

Australian government in disarray over spending cuts

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Within two days, severe cracks have appeared in the latest extraordinary effort by Prime Minister Malcolm Turnbull's government to break through a political impasse and impose sweeping cuts to health, education and other social spending.

Turnbull's plan—suddenly announced on Wednesday at a football game, without any detail whatsoever—to hand back income taxing powers to the states, is blatantly designed to shift the blame for devastating and deeply unpopular cuts onto state and territory governments.

Turnbull declared that by returning the taxing powers that they had relinquished in 1942, during World War II, to the state governments, the latter would be forced to take “responsibility” for funding public hospitals and schools. “If the states had to raise all of the money they spend themselves,” he said, “they would spend that money much more wisely.”

The prime minister made clear that the \$80 billion slashed in 2014 by his predecessor, Tony Abbott, from federal funding to the states over the next decade for public hospitals and schools, would be maintained. He then went further, announcing his intention to scrap all federal government funding for public schools and hand it over to the states. Federal government financing of private schools, many of which cater to the sons and daughters of the super-rich, would, however, continue.

As for public hospitals, Turnbull declared he would give the states only an extra \$3 billion until 2020, a tiny fraction of the \$57 billion budget shortfall for the sector over the next decade. Last December, Turnbull promised the states that his government would increase the level of federal funding to 50 percent of state hospital costs, but has reneged on that pledge, indicating that the share would now be kept at 45 percent, well below the rising costs of healthcare.

Turnbull boasted that his state-taxing scheme was the greatest restructuring of the Australian federation in 70 years. In reality, it is yet another desperate attempt by the prime minister to demonstrate to the financial and corporate elite that his leadership can deliver what Abbott failed to: deep cuts to public spending, lower corporate taxes and further reductions in wages and working conditions.

This was Turnbull's second dramatic manoeuvre in just two weeks. It followed last month's sudden decision to trigger a double dissolution election of both houses of parliament in order to break a deadlock in the Senate, where opposition parties and so-called independents, posturing as opponents of austerity, have blocked key budget measures. If the move succeeds, the next federal election, due between August 2016 and March 2017, will be brought forward to July, clearing the way for a post-election austerity offensive.

Today Turnbull met with state and territory leaders for a Council of Australian Governments (COAG) meeting in Canberra to discuss his ultimatum. There were clear signs of rifts within his Liberal-National Coalition, just six months after he ousted Abbott.

The instability within his own ranks was highlighted yesterday when Treasurer Scott Morrison flatly contradicted Turnbull's initial suggestion that states could possibly lift their taxation rates to fund necessary public services. Morrison said he would “guarantee” that the states could not do so for some years. He outlined a “transitional phase” for at least the next three-year term of parliament, during which the states would be prohibited from increasing the level of income tax. Turnbull had made no mention of any such transitional arrangement.

Morrison, who is tasked with handing down the government's budget on May 3, after Turnbull

suddenly brought the date forward by a week, was evidently not consulted before the prime minister unveiled his “federation restructuring.”

According to media reports, Turnbull’s plan was drawn up in the Prime Minister’s Department, not the Treasury. The latter has advocated more direct measures to reduce the burgeoning budget deficit, namely, the slashing of public spending in order to enable the government to cut corporate taxes.

In January, Treasury secretary John Fraser opened the political year with a speech insisting that major cuts to social programs—notably pensions, welfare benefits and disability care—be imposed because of the rapidly deteriorating economic situation, globally and in Australia.

Fraser declared that the country’s AAA rating by global credit agencies was in jeopardy unless cuts were made urgently. This was primarily due to the haemorrhaging of tax revenues as a result of the falling prices for Australia’s main exports, especially iron ore, coal and liquefied natural gas.

There is no difference between Turnbull and Morrison on the need to impose the burden of this sharp economic reversal on the working class. But the acute dilemma that has confronted the government, like the six-year Labor government before it, is how to inflict such cuts under conditions where widespread hostility exists among millions of ordinary people toward the austerity measures.

There is increasing visible nervousness within ruling circles about Turnbull’s evident failure to live up to his promise of delivering more effective political salesmanship than Abbott.

Today’s editorial in Murdoch’s *Australian* praised the Coalition’s intention to cut spending by “encouraging discipline” on the part of the states but said it was “unnerving that such a landmark proposal comes from the Prime Minister on the sidelines of a rugby league media event two days before a meeting with the premiers and in the second week of an unofficial election campaign.”

Noting that Turnbull and his Treasurer “didn’t seem to co-ordinate their message,” the newspaper stated: “[H]ere we have a sketchy idea, informally announced and, so far, poorly explained. Serious economic reform demands more considered advocacy.”

Similar complaints were made of Abbott and his

Treasurer, Joe Hockey, before their sudden removal from office.

Driving these tensions is a volatile and rapidly worsening economic situation. The 20-year mining boom that sustained Australian capitalism has been unraveling since 2011, under the deepening impact of the 2008 global financial breakdown, a marked slowdown in China and the recessions gripping Japan, Europe and every resource export-dependent economy.

Over the past two years, the collapse of the resources boom, while hitting the mining states of Western Australia and Queensland particularly hard, was partly offset by an unsustainable housing bubble, especially in Sydney and Melbourne.

Soaring house prices, combined with falling real wages, have placed home ownership increasingly out of the reach of working-class families, while sending household debt levels to the highest in the world. Housing debt per adult increased by 136 percent from 2004 to 2015, according to data released this week by the Australian Prudential Regulation Authority, taking the total debt to \$1.9 trillion.

This bubble is showing signs of bursting. Housing construction has begun to decline over the past half year and recent figures point to falling apartment prices. These trends have major implications for state governments, whose budgets already show aggregate annual deficits of about \$10 billion, alongside the federal government’s \$38 billion, despite being propped up by property-related taxes.

Shares in major Australian banks have fallen by around 30 percent over the past year, and have fluctuated wildly again this week, on fears of their exposure to a housing crash and to mining losses, as well as to increasing instability on Chinese and other Asian markets.



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