Why both Labor and Liberal will provide billions for tax cuts, but not for social services

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Why have both major parties in the 2007 election campaign committed themselves to multi-billion dollar tax cuts, when successive opinion polls indicate that an overwhelming majority of voters believe these resources should be devoted to hospitals, education and other social infrastructure?

The answer provides a revealing insight into the vast changes that have taken place in the very structure of the Australian economy—and society more generally—during the past quarter century. It also underscores the practical necessity of the socialist program advanced by the Socialist Equality Party.

Prime Minister John Howard unveiled the Liberals' $34 billion tax-cut package on the first day of the campaign. As expected, just three days' later, Labor leader Kevin Rudd announced his party's $31 billion tax-cut plan. The only difference was that Labor delayed the introduction of a cut in the very top rates, with the additional revenue going to finance a tax rebate for parents who purchase a laptop computer for their children, billed as part of Rudd's "education revolution."

Multi-billion tax-cut packages have become a regular feature of the Howard government's budgets over the last three years, with its tax revenues exceeding budgetary expectations, largely as a result of the export boom to China. The aim has been to redistribute these resources up the income scale, with the top income earners receiving by far the greatest benefits.

For working class families, the tax cuts have failed to keep up with ever-increasing costs, particularly increased mortgage repayments, a combination of the escalation in house prices and five interest rate rises in the last three years.

Figures published in the *Sydney Morning Herald* last Thursday show that, taking into account the effects of tax cuts and increased mortgage payments since the 2004 election, taxpayers with earnings of $70,000 and below were between $13 and $93 per week worse off. With the median household income [the income level with equal numbers above and below] at around $66,000 per year, this means that many home-buyers are worse off, some by a considerable amount.

Little wonder that Howard's successive tax cut initiatives have failed to stem the rapid decline in popular support for his government.

In 2004 an AC Neilsen poll found that 22 percent favoured a tax cut, while 75 percent wanted increased spending on services. In 2005, 29 percent wanted a tax cut and 69 percent supported increased public spending. The results were almost exactly the same in 2006: 29 percent for a tax cut and 68 percent for increased spending. And the majority for increased spending appears to be growing. More than 30,000 people responded to a phone-in on the Channel 7 "Sunrise" program conducted the day after Howard's latest tax cut promise, and 90 percent preferred increased spending.

If parliamentary democracy really functioned in the manner described by its apologists, then one would find the Labor Party strenuously advocating increasing spending on social services and infrastructure, expressing the "will of the people."

Instead, Labor's position on this area of policy reflects the coalitionism between the two major parties characterising every other major issue.

How is this to be explained, when it is obvious that Labor would stand to gain electorally if it went with majority opinion?

A major factor is the role that big business, wealthy elites and the media organisations play in setting the policy agenda of both parties. In 2005, the Business Council of Australia produced a major report calling for a "reform" of the taxation system to lower the tax rates for upper income levels.

According to BCA chief Hugh Morgan, national economies, like businesses, were in competition with each other. Thus governments could not remain "wedded to tax structure and rates without considering their impact on their economy's competitiveness internationally." This was especially so under the present conditions, where capital was mobile.

In other words, if tax rates were too high, the major corporations and their high paid executives would move elsewhere. The BCA called for a decline in the personal income tax rate on high earners to 30 per cent, in line with company rates.

Similar views were voiced in a report prepared two and a half years ago by Liberal front-bencher and prime ministerial aspirant Malcolm Turnbull, reputedly the richest man in parliament, who has close connections to Sydney's financial elites.

The attitude prevailing among significant sections of these layers was personified by the late media baron, Kerry Packer, who became a specialist in tax avoidance, but was habitually lauded by both sides of the parliamentary divide. Almost three decades ago, the eminent accounting academic Professor Russell Matthews explained that the problem was not so much getting the rich to pay more tax, as getting them to pay any tax at all.

However, pressure from the financial and corporate elites is by no means the only factor.

Far-reaching structural changes, which have seen the penetration of the "free market" into every area of social life, have spawned powerful interests opposed to any additional public funding of health, education and other social services.

Large global corporations, driven by the search for higher and higher profits, have entered areas once considered completely outside the realm of profit-making. This was the result of the privatisation program initiated under the Hawke-Keating Labor governments of 1983-1996 and deepened under Howard.

Consider the issue of hospital spending. Last Thursday, the Australian Medical Association (AMA) published a report on the state of the public hospital system. It found that while more than half the population depended on the public hospital system, hospitals "have not been given sufficient resources ... to meet their needs" threatening the "quality and the safety of the system."

The AMA report revealed that public hospital capacity had been cut by nearly 60 percent over the past 20 years and that "cuts to hospital bed numbers have been too deep and the risk of systemic breakdowns is too high.”

The hospital system was under constant pressure, operating “for too much of the time” at unsafe levels of capacity utilisation (above 85 percent). In large teaching hospitals, the situation was even worse, with capacity utilisation more likely to be 95 percent or even above.

Less than two-thirds of emergency department patients classified as urgent were seen within the recommended period of 30 minutes, and there was no evidence of any recent improvement. As well, there had been a “marked deterioration” in recent years in the admission of people for so-called elective surgery.

Let us imagine, for example, that each of the 220 or so major hospitals was allocated an additional $100 million, making a total health expenditure of $22 billion, this would represent a huge leap towards resolving all of these problems. And it would still leave at least $12 billion out of Howard’s tax cut budget for expenditure in other areas.

But such an injection of funds, leading to the provision of a top-class health service, freely available to all, would immediately arouse what Karl Marx once called “the furies of private interest”. It would strike a major blow, for example, at the private health insurance industry, which has rapidly expanded as more and more people have been forced to take out coverage due to the decline in public facilities.

Private health insurance, now covering about 44 percent of the population, is big business. Expenditure on health care was more than $87 billion in 2004, with insurance premiums far outstripping the general rate of inflation. In the 10 years to 2010, premiums are expected to increase by 86 percent, compared to an expected increase in the consumer price index of 27 percent over the same period.

If increased resources were devoted to the public health system, the health insurance industry would collapse, as would the profits of the private hospital industry.

Likewise in another vitally important area of social services—child care.

In the space of little more than a decade, child care has been transformed from a community-based service into a multi-million dollar industry, with at least one major corporation extending its operations internationally.

The first crucial step in this transformation was the Hawke Labor government’s decision in 1991 to open up funding of the industry to the profit sector. Previously, non-profit services received government funding.

Following these initial steps, in 1997 the Howard government abolished direct grants to community centres, introducing a new system under which payments were made directly to parents. This measure was accompanied by the usual “free market” rhetoric about “freedom of choice.” Its real purpose was to open the way for private capital to move in. As a result, some 70 percent of the industry is now privately owned. In comparison, in 1991 85 percent of child care was provided by non-profit organisations.

And a very lucrative business it has turned out to be. Shareholder companies involved in child care only appeared on the stock market in 2000. But by 2003, it had become a $3 billion industry. As *Business Review Weekly* reported on November 17 of that year, “with profit margins of up to 50 percent and $1.6 billion of taxpayers’ money flowing into the sector each year, everyone wants a piece of the child-care action.” The two biggest companies listed on the stock market—ABC Learning Centres and Peppercorn Management Group—were recording “performance figures that are the envy of the market.”

Since then ABC Learning has taken over Peppercorn and extended its operations to the United States to become the largest privately-owned child-care provider in the world. Its annual report for 2006 showed revenue of $631 million, an increase of almost 150 percent for the year, an operating profit of more than $81 million, up more than 86 percent, with earnings per share rising by more than 20 percent. The number of child-care places provided by the company increased from almost 23,000 in 2004 to more than 112,000 in 2006.

The provision of top quality child care is a basic necessity in today’s society. But any proposal to fund it with government resources would meet with frenzied opposition from powerful business interests whose profits depend on it remaining in private hands.

The same is true of many other areas. Universities have increasingly been turned into businesses—a process that, again, was begun under the Labor government, with the introduction of fees for overseas students and HECS. It was also accelerated under the Howard government, which made huge cuts in university funding in 1996.

Public schools, too, have been progressively run down, resulting in more and more parents deciding to send their children to private schools, sometimes suffering considerable financial hardship, in order to ensure the best possible education. If only a portion of the government resources being used to finance tax cuts were diverted to expand top quality education, then these sacrifices would be unnecessary.

But neither Liberal nor Labor will implement such measures because they are both beholden to the corporate interests that have taken control of all these social services.

In the past, reformists of all stripes used to insist, against the socialists, that social advancement would take place by means of the welfare state. It was not necessary, they argued, to tackle and break corporate control of industry and finance. Now, in the first decade of the twenty-first century, history has settled that argument. Ensuring the provision of the most basic social necessities—including hospitals and health services, education and child care—for the entire population has become a revolutionary issue. It involves nothing less than the complete reorganisation of society from top to bottom, ending the domination of private profit, and replacing it with a social system in which top priority is given to the satisfaction of human need.

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