

# Budget shock creates problems for Australian government

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The Australian parliament reconvenes this week with the Abbott government facing mounting problems over the passage of its budget measures brought down on May 13.

Such has been the shock delivered to the political establishment by the deep-felt and growing opposition to the budget, that the government is facing the prospect that key spending cuts will not pass in the Senate where minor parties control the balance of power.

Treasurer Joe Hockey said the government was ready to negotiate some of its budget measures with the Senate while journalists are reporting that some ministers have indicated they could be open to changes. But Prime Minister Tony Abbott has declared he will not abandon the budget's key commitments.

In a somewhat desperate attempt to push the measures through, Hockey warned there would be consequences for Senators who opposed them.

"If the immediate answer of everyone in the Senate is no, then I think the Australian people have a low, low tolerance for that," he said in a TV interview yesterday. In fact, the situation is the reverse. Such is the opposition to the budget that representatives of the minor parties fear they will lose all credibility if they agree to the Abbott government's key measures.

Yesterday the Labor Opposition Senate leader Penny Wong indicated that Labor would not block the government's planned "deficit levy" of 2 percent on those receiving more than \$180,000 a year, after Labor treasury spokesman Chris Bowen told the National Press Club on Wednesday that it was one of the "less unconscionable" measures in the budget.

Bowen had initially indicated opposition to the levy on the grounds that there should be tax cuts for the upper-income earners rather than increases.

Popular anger is focused on the co-payment of \$7 for a visit to the doctor, which is a major impost for poorer sections of the population and is regarded as an attack on the entire Medicare system in which doctors' visits are free under the bulk-billing system. Other key issues are the lifting of the pension age to 70, increases in fuel excise, and the cuts of more than \$80 billion to funds to the states for hospitals and schools, some of which come into effect within the next month.

Economic modelling conducted by the National Centre for Social and Economic Modelling (NATSEM) has revealed that among those hit hardest by the budget are less well-off families, especially those with school-age children. NATSEM found that more than one third of the budget cuts over the next four years, a total of \$6 billion, will hit households earning between \$45,000 and \$63,000, constituting the middle 20 percent, or quintile, of income earners.

Overall, across all income earners, families with school-age children will lose \$15.9 billion over the next four years, amounting to some 90 percent of the government's planned cuts.

In the face of these numbers, the government has attempted to discredit the NATSEM analysis. Responding to these criticisms in an article published in the *Australian* today, the organisation's principal research fellow, Ben Phillips, defended the findings pointing out that the organisation had previously been described by Abbott as "Australia's most respectable modelling 'outfit.'"

"The reality is that one does not need a sophisticated model ... to understand that most of the cuts in this budget relate to family payments," he wrote. According to Phillips, the changes to the family tax benefit system involve an estimated cut of \$7.4 billion over the next four years.

Defending the budget cuts, Abbott said they were “absolutely necessary to secure Australia’s economic future.” But such attempts to present the budget as being in the interest of a “unified nation” in which everyone must take part in the “heavy lifting” are becoming ever more clearly exposed as its measures are seen as benefiting the wealthy at the expense of the majority.

These perceptions are no doubt being sharpened by increasing pressures on family budgets. Figures released last week showed that wages growth had fallen to the lowest point since specific statistics began to be collected 17 years ago. According to the Australian Bureau of Statistics, wages rose by only 2.6 percent last year, below the inflation rate of 2.9 percent. Wage growth is now more than 1 percent below its 10-year average of 3.8 percent, with indications that it will fall even further.

The budget has not been shaped in accordance with some mythical “national interest” but to meet the very real demands of finance capital for an ever-greater portion of available wealth. This is to be achieved by deep cuts in government spending that will open the way for further cuts in corporate and income tax rates benefiting high income earners and financial interests. As Abbott indicated in an interview last week, the purpose of bringing down the budget deficit was to create the conditions for such tax cuts in the near future.

The real agenda behind the budget measures was inadvertently underscored in a front page article in the *Australian Financial Review* today. It reported that the government had received a “shot in the arm” from two major Boston-based bond investment funds which hold trillions of dollars and have significant holdings of Australian bonds.

Analysts from the funds praised the budget as “testament to the nation’s financial and institutional strength” and one that had moved the fiscal position “in the right direction.”

While finance capital has welcomed the government’s measures, its mass media mouthpieces are venting growing frustration over their implementation. After denouncing opponents of the budget—a clear majority of the population—as a “fool’s gallery of partisans, grumblers and opportunists,” an editorial published on Saturday in the *Australian* said

the Abbott government was guilty of “poor messaging.”

The *Australian Financial Review* directed its focus to the Labor Party, declaring in an editorial today that the “high water mark” in Australian policy reform occurred in the 1980s and 1990s when “restructuring” measures of the Hawke-Keating government were supported by the conservative opposition parties.

No doubt the parliamentary sessions will see loud denunciations of the government from the Labor side. But the real agenda pursued by Labor leaders Shorten and Bowen will be to deliver a message to ruling circles that while such “sound and fury” might be necessary in the short-term, Labor remains totally committed to finance capital’s agenda, and, given the record of the Gillard government in initiating cuts, has a better prospect of actually carrying it out.



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