially reckless to be running substantial budget deficits … It goes deeper to the lessons from the global financial crisis—the one that Australia largely dodged because the luck of our China boom—that apply to all rich developed economies.

“This is that the layer upon layer of the middle class welfare state built up over the past generation or two is now unaffordable given the growing challenge from emerging market producers and the shrinking population of workers required to support the growing elderly and disabled populations. The welfare state needs to be refashioned back to its original concept as a genuine safety net that provides a springboard for enterprise and self-reliance.”

In other words, it is not a question of a series of cuts, after which there will be a return to “normal,” but rather the imposition of a “new normal.” That must be based on the complete destruction of the system of welfare measures, put in place after World War II, that provided limited income security for the broad mass of the population.

These measures were contained in policies such as tax concessions for families, government-funded education programs, pensions that were above, even if only slightly, the poverty line and tax-funded health systems. All this must go in the wake of the breakdown of the global capitalist system and be replaced with a cut-to-the-bone welfare system set at poverty levels and below.

This will provide a “springboard” not for millions of working people and their families but for the tiny minority on the heights of society, who will benefit from the resulting tax handouts to corporations and upper-income layers.

In its editorial, the financial newspaper insisted that the “middle class welfare state” cannot be continued in the face of the “challenge” from emerging market producers. The implications of this comment emerge from a review of the changes in the structure of Australian capitalism over the past three decades.

The destruction of large swathes of manufacturing industry, starting with the Hawke-Keating Labor governments that came to office in 1983, has seen a major transformation of the Australian economy.

Banking, finance and insurance, which represented 3.6 percent of Australian gross domestic product in 1985–86, comprised 10.8 percent of GDP in 2012–13. It is the largest sector in the economy, generating more revenue than mining. The pre-tax profits of the four major Australian banks—CBA, NAB, Westpac and ANZ—increased from 0.7 percent of GDP in 1986 to 2.3 percent in 2012.

Sydney is one of the world’s top 10 global financial centres, and Melbourne is in the top 20. They are in life and death competition with centres such as Singapore, Hong Kong and, increasingly in the coming period, Shanghai—the source of the “emerging market” competition to which the editorial referred.

In order to provide finance capital with an attractive “home” and compete with these centres, Australian governments must slash corporate and other business taxes from their present levels of around

30 percent to the 16.5 percent rates applying in centres such as Hong Kong. This agenda, which means a significant cutting of government revenue, cannot be implemented unless social welfare entitlements are ended.

It is this overall and longer-term perspective that has shaped the budget. The spending cuts were directed at those with the lowest incomes—the aged, the young and the unemployed, as well as young families that depend on the family tax benefit system to make ends meet.

Significantly, apart from the cosmetic "deficit levy" on those earning more than $180,000 a year, which will be substantially reduced or completely avoided through various "tax minimisation" schemes, the budget had no impact on corporations or the ultra-wealthy. Company tax was reduced by 1.5 percentage points, while all the programs of most importance to the very well-off and super-rich were left untouched. These include superannuation tax concessions, concessional treatment of capital gains and negative gearing, which enables interest paid on money borrowed for real estate speculation to be written off for tax purposes.

In the coming period, whatever government is in office, it will further cut tax rates both for corporations and the wealthy. However, the precondition is that the fiscal deficit be driven down, as Abbott made clear in remarks yesterday.

Responding to criticisms, he said the whole purpose of "getting the budget under control now" was to ensure that tax cuts could be made in the not too distant future. In other words, once social spending is slashed, the tax cut measures of the mid-2000s, which overwhelmingly benefitted corporations and the rich, can be resumed and more wealth redistributed up the income scale.

The *Australian* editorial took a slightly different tack on the same themes advanced in the *Financial Review*. It claimed that when cash welfare, the cost of education and health services are taken into account, most families pay no net tax. It cited the assertion by its economics correspondent that high-income earners "have become a giant piñata that the majority hit for extra money to pay for whatever new social programs the political class proposes to stay in office."

The editorial claimed that those on incomes above $180,000 were paying 25 percent of all tax, yet "there is no protest march planned by the 'stiffed' top 3 percent of taxpayers."

These assertions are not simply a call for reduced taxes for upper income layers. They are aimed at restructuring the entire tax system and social welfare system, ending the principle that tax rates should increase up the income scale, and reverting to the systems that existed more than a century ago.

Analysis of the historical trends of social inequality in the major capitalist countries, contained in the newly-published book *Capital in the Twenty-First Century* by French political economist Thomas Picketty, serves to clarify the significance of these demands for tax "restructuring" and the measures initiated in the Abbott budget.

As Picketty notes, at the start of the 20th century, both income and wealth were highly concentrated in the upper 10 percent of society. That only changed from the 1930s onward and in the post-war period. While the bottom 50 percent of society had virtually no net wealth at the start of the 21st century—the same situation they experienced at the beginning of the 20th—there was some redistribution of wealth from the top 10 percent to a middle strata of 40 percent of population. These layers, consisting of better-off sections of workers and the middle class, acquired up to 25 percent of national wealth.

Since the 1980s, however, the overall trend across the major capitalist countries has been a growth of social inequality, heading in the direction of a return to what prevailed a century ago. This process has been accelerated in the wake of the global financial crisis of 2008.

Powerful objective economic forces, arising from the rise and rise of financialisation and its associated parasitism, in which wealth is accumulated through speculation and outright criminality, are at work.

They are articulated ideologically and politically in the never-ending attacks on "middle class welfare" from publications such as Murdoch's *Australian* and the *Financial Review*. Couched in assertions that "the nation" must stop living beyond its means, the essential content of this campaign is the demand by the financial elites that the very limited wealth accumulated by sections of the working class in a previous period should now be returned to its "rightful" owners.

Finance, and the political establishment that serves it, have a definite agenda: access to decent education, health and welfare measures—and all other social rights necessary in modern life—must be abolished by whatever means necessary.

In the face of this onslaught, of which the budget is only an initial expression, the working class must advance its own political program: the defence and extension of all its social rights and gains through the overthrow of the dictatorship of finance capital. It must prosecute this struggle on the basis of an internationalist perspective.

There is no middle ground. Either the global domination of finance capital is overturned or the working class will be driven into impoverishment.

The working class has to begin the fight for a socialist program, aimed at the conquest of political power. Its central economic platform must be the expropriation of the banks and finance houses, as the foundation stone for the development of an economy in which the resources created by the labour of millions of working people are used to meet human need and not the insatiable demands of the ruling financial elites.