

Australian government uses investment collapse to push Trump-style corporate tax cuts

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Urged on by the corporate media, the Australian government is trying to use a dramatic drop in foreign direct investment since 2014 to ramp up its campaign to slash the company tax rate from 30 to 25 percent over the next decade.

Even as it targets the poorest members of society by reintroducing sweeping welfare cuts, the government is seeking to satisfy the demands of the financial elites for multi-billion dollar tax cuts to boost their profits and wealth. These cuts will require the further dismantling of welfare entitlements and gutting of social spending.

Dire warnings are being issued by the financial authorities and media of a further collapse in investment unless the government moves to match US President Donald Trump's vow to more than halve the US corporate tax rate from 35 to 15 percent.

Last Saturday's edition of Rupert Murdoch's *Australian* carried an alarmist report, headlined "Funding crash as investors retreat." It began: "Australia faces a potential investment crunch with Treasury analysis revealing that foreign direct investment has already crashed almost 50 percent on 2015 levels."

This crash has actually been under way for three years. Australian Bureau of Statistics (ABS) data last May showed that net inflows of foreign direct investment (FDI) dropped to \$29.6 billion in 2015, down \$14.3 billion (32.6 percent) from 2014, in which a fall of more than \$15 billion also occurred.

This plunge is part of a wider investment breakdown that is already driving a widespread recession, especially in mining-dependent regions. This caused the economy to contract by 0.5 percent in the September quarter of 2015—the worst result since the

2008-09 global financial crisis.

Treasurer Scott Morrison attributed the FDI plunge to Australia's lack of "a competitive business tax rate." He stated: "Fifteen years ago we had the ninth lowest business tax rate among advanced economies. Today just five of the 35 OECD nations have a business tax rate higher than Australia's." This downward spiral of tax rates points to the rapid sharpening of the global battle by rival nation-states to attract investment.

A closer examination of the statistics shows that the overwhelming factor in the FDI plunge is the implosion of Australia's two-decade mining boom. Post-2008 stimulus packages in China temporarily heightened the boom, largely based on iron ore and coal exports, until 2012, but the full implications of the slump are now emerging.

The ABS data shows net FDI into mining and quarrying fell from \$51.2 billion in 2013 to \$15.3 billion in 2015, far exceeding inflows into transportation and storage, and financial and insurance activities.

The mining investment slump also overshadowed the influx of speculative funds into real estate activities, which soared from \$46.8 billion in 2014 to \$64 billion in 2015, further inflating an unsustainable property bubble in Sydney, Melbourne and Brisbane.

These results underscore the heavy dependence of the Australian capitalist class on mining-related operations, and the economy's vulnerability to the shocks and intensified struggle for global market dominance triggered by the Trump presidency.

Despite the sharp drop-off in inflow, the accumulated stock of FDI in mining and quarrying was \$295 billion or about 40 percent of the total in 2015. Second-placed

manufacturing only accounted for \$86 billion or less than 12 percent.

The threat of any withdrawal of US investment, or even a slowdown in the influx of US capital, is also particularly acute because the US is by far the biggest supplier of foreign investment.

In 2015, the United States remained the greatest source of new FDI, with \$5.6 billion, or 22 percent, compared with Hong Kong and China combined of \$2.8 billion, or 11.2 percent.

At the end of 2015, the total value of foreign investment—both FDI and indirect investment via the stock exchanges and money markets—in Australia stood at \$3 trillion. The US (\$860.3 billion or 28.4 percent) and the United Kingdom (16.5 percent) were the top two sources, way ahead of Belgium, Japan and Singapore. Levels of Chinese and Indian investment have grown since 2005, but still only reached \$75 billion (2.5 percent) and \$12 billion (0.4 percent) respectively.

Under these conditions, there is enormous pressure by the financial elite on Prime Minister Malcolm Turnbull's government to deliver deep cuts to business taxes and social spending, especially welfare, health and education.

The International Monetary Fund last week cast doubt on the government's pledge to eliminate the almost \$40 billion annual federal budget deficit by 2020-21. The IMF declared that rising health and pension costs would cause a "whopping" increase in public debt by 2050. It said failure by successive governments to meet budget targets since 2008 had "weakened the credibility of the (government's) fiscal framework," and would likely see the Australian government lose its AAA credit rating.

Reserve Bank of Australia (RBA) governor Phillip Lowe last week insisted that Australia had to respond to lowering tax rates among competitor countries. In the central bank's monthly monetary policy statement, explaining its decision to keep official interest rates at a record low 1.5 percent, the RBA alluded to Trump's threats to impose punitive tariffs on China and Mexico. "There is a risk that more restrictive and protectionist trade and immigration policies under the new administration could harm global growth prospects," it said.

The Labor Party, acutely aware of the popular

hostility toward both it and Turnbull's Liberal-National Coalition after years of worsening social inequality, is feigning opposition to the proposed company tax cuts. But Labor is equally committed to meeting the requirements of the financial markets.

During the 1980s and 1990s, the Labor governments of prime ministers Bob Hawke and Paul Keating began the process, lowering the corporate tax rate from 49 to 36 percent.

When Labor was last in office, from 2007 to 2013, party leader Bill Shorten and shadow treasurer Chris Bowen, who were both key ministers in the Gillard and Rudd governments, argued strenuously for reducing the rate to 25 percent.

During 2011, Shorten told parliament: "Cutting the company income tax rate increases domestic productivity and domestic investment." In a 2013 book, Bowen wrote: "It's a Labor thing to have the ambition of reducing company tax, because it promotes investment, creates jobs and drives growth."

Warning that Trump's tax cuts would "suck investment away from countries such as Australia," the *Australian's* editorial on Saturday declared: "The Turnbull government's pusillanimous company tax plan—trimming the headline tax rate gradually to 25 percent over a decade—smacks of too little, too late."

The newspaper also demanded more severe social spending cuts, describing the Turnbull government's latest welfare axe as "a welcome step in the right direction but amount[ing] to barely a rounding error in a \$400 billion-a-year budget."

The implementation of these demands will fuel the already seething popular disaffection from the political establishment and intensify the crisis of the government, which barely survived last July's election.



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