Political economy, the MRRT and a carbon tax

Introduction

In this paper I argue that the Labor Government back-down on the Resource Super Profits Tax, the adoption of a much watered down version - the Minerals Resource Rent Tax - and the move towards a carbon tax reflect two long term trends for the Australian Labor Party. The first is the decline or death of its social democratic role. The second is the challenge to its other traditional role as the party that rules for capital, not for particular capitalists.[1]

Overlaying all of this may be Labor's long term commitment to neoliberalism, or after the Global Financial Crisis (GFC) what I call Keynesian neoliberalism – government intervention to save the 'free market'. Of course the main consequence of the free market and the competitive drive is monopoly capital[2] and an imperialist world in which 'the competitive struggles among firms fuses, often in a complex and conflictual form, with the geopolitical rivalries among states.'[3]

In relation to the specific tax matters that flow from this overarching analysis, in my view the MRRT is too limited and a carbon tax imposes, and is specifically designed to impose, a cost on ordinary working people and the poor, not the polluters.

A strong, principled social democratic government would consider applying rent taxes to all super profits, not just those in the mining sector.

MRRT too limited

It is not often that as a lawyer of the left I agree with the International Monetary Fund. But the IMF's analysis of the limited scope of the Minerals Resource Rent Tax was in my view fairly accurate when it said that 'consideration should be given to broadening the

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1 See, for example, Rick Kuhn and Tom Bramble, *Labor's Conflict: Big Business, Workers and the Politics of Class* (2010).

2 See for example Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (1966) and Ernest Mandel, *Late Capitalism* (1975).

3 Alex Callinicos, *Bonfire of Illusions: the Twin Crises of the Liberal World* (2010) 105.

coverage to other mineral resources.’[4] I therefore support the statement by eminent mainstream Australian economists in support of the original proposal – the Resource Super Profits Tax. In their opening paragraphs they said:

> Although it is appropriate to debate modifications to the design of the proposed Resource Super Profits Tax (RSPT), the current public criticism of the proposed tax has been dominated by misinformation.
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> Mining is different to other industries in that it uses and depletes natural resources. Some return on those resources should flow to the Australian public. The existing royalty system reflects the fact that it is desirable to levy a charge for access to publicly owned mineral resources, in addition to normal corporate income tax.[5]

Regressive redistribution

I see resource rent taxes as having a potential redistributive capacity from the well off to the poor and less well paid workers. The possible $24 billion per year from an RSPT could have funded for example a comprehensive dental health care scheme, begun to address aboriginal disadvantage and helped deal with climate change through investment in renewable energy sources and their development.

Instead the Government offered company tax cuts and threw in some minor support for superannuation to low paid workers and an increase in the Superannuation Guarantee from 9 percent to 12 percent. In all likelihood, this SG increase will come out of future wage increases, i.e. be borne by workers.

Unfortunately both the RSPT and MRRT were and are to be used as re-distributive mechanisms from one section of capital (mining) to capital generally. In other words the RSPT or MRRT revenue was or is to be used to fund a cut in the company tax rate. This is regressive redistribution.

Amid all this huffing and puffing from Labor, the Government’s tax changes won’t address some fundamentals. 40 percent of big business will continue to pay no income

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4 International Monetary Fund, 'Australia—2010 Article IV Consultation Concluding Statement'(5 September 2010) <http://www.imf.org/external/np/ms/2010/091510.htm> at 18 October 2010.

5 Economists’ statement in support of the RSPT (2010) The Australia Institute <https://www.tai.org.au/file.php?file=/media_releases/RSPTLetter.pdf> at 18 October 2010.

tax at all.[6] And of those that do most industries pay well below the 30 percent headline rate already. Real tax reform in the context of the exploitative relationship between capital and labour, i.e. under capitalism, would tax big business and the rich and pass on the benefits to workers, not bosses.

Rate of profit

This regressive tax redistribution and more generally the development of tax policy in the context of the extraction of surplus value from workers flows from and is driven by the logic of the capital accumulation process and the tendency under capitalism for the rate of profit to decline. Drawing on the work of Fred Moseley, Thomas Michl, Anwar Shaikh and Ertugrul Ahmet Tonak, Gérard Duménil and Dominique Lévy, Ufuk Tutan and Al Campbell, Robert Brenner, Edwin N Wolff, and Piruz Alemi and Duncan K Foley,[7] Chris Harman argues:

> There is general agreement [among those writers – JP] that profit rates fell from the late 1960s until the early 1980s. There is also agreement that profit rates partially recovered after the early 1980s, but with interruptions at the end of the 1980s and the end of the 1990s. There is also an important area of agreement that the fall from the mid-1970s to the early 1980s was not a result of rising wages, since this was the period in which US real wages began a decline which was not partially reversed until the late 1990s. Michl, Moseley, Shaikh and Tonak, and Wolff all conclude that the rising ratio of capital to labour was an element in reducing profit rates. This conclusion is an empirical refutation of the Okishio position. "Capital intensive" investments by capitalists aimed at raising their individual competitiveness and profitability have had the effect of causing profitability throughout the economy to fall. Marx's basic theory is validated. [8] (Footnotes omitted).

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6 Deputy Commissioner of Taxation Jim Killaly, 'Examining Compliance, ATO Governance and Risk Management' (Speech delivered at the 7th Annual Corporate Tax Summit, Sydney, 15 – 17 February 2010)<http://www.ato.gov.au/print.asp?doc=/content/00231458.htm>at 28 October 2010.

7 Chris Harman, 'The rate of profit and the world today' (2007) 115 *International Socialism Journal* <http://www.isj.org.uk/index.php4?id=340&issue=115> at 27 October 2010.

8 Ibid.

That basic theory is explained in simple terms by Harman. Let me quote him at a little length again, to help us understand a complex argument in simple terms. He says:

> Each individual capitalist can increase his (or occasionally her) own competitiveness through increasing the productivity of his workers. The way to do this is by using a greater quantity of the "means of production"—tools, machinery and so on—for each worker. There is a growth in the ratio of the physical extent of the means of production to the amount of labour power employed, a ratio that Marx called the "technical composition of capital".
>
> But a growth in the physical extent of the means of production will also be a growth in the investment needed to buy them. So this too will grow faster than the investment in the workforce. To use Marx's terminology, "constant capital" grows faster than "variable capital". The growth of this ratio, which he calls the "organic composition of capital", is a logical corollary of capital accumulation.
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> Yet the only source of value for the system as a whole is labour. If investment grows more rapidly than the labour force, it must also grow more rapidly than the value created by the workers, which is where profit comes from. In short, capital investment grows more rapidly than the source of profit. As a consequence, there will be a downward pressure on the ratio of profit to investment—the rate of profit.

There are a number of countervailing tendencies to slow or sometimes reverse this decline. They include lengthening the unpaid component of the working day. I note that Australia now has a very long working week. According to Brigid Van WanRooy from the University of Sydney's Workplace Research Centre:

> The evidence is clear: Australians work long hours. Full-time employees work an average of 44 hours per week, well above the traditional standard 38-hour week. Despite Australia's reputation for the land of the long weekend, we have some of the longest working hours among developed countries. Australia has very diverse working hours and one of the highest rates of part-time employment in the OECD, so when we are looking at the long hours problem it is important to focus on full-time employees. Australian employees have the longest full-time working hours among 22 other OECD countries. The other countries with long hours of work include New Zealand, the UK and the US. What all these countries have in common, including Australia, is very weak or minimal working time regulation.

> Australia is one of only a handful of countries in the OECD that has not placed a limit on working hours.[9]

On top of this increase in exploitation by lengthening the working day without compensatory pay increases there has been a historic shift in the share of the national product going to capital compared to labor. According to the Australian Council of Trade Unions According to the ACTU 'profits are at record levels of 26.9% of national income, while the wages share is close to a record low of 53.6%.'[10] My understanding is that since the ACTU produced this study the share going to capital has further increased and that to labour fallen even further.

One countervailing state response to the tendency for the rate of profit to fall is to cut company tax rates and more generally to undertake tax reform which shifts the burden of taxation even further from capital to labour. The Henry Tax Review and its views about taxing labor and fixed capital more and mobile capital less is but the most recent example of this global phenomenon.

While these countervailing tendencies may slow down the decline in the rate of profit, they cannot ultimately address it and indeed arguably exacerbate the problem in the long term by preventing the Schumpeterian 'creative destruction of capital'[11] to occur and thus

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9 Brigid Van WanRooy, *When do we stop? Achieving maximum weekly working hours in Australia* (2009) The University of Sydney <http://wrc.org.au/achieving-maximum-weekly-working-hours.php> at 28 October 2010.

10 Australian Council of Trade Unions, *National Minimum Wages Case 2010* (factsheet 1003)< http://http://docs.google.com/viewer?a=v&q=cache:b6z58rVckqIJ:www.actu.org.au/Images/Dynamic/attachments/6908/actufactsheet1003-minimum-wage-full.pdf+ACTU+'%5Bp%5Drofits+are+at+record+levels+of+26.9%25+of+national+income,+while+the+wages+share+is+close+to+a+record+low+of+53.6%25.&hl=en&gl=au&pid=bl&srcid=ADGEESgiqMgiqmdcCw_dpD5ilMh6LZ1mA1hQkkaYBbrHoOEEpvZb-ttnWYe24ag-r4s5nVdwk20OWFrFihnszRFMMUEqrFqd5hz07lZyX5EfFl3BPAne9Fy4o0kb5fMTPeYtozq2hzgU&sig=AHIEtbQ7kdbkx7kEOIf5M2u3PEK46JPNLg:www.actu.org.au/Images/Dynamic/attachments/6908/actufactsheet1003-minimum-wage-full.pdfhttp://docs.google.com/viewer?a=v&q=cache:b6z58rVckqIJ:www.actu.org.au/Images/Dynamic/attachments/6908/actufactsheet1003-minimum-wage-full.pdf+ACTU+'%5Bp%5Drofits+are+at+record+levels+of+26.9%25+of+national+income,+while+the+wages+share+is+close+to+a+record+low+of+53.6%25.&hl=en&gl=au&pid=bl&srcid=ADGEESgiqMgiqmdcCw_dpD5ilMh6LZ1mA1hQkkaYBbrHoOEEpvZb-ttnWYe24ag-r4s5nVdwk20OWFrFihnszRFMMUEqrFqd5hz07lZyX5EfFl3BPAne9Fy4o0kb5fMTPeYtozq2hzgU&sig=AHIEtbQ7kdbkx7kEOIf5M2u3PEK46JPNLg at 28 October 2010.

11 Joseph Schumpeter, *Capitalism, Socialism and Democracy* (1975).

to allow the system to regenerate, albeit from a much weakened position and at a huge social cost.

One consequence of the long term decline of profit rates in Australia and most other developed countries, coupled with the 70s economic crisis and other cyclical declines since then, has been a drying up of the social surplus out of which progressive pro-working class reforms can be funded. This has seen social democratic parties across the globe respond with attacks on jobs, retirement benefits and public services.

The decline too has seen neoliberalism replace Keynesianism as the dominant ideology of capital although the GFC saw the state roar back[12] and across the world nationalise or pump massive amounts of money or otherwise support companies 'too important to fail'. As pump priming and printing money become serious options for addressing the economic stagnation of the US and Europe, alternating with savage attacks on workers, retirement incomes and public services in places like Greece, France and the UK, we have entered the era of Keynesian neoliberalism.

Labor Government capitulation

The campaign against the RSPT was, as the eminent economists mentioned above pointed out, dominated by misinformation. Yet the Labor Government capitulated to mining capital and their misinformation. It got rid of a Prime Minister to do so. In secret talks with the big 3 global miners – BHP Billiton, Rio Tinto and Xstrata – the new Prime Minister Julia Gillard and her Labor Government developed a compromise Minerals Resource Rent Tax which, while politically expedient, represented a rejection of one of the foundations of the Henry Tax Review and the RSPT. That foundation was to tax all fixed assets or capital like minerals more and mobile capital less. Yet the MRRT and extended PRRT are narrowly focused. They apply only to iron, coal, oil and gas. As the economists supporting the RSPT put it:

> Moving from taxing mobile capital towards less mobile tax bases in this way is consistent with economic theory and recent work of the OECD and IMF on the application of economic principles to guide taxation policy.[13]

I disagree fundamentally with the Henry Review prescription. In my opinion workers create all value in society, not capital and so capital should be taxed, not labour. However the Henry Review at least has a vision for the future in bourgeois terms and puts forward

12 Ibid note 3.

13 Economists' statement in support of the RSPT , above n 5.

a direction for tax reform in Australia. The Labor Government's back down on the RSPT, the development of the lacklustre MRRT and the adoption of only a few – 2 to 4 at best - of the 138 Henry Review recommendations shows a lack of vision and thought from Labor about the future for the tax system in Australia specifically and the economy more generally.

The rationale for the MRRT compromise, according to the Government, is that 'these commodities (iron, coal, oil and gas) make up three-quarters of the value of exports and an even greater share of resource profits.' [14] This appears to be a case of near enough is good enough. It ignores the possibility of mining investment shifts as a consequence of differential taxation. And paradoxically in the very next sentence the Government argues that 'all Australians should share in the proceeds from the resources that we all own'.[15] So why not impose a resource rent tax on all the resources we own?

The misinformation

The mining companies ran a campaign against the RSPT which had little relationship with truth.

Let's start with jobs. The real concern of the mining companies is their super profits, not jobs. Their history shows a group very ready to sack people. During the global financial crisis the mining companies sacked tens of thousands of workers. If they didn't have clean hands then, how can we trust them about jobs now? [16] During the GFC the miners sacked 15 percent of their workforce. Here's how Ken Henry put it, as reported by Phillip Coorey and Peter Martin in the Sydney Morning Herald.

> It is true that Australia avoided a recession, but the Australian mining industry actually experienced quite a deep recession. In the first six months of 2009 it shed 15 per cent of its workers. Mining investment collapsed, mining output collapsed.

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14 Commonwealth of Australia, *Why tax reform?* (2010) Australian Government <http://www.futuretax.gov.au/pages/topic_whytaxreform.aspx> at 18 October 2010.

15 Ibid

16 Or indeed any other aspect of their protestations, and agreements reached with them?

> Had every industry behaved that way our unemployment rate would have climbed to 19 per cent.[17]

According to a report in The Age Ian Smith, Chairman of the Minerals Council of Australia, said in March 2009 that the global economic crisis had severely impacted Australia's mining sector.

> The number of people directly employed in the industry doubled to 142,000 from 2004 during the resources boom, but 10,500 mining jobs have gone [in the three months] since November last year, he said.[18]

The miners ran a disinformation campaign on jobs too as part of their campaign against the flawed Emissions Trading Scheme. They asserted that the ETS would cost 23,500 jobs. What they didn't tell people was that overall employment, on their own figures, would actually increase 86,000 over the period in question.

Would the RSPT itself have had an impact on investment and mean fewer jobs in the future? No. The Treasury estimates were that it would have actually increased GDP by 0.7 percent. This would have meant more jobs across the economy and in mining. There are a number of reasons why the Treasury figures are defensible.

Because the Government under the RSPT was guaranteeing to refund any losses on failed projects, the tax would increase mining exploration and early development. This creates mining jobs. In addition the RSPT proposed a 30 percent rebate for small companies undertaking resource exploration would have spurred small miner exploration and jobs. Some of the proposed tax revenue under the RSPT was to be spent on improving infrastructure for the miners so they could get their products more seamlessly to China and other countries. So it saves them the costs of doing so. That profit grant is or can be job creating, as are the infrastructure projects themselves.

There was also a debate about the adverse impact on superannuation of the RSPT. The company tax cuts give the lie to the argument that the RSPT or the MRRT will destroy

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17 Phillip Coorey and Peter Martin, 'Henry cuts miners down to size over exaggerated claims', *The Sydney Morning Herald* (The Sydney Morning Herald Internet site), 28 May 2010, <http://www.smh.com.au/business/henry-cuts-miners-down-to-size-over-exaggerated-claims-20100527-whu9.html> at 24 October 2010.

18 Drew Cratchley, 'ETS will hike mining jobs losses', *The Age* (The Age Internet Site),18 March 2009, <http://news.theage.com.au/breaking-news-business/ets-will-hike-mining-job-losses-miners-20090318-91xt.html> at 24 October 2010.

superannuation. In fact it might have some minor impact on mining companies' share prices and dividend payments (although many miners don't pay dividends) but at the same time other shares and dividend payments should increase in value. That's one of the reasons the Superannuation industry loved the RSPT. As the Industry Super Network put it:

> An estimate of the possible short-term direct cost of the Resource Super Profits Tax (RSPT) to super fund members is surprisingly low (12 basis points), and within normal volatility generated by equities.
>
> Any direct cost is likely to be more than offset by substantial benefits, though some of these may take time to materialise and be difficult to value.[19]

John Kehoe in an article in the Australian Financial Review of 10 June called 'Ads strike rich seam of exaggeration' did some figures to rebut the mining companies.

A mining project with a rate of return of six percent would have paid **less tax** under the RSPT and proposed company tax rate than at present – 28 percent compared to the current 45 percent (including royalties).

It's not till the returns hit 12 percent that more tax would have been paid. As Kehoe explained it:

> Projects with a return of less than about 12 percent will pay less tax because state taxes will be refunded and the company tax rate cut.

A Productivity Commission paper in 1998 argued that for medium (average) risk the rate of return should be in the order of 5 percent above the long term bond rate.[20] The current long term bond rate is around 5.7 percent. For high risk activity, which in a broad brush

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19 Industry Super Network, *ISN Briefing Note – RST and super fund returns* (9 March 2010) <http://industrysupernetwork.com/category/resources/publications/page/2> at 26 October 2010.

20 Commonwealth Competitive Neutrality Complaints Office, 'Rate of Return Issues' (CCNCO Research Paper, Productivity Commission, December 1998) Table 2.3. http://docs.google.com/viewer?a=v&q=cache:C_KirvEaJGwJ:www.pc.gov.au/__data/assets/pdf_file/0014/5414/cnror.pdf+rate%2Breturn+site:pc.gov.au&hl=en&gl=au&pid=bl&srcid=ADGEESi18LDOC9RgO7YEst6PQwQ0HWVTpmLgW34wE9dPEciauxkbjxiCUGHEXdcVx_Cr3wm5vrMTEx9K_VwiFrSZSUyxdEpqMbgRV_TdDk4caXodY7vaKKmDV3dlt54zEHMBQrERbkr8&sig=AHIEtbR1KW68gbc0LcMi445Ux7nrXcB1Yg at 25 October 2010.

approach includes mining, the Productivity Commission puts the figure at 7 percent above the long term bond rate,[21] the figure the Government adopted for its MRRT. A later Productivity Commission study, drawing on Dolman, says:

> The rates of return are set out in table 3.2, which expresses them in real terms, deflated by the consumer price index. The returns are high – with an (arithmetic) average annual real rate of return of 8.9 per cent since 1965 and 11.7 percent since 2000.[22]

The figures for the period since 2000 end before the GFC began. What about for mining? John Kehoe in the AFR again:

> Mining industry sources estimate that the typical expected rate of return on a mine is between 15 percent and 20 percent. A mining project earning 15 percent return (almost double the average for business in Australia) would have paid under the RSPT 45.3 per cent tax. It currently pays 38.7 percent. That's a difference of 6.5 percent.

So this whole economic Armageddon campaign from the mining companies was because they might on average have to pay an extra 6.5 percent tax? Dear oh dear. Kehoe argued that mines returning 20 percent would have paid 48.2 percent total tax (RSPT plus company tax) compared to their present 37.6 percent (royalties plus company tax). The difference is 10.6 percent. This is hardly the end of the world. In other words the Government was going to get a little bit more in tax on those mines returning more than double the Australian average rate of return. This is not earth shattering.

The Minerals Council ran advertisements claiming that after the tax the effective tax rate would be 57%, by far the world's biggest resource tax on resources. This only applies to super profitable mines. Kehoe estimated that mines returning fifty percent return would have paid 53.3 percent tax under the RSPT combined with income tax. He added that few mines were that profitable, other than some BHP and Rio Tinto projects in the Pilbara.

Another fear the mining companies had was that other countries might have followed Australia and imposed their own version of an RSPT. So the campaign against the RSPT

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21 Ibid.

22 Mark Harrison *Ch 3 The discount rate and market benchmarks* in Mark Harrison 'Valuing the future: the social discount rate in cost-benefit analysis' http://www.pc.gov.au/research/visiting-researcher/cost-benefit-discount 25 October 2010

was to protect the super profits of big mining companies and to stop the contagion from spreading around the globe.[23]

Let me finish off this section with some more commentary from John Kehoe in his article in the Financial Review.

> Treasury executive David Parker, who is heading the government's consultations with miners, said last week some projects had a payback period of less than six months and rates of return of more than 400 percent.
>
> These projects would fund a large share of the $12 billion the government expected to raise from the RSPT.

In fact later discussion seemed to indicate that the revenue figure could have been as high as $24 billion. Imposing a little bit of tax on returns of 400 percent doesn't appear outrageous in the context of current social needs and future funding issues or tensions created by demographics, the environment, economic competitiveness and the like.

This replay of history shows, I believe, that the Government could stand up to the mining companies. In fact, because we are discussing super profits, taxing super profits up to almost 100% would not make much difference at all, other than raise revenue to address social needs. This is true assuming the big mining companies continued to invest in Australia. They however threatened a capital strike. That may have had an adverse impact on employment in the mining industry if the Labor Government allowed it to happen. But a perfectly legitimate social democratic response from Labor would have been to threaten to nationalise the mining industry, something I discuss later on. First, let's look at the arguments for economic resource rents.

Are the miners taxed too much already?

Guess how much income tax BHP and Rio Tinto pay as a percentage of their accounting profit. 13 percent according to Treasurer Wayne Swan. Workers on the average wage pay 30 percent tax on their earnings over $34,000. For workers earning more than $80,000 it is 40 percent on that extra income. It's not as if BHP and Rio Tinto are alone. According to Wayne Swan, the Treasurer, citing independent analysis for the Henry Tax Review, other miners, like Fortescue and Newcrest, pay only 17 percent.

This is because business gets a huge number of tax concessions. The finance industry pays for example only 20 percent. Miners get even more concessions than the other

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23 My current research is looking at resource rent taxes for resource rich developing countries.

tax rent seekers. It's time the Labor Government forced big business (40 percent of whom pay no income tax[24]) to really begin contributing to society.

A super profits tax is a start; inadequate (as you would expect from a Labor Party ruling for the rich), but a start nevertheless.

The basic argument for a comprehensive resource rent tax

Mainstream economists have spent considerable time debating theories of rent and the taxation of economic rent. The argument in favour of taxing economic rent – of which resource rents are one variety - is explained clearly by Robin Broadway and Michael Keen. They say:

> Economic rent is the amount by which the payment received in return for some action – bringing to market a barrel of oil, for instance – exceeds the minimum required for it to be undertaken. The attraction of such rents for tax design is clear: they can be taxed at up to (just less than) 100 percent without causing any change of behaviour, providing the economist's ideal of a non-distorting tax.[25]

This is the essence of the argument in favour of resource rent taxes. If the big miners decide to pull out because of the tax, and perhaps invest more in another country, then others will step in to take up the challenge because the possible returns are well above average. As the Henry Review put it:

> The finite supply of non-renewable resources allows their owners to earn above-normal profits (economic rents) from exploitation. Rents exist where the proceeds from the sale of resources exceed the cost of exploration and extraction, including a required rate of return to compensate factors of production (labour and capital). In most other sectors of the economy, the existence of economic rents would attract new firms, increasing supply and decreasing prices and reducing the value of the rent. However, economic rents can persist in the resource sector because of the finite supply of non-renewable resources. These rents are referred to as resource rent.[26]

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24 Ibid n 6.

25 Robin Broadway and Michael Keen, 'Theoretical Perspectives on Resource Design' in Philip Dean, Michael Broadway and Charles McPherson (eds), *The Taxation of Petroleum and Minerals: Principles, Problems and Practice* (2010) 9.

26 The Australian Government, Australia's Future Tax System: Final Report (2010) http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/introduction.htmhttp://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=

One response of the mining companies to the proposed RSPT was to raise the spectre of a capital strike. A confident social democratic government might have called their bluff – the mining companies may well have backed down - and responded with the threat to nationalise the miners if there was in fact capital flight. This is not just the ranting of a mad leftie. Ken Henry in his Tax Review suggests it as a real possibility. He says:

> Public production allows the government to control exploration and production expenditure, but may lower the return to the community if public enterprise is less efficient at resource exploration and production due to a lack of expertise and market discipline.[27]

What about a rent tax on super profits for all industries?

It is not just minerals that produce economic rents. A range of industries have super profits, many as a consequence of monopoly or near monopoly situations. Indeed as the competitive drive sees the free market monopolise itself, the case for rent taxes on all super profits is convincing from both a social democratic and a neoliberal perspective. A rent tax does the job of competition – it equalises the rate of profit in monopoly industries with other industries. It in other words stops one sector of capitalism accumulating 'excessive' surplus value – the rent – at the expense of the other sections.

A social democratic government might indeed put such arguments to impose a rent tax on all super profits irrespective of the industry and both redistribute surplus value through company tax cuts to the ruling elite and improve the living standards of its citizens or more radically use the revenue to fund progressive reforms without any company tax cuts.

The Henry Review drew a distinction between mobile economic rent and fixed economic rent. It said:

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html/publications/Papers/Final_Report_Part_2/chapter_c1.htmhttp://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_c1.htm C1–1: The community's return from the exploitation of its resources <http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_c1-1.htm> at 28 October 2010.

27 Ibid.http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_c1-1.htm

> The analysis of where the incidence of company income tax falls is based on investments earning the normal return, or the going market return on capital. But many investments earn economic rents; that is, profits in excess of a market return. For debt, the normal return is the market rate of interest on debt for the relevant risk class. For equity, the normal return is the required market rate of return on stocks with the relevant risk characteristics.
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> In a closed economy, taxing the normal return will reduce the level of saving and therefore investment; however, a tax on economic rents would not normally bias investment decisions.
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> In an open economy, the impact of a tax on economic rents will depend on the mobility of the rent. Economic rents can be characterised as either firm-specific (or mobile) or location-specific. Investment generating mobile rents (arising from factors such as management know-how, a brand or a businesses' possession of a particular technology) can be moved from one jurisdiction to another. Location-specific rents may arise from exploitation of natural resources, existing fixed investments (such as factories), agglomeration (where businesses obtain benefits from co-location such as economies of scale), attractive local infrastructure, public services and institutions or consumer preference for domestically produced over imported goods.
>
> For a mobile rent, source-based taxes can reduce investment. Investors will simply shift the investment to a lower tax jurisdiction so they can receive a greater share of the rent. In contrast, a source-based tax on a location-specific rent will not distort investment decisions.[28]

The solution to me to mobile rent and to fixed rent such as mining companies which threaten a capital strike is to nationalise those industries or companies if they do leave the country or stop investment. . The inefficient public ownership argument, if it has any validity, can be addressed by putting the nationalised industry or company under the control of its workforce.

The Henry Review in fact argues for such a broad based rent tax, but as a substitute for or reducer of income tax, not in addition to it. The tax in question is called a business expenditure tax. The Henry Review favoured the Allowance for Company Equity (ACE) version. As Minter Ellison describe it, the ACE entitles a company to deduct the deemed cost of its equity funding (comprising a risk-free rate of return plus an equity premium).

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28 Ibid B1-1.http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_b1-1.htm

This in effect taxes only 'super profits', i.e. economic rents. Henry justified this approach recently at a tax conference:

> The Allowance for Corporate Equity model appears to offer the most promise.
>
> On paper, it offers a more neutral treatment at the corporate level between debt and equity financing decisions, which has the added benefit of reducing the need for complex rules. It is also provides a more neutral treatment in respect to investment decisions at the intensive margin, theoretically allowing a higher level of production than under the current company income tax system. The choice of depreciation regime – accelerated or effective life – is less relevant under an Allowance for Corporate Equity regime since any differences are reversed through adjustments to the book value of the assets.
>
> The Allowance for Corporate Equity model also offers the most in the way of empirical evidence, with variants having been used in Croatia, Brazil, Italy, Austria, Belgium and Latvia. Also, it appears to offer the least resistance path of reform, probably being the easiest system to integrate into existing company income tax systems.
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> The obvious limitation of an Allowance for Corporate Equity is setting the imputed rate of return at the "right" level. Getting the choice wrong would undermine much of the system's neutrality benefits.[29]

While Henry sees the ACE and similar business expenditure taxes as something to be considered in the long term, as a replacement for the current dividend imputation system (in which companies are effectively withholding vehicles for tax on their shareholders), a social democrat might argue for rent to be taxed at higher rates in addition to traditional company tax systems.

The long slow death of social democracy in Australia?

As a generalisation, traditionally the ALP's version of social democracy has had two components to it; first, to rule in the interests of the capitalist system (i.e. to override

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29 Ken Henry, 'Tax Reform: Opportunities and Challenges' (Speech delivered at the ATAX Conference, Sydney, 21 June 2010) at http://www.treasury.gov.au/documents/1839/HTML/docshell.asp?URL=Tax_Policy_Conference_Speech.htm 25 Octoberhttp://www.treasury.gov.au/documents/1839/HTML/docshell.asp?URL=Tax_Policy_Conference_Speech.htm 2010.

where necessary sectional interests of capital for the benefit of all capital)[30], and secondly, where there is sufficient social surplus, to provide reforms for the benefit of labour.

The decline in profit rates since the early 70s, with ups and downs but still fairly stagnant levels now compared to the 50s and 60s, has seen the social surplus for progressive reforms disappear and now most of what is left is used to benefit capital. The capitulation of the ALP Government to the miners, coupled with Labor's now abandoned Emissions Trading Scheme - which was predicated on subsidising the big polluters of capital - signals a decisive shift in the ALP from ruling in the interests of the system to ruling in the interests of sections of it. This appears not to be based on any principle, apart perhaps from an acceptance of the neoliberal vision of the economy in the context of political pressures and a fear that standing up to sectional interests might result in the loss of power.

This Labor Party neoliberal vision mixed with political pragmatism is reflected in watering down the RSPT to its poor cousin the MRRT.

The Rudd Labor Government put the Emissions Trading Scheme on hold because of opposition from the polluters and other big business interests – despite, in former Prime Minister Kevin Rudd's words, the fact that in addressing climate change Australia 'nationally, regionally and globally stands ready to play its part in acting on this great moral, environmental and economic challenge of our age.'[31] This shows both neoliberalism and pragmatism locked in irreducible conflict, with inaction and policy paralysis the outcome. As a result of the hung Parliament in the 2010 Australian Federal election and the agreement between the Greens and ALP over support for the minority Labor Government a carbon tax is now on the minority Labor Government's agenda. This is another example of neoliberalism with Keynesian overtones – it imagines the market and pricing signals as the solution to global warming rather than the cause. The market is the problem, not the solution.

Henry's long term pro-capital tax vision

The debate about the resource super profits tax is not just a fight over whether successful mining companies should pay a little more tax. It is a battle for the future direction of tax reform in Australia. It is a struggle between a social democratic view of the world warped by 30 years of disguising cuts as reforms and a neoliberal vision warped by 30 years of proclaiming the need to attack workers and their salaries and social spending.

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30 Ibid n 1.

31 Kevin Rudd, 'General Debate of the 64th Session' (Speech delivered at the 64th Session of the United Nations General Assembly, New York, 23 September 2009)**Error! Hyperlink reference not valid.**at http://www.un.org/en/ga/64/generaldebate/AU.shtml 29 October 2010

The Henry Review has a 40 year social democratic vision for our revenue system but a social democratic vision in a neoliberal world. It has at its heart what Henry describes as protecting 'the things [Australians] most value — including improving living standards, support for the needy, fairness, social advancement, security and protection of the environment.' Such improvements can only be built on the continued growth of the economy. And therein lies the contradiction for social democrats. Benefits for ordinary working people can only be built on the success of the exploitative relationship between capital and labour.

It is the classic dilemma for all tax policy designers – equity or efficiency. Of course social democrats hide the contradiction with talk, sometimes, about Nordic models and the view that the exploitation of labour is enhanced by having a healthy and well educated workforce confident of its present and future well being, i.e. social spending on areas like health, education and retirement incomes. These social gains can only exist if the economy prospers. And taxes constrain the capital accumulation process (even efficient ones).

But the real issue here is the decades' long decline of global profit rates, what Marx called the tendency of the rate of profit to fall. This arises from the very way production under capitalism is structured, with increasing investment in capital at the expense of labour meaning that, as labour creates value, the long term trend of falling profit rates asserts itself despite countervailing tendencies like the destruction of capital and its value, the lengthening of the working week, increased productivity and reduced wages.

The best indicator of the response of capital to the declining profit rate can be seen in labour's declining share of national income. As mentioned previously according to the ACTU 'profits are at record levels of 26.9% of national income, while the wages share is close to a record low of 53.6%.'[32] It was the ideology and practice of class collaboration, exemplified by the Accord between unions and the Hawke Labor government which laid the groundwork for this decline. Yet despite this historic shift, profit rates are still stagnating in Australia. In the hands of social democrats, policy, including tax policy, has become an instrument to help address the tendency of profit rates to fall but is disguised in talk about equity.

For example the proposed Resource Super Profits Tax was a redistributive measure, shifting the value we workers create from one section of the capitalist class – mining companies – to the whole of that class through tax cuts and infrastructure spending. Only 3 percent of the anticipated revenue would have gone to top up the superannuation accounts of low paid workers.

Given an aging population, the environmental degradation underway, the need of capital for an educated workforce, an expectation by most Australians of adequate healthcare during their life and especially in old age and with enough to live on then, Henry foresees increased taxation in future years – but not on companies or those well off enough to save.

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32 ACTU, above n 10.

The burden, if Henry Review's long term plans to move tax gathering from highly mobile to immobile property like minerals and land, and consumption and labour, come to fruition, will fall more and more on the clichéd working families.

This is because, although Henry proposed a massive increase in the tax free threshold to $25,000, that will come at the expense of various benefits within the system. In any event without a claw back, the benefits of increasing the threshold go overwhelmingly to those on high incomes. In addition Henry proposed flattening the progressive income scales to make Australia effectively a flat rate tax country with only two rates once the threshold is reached. Indeed his vision is for most Australians to pay tax on one set tax rate. This would make the system even more inequitable than it is at the moment.

The Review noted ominously that Australia's GST rate was low by international standards and was not broad based. This means Henry would like to see the GST rate increased and exemptions on food, health and education abolished. It won't happen tomorrow but it will be tempting to Governments in the future who are short of cash and not wanting to tax capital.

Now taxing fixed assets, especially non-renewable ones like minerals, has appeal. But the other immobile property Henry has concentrated on is land. He recommended a land value tax. But as he said: '[L]and tax is not a good tool for achieving vertical equity objectives.' Exactly. A land value tax of 1% would hit most working class people.

Even when Henry suggests seemingly progressive measures like a bequest duty or perhaps taxing the gains on the family homes of the super rich, the current Labor government has rejected such proposals. The intention of the Henry Review is clear. Increase the tax burden on workers through regressive measures like land tax, consumption tax and flatter income tax rates and provide the benefits of that shift to business income through tax cuts and further state assistance. If that doesn't work, cut back spending on school, hospitals and other services and Government payments.

It's the rich what gets the gravy, it's the poor what gets the blame. That just about sums up Henry's long term tax vision for Australian capitalism.

Fiddling while Rome burns

The Henry Tax review made 138 recommendations for tax reform. They were built on a vision of taxing fixed capital and assets, like land and mines, and consumption more and mobile global capital such as investment and finance capital less. While I disagree fundamentally with this approach, and despite the Labor Government's failure to adopt most of the Henry Review recommendations, the systemic rationale for Henry's recommendations is not going to disappear in coming years.

The drivers of tax reform – demographic change, environmental challenges, infrastructure needs, community expectations, economic growth, certainty and stability and so forth – will still be in place into the future and failing to act now, including through securing Australia's tax base, will have an impact on Australian society down the decades.

It's time; time for a return to the idea and the ideal of progressive taxation. Tax the rich. Tax capital.

A carbon tax?

I accept the scientific evidence that global warming is real and that the major contributor is human activity. In particular my view is that the current social relations and the drive to produce goods and service for profit are the main contributor to global warming. I see the market as the problem, not the solution. Sending price signals through a carbon tax, not matter how large, is not likely to produce the environmental results desired or, if it does, will do so at such a social cost as to be undermine the social fabric or impoverish even more the poor and bring into the circle of poverty some of those currently not within it. More importantly it produces technological fixes for systemic societal problems. As John Bellamy Foster puts it:

> Aside from technology, virtually nothing in the social organization of society will change in this vision. The commitment to unlimited accumulation of capital and to an order that places artificially generated private wants over individual and social needs is unaltered.[33]

Marius Kloppers, the head of the world's biggest mining company wants a carbon tax. He knows what is best for BHP's profits. And he knows that the cost of a carbon tax will be borne by the poor and working class – in Australia and the countries we export our coal and other dirty energy supplies to, and on to Europe, the US and the rest of the developed world in the form of higher prices for consumer products. Most immediately it will mean higher energy prices. There will be some fiddling to protect poor consumers or give that impression, but the working class will not be compensated. A carbon tax won't hit profits – it will cut real wages and government payments.

Labour creates value. Surplus value is taken from productive workers. Then that value is fought over by various actors – different branches of capital, the state and so on. Tax is the state getting its cut of the surplus workers create. It can do this by taxing workers and bosses directly, or indirectly taxing workers' consumption. More theoretically, as Harman puts it:

> The dependence of the state bureaucracy on capitalist exploitation is often concealed by the way in which it its revenues – by taxation of incomes and expenditure, by government borrowing or by "printing money". All of these activities seem, on the surface, to be quite different from capitalist exploitation at the point of production. The state therefore seems like an independent entity which can raise the resources it needs by levying funds from any class in society. But this semblance of independence disappears when the state's activities are seen in a wider context. State revenues are raised by taxing individuals. But individuals will attempt to recoup their loss of purchasing power by struggles at the point of production – the capitalists by trying to enforce a higher rate of exploitation, the workers by attempting to get wage increases. The balance of class forces determines the leeway which exists for the state to increase its revenues. These

33 John Bellamy Foster, *The Ecological Revolution: Making Peace with the Planet* (2009).

> are the part of the total social surplus value – part of the total amount by which the value of workers' output exceeds the cost of reproducing the labour value.
>
> In this sense, state revenues are comparable to the other revenues that accrue to different sections of capital – to the rents accruing to landowners, the interest going to money capital, the returns from trade going to commodity capital and the profits of productive capital. Just as there is continual conflict between the different sections of capital over the sizes of these different revenues, so there is continual conflict between the bureaucracy and the rest of the capitalist class over the size of its cut from the total surplus value. The state bureaucracy will, on occasions, use its own special position, with its monopoly of armed force, to make gains for itself at the expense of others. In response to this, the other the other sections of capital will use their own special position – industrial capital its ability to postpone investment, money capital its ability to move overseas – to fight back.[34]

It appears likely that the Labor Government, with the support of the Greens and independents, will tax the bosses directly through a carbon tax (or more correctly a carbon dioxide tax). The tax will fall on coal, oil and gas, each of which (including differing types within each category) has a scientifically determined amount of CO_2 it releases when burning. Taxing those emissions should be easy given that scientific analysis.

If a carbon tax is imposed profits of those bosses burning carbon will go down, so they will try to make that up by increasing prices,[35] and/or by increasing the rate of exploitation in the workplace (e.g. lengthening the working day, increasing productivity through extra work, job losses, speed ups and new technology etc). There will be a range of factors which might hinder this – the type of market, regulators (including price regulators) and so on. Most important would be the strength of the working class in resisting increased exploitation and prices through for example forcing real price controls on the industry and winning increased wages to compensate for the increased price increases and defeating speed ups and job losses. But then the whole cycle starts again.

And of course there is the question of what the state does with the tax. The former Rudd Government's abandoned Carbon Pollution Reduction Scheme looked like it would have returned most of the tax to the polluters and some to the less well off.

Socially useful expenditure (e.g. health and education) benefits both workers and bosses in the context of the bosses having a fit and educated workforce to exploit us better. So our slogan should be to tax them to pay for their benefits. Certainly some on the Left have argued for a green cheque to be paid to the poor out of the carbon tax.

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34 Chris Harman *Zombie Capitalism: Global crisis and the relevance of Marx* (2009) 113-114.

35 Baran and Sweezy, above n 2, at 65 argue that 'regulatory commissions protect investors rather than consumers' .

None of this is to say the Left oppose a tax on the bosses. For a start there is the ideological victory of taxing the bosses. Nevertheless the logic of capitalism is that taxation is ultimately an extraction from the surplus value workers create and is in the main borne either directly or indirectly by workers.

There is likely to be some lag between the hit to profit and the price increase (and the attacks on workers in the industry are likely to be a little lagged too.) And most importantly if workers do resist any attempt to pass the cost on to them, that resistance pushes back the burden of the tax onto capital, and trains workers in fighting to defend their interests. They could conceivably permanently reduce the share of surplus going to the bosses.

For a capital intensive industry like electricity generation it is not something you can easily pull out off once you have invested your billions, so the bosses might be stuck long-term with lower profit rates.

One aspect of this would be tight regulation of the price of electricity. State and territory Governments of both Liberal and Labor persuasion have the power to control prices. However pricing regulators in these industries exist for the benefit of the industry and the investors, not consumers.[36] So price regulation is unlikely to be effective in quarantining consumers from the impact of price rises.

Following Harman, the question of who bears the burden of new taxes is largely a question about the combativeness of the working class and its willingness to fight attacks on it in the workplace and to fight for wage increases to counteract price hikes for necessities, like power in this case. Given the lack of class struggle in Australia since the Accord and its class collaborationist practice and destruction of rank and file control of unions, it is not surprising that the share of national income going to capital is at its highest and that to labour at its lowest since records were kept.[37] This lack of class struggle means it is highly likely that as a generalisation it will be workers who will bear the burden of a carbon tax, a tax imposed as a consequence of the systemic nature of CO2 gas emissions and global warming under capitalism for the benefit of individual capital.

So what's going on?

The RSPT/MRRT compromise shows that Labor is prepared to bow to sectional interest of capital despite the fact that in bourgeois economic terms resource rent taxes will have no impact on the economy and indeed may improve its performance. This may well be symptomatic of a more general shift on the part of Labor from ruling in the interests of all capital and imposing systemic solutions for the benefit of capital at the expense of some capitalists, to ruling for the interests of the most powerful sections of capital. Certainly the original postponing of the CPRS further supports this analysis.

The proposed imposition of a carbon tax reflects a commitment to free market economics with neoliberalism as its grundnorm.

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36 Ibid.

37 ACTU, above n 10.

The ALP as a party of the labour bureaucracy[38] that rules for capital as a whole may be fatally wounded.

Short of revolution, what can we do?

A super profits tax is a start; inadequate (as you would expect from a Labor Party ruling for the rich), but a start nevertheless.

What could a leftwing Government do?

An outline of an essentially social democratic program is set out below. These are examples of a more general philosophy – capital exploits labour and so let's tax them for that privilege. Or as Dennis Healy put it many years ago: Tax the rich till their pips squeak.

- Tax all resource rents or monopoly profits - the big 4 banks come to mind.
- Impose a minimum company tax regime so that companies pay some tax even in artificial loss situations.
- Soak the rich through a progressive tax system.
- Attack tax expenditures (disguised grants) which cost $100 billion a year and mainly benefit business and the rich.
- Impose death and gift duties on the bourgeoisie and their middle class apparatchiks.
- Tax the houses of the filthy rich.
- Beef up the Tax Office to attack the rich avoiders and evaders.
- Remove the handcuffs that business has imposed on the ATO.

These are just some of the issues that would be on the agenda of any left wing Government. A carbon tax on the big polluters with stringent price controls on price rises and the money collected returned to workers and price control on energy prices could be an option.

Nationalise the mines under workers' control

The Henry review makes the point that the minerals in the ground belong to all of us. In fact they belong in my view to the original inhabitants and any resource rent tax should start of by recognising that point and reimbursing those whose land Australian capitalism has stolen as part of a more general settlement, including recognition of prior ownership, sovereignty and governance. In the words of Peter Garrett and his band Midnight Oil

> The time has come
> To say fair's fair
> To pay the rent

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38 Labor is the party of the trade union bureaucracy, a group coming out of the working class but separate from it, whose role in society is as the retailer of labour power. See for example Rick Kuhn and Tom Bramble, *Labor's Conflict: Big Business, Workers and the Politics of Class* (2010).

To pay our share
The time has come
A fact's a fact
It belongs to them
Let's give it back[39]

However if we accept, as most do, the Henry Review's essentially cross-class, ahistorical, blinkered and neoliberal view that the Australian and State governments are the owners of natural resources on behalf of the community,[40] why not reclaim our natural resources by nationalising the mines and spreading the wealth around to working people?

Put the mine workers in charge of the mines. Let's decide democratically what is to be done.

Of course Rudd Labor was and Gillard Labor is not left wing. The variants of resource rent taxes they have developed are, as discussed above, about redistributing monopoly profits (out of value workers create) through tax cuts to those sectors of the economy open to more competition than the miner.

Rudd Labor rejected increasing the tax free threshold. This would have benefited workers (and could have been structured to phase out so the rich don't benefit.) Labor rejected slight modifications to negative gearing. It rejected abolishing the capital gains tax concessions which benefit the very well off disproportionately. It rejected a gift tax.

Tax policy in Australia is a debate among the capitalist class about what is best for it and for individual sectors within it. The rent seekers have taken over tax policy and Ken Henry's Tax Review was an attempt in small part to rein them in for the benefit of the capitalist class and the capital accumulation process as a whole. The fact that Labor rejected many of the Henry Tax Review's recommendations and put others in the too hard basket and then watered down the RSPT in the face of vociferous opposition from the mining companies, shows that it has become a party of sectional interests, and is a slave to the ideology and power of the tax rent seekers and the particular narrow ruling class interests they represent.

A socialist program would tax the bourgeoisie and their accumulation process. Even then other policies would need to be in place to address the capital strike the bourgeoisie would undertake and to control the prices of their goods and services. None of this will happen in times of social peace. It would be a consequence of the developing revolutionary situation and the democratic revolutionary transfer of power from the minority class to the majority class.

In the end the solution to the inherent and systemic problems of capitalism lies not with taxing capital but with creating a new society where production is organised democratically to satisfy human need. Until then the left can continue to push a simple revenue message. Tax the rich.

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39 Midnight Oil, *Beds are burning.*

40 Ibid n 26.

John Passant

29 October 2010