What capital has joined together, let not Marx rent asunder: Mark II

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ABSTRACT

In this paper I introduce readers to some basic Marxist ideas to help you understand Marx’s thinking on rent and its applicability to the taxation of economic rent, specifically resource rents. I argue that because of the high levels of capital investment in the mining industry, Marx’s concept of absolute rent does not apply but that what he describes as monopoly rent, and differential rent I and II are components of resource rents. The process of taxing resource rents involves a battle between the state as landlord and mining capital as both a new landlord and exploiter of the minerals. That battle is over the split up of the resource monopoly rent inhered in the land but also between the state and mining capital over a share of the monopoly rent mining capital extracts in the process of production from other capital. The taxation of this latter aspect of resource rents acts as an imperfect substitute for competition by lowering the super profits the specific monopolists and oligopolists receive and thus helping to equalise profit rates. Company tax cuts redistribute the monopoly rents obtained during the production process to the other sectors of capital from whom the rent has in their eyes been monopolised.

I INTRODUCTION

Taxing economic rent, at least resource rents, was an important part of the thinking and recommendations of Australia’s Future Tax System Report,¹ better known as the Henry Tax Review and partially taken up by the Gillard Government in its Minerals Resource Rent Tax, a tax which began operation on 1 July 2012.

This raises the question - what is economic rent? In answering that question this paper looks not only at the ideas of some mainstream economists about economic rent adopted by the Henry Tax Review and the Rudd and Gillard Labor governments but also examines Marx’s drafting notes on rent in volume III of Capital² and in his earlier Theories of Surplus Value³ to try to understand why economic rent and in particular its resource version are an important part of tax reform in Australia.

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² Karl Marx, Capital Vol III (Foreign Languages Publishing House, Moscow, 1959).
It may seem a long jump from 1863 and agricultural rent to 2013\(^4\) and the Australian mining boom, but Marx’s discussion and later Marxist thinking I believe helps us to discern an alternative explanation for the taxation of economic rent and its role in the totality that is Australian capitalism. Taxing economic rent slows down or may slow down the trend to monopoly and helps redress both the redistribution of wealth (or, as we shall see soon, surplus value) from other sectors of capital to the oligopolists and if the mining sector is any indication, the over-accumulation of capital in the oligopolistic sectors. This paper will further argue that taxing economic rent acts as a substitute for competition in breaking down the effects of monopoly or oligopoly by reducing the rents such groups receive and that the aim of governments in using the rent revenue to redistribute to other sectors of capital (through for example tax cuts on companies) is to reduce the impact of the oligopoly or monopoly and to redistribute some of the monopolised wealth back to those other sectors of capital who believe it has been monopolised from them, at their expense. The danger for the state and the other non-productive hostile brothers is that because wealth, profit, surplus value, call it what you will at this stage, come from the productive process and are realised in the exchange process their ultimate existence depends on the continuing good health of the productive sector of capital, that sector where goods and services are made for the market.\(^5\)

In the case of resource rent taxes the state is also acting as a landlord, trying to increase its share of the rent that arises as of course from the monopoly that is ownership of land with minerals underneath.

Our first step in this journey is a brief stop-over at the port of economic rent and the Henry Tax Review, plus the final product the MRRT. We will then detour briefly through some basic Marxist thought before we examine more closely Marx’s discussion of rent to see how that can help us understand the drivers for taxing resource rents in Australia today.

## II ECONOMIC RENT, HENRY AND RESOURCE RENT TAXES

### A What is economic rent?

In essence economic rent is the return over and above the rate needed for the investment and production to occur.\(^6\) The return is above the level required to compensate labour and, more importantly, capital.\(^7\) Taxing that extra return, even at levels close to 100 percent, will not change those investment and production decisions because the return is still above the level needed to reward capital.\(^8\) Here is how the Henry Tax Review describes it:

> An economic rent is the excess of the return to a factor of production above the amount that is required to sustain the current use of the factor (or to entice the use of the factor). For

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\(^4\) 150 years in fact.

\(^5\) Karl Marx, Theories of Surplus Value (Lawrence & Wishart 1973?) 152 et ff.


\(^7\) Ken Henry et al, above n 1, 171.

\(^8\) Ibid.
example, if a worker is paid $100,000 but would still be willing to work at the same job if they were paid $75,000, their economic rent would be $25,000.9

A simple example might help. As Passant and McLeod put it:

…what does it take to get a supermodel to work? Linda Evangelista told Vogue that ‘we don’t wake up for less than $10,000 a day.’10 While the example is hardly scientific, for the purposes of exposition it is appropriate. If a supermodel is paid more than that, and they are, it is economic rent. So a government could tax almost all of that excess without effecting a supermodel’s work decisions. They would still go to work even if the economic rent reduced the return to ‘just’ $10,000 a day.11

The Henry Tax Review example itself is interesting because it focuses on labour rather than capital and perhaps hints at a future ‘economic rent’ tax on workers.12 As we shall see ‘the value of a worker’s labour power, the wage, is simply the value required to reproduce the labour power, to provide the worker with food, clothing, shelter and other needs. In general this is far less value than the worker creates.’13 Shifting tax burdens from capital to labour makes sense as one strategy to address falling rates of return to capital, as long as the shift doesn’t impact too adversely on the price paid for labour power by for example reducing it below the capacity of workers to buy food, clothes, shelter and other elements of the reproduction of their labour power. The level of class struggle in a society would also be important in determining the capacity of capital to engineer such a shift.

If the Treasury example is a hint to the future then one would expect a flattening of income tax rates and perhaps an increase, especially around the average wage and above. The average wage in Australia is currently just over $70,000.14 A two tier individual income tax system above a suggested tax free threshold of $25000 was in fact what the Henry Tax Review proposed, with 97% of taxpayers – those between $25,001 taxable income and $180000 paying a flat 35% rate on any income above the $250000 tax free threshold. Those earning more than $180000 would have paid a rate of 45% on any amount above that. However the consequence would have been an increase in tax paid by those earning, according to Australian Council of Trade Unions’ research Officer Matt Cowgill ‘between $35600 and $94100 ….while anyone earning above that amount would get a tax cut.15 Rent taxes applying to labour, such as more comprehensive land taxes or even subterfuges like the Henry Tax Review proposals for 2 tax rates on individual income, may be a tempting solution to budget problems and declining profit rates. Labor may resist but an incoming conservative government might look at the flatter income tax rates more favourably, as they said in 2010 in response to the Henry proposals.16

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9 Ibid.
12 Arguably land tax does this in a disguised form, but that is a topic for another article.
15 Matt Cowgill, ‘Against the flat tax’ We are all dead 1 November 2010 <http://mattcowgill.wordpress.com/2010/11/01/against-the-flat-tax/>.
16 Ibid.
At the moment we have a Minerals Resource Rent Tax, a tax on the economic rent of iron ore and coal mining businesses. As we shall see the ‘super profits’ of business, whether they be as a consequence of monopoly like circumstances or the demand for finite resources, are effectively a transfer to the monopolists or resource sector of the wealth workers create or more accurately surplus value that the other brothers in the band of hostile brothers view as theirs. Rent taxes are a way of overcoming the effects of monopoly that transfer extra profit to these monopolists or resource companies at the expense of the other brothers because they make the profitability closer to the average. These super profits arise from the fact that the prices of production are higher than the value of the product, to use Marxist terminology which hopefully becomes clearer as you read further in this article. Whether this is structural (through for example barriers to entry) or demand driven doesn’t alter that fact that there is a redistribution of surplus value going on from other capital and at their expense to resource capital and to their seemingly undeserved benefit. If the revenue from rent taxes is used to cut taxes on capital, then all the hostile brothers are rewarded by the distribution of the monopoly or super or extra profits back to them. Before we explore these ideas, let’s look at what was at the heart of the Henry Tax Review and its recommendations for taxing resource rents.

B The Henry Tax Review

The first recommendation of the Henry Tax Review, and the key to understanding it, was:

Revenue rising should be concentrated on four robust and efficient broad-based taxes:

- personal income, assessed on a more comprehensive basis;
- business income, designed to support economic growth;
- rents on natural resources and land; and
- private consumption.

Dot point three clearly has economic rent as its rationale. The Henry Tax Review’s long term tax vision for Australia is in part to move to the taxation of economic rent and away from the taxation of ordinary income or capital. This is part of a wider shift. The logic of Henry, as Professor John Freebairn points out, is ‘shifting the tax mix from mobile to immobile factors of production.’ Those immobile factors of production include resources, land and monopoly rents. Thus Henry recommended that the Government adopt a resource

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17 This itself may be an expression of monopoly in land or its use. See, for example, Ross Garnaut and Anthony Clunies Ross, *Taxation of Mineral Rents* (Clarendon Press 1983), 33.
18 As we shall see, more accurately described as the surplus value productive workers create.
19 Ken Henry et al, above n 1, 80.
20 This paper deals with resource rents. Another paper will deal with the taxation of land.
23 Ken Henry et al, above n 1, xvii. They also include consumption, i.e. effectively the consumption of the working class, but that is at the moment off the agenda as a too hot to handle political potato.
rent tax, governments move to a broader based land tax with conveyancing stamp duty abolished or reduced and to consider an allowance for corporate equity. As I have argued elsewhere these recommendations are part of an even deeper structural tax change in general – to shift the tax burden from capital further on to labour. Taxing the economic rent of business is part of that because among other things it enables rhetoric about taxing business while at the same time redistributing wealth within the band of hostile brothers by reducing the general company tax rate and company tax collections. It may also help to calm the waters of potential class struggle over tax burdens.

There is also in Henry some sort of commitment to the welfare state, reflected in the Review’s comments about ‘improving living standards, support for the needy, fairness, social advancement, security and protection of the environment.’ There is a stream of economic thought that believes that higher inequality leads to a less productive society, or even to economic crises. So taxing resource rents and in the long term all economic rents (for example of the banks too) may provide a sort of magic pudding for social democratic governments to be able to continue to fund social services. However, the Labor Government was proposing to use a substantial part of any resource rent revenue to cut company taxes, from their current 30% to 25% in the short to medium term if Henry’s recommendations are to be followed. There is another aspect to taxing economic rent, and something I will deal with in another paper. Economic rent accrues not only to business; it accrues to workers through their ownership of land, mainly their homes. So a move to immobile bases of tax like land and resources are part and parcel of a move to shift the burden of taxation from capital to labour. In the case of resource rent taxation the aim is to both redistribute surplus value through tax cuts back to the more competitive sectors of business whose surplus value has been expropriated by the monopolists or quasi monopolists and at the same time have the taxation of such rents act as an equalisation of profit factor by making returns closer to average profit by taxing them as super profits. These do not look like the actions of social democracy to me.

Let’s look briefly at the taxation of resource rents proposed in the Henry Tax Review.

C Resource rent taxation

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24 Ibid, 89.
25 Ibid, 90.
26 Ibid, 42. The Business Tax Working Group was examining this but ruled it out.
27 John Passant above n 6, 177.
28 Ken Henry et al, above n 1, xvii.
32 Ken Henry et al, above n 1, 40.
33 John Passant, above n 6, 174 et ff.
Henry proposed that State and Territory mining royalties be abolished and replaced with a Commonwealth resource rent tax. The reasons for doing this were that:

1. they are the resources of the States and Territories, i.e. public property,
2. the return to the community is inadequate because, many of the royalties being output based, they are by and large unresponsive to changes in profit,
3. royalties are inefficient, and
4. the resources are finite.

Because of the non-renewable nature of resources, mining companies earn economic rent, in other words a profit well above that needed for investment and production in the mining industry to continue at what would be normal market levels. Ross Garnaut summarises the reasons for taxing resource rents in these terms:

There are therefore two reasons to expect Australian governments to seek to extract the economic rent as revenue: it has lower economic costs than other forms of taxation; and it represents the value of public property that is being transferred to private ownership. Many Australians would add a third reason:

that the recovery of mineral rent from the companies to which rights to mine have been allocated for the community represents a move to more equitable distribution of income, in a way that has lower economic costs than other measures to promote distributional equity. However, we have a strong basis for efficient resource rent taxation without going into the distributional issues.

Here is what Henry recommended:

**RECOMMENDATION 45:**

The current resource charging arrangements imposed on non-renewable resources by the Australian and State governments should be replaced by a uniform resource rent tax imposed and administered by the Australian government that:

- a. is levied at a rate of 40 per cent, with that rate adjusted to offset any future change in the company income tax rate from 25 per cent, to achieve a combined statutory tax rate of 55 per cent;
- b. applies to non-renewable resource (oil, gas and minerals) projects, except for lower value minerals for which it can be expected to generate no net

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34 Ken Henry et al, above n 1, xxi and recommendations 45-50 at 89-90.
35 Ibid, 47.
37 Ibid.
38 John Passant, above n 6, 162-163.
benefits. Excepted minerals could continue to be subject to existing arrangements if appropriate;
c. measures rents as net income less an allowance for corporate capital, with the allowance rate set at the long-term Australian government bond rate;
d. requires a rent calculation for projects;
e. allows losses to be carried forward with interest or transferred to other commonly owned projects, with the tax value of residual losses refunded when a project is closed; and
f. is allowed as a deductible expense in the calculation of income tax, with loss refunds treated as assessable income.40

The Rudd Government unveiled the Resource Super Profits Tax (RSPT) when it released the Henry Tax Review on 2 May 2010,41 a tax based to a large extent, but with some major modifications, on the Henry recommendation above. The mining industry backlash against the RSPT destroyed a Prime Minister42 and the new head of government, Julia Gillard, after negotiations with the big 3 mining companies BHP, Xstrata and Rio Tinto,43 announced a much watered down tax, the Minerals Resource Rent Tax (MRRT).44 These 3 mining companies helped draft the legislation.45 Unlike the RSPT, which was to apply to almost all minerals and resources, the MRRT applies only to coal and iron ore and the rate of tax, effectively 22.5% on super profits (more difficult to fall within than under the RSPT) means little will be raised long term, especially in light of falling coal and iron ore prices.

The MRRT applies from 1 July 2012 to around 320 companies instead of the 2500 under the RSPT.46 Only a small amount of resource rents will be captured by the MRRT for the community, as much as $10 billion less annually than would have been the case under the RSPT.47 Indeed the media are reporting that the collection figures for the first quarter – 1 July 2012 to 30 September 2012 – show precisely no MRRT was paid.48 The later revenue

40 Australia’s Future Tax System: Final Report > Part 2: Detailed analysis > Chapter C: Land and resources taxes > C1: Charging for non-renewable resources > C1–3: Replacing current arrangements with a resource rent tax
42 John Passant, above n 6, 172-173.
43 They are the big 3 mining companies in Australia and globally as well.
44 See John Passant, above n 6, especially 169-176.
45 Denis Shanahan, ‘New Mine Tax fails to raise a cent in blow to revenue’, The Australian 25 October 2012
48 Denis Shanahan, above n 45.
collection figures show it could have been anywhere between zero and $550 million. The ambiguity arises because the Petroleum Resource Rent Tax collections are also included in the figures.

Henry’s vision of a shift to taxing resource rents as immobile factors of production more fully has suffered a setback but the Review has planted the seeds for the future. Whether they sprout or not depends on the maturity of governments and Australian civil society to rise above petty politicking.  

The concept of economic rent and its taxation is not confined to resources or land. All oligopolists and monopolists can earn economic rents. The Big 4 Australian banks come to mind. The Henry Tax Review recommendations do so limit taxing economic rent to resources and land. Was the Henry recommendation for ‘a uniform resource rent tax imposed and administered by the Australian government’ a case of hastening slowly on Henry’s part, of sowing the seeds for an expansion of the taxation of resource rents at a later date into economic rent more generally? If so, the ferocious opposition to the Resource Super Profits Tax, the removal of the Prime Minister Kevin Rudd in response and the development of the suitably anaemic compromise - the Minerals Resource Rents Tax - limited to iron ore and coal and as a consequence reducing the number of companies affected from 2500 to 320, does not augur at all well for a future expansion of a resource rent tax to all economic rent. The divisions among the hostile brothers might be too great and the power that sections of capital yield too much even for social democratic governments one of whose traditional roles has been to rule for capital, not capitalists. 

Let’s turn then to Marx as one of those early economic thinkers on rent. However to look at Marx’s thinking on rent I need to explain some basic Marxist ideas to my audience.

IV SOME BASIC MARX

In this section we will look at some fairly basic ideas of Marx to enable us to understand his discussion of rent and the application of his ideas to resource rent taxes in Australia. These ideas include concepts like the different sectors of capital operating as a band of hostile brothers, value, the labour theory of value, competition, the organic composition of capital, profit rates, monopoly and class struggle.

A A band of hostile brothers fighting over surplus value

49 Ross Garnaut, above n 39.
52 For a discussion of this, see John Passant, above n 6, 175-176.
54 John Passant, above n 6, 175-176.
There is a band of hostile brothers fighting over a share of the wealth which workers create. The band includes productive capital, commercial capital, finance capital, landlords and the state. Because capitalism is a global system, the brothers may well have different nationalities, but because capitalism is also nation based and protected by the state, which in extreme cases fights with others states over the division and re-division of the world, those brothers also often belong to the same national tribe.

I should warn readers that this discussion is fairly basic; an introduction to ideas which are and can be very complex. This is in part because of Marx’s dialectical method, moving from the concrete to the abstract and then back to the concrete with new understanding. What then are these abstract ideas? As Rubin puts it:

But, Marx says, however necessary the use of the analytical method is in the first stage of scientific enquiry, it cannot satisfy us in itself, and it must be complemented by another method. Once we have traced the complex phenomenon back to its basic elements by means of analysis, we have to take the opposite direction and, starting from the most abstract concepts, show how these develop to lead us on to more concrete forms, more concrete concepts. In our case, this progression from the simpler concepts to richer and more complex ones would be the movement from abstract labour to value, from value to exchange value and from exchange value to money.

That quote is my way of squibbing the more detailed and complicated discussions about abstract labour, value, exchange value and money. The complexity partly arises from the fact that the subject matter, capitalism, is itself complex and partly because capitalism is a complex system of contradictory and conflicting relations so that the totality that it is in constant ferment and change. So against this background let’s introduce ourselves to some of the more basic ideas

A Surplus value

Marxists call the wealth the hostile brothers are fighting over surplus value. Surplus value is the difference between what workers are paid and the value they create. For example, as the cartoon shows, say workers toil for 8 hours per day but are paid for 2 hours to cover their living and other essential costs and so come back to work; the 6 hour difference – the surplus

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55 I’d use siblings but the phrase is now so entrenched in Marxist and leftwing writing that it is seemingly untouchable. Interestingly, although Marx talked about hostile brothers, he never called them a band. Later writers ascribed the phrase to him and it is now so entrenched in leftwing discourse that I use it to describe capitalists who own the commanding heights of the economy and have interests in common and opposed to each other.
58 Imperialism.
60 Choonara, above n 56, 32.
value\(^{61}\) goes to the owner of capital. The production process – essentially the manufacture of goods and services for the market – is the site for the production of this surplus value. Once realised in exchange, this surplus value is distributed as profit to those capitalists who own the means of production,\(^{62}\) as interest to finance capital, as commercial profits to the retailers, as rent to landlords and as taxes to the state.\(^{63}\)

For Marx (and indeed for Ricardo and sometimes Adam Smith) it is labour which produces this wealth or surplus value.

### B The Labour Theory of Value

This idea of surplus value flows from the labour theory of value. This is the idea that value is determined by the labour time embodied in goods and services sold on the market or as Callinicos puts it ‘…commodities – products sold in the market place – exchange in proportion to the socially necessary labour time required for their production.’\(^{64}\) This is neither the time nor the place to go over the debates about this labour theory of value approach; my point is to use the concept and further developments of Marx’s thought to see if they can help us understand what the taxation of economic rent really is about and why it may form a part of future revenue raising in Australia.

The idea itself is fairly simple, if controversial. As Kuhn and O’Lincoln put it: ‘… human labour is the only element in the production process which creates new value (as opposed to simply passing on the labour it embodies to the final product).’\(^{65}\) Callinicos’s quote above indicates a number of things. Under capitalism goods and services are produced for the market, i.e. to be sold, to be exchanged.

What is it that commodities have in common, what characteristic is it that is in all goods and services which allows them to be exchanged for money, the universal equivalent,\(^{66}\) and in comparison to each other? Labour was the answer for Marx.\(^{67}\) As he said: ‘If then we leave out of consideration the use value of commodities, they have only one common property left, that of being products of labour.’\(^{68}\) Further, Marx argued it is labour which creates value, not

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\(^{62}\) The raw materials, machinery and other ‘dead labour’ used in the production process and the buildings and surroundings or environment in which production occurs such as, factories, mines, offices and the like. The circumstances are more complicated than that because productive capital often sells its goods to retailers who pay them out of past surplus value or in anticipation of future commercial profits on the goods purchased, often tided over by borrowing from finance capital.

\(^{63}\) Because this is an introduction, and the readership is those with an interest in tax, there are intricacies here that I don’t not discuss but hope to in later papers. These include the taxation of workers, and the taxation of land as both the taxation of economic rent and the taxation of workers.

\(^{64}\) Alex Callinicos, The Revolutionary Ideas Of Karl Marx (Bookmarks, London, 1996) 122.


\(^{66}\) Karl Marx Capital Vol I, (Progress Publishers Moscow 1977) 90.

\(^{67}\) Ibid 45.

\(^{68}\) Ibid.
machines or other capital.\textsuperscript{69} Plant and machinery and so on – constant capital\textsuperscript{70} – transfer the labour embodied in them to the new goods,\textsuperscript{71} the wear and tear component of depreciation being an estimate of that transfer.\textsuperscript{72}

If it is human labour which creates new value that does not mean the longer it takes to produce something the more value it contains that can be realised. Competition between capitals makes sure it is only the socially necessary labour time embodied in commodities which will exchange in the market place. Why socially necessary labour time? In a competitive world the labour time has to be the socially necessary labour time, otherwise the value of a good made by someone not as skilled in the task as others would be higher, but wouldn’t sell compared to the cheaper and perhaps better made products of competitors.\textsuperscript{73}

\section*{C Use values and exchange values}

As well as his abstract concept of value,\textsuperscript{74} Marx identifies 2 types of value that are contained in commodities.\textsuperscript{75} The first is use value. Food for example has a use; to stop us starving and allowing us to live. The second is exchange value.\textsuperscript{76} Food exchanges for money. Money makes comparable the labour embodied in one product with that in another, and in doing that helps hide the social and human relations involved in the creation and exchange of the products. It makes possible the exchange between commodities based on their labour by comparing for example the socially necessary labour time in a litre of milk to that in a kilo of bananas. The way this is done is through money.

This does not mean that prices are equivalent to their exchange value. The price of goods can and does fluctuate around their exchange value, for example because of changes in supply and demand. Monopoly or oligopoly may also increase prices of commodities under the control of the monopolists or oligopolists.

It is a leftwing criticism of capitalism that production is for profit, not to satisfy human need. This is because use values and exchange values do not always coincide. For example although food is an absolute necessity for human beings, according to the United Nation’s Food and Agriculture Organisation: ‘…868 million people continue to suffer from undernourishment, and the negative health consequences of micronutrient deficiencies

\begin{itemize}
\item \textsuperscript{69} Harman, above n 57, 38.
\item \textsuperscript{70} Ibid.
\item \textsuperscript{71} Ibid.
\item \textsuperscript{72} Andrew Kliman, \textit{The failure of capitalist production: underlying causes of the great recession} (Pluto Press, 2011) 139.
\item \textsuperscript{73} Ibid, 127.
\item \textsuperscript{74} Rubin, above n 59.
\item \textsuperscript{75} Commodities are the goods and services to be sold on the market under capitalism.
\item \textsuperscript{76} Value is not the same as price. It is an abstract yet real concept, like gravity. Marx recognised the impact of supply and demand as being to cause price variations around the value of a commodity. This is not the place to enter into discussions about the transformation problem of value into prices, but recent work on what is known as the Temporal Single-System Interpretation seems to provide an answer to alleged inconsistencies in Marx’s analysis of the transformation problem and hence rebut arguments based on that alleged inconsistency about the validity of the labour theory of value. See for example Andrew Kliman, \textit{Reclaiming Marx’s "Capital": A Refutation of the Myth of Inconsistency}, (Lanham, MD: Lexington Books, 2007).
\end{itemize}
continue to affect around 2 billion people. Around 21000 children die each day from preventable causes including malnutrition and treatable or preventable diseases. Although there is more than enough food produced to feed everyone on the planet adequately, it is not profitable to feed everyone.

D The value of labour

Labour power too has its own value. In fact it has both a value and a use value. Capital buys the labour power of the worker. This is her ability to work, at the appropriate exchange value or thereabouts, with the thereabouts depending in the main on the intensity and level of class struggle and whether economic crisis is engulfing the society and forcing capital to attack workers’ living standards to restore profit rates. This exchange value – wages are its price reflection – is the socially necessary labour time required to regenerate the worker for the next day and into the future and includes immediate costs such as food, clothing, heating, transport and housing but also the support of children - the next generation of workers - education, skills, health, and other long term requirements for capital. It also includes those ‘extras’ that exist as a consequence of the class struggle and social custom (for example enough for a few beers after work on Friday when work was male dominated or nowadays apparently a few wines). The use value of labour power is the actual labour performed, and in relation to productive labour the surplus value this creates for productive capital.

E Competition and accumulation

Competition is the aorta to the extraction of surplus value and its reinvestment that is at the heart of capitalism. For Marx ‘capital exists and can only exist as many capitals.’ Competition is the battle between capitals, between individual capitalists within an industry or sector and between sectors and industries more long term for sales, for market share, for profit, for more profit. It is ‘the inner nature of capital.’ Indeed, competition modifies and by doing that validates and reinforces the law of value. As Marx said ‘… the emergence … of the general rate of profit [which arises from competition between capitalists investing in more profitable areas and reducing investment in less profitable areas- JP] necessitates the transfer of values into cost prices that are different from these values.’ I discuss this further under profit rates and prices of production therein.

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81 Ibid.
82 Karl Marx, above n 2, 434.
Further, as Riccardo Bellofiore notes ‘…competition does not just reveal the immanent laws of capital, but inverts and distorts them.’ 83 The tendency of the rate of profit to fall (see below) is a good example of this, of the fact that ‘the real barrier of capitalist production is capital itself.’ 84

What is competition aimed at? The process of capitalist production is to turn money into more money (profit) via the production of commodities and their sale. 85 This defines capitalism. It is production for profit, profit that is in turn reinvested to make more commodities to sell at a profit. ‘The purpose of capitalist production is, however, the self expansion of capital.’ 86 As Marx famously put it:

Accumulate, accumulate! That is Moses and the prophets! “Industry furnishes the material which saving accumulates.” Therefore, save, save, i.e., reconvert the greatest possible portion of surplus-value, or surplus-product into capital! Accumulation for accumulation’s sake, production for production’s sake: by this formula classical economy expressed the historical mission of the bourgeoisie, and did not for a single instant deceive itself over the birth-throes of wealth. 87

In other words, ‘this process of competitive accumulation is … the central driving force of capitalism.’ 88 It is what makes it such a dynamic system. But it is also the source of a number of its problems. 89 Competition for profit forces individual capitalists to act as capital 90 and to mechanise their production to cheapen their products compared to their competitors. This has consequences for profit rates.

**F Profit rates**

Marx described his law of the tendency of the rate of profit to fall as ‘the most important law of modern political economy.’ 91 Essentially Marx argues that the way capitalist production is organised leads to a tendency for profit rates to fall. The previous discussion argued that labour is the source of value in capitalist production. Competition forces capitalism to seek more efficient ways of exploiting labour. So over time greater and greater investment occurs in capital at the expense of labour. Yet if labour is the source of all value then over time this must mean, all other things being equal, that profit rates have a tendency to fall. The evidence seems to support this conclusion.

Various left wing analyses show this to have been the case since the late 60s and early 70s in the developed world, with ups and downs (especially the impact of neoliberal policies from

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84 Karl Marx above n 2, 245.
85 Callinicos, above n 64, 129-130.
86 Karl Marx above note 2, 246.
87 Karl Marx, above n 66, 558.
88 Joseph Choonara, above n 56, 69.
89 Ibid.
90 Karl Marx, above n 66, 657.
91 Ibid, 748.
about 82/83 till 97) but the long term trend appears downwards.\textsuperscript{92} There is general agreement more or less among a range of left wing writers that profit rates now up to half those of the halcyon days of the 50s and early 60s.\textsuperscript{93}

Countervailing tendencies exist like attempts to drive down workers’ living standards, to decrease the share of national income going to labour, to lengthen the working day, to make workers work harder, to increase productivity and to cheapen the cost of necessities for workers to name a few. Another countervailing tendency is to reduce the share of surplus value the state demands, allowing more to go to the other brothers. This could involve a reduction in taxes on business and/or a reduction in government spending. As part of the overall process of shifting wealth from labour to capital to address falling profit rates you could also shift the burden of taxation on to workers or find a magic pudding like economic rent to tax as well. The Henry Tax Review proposal to shift the burden of taxation from mobile capital to fixed capital and other fixed tax bases such as consumption, mainly workers’ consumption, and land, mainly workers’ land, and economic rent of resources seem to fit into this model.

G  The organic composition of capital and a general rate of profit

I need to explain Marx’s concept of the organic composition of capital (OCC) because it is key component of absolute rent, which for reasons that will be explained, doesn’t in my view apply to the mining sector today but may do to less capital intensive oligopoly sectors like banking. The organic composition of capital is the ratio between what Marx called constant

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capital - machines, buildings, raw materials and so on - and variable capital - labour, or more precisely labour power. In common parlance it is machines over men.

Assume there are 2 capitalists in different industries. Both Capitalist A and Capitalist B have the same wages bill to pay - $5000 a week. Assume too that each has the same rate of surplus value of 100%. In other words a worker works for them for 4 hours in an 8 hour day to produce the value necessary to regenerate her life and come to work the next day and the other 4 hours the value she produces goes to the boss. This means each receives profit of $5000 a week. However because they are different industries, the amount that each invests in constant capital is different. A invests $5000 a week in constant capital and B $10,000 a week.

The OCC of A (constant to variable capital) is $5000:$5000 or 1:1. A makes a profit of $5000 on an investment in wages and machines of $10,000. So her profit rate is 50%. On the other hand B’s OCC is $10,000:$5000 or 2:1. B makes a profit of $5000 on an overall investment of $15000. So her profit rate is 33 1/3%. The higher the OCC the lower the profit rate.

A 50% return is better than a 33 1/3% return. So competition and capital mobility means that B will move some of her investment into A’s industry to take advantage of the higher profit rate. This results in what ‘Marx calls the equalisation of the rate of profit.’ Let’s add the figures from A and B together. The total amount of capital invested (constant and variable) is $25000 ($10,000 from A and $15000 from B). The total surplus value is $10,000 ($5000 each). So the general rate of profit is $10,000 over $25,000 or 40%. In other words, the return A gets is $4000 and that B gets is $6000, a transfer from A to B of $1000 of surplus value, brought about by the equalisation of the rate of profit process, the flow of capital from the high OCC to the low OCC and changes in demand, sale above and below value and price changes that occur. The Marxist Glossary of Terms site in talking about the rate of profit describes it thus:

It is a simple question of supply and demand: if at any given moment, for whatever reason, there is a super-profit to be made in a particular branch of industry, then capital flows into that industry. Companies engaged in the given branch of industry may enjoy a rise in the price of their stock, or capitalists in other industries may shift capital into the new area. Workers employed in the given industry find themselves much in demand, overtime is abundant and their wages rise, and more workers flood to work in the new trade. The rush of capital into the newly profitable activity leads to an oversupply of capital, the flood of workers to fill the shortfall eventually brings wages down again. Overproduction of the commodity brings about a fall in its price, with the result that the higher rate of profit which arose as a result of the lowering of the organic composition of capital (e.g., cheaper materials) disappears and the average rate of profit is restored. A recent example of this process has been seen in the boom in IT shares: the highest rates of profit attract high wages and high investment, but once

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94 This example is adapted from Alex Callinicos, above n 66, 141 et ff.
95 Ibid, 141.
96 Ibid, 142-143.
everyone and their dog has set up in the IT business, over-inflated share prices crash, bankruptcies and unemployment follow.  

What is going on? As Callinicos remarks:

> It is as if all the surplus value pumped out of workers, wherever they may be employed, flows into a single pool from which capitalists draw profits in proportion to the sums they have invested.

It is a key argument of Marx that ‘an equalised rate of profit prevails – as a general tendency – across the economy as a whole.’ It is competition within sectors and across sectors that turns different rates of profit into a general rate of profit. The process of course is not static and one dimensional. As Cockshott and Cottrell put it, we are witnessing ‘the restless search for the greatest possible profit.’

To summarise here is what Marx says:

> Since the capitals invested in the various lines of production are of a different organic composition, and since the different percentages of the variable portions of these total capitals set in motion very different quantities of labour, it follows that these capitals appropriate very different quantities of surplus-labour, or produce very different quantities of surplus-value. Consequently the rates of profit prevailing in the various lines of production are originally very different. These different rates of profit are equalised by means of competition into a general rate of profit, which is the average of all these special rates of profit.

It is not only that there is a trend to a general profit rate in capitalism or a tendency of the rate of profit to fall. There is also a trend or tendency to monopoly.

**H Monopoly**

The tendency to monopoly is common to all areas of capital among the hostile brothers. Monopolies arise as a consequence of competition, both within sectors of capital and between them, or because of the exercise of the power of the state or, in the case of resources, out of the monopoly that is land ownership, very large capital costs as barriers to entry and high demand for finite resources. Marx talked about the concentration and centralisation

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97 Marxist Internet Archive, ‘Glossary of Terms: Rate of Profit – Formation of General Rate of Profit’  
98 Callinicos, above n 66, 143.  
100 Karl Marx, *Capital Vol III* (Foreign Language Publishing House Moscow 1959), 156.  
101 W Paul Cockshott and Allin Cottrell, ‘Does Marx need to transform?’  
102 Karl Marx, above n 100, 155-156.  
103 Garnaut and Clunies Ross, above n 17.  
104 Henry, above n 1 at
process that was born of competition, the big eating the small, growing bigger and bigger and fewer and fewer, spreading further and further. As Trotsky put it:

...competition gradually consumes, not only the intermediary layers, but itself as well. Over the corpses and semi-corpses of small and middling capitalists emerges and ever-decreasing number of ever more powerful capitalist overlords. Thus out of honest, democratic, progressive competition grows irrevocably harmful, parasitic, reactionary monopoly.  

Why is this relevant? Rents accrue to monopolists or oligopolists because of the monopoly or quasi-monopoly they have and can exercise and to others like mining companies where a finite resource is in demand because in this case of a booming China and because the level of capital required to exploit the resources is beyond most capital.

Bourgeois economic theory would have it that such arrangements are temporary and that higher than normal profits will bring new players into the market, thus reducing average profit rates in that sector of the economy and overall. However barriers to entry may prevent that occurring for some time, if not indefinitely. Not everyone has the capital necessary to become a miner or bank or supermarket chain. Further if the processes of monopolisation are a consequence of competition, even if Sisyphean in their nature, then one consequence may be a monopolisation of capital and this institutionalises rent into the system.

As Sweezy puts it:

With monopoly (or oligopoly) prices replacing competitive prices, a uniform rate of profit gives way to a hierarchy of profit rates—highest in the most concentrated industries, lowest in the most competitive. This means that the distribution of surplus value is skewed in favor of the larger units of capital which characteristically accumulate a greater proportion of their profits than smaller units of capital, once again making possible a higher rate of accumulation.

One consequence of competition is the concentration and centralisation of capital. As John Bellamy Foster, Robert W. McChesney, and R. Jamil Jonna put it: ‘Monopoly … is the logical result of competition, and should be expected.’ By monopoly they do not mean a market with one seller. As they say when talking about monopoly they are referring to:

…firms with sufficient market power to influence the price, output, and investment of an industry—thus exercising “monopoly power”—and to limit new competitors entering the industry, even if there are high profits. These firms generally operate in “oligopolistic” markets, where a handful of firms dominate production and can determine the price for the product. Moreover, even that is insufficient to describe the power of the modern firm. As Paul Sweezy put it, “the typical production unit in modern developed capitalism is a giant corporation,” which, in addition to dominating particular industries, is “a conglomerate (operating in many industries) and multi-national (operating in many countries).”

(Footnotes removed).

107 Trotsky, above n 5, at 9.
108 Sweezy, above n 103.
110 Ibid.
The point they emphasise is that far from the idealised neoliberal vision of perfect competition the reality is a ‘…tendency to monopolization in the capitalist economy: which is demonstrably stronger in the opening decades of the twenty-first century than ever before.’

It is this tendency to monopoly that the taxation of economic rent may be aimed at addressing or ameliorating, even if unrecognised. Scott Kompo-Harms and Kali Sanyal quote Armen Alchian to the effect that economic rent is defined in theory as: ... the payment for a resource where the availability of the resource is insensitive to the size of the payment received for its use...[That payment] is named ‘economic rent’ or ‘quasi-rent’ depending on whether the insensitivity to price is permanent or temporary. 112

This echoes debates in the left about capitalism and competition, the permanence 113 or otherwise 114 of monopoly and whether monopoly capitalism is the next stage of capitalism. This is a debate I think the analysis of imperialism addresses adequately when Callinicos for example says that imperialism is the merging or close alignment of the nation state and national capital to defend and extend the influence and power of both globally in competition with other imperialist powers. 115 As China and US square off, that at least may hint at a return to the pre-1914 situation of blocs of capital coalesced in nation states competing for shares of a market already divided up. That however is a macro question arising from monopoly and one more suited for another day. The task today is to look at the micro-questions arising from monopoly, including economic rent.

I Class struggle

An important element of Hegelian and Marxist thinking is the dialectic and the idea that totality is made up of contradiction. In the case of capitalism the fundamental class contradiction is between labour and capital, bourgeoisie and proletariat. It is this contradiction, this struggle between classes the produces change, ‘a constant’ to use the hackneyed idea of every two bob management consultant under the sun. The opening lines of the Communist Manifesto capture this contradiction as the motor of history well when Marx and Engels say:

The history of all hitherto existing society(2) is the history of class struggles.

Freeman and slave, patrician and plebeian, lord and serf, guild-master(3) and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes.

111 Ibid.
113 John Bellamy Foster, Robert W. McChesney, and R. Jamil Jonna, above n 275.
In the earlier epochs of history, we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations.

The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

Our epoch, the epoch of the bourgeoisie, possesses, however, this distinct feature: it has simplified class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other—Bourgeoisie and Proletariat.\(^\text{116}\)

There are two aspects to this. First, class society arises when society produces more than enough to survive and a parasitic class can develop for whom production is not a necessity but who instead live off the labour of the productive members of society. These two groups—producers and parasites—are opposing classes.\(^\text{117}\) They stand in relation to and opposition to each through their roles in society, their ownership of capital or their labour power (to use the example under capitalism) and their relationship to production.

Second, these classes are in fundamental conflict. That is why for example working class defensive organisations like trade unions exist—reflecting both the division into classes and the struggle between them. So too the left/right divide in politics and the existence of social democratic or labour parties.

Conflict is fundamental because the interests of workers for better pay, secure jobs and a reasonable and less hurried and harried work environment conflict with those of capital for more production, a lower wages bill, speed ups, all to produce more profit. These divisions and pressures reflect not the good boss/bad boss stereotype but the “inherent laws of capitalist production, in the shape of external coercive laws having power over every individual capitalists.”\(^\text{118}\)

It doesn’t mean that open class war occurs every day. Indeed Marx argued that it was often hidden and broke out occasionally. As Allen puts it:

The reality of class struggle is best captured by an image of trench warfare during the First World War. Occasionally there are great battles when one side charges the other’s defences and considerable casualties ensue, but for much of the time the opposing forces hunker down


\(^\text{117}\) Kieran Allen, Marx and the Alternative to Capitalism (Pluto Press 2011) 66.

\(^\text{118}\) Karl Marx, above n 90, 381.
and individuals try to avoid being picked off. Yet the trenches remain and the war continues.\textsuperscript{119}

But when class struggle does break out society can be turned on its head. Indeed the development of the productive forces creates the conditions for not only an outbreak of class struggle but revolution itself. As Marx said, using a burrowing underground metaphor, only to see the upsurge spring forth: “We recognise our old friend, our old mole, who knows so well how to work underground, suddenly to appear: the revolution.”\textsuperscript{120} May 1968 in France comes to mind. The overthrow of the Stalinist regimes in Eastern Europe and the USSR, the Arab Spring and the class struggles against austerity in some countries in Europe today give backing to this view.

It may seem absurd to talk in these terms in Australia today. That is because class struggle – strikes and the like – are at historically low levels and have been for many years.

The strike figures in Australia for 2011 and previous years are at historic lows, not withstanding minor blips in 2011 and a slight increase in 2012 due to public servants in New South Wales and Queensland resisting new Liberal government attacks and building workers, teachers and nurses fighting for decent pay and conditions, and for the building workers safety on site. As Michael Janda put it in 2011:

\textit{When one smoothes out the volatility, Department of Education, Employment and Workplace Relations (DEEWR) figures show industrial disputes have declined steadily and significantly since limited protected industrial action was introduced in 1993.}

The typical rate of work days lost per thousand employees at the start of the 1990s was between 40 and 60, for most of the 2000s it has been under 10. For the last half-decade, generally less than five.\textsuperscript{[1]}

Comparing strike days lost now to the 1960s and 1970s shows an even bigger decline. As Jade Eckhaus writes ‘… in the 1970s annual strike days per 1000 workers varied between 600-1200…’\textsuperscript{[2]}

In other words since the 70s strike days lost in Australia have declined from up to 1200 per 1000 employees to five per 1000 employees. That is a fall of 240 to one or 2400 percent.

And the lack of class struggle has had entirely predictable results. Wealth has shifted to the already wealthy.

In Australia the richest 20 percent own 61 percent of the wealth while the poorest 20 percent own just one percent of the wealth, according to an Empirical Research study done for the Australian Council of Trade Unions.\textsuperscript{[3]}

\textsuperscript{119} Allen, above n 117, 68.
\textsuperscript{120} Karl Marx somewhere or bloody other...
The gap is widening. For example the Australian Bureau of Statistics has said that ‘[t]he wealthiest 20% of households have increased their average net worth 15% since 2005-06 (CPI adjusted), while the poorest 20% of households saw only a 4% rise…’ [4]

The wealthiest 20% held ‘… around two-thirds of total household wealth’ [5] and the poorest 20% ‘… accounted for 1% of total household wealth.’ [6]

According to the ACTU’s Matt Cowgill ‘[t]he share of income going to the top 1% in Australia has doubled in the past 30 years or so.’ [7]

The ACTU also reports that:

*The wages share of national income fell from 54.5% in June 2009 to 52.7% in June 2010. The profit share of national income showed a corresponding increase, from 26.6% in June 2009 to 28.5% in June 2010.*

*The wages and profit shares of national income measure the proportion of all income that is paid to labour and capital, respectively. The wages share of national income is now at its lowest point since December 1964.* [8]

Ian McAuley’s [graph in New Matilda](http://www.newmatilda.com) starkly reveals this reality.

This lack of class struggle has an impact on all aspects of Australian capitalism. Poverty has increased.

The low level of the dole and shifting many single parents onto it are but a part of this increasing inequality and poverty in Australia.

More than 2.2 million Australians, including almost 600,000 children, were living below the poverty line in 2010, according to the [Australian Council of Social Service](http://www.acoss.org.au) in a recent report.

Here is part of what ACOSS said:

*The key finding is that in 2010, after taking account of housing costs, an estimated 2,265,000 people or 12.8% of all people, including 575,000 children (17.3% of all children), lived in households below the most austere poverty line widely used in international research. This is set at 50% of the median (middle) disposable income for all Australian households. In the case of a single adult, in 2010 this poverty line was $358 per week. In the case of a couple with two children it was $752 (Table 1). This is the main poverty line used in this report.*

*A less austere but still low poverty line, that is used to define poverty in Britain, Ireland and the European Union, is 60% of median income. In the case of a single adult, this poverty line in Australia was $430 per week in 2010.*

*When this higher poverty line is used, 3,705,000 people, including 869,000 children, were found to be living in poverty. This represented 20.9% of all people and 26.1% of children. A major reason for the large increase in the number of people living below this income*
(compared with the lower poverty line) is that many households on social security payments have incomes (typically pension payments plus small amounts of private income) that lie in between the two poverty lines.

Even using the more restrictive figure, 2.2 million Australians living in poverty is 2.2 million too many. Further, the number of Australians in poverty has been increasing over time.

Poverty is a social construction, not something natural. There is more than enough wealth in Australia to abolish poverty almost overnight.

Inequality in Australia has increased since the 1980s. The OECD’s key country findings for Australia in its Divided We Stand report included the fact that the share of national income of the richest one percent increased from 4.8% in 1980 to 8.8% in 2008. For the richest 0.1% their share trebled, from 1% to 3%. The report on global inequality found it had increased across the developed world and said that in Australia this was due to two factors – growing inequality of incomes and less progressive tax and transfer policies and outcomes.

While the earnings gap between the top 10% and bottom ten% of workers increased by one fifth, the tax system ‘offset’ only about half that increase. This is indicative of deeper tax changes since 1980 in Australia. Tax has become less progressive.

Australia is a low tax country and as a consequence a low government spending country. Why? Because the Howard Government cut tax rates for the rich when in Office.

As The Australia Institute says:

One of the reasons Australia is such a low-tax country is that the Howard government gave away much of the then budget surplus in tax cuts for the wealthy. In the years 2003-11 those tax cuts gave someone on average weekly earnings $26 per week while someone earning five times that received a tax cut of $367 a week.

So why not tax the rich?

The answer as to why this won’t be done can be found in the embrace of neoliberalism and the consequent range of policies aimed at shifting wealth from labour to capital (the rich and big business) and the fact that global tax systems themselves are in competition for capital. Taxing the rich would challenge that dominant wealth shifting idea and produce a response from the powerful – capital strikes, non-investment, price increases, wage cuts, job losses - that would require further action such as price controls, nationalisations and even workers’ control of industry. These are beyond the comprehension of neoliberal ‘social democracy’.

Armed with this heady mix of some basic Marxist ideas, let’s now look at what Marx has to say about rent. Concepts of economic rent come out of the early debates on ground rent and its intertwining with concepts of and the reality of unearned gain. As Keiper puts it:

In the many twists and turns of economic thought, land-rent has been supplanted gradually by a more generalized notion of economic rent, an element that can appear in any and all income payments. But, like its earlier counterpart, economic rent
describes an unearned gain, a reward in excess of that required to bring forth a desired effort or function.  

J A simple example?

Boxing Day sales are big business. In the UK some shoppers queued overnight and large lines began forming from around 1 am in various shopping centres, if not earlier. Sales look to be up by as much as 20%, with tens, if not hundreds of thousands, going through mall after all across the country.

In Australia we had the same response – huge crowds turning up very early to grab some bargains. Some stores opened at 5 am. Some customers slept out overnight to be the first to get the bargains. The Australian Retail Association estimates sales on Boxing Day could be just under $2 billion – the busiest retail day of the year.

Although Marx never went to a Boxing Day Sale, he wrote a few things that might help us understand it. In the first few pages of Volume 1 of Capital, Marx introduces us to the commodity – those goods and services produced to be sold on the market. Marx says commodities have a use value and an exchange value. You buy a cake because it has a use to you – for example it fills your belly, excites your taste buds and the sugar hit may give you a temporary feeling of euphoria.

Now one cake might be the same in value as a large box of Weetbix, also something useful to fill your tummy at breakfast time. Instead of working out the equivalence of each commodity (one cake equals one large box of Weetbix equals one five thousandth of a car) there is a universal equivalent which does the task for us. That universal equivalent is money. In other words the cake has an exchange value.

But what are we comparing when we compare cars and cakes and cereal in the market place? What is money the universal equivalent of? What is it that these commodities all have in common?

For Marx the answer was labour. It takes much longer to make a car than a cake, so, to put it crudely, they cost more. And all the machines required to make cars, cakes and cereal are in fact congealed labour – labour captured in the machine and passed on (depreciation is a rough guide to this) to the new commodity.

Marx draws a distinction between abstract labour -labour in general – and concrete labour, the actual labour involved in making different products. For those interested, here is what Marx says in volume 1 of Capital.

On the one hand all labour is, speaking physiologically, an expenditure of human labour power, and in its character of identical abstract human labour, it creates and forms the value of commodities. On the other hand, all labour is the expenditure of human labour power in a

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121 Joseph S Keiper Preface in Clifford D Clark, Joseph S Keiper, Ernest Kurnow, Raymond Moley, Harvey H Segal Theory and Measurement of Rent (Chilton Company 1961) at ix.
special form and with a definite aim, and in this, its character of concrete useful labour, it produces use values. [...] At first sight a commodity presented itself to us as a complex of two things – use value and exchange value. Later on, we saw also that labour, too, possesses the same twofold nature; for, so far as it finds expression in value, it does not possess the same characteristics that belong to it as a creator of use values. I was the first to point out and to examine critically this twofold nature of the labour contained in commodities. [...] this point is the pivot on which a clear comprehension of political economy turns.

So does abstract labour as the creator of value mean I could spend a day making a cake and sell it for more than say the capitalists who mass produce these cakes? No, of course not.

Let’s assume it takes me 5 hours to make a cake – it takes me an hour to break an egg so it is possible -whereas let’s assume the cakes in Woolworths are made in half an hour because unlike me the capitalists who make them have lots of fancy machinery and a skilled workforce competent at making cakes.

If I charged for my time I wouldn’t be able to sell my cakes on the market. They’d be roughly ten times more expensive than mass produced cakes. So I’d sell them for the going market price – in other words not a realisation for my labour time.

If I didn’t make the cake to sell but rather for my own enjoyment and satisfaction, then the cake isn’t a commodity. It has a use value but no exchange value.

So Marx said the labour embedded in a commodity that goes into the exchange process is the socially necessary labour time. This is the average labour time at the average level of productivity that will sell on the market.

As Marx points out in the quote from him above, labour too is a commodity. It has an exchange value. Marx said that capital paid for labour power, the ability to work, and then in the production process had to extract labour from us. The price of the labour power (its exchange value) was the socially necessary labour time required to regenerate the worker (enough to buy food, clothes, housing, heating, transport, rest, relaxation etc) and the next generation (the kids) plus perhaps some ‘extras’ (say Friday night drinks) that arise because of custom and class struggle.

This is where profit, and rent, and interest come from. Let me explain. The cake manufacturer pays you enough to cover your necessaries and to bring up your kids. That might take 5 hours of an 8 hour day in terms of the value you create. The other 3 hours is the time you spend working for the boss for free. In that time you create surplus value for your boss which when the cake is sold on the market becomes a money form and goes to the producer as profit, to the bank as interest, to the landlord as rent and so on. That is the use value workers have for bosses – they create surplus value.

Let’s assume you are making Christmas cakes. Part of the use value of Christmas cakes is that they satisfy a socially constructed need – to celebrate Christmas with family and others
in joy, which usually translates among other things as ‘with food’, and often in Australia ‘with booze’.

After Christmas Day, unsold Christmas cakes in the supermarkets and elsewhere aren’t so popular. Demand falls for them because they are only really useful as Christmas cakes on Christmas Day. So on Boxing Day they are on special at a discounted price.

The producer of Christmas Cakes has made her profit by selling the cake to Woolworths. Woolies sells the cake to cover costs, i.e. the cost of buying it from the producer, shipping it to stores etc and then putting a mark up on it, around the average rate of profit. Otherwise their cakes might be too expensive to sell if the mark up is much higher, especially if it is much higher than their competitor, i.e. Coles.

However the run up to Christmas for retailers is like minerals for mining companies but only for a short period. Christmas demand is, during OK economic times, so high that retailers can sell above the cost of production and above the average rate of profit. They make ‘Christmas’ super profits.

So in this unusual market time they can sell a number of cakes before Christmas at high prices because of demand. But they don’t often sell all of them. Because capitalism is unplanned, producers, anticipating bumper sales at high prices, are likely to make too many Christmas cakes. But they will they hope have recouped their costs and at least the average rate of profit on all the cakes Woollies and Coles and the other retailers purchase from them for resale.

So Woollies and Coles and the other retailers can now sell the left over stock below the price of production – at below average rates of profit on the cost, and sometimes even below cost.

Similarly with Christmas gifts. The demand for many toys for example goes up exponentially at Christmas time. The use value to you in buying a Christmas present is the love and joy it engenders. In other words capitalism has commercialised love.

But your use value doesn’t transfer over to your relative who will have little use for the twenty pairs of socks or 30 handkerchiefs you and others give them, on top of the dozens they already have, or for the new puppy. Animal shelters and recycle bins, as well as human shelters, runneth over during the Christmas period with unwanted gifts and people.

Boxing Day Sales appear to be a recent invention. This is no accident.

Another of Marx’s ideas was that because of the way production is organised under capitalism there is a tendency of the rate of profit to fall. This occurs because competition forces capital to invest more in machines than in humans. Yet if human labour is the source of surplus value then over time this means, all other things being equal, profit rates will fall.

Of course not all other things are equal. Bosses can make us work longer. Instead of working for 5 hours to pay for our own costs and 3 hours for the boss in an 8 hour day, the boss could
get us to work 9 hours a day, giving her an extra hour of surplus value extracted from us. Working hours across the developed world have been increasing over time. But there are only so many hours in a working day that can profitably be exploited.

Increased productivity, and the lessening of the costs of feeding, clothing and housing us etc, also act as countervailing tendencies, as do cutting our wages and conditions.

But the tendency shines through, and according to a raft of left wing writers, the rate of profit today in the developed world is up to half what it was in the 50s and 60s.

As the tendency of the rate of profit to fall re-asserted itself after the post war boom, the ruling elite abandoned Keynesianism and adopted neoliberalism as its main economic ideology. A reader recently asked what I mean by neoliberalism. Here is a brief response.

Elizabeth Martinez and Arnoldo Garcia identify five main elements of economic neoliberalism – the rule of the market, cutting public expenditure for social services, deregulation, privatisation and eliminating the concept of public good or community and replacing it with individual responsibility. For me the essence of neoliberalism is also captured by Eddie Cimorelli when he says:

Neoliberalism is a particular organisation of capitalism. Its most basic feature is the use of the state to protect capital, impose market imperatives on society and curb the power of labour.

The neoliberal onslaught was led politically by Margaret Thatcher in the UK and Ronald Reagan in the US and their elections in 1979 and 1980 respectively opened the way for the adoption of the ideology of neoliberalism in various guises across the globe. It was for example the Hawke Labor Government in Australia in 1983 which began the process of neoliberalisation of the Australian economy.

For a time these policies seemed to work and profit rates began to climb again until the mid 90s. They have been in decline more or less ever since.

So as profit rates decline and neoliberal governments come to power, one seeming way to increase sales and hence profits for retail capital is to free up the labour market (for example abolish penalty rates) and at the same time remove restrictions on holiday opening hours. This entails an assault on shop workers’ holidays, holiday pay, starting times and the like.

So a combination of monopoly like exploitation of Christmas, declining profit rates and neoliberal governments, and in Australia at least, weak unions such as the Shop, Distributive and Allied Employees Union, combined to allow ‘entrepreneurial’ retailers to offer massive cut price January sales a week earlier, on Boxing Day. Those retailers who did this first reaped a benefit, until all retailers followed suit. Then they are all back where they started from and the next round in the hamster wheel run begins.
By the way, these groundbreaking ‘entrepreneurs’ often first had to force governments to remove restrictions on hours, times and pay and conditions before they could in fact open on Boxing Day.

However because the advantage of selling on Boxing Day is only temporary as more retailers join in, the pressure to outwit competitors and gain some shallow sales advantage is still there.

In Australia consumers, by and large workers, have been reluctant to spend up big since the Global Financial Crisis. So retailers haven’t been making the sales before Christmas that they had in the past. Their Christmas monopoly is dying, if not dead.

So now what we find is that some retailers are beginning to offer post-Christmas sales on Christmas day, or even post Christmas prices before Christmas (I kid you not) to entice workers to buy. But that of course cuts the ‘Christmas’ super profits the retailers are making. The monopoly is undone.

Enough of Christmas’s past.

Let’s turn then to Marx as one of those early economic thinkers on rent, among other things, to see if his ideas can help us untangle the taxation of resource rents in Australia. I hardly need add most mainstream commentators on tax policy and other matters do not investigate Marx’s thought and for that reason there may be insights into understanding for us that we would not otherwise have been introduced to but for this paper.

**D MARX ON RENT**

Marx’s more mature ideas about rent are contained in chapters 37 to 47 of Volume III of Capital.122 That volume, published by Engels after Marx’s death, from Marx’s notes, is about the distribution of surplus value, not its creation. 123 As mentioned previously, surplus value is the difference between what a worker is paid and the value she creates.124 This is not just about ‘unearned gain’ but about the nature of exploitation under capitalism, the transfer of surplus value from workers to bosses. The creation of surplus value occurs in the realm of production, not after that in circulation or distribution.

Land is a tool in production, not a creator of value. As Marx put it: ‘Landed property has nothing to do with the actual process of production. Its role is confined to transferring a proportion of the produced surplus value from the pockets of capital to its own.’125

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122 Karl Marx, above n 100, 600-793. There are levels of complexity here which I believe for most readers any discussion of would only detract from rather than assist understanding of the debates about economic rent.


125 Karl Marx, above n 100, 800-801. See also David Harvey, The Limits to Capital (Basil Blackwell, 1982) 359.
This in my view is absolutely essential to understanding the real nature of economic rent. It is also important to stress that land cannot create surplus value. Nature is an adjunct, a tool for surplus value, but it is labour which creates the specific surplus value arising under capitalist relations of production. As Marx said: “Value is labour. Therefore surplus-value cannot be earth.” But saying that doesn’t divorce exchange from production. As Meek puts it ‘... the principle [is] that conditions of exchange should properly be analysed in terms of conditions of production.’ Land is part of production; it is not the process but through the pressure the landlord exerts on capital and because ‘large landed property is a prerequisite and condition of capitalist production’ as well as having ‘the appearance of being the personification of one of the most essential conditions of production’ becomes part of production.

In Chapters 37 to 47 of Volume III of Capital Marx discusses and analyses rent for the use of land in capitalist agriculture. He regards the arguments in relation to minerals in the same light. What Marx is concerned with is to understand how the surplus value productive workers create is transformed into ground rent. Ground rent is ‘the pure payment to raw independent of the improvements thereon.’ To do that Marx dissects ground rent – “what is appropriated by the landlord in capitalist society, i.e. rent as a share of the surplus value” – into its constituent parts—absolute rent for the use of the land and what he calls differential rent, in fact Differential Rent I and Differential Rent II.

A Differential rent

Differential Rent I recognises that land has different fertility. Thus two capitalists might invest the same amount into production of an agricultural product yet because the land of one is more fertile than the other their return (assuming all other things being equal) will be

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126 See for example Karl Marx, *Theories of Surplus Value* (Lawrence and Wishart 1951) 121-122; David Harvey, *The Limits to Capital* (Basil Blackwell, 1982) 335; Karl Marx, ‘On Henry George’<http://www.cooperativeindividualism.org/marx_henrygeorge.html>. This was a letter Marx wrote to Friedrich Sorge, a prominent figure in the US working class movement and someone excited by George’s ideas and the possibilities they seemingly offered for a sound tax base and progressive spending.
127 Karl Marx, above n 100, 795.
128 Ronald L Meek, *Smith, Marx and after: Ten essays in the development of economic thought* (Chapman and Hall 1977) at .
129 Marx above n 100, 800.
130 Ibid at 801.
131 Ibid.
132 Ibid.
133 Ibid, 600 to 793.
134 Ibid, 601.
135 The heading to Marx’s long discussion of rent found in *Capital: A critique of political economy Vol III Part VI* (i.e. chapters 37 to 47) actually reads Transformation of Surplus-Profit into Ground-Rent.
138 Also called ground-rent or absolute ground rent.
139 Marx above n 100, 625 to 729. Marx’s analysis is even more nuanced than this and he talks about Differential Rent I and II and various subcategories as well as absolute ground rent but for our purposes the more general description of the various categories will suffice. Those interested in delving more deeply should read Marx above n 100 at pp 600-793.
higher than that of their competitor. The difference is Differential Rent I. The same argument applies to minerals. Some land will have minerals of a higher grade than others. For some too the minerals or resources will be more accessible. The higher grade resources, the more easily accessible minerals, will produce Differential Rent I. For those used to the language of mainstream economists Freebairn and Quiggin put it this way in explaining both economic rent and higher grade ores or accessibility:

Executives of mining industries have in front of their desks graphs showing the ranking of mines or wells in their industry (globally as well as within Australia) by cash and accounting cost per unit of output (see, for example, summary graphs in Daley and Edis, 2010, and references therein). For the main minerals, including iron ore, bauxite, copper and coal, and for oil and gas wells, it is not uncommon for the bottom quartile cost mines to operate at a half or less of the cost of the upper quartile cost units. With highly competitive industry structures in a global market setting a price that just covers the costs of the marginal mine, economic rents are created for the inframarginal mines. This rent is greater the more favoured is the natural endowment of the mine.\textsuperscript{140}

Differential Rent II recognises that different rents arise as a consequence of different productivity, for example more modern machinery or the use of better fertiliser and so on. But Marx’s point is not just that improving fertility improves profitability proportionally; it makes less fertile land more fertile land and hence moves it into the realm of ‘extra’ profits greater than the expenditure increase merely proportionality would produce, at the same time however reducing the overall average profitability of the particular agricultural type. Again the same is the case for mines and other mineral extraction. Some companies, for example big mining companies, will have more capital intensive and efficient means of extracting the mineral or resource from the earth. They will receive extra above average returns – differential rent II – for this.

It is the least cost efficient but still market competitive mine that sets the benchmark for the appropriate profit rate in the mining industry and companies operating at higher levels of efficiency receive rents – differential I or II – as a consequence.\textsuperscript{141} What that market competitive appropriate profit rate is would depend on the demand for the particular resource, the grade of ore etc, the capital efficiency and even the cost for example of producing substitutes. Let’s operate on the assumption that Chinese demand for Australian resources and minerals is making it cost effective to open up some previously uncompetitive mines. Those above this rate of return will receive differential rents.

Because a resource rent tax applies to rates of return over and above the minimum needed for investment to occur in the mining industry, the taxation of resource rents will in fact include


\textsuperscript{141} Ibid.
these differential rents since they will be contributors to the make-up of ‘super-profit’ as defined under the legislation. However that is only the beginning of the story.

B Absolute Rent

An issue Marx struggled with was absolute rent. It was the component of the rent payment received for just being the owner of the land. It flows to the owner, the landlord, not because of any improvements on the land, for example, but because of their ownership of the land, itself a monopoly (more of which later.)

At the time Marx wrote, the level of capital investment in agriculture was lower than in industry in general. This appears to have been true too of mining. Both were labour rather than capital intensive. In other words, the organic composition of capital (the ration of capital to labour) was low in agriculture and the mining industry. This has implications for the return that landlords could obtain.

Absolute rent results from differences in capital investment in agriculture compared to industry. Because this level of investment (‘the organic composition of capital’) is lower in agriculture than industry it can make absolute rents.\(^{142}\) By way of explanation, Mandel says that Marx’s theory of rent:

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\text{… means that as long as productivity of labour in agriculture is generally below the average of the economy as a whole (or more correctly: that the organic composition of capital, the expenditure in machinery and raw materials as against wages, is inferior in agriculture to that in industry and transportation), the sum total of surplus-value produced in agriculture will accrue to landowners + capitalist farmers taken together, and will not enter the general process of (re)distribution of profit throughout the economy as a whole.}
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How so? I mentioned above in discussing OCC, industries where the organic composition of capital is low will have higher profit rates but that competition would tend to average out or equalise profit rates. Capital would flow to the high profit area reducing the level of profitability there. But what happens if that free flow of capital cannot occur? Here’s how Marx puts it:

If capital meets an alien force which it can but partially, or not at all, overcome, and which limits its investment in certain spheres, admitting it only under conditions which wholly or partially exclude that general equalisation of surplus-value to an average profit, then it is evident that the excess of the value of commodities in such spheres of production over their price of production would give rise to a surplus profit, which could be converted into rent and as such made independent with respect to profit. Such an alien force and barrier are presented by landed property, when confronting capital in its endeavour to invest in land; such a force is the landlord vis-à-vis the capitalist.\(^{143}\)

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\(^{142}\) Marx, above n 100, 625 et ff.

\(^{143}\) Ibid, 761-762.
What this means is that in the circumstances where there is a low OCC and an ‘alien force’ (for example a barrier to entry) a product can sell above its price of production but still be below its value. The price of production here is basically the cost of production plus the average profit rate. What does all this mean? Essentially if OCC is lower the value of its products will be above the price of production and so will create ‘surplus’ profit which can be enforced or expropriated by landlords because of barriers to entry, Marx’s alien forces. The discussion above on the organic composition of capital the example of investment by A and B shows how this creation of surplus profit or rent happens. Marx again:

The relation of the price of production of a commodity to its value is determined solely by the ratio of the variable part of the capital with which the commodity is produced to its constant part, or by the organic composition of capital producing it. If the composition of the capital in a given sphere of production is lower than that of the average social capital, i.e., if its variable portion, which is used for wages, is larger in its relation to the constant portion, used for the material conditions of labour, than is the case in the average social capital, then the value of its product must lie above the price of production. In other words, because such capital employs more living labour, it produces more surplus value, and therefore more profit, assuming equal exploitation of labour, than an equally large aliquot portion of the social average capital. The value of its product, therefore, is above the price of production, since this price of production is equal to capital replacement plus average profit, and the average profit is lower than the profit produced in this commodity. The surplus-value produced by the average social capital is less than the surplus-value produced by a capital of this lower composition. The opposite is the case when the capital invested in a certain sphere of production is of a bigger composition than the social average capital. The value of commodities produced by it lies below their price of production, which is generally the case with products of the most developed industries.

Private ownership of land in agriculture and state ownership of minerals together with private rights to mine in the mining industry are the alien forces which gives power to this transfer, this ‘filching’ of surplus value arising from a low OCC. However, palpably today the OCC in mining in Australia is the highest of any industry in the country. As a Productivity Commission Staff Working Paper said in 2008:

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144 I agonised over whether this should be ‘and’ or ‘and/or’. There can be no absolute rent if, as in mining today, the OCC is high. But there can and will be monopoly rent because an alien force or alien forces stand in the way of more, competitive, investment. The question then becomes what is the mechanism for the production of this surplus profit and in what sphere does it arise? The answer will be that it is a transfer of surplus value in the realm of distribution of surplus value, not its production, from the other hostile brothers to mining capital or the sections of it with quasi-monopolies.

145 David Harvey, above n 136, 351.

146 In chapter 45 of Vol II of Capital Marx developed this idea and a range of other concepts to address the transformation problem – how do values become prices? The situation is more complex than that and for many the transformation problem undermines Marx’s argument about there being a tendency of the rate of profit to fall and the labour theory of value. For a discussion of the issue and a possible analysis verifying theoretically and empirically Marx’s approach, see the discussion of Temporal Single System Interpretation (TSSI) in Andrew Kliman, Reclaiming Marx’s “Capital”: A Refutation of the Myth of Inconsistency, (Lanham, MD: Lexington Books, 2007).

147 Marx Vol II Capital ch 45.

Mining is a capital intensive industry. Table 4.1 shows that capital inputs account for about half the total costs in mining production (or around 80 per cent of value added). The average for the economy as a whole is 21 per cent (or approximately 44 per cent of gross value added).

Labour inputs account for a relatively small share — approximately 12 per cent — of total costs (table 4.1 and figure 4.1) and around 23 per cent of value added in mining. In contrast, labour inputs in the economy as a whole are around 25 per cent of total costs, and around 52 per cent of gross value added.149

Having laboured our way through Marx on agriculture, are we to settle then for being told that his ideas on absolute rent don’t apply to mining in Australia today because the OCC in mining, unlike agriculture in the 1850s, is very high? Well, no, because Marx’s approach to absolute rent gives us the tools to understand resource rents and because there are other threads to Marx’s thinking that further help us to understand resource and other economic rent in high OCC industries like mining.

As Harvey puts it ‘Part of the excess surplus value produced in agriculture by its labour intensity (lower value composition) is “filched” (as Marx puts it) by the landlord, so it does not enter into the equalization of the rate of profit.’150 But for industries with high OCC and alien forces preventing equalisation of profit rates, like mining in Australia, the argument becomes that those barriers to entry or other alien forces allow the filching to continue.

Absolute rent has caused great debate and controversy among left wing writers. Is it actually two concepts — monopoly rent and absolute rent, or just absolute rent arising from the low level of say capital investment in agriculture?151 The approach I adopt is to explain the two ‘causes’ of absolute rent and to nuance absolute rent to encompass both monopoly rent and OCC absolute rent in this paper. Others, like Faysil Yachir, argue that despite a very high OCC in the mining industry there can still be absolute rent because of monopoly.152 I think David Harvey’s approach, of distinguishing between absolute rent and monopoly rent and more of which a little later is a better one.153

Let’s look at the issue from another angle. On average, and including managers as well, in 2010/11, mining workers were paid $134,581 per employee.154 Yet the value per worker they

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150 David Harvey above n 136, 351.
151 Ibid, 349. Harvey thinks monopoly and absolute rent are separate categories. Some like Ben Fine recognise the ambiguity of Marx’s discussion of monopoly rent as a form of absolute rent but reject the idea. See for example Ben Fine, ‘On Marx’s theory of agricu152 Faysil Yachir, ‘Mine rents and mineral prices’ Chapter 8 in *Mining in Africa today - Strategies and prospects* (United Nations University Press, Tokyo 1988) 
153 Harvey, above n 136, 349, 353.
created, what the Australian Bureau of Statistics calls Industry Value Added, was $783,000. In other words by paying workers $134,581 each the mining bosses received $783,000, a net gain from labour of just under $650,000. The second highest industry had a net Industry value Added of $300,000. And where does that $650,000 go? To mining capital. As the ABS said in relation to 2010/11:

The Mining industry was impacted in 2010-11 by high commodity prices; this was the primary driver of increases in most estimates for this industry.

Mining showed a $34.8b (69.6%) increase in Operating Profit before Tax, (OPBT). Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) increased $31.9b (54.8%) and Industry Value Added (IVA) increased $38.3b (43.5%). When compared with Total selected industries, Mining had the highest percentage increase for OPBT, EBITDA and IVA.

Mining remains the largest contributor to OPBT (25.1%), EBITDA (23.8%) and IVA (13.6%) for all Total selected industries.

Depreciation and amortisation is a significant element of the cost structure of Mining, and represented 13.1% of its total expenses in 2010-11, the highest proportion of any selected industry.

In 2010-11, Mining had the highest capital expenditure ($57.1b), sales and service income per person employed ($1.2m) and profit margin (42.5%) of all the selected industries.

Let’s leave the overarching theme-setting figures and go back to Marx’s alien forces.

C Resource monopoly

Most of Marx’s discussion about rent addresses the alien forces preventing competition – in other words the monopoly element. There are two elements to this monopoly. The first arises from land itself. Marx argues private property is at the centre of the agricultural capitalist’s seemingly secure world. This ownership, argues Marx, is monopoly. He says:

Landed property is based on the monopoly by certain person over definite portions of the globe, as exclusive spheres of their private will to the exclusion of all others. With this in mind, the problem is to ascertain the economic value, that is, the realisation of this monopoly on the basis of capitalist production.

155 Of course, the argument from mainstream economists is that the value created represents capital investment, risk and supply and demand pressures, and the figures for IVA exclude wage costs. But the contrast is an important one and if the Labor Theory of Value has validity it shows the extra profits created in the mining industry. There are other grounds too to criticise using, correlating and comparing these figures.  
156 Ibid.  
157 Karl Marx, above n 85, 600-601.  
158 Ibid 601-602.
This prefigures the views of Garnaut and Clunies Ross who argue similarly that economic rent is an expression of the monopoly that is private property. They say:

The ‘barrier to entry’ that gives rise to what might appear to be transfer rent is the institution of property rights itself. Exclusive property rights are necessary to the emergence of mineral rent in the same way as they are to land rent.

One of the consequences of the increasing monopolisation of the global and Australian economies may be an increase in long term economic rent so taxing that makes both revenue and competitive sense to a bourgeois state. Mandel describes the effect of monopolisation this way:

The mobility of capital, i.e. normal capitalist competition, generally eliminates such situations [economic rent –JP] after a certain lapse of time. But when that mobility of capital is impeded for long periods by either unavoidable scarcity (natural conditions that are not renewable or non-substitutable, like land and mineral deposits) or through the operation of institutional obstacles (private property of land and mineral resources forbidding access to available capital, except in exchange for payments over and above average profit), these surplus profits can be frozen and maintained for decades.

Yet arguably because of competition capitalism cannot accept particular monopoly rents for long periods, other than perhaps resource and land rents, because of their limited and non-renewable nature and finite supply. Mandel again:

By its very nature, capitalism, based upon private property, i.e. ‘many capitals’ - that is competition - cannot tolerate any ‘eternal’ monopoly, a ‘permanent’ surplus profit deducted from the sum total of profits which is divided among the capitalist class as a whole. Technological innovations, substitution of new products for old ones including the fields of raw materials and of food, will in the long run reduce or eliminate all monopoly situations, especially if the profit differential is large enough to justify huge research and investment outlays.

On the other hand Marx seems to think that land ownership itself, a permanent element of capitalism, may be a force alien to competition, or as he says (and re-quoting for emphasis): ‘When confronting capital in its endeavour to invest in land, such [an alien] force is the landlord vis-à-vis the capitalist.’ While business and their monopolies may be transient, land ownership as monopoly isn’t. Private ownership of land may thus be a barrier to the full development of capitalism or, as David Harvey less hyperbolically puts it: ‘The social necessity of private

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160 Ross Garnaut and Anthony Clunies Ross above n 17, 33.
161 Ibid, 34.
162 Ken Henry et al. above n 1, 8.
164 Ibid.
165 Marx, above n 100, 743.
landownership under capitalism entails distributional arrangements – the capacity to appropriate rent – which are in potential conflict with sustained accumulation.166

One point that Marx is making is that individual property contains within it its own monopoly – the exclusion of all others if necessary from productive activity on the particular piece of land or allowing such activity for a payment that includes what Marx calls ground-rent – the amount ‘which is paid for the use of the land as such – be it in a natural or cultivated state.’167 As already argued absolute rent can only arise when there are both these forces alien to completion and preventing it and where the OCC is low. But monopoly rent can arise when those alien forces continue but the OCC is high. Absolute rent then becomes one specific and special case of monopoly rent.

Certainly David Harvey calls monopoly rent one of the 4 cases of rent Marx looks at, in addition to absolute rent and differential rents I and II.168 Of course monopoly in the case of land and minerals is a monopoly of certain lots of land, not all land or minerals so that competition between different plots and areas exists while the products of each monopoly owned section of land containing the minerals – the extracted and sometimes processed minerals – are in competition both with similar monopoly blocs in Australia and overseas.169 But that is looking at land and the minerals it contains in the process of production and the creation of surplus value, i.e. the land in the hands of the capitalist exploiter. What about the State?

D The State as landlord

In the case of minerals in Australia, ownership is monopolised by the Crown in right of the state, that is for minerals in Australia the States and Territories own the minerals.170 The Commonwealth only has jurisdiction from the low water mark onwards. Landowners do not own the minerals under their land; the Crown in right of the state does. This appropriation has been carried out by statute across the States and Territories. Now, Marx’s model of agricultural rent sets up landlords in contradistinction to and conflict with capitalists.171 For minerals that distinction is the state as landlord and capitalist miners as exploiters. Further, the difference between monopoly and absolute rents is important. As Harvey says

> With absolute rent landlords do not interfere with surplus value production directly. They simply intervene with respect to the distribution of the surplus value produced. Monopoly rent actively curtails surplus value production … and forces a redistribution of surplus value from other sectors not into agriculture but into the hands of the landlords.172

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166 Harvey above n 136, 352.
167 Karl Marx, above n 100, 605.
168 Harvey above n 136, 349.
169 For an analysis which argues against the idea that there are monopoly profits in the mining industry see Scott Kompo-Harms and Kali Sanyal above n 97.
170 See for example Anne Fitzgerald, Mining Agreements: Negotiated Outcomes In The Australian Minerals Sector, (Lexis Nexus Butterworths Australia 2002).
171 Harvey above n 136, 352
172 Ibid 353.
Because of constitutional divisions in Australia between State and Territory Governments and the Commonwealth in Australia, different mechanisms exist for extracting monopoly rents from mining companies. State and Territory governments have a vast range of regulatory requirements, including mining agreements with mining companies and impose all sorts of charges on mining companies, charges and licences to do for example with rights to explore for and extract minerals and rent royalties on the minerals actually taken out of the ground. These charges, licences and royalties are rent charged by the States and Territories in their roles as landlord, as owner of the minerals. They are monopoly rent because they arise from the ability of the state to withhold access to the land and/or the minerals in the subsoil. Are these absolute rents? No, because the capitalist exploiting the minerals has a high OCC. Are they monopoly rents? Absolutely. This means they actively curtail surplus value production and are a distribution of surplus from the mining sector and other capitalists to the state.

However it is not just the States and Territories who want a share of the action on the earth that makes up Australia and the resources it contains. The Rudd Labor Government’s proposed RSPT on all minerals was in effect a rent tax based on the monopoly profits of the mining companies, these purloined or filched profits. It is the landlord using its Commonwealth taxing powers to win some rent from the mining companies for their use of the minerals. The Commonwealth wanted a share of the monopoly profits of the mining companies. It is a de facto claim to ownership; the Commonwealth proclaiming it too is a landlord and extracting rent through the proposed RSPT or actual MRRT. The catchcry that the minerals belong to all Australians’ was the way this claim to Commonwealth landlordism was often translated. However, the proposed MRRT and the actual MRRT are after the event taxes, i.e. they are part of the re-distribution of surplus process, not rent imposed by the state as landlord in the production of surplus as the State and Territory charges are.

The mining company hostile brothers mounted a furious campaign against the Resource Super Profits Tax of the Commonwealth. They won. The Labor Party dumped Kevin Rudd as Prime Minister and his replacement, Julia Gillard, replaced the RSPT with a watered down version, the Minerals Resource Rent Tax, applying only to coal and iron ore. The landlord, even when it is the Commonwealth Government, does not have overwhelming power. The hostile brothers can and do fight viciously among themselves and who wins will be a matter of politics as much as economics.

However, the victory of the mining companies only means they were able to stop the Commonwealth filching some of their monopoly rent. They are still successfully winning extra surplus value, monopoly rent, from the other hostile brothers. The poor design of the MRRT means that within the context of the Commonwealth imposing increased monopoly rent on some coal and iron ore producers, the States and Northern Territory can increase their rent at the expense not of the mining barons but of the Commonwealth. The MMRT has given them a cover for their own filching – of the Commonwealth.

173 Anne Fitzgerald, above n 170.
174 Kevin Rudd and Wayne Swan, above n 41.
One element missing from this battle between 2 landlords for rent is the reality that they are landlords through the usurpation of the original owners, the Aboriginal and Torres Strait Islander peoples. A recognition of this fact if it were to happen might result long term in a secure economic base for the original owners as landlords of all the land, entitled to rent and monopoly rent. Native title and the right to negotiate are born of and reinforce the dispossession of Aboriginal and Torres Strait Islander people, and the ‘right to negotiate’ under the Native Title Act ‘… is a flawed system for negotiating mining leases [which] has meant that indigenous parties are often severely disadvantaged.’ 175 The result is that a majority of agreements under the Act, which of course means the indigenous people have to already have established native title, no easy task in itself, offer ‘…limited or negligible economic benefits. They added little to existing legislative protection of cultural heritage and the environment.’176

E Dining at the table of the hostile brothers

When the Commonwealth imposes a form of resource rent tax it impacts on the profitability of the resources impacted. Assuming the tax cannot be passed on to any of the capitalist brothers by increasing further the prices of production, it reduces the profitability of the activity; it in other words produces a result similar to competition. It helps to some extent overcome the alien forces creating monopoly profits in mining, monopoly profits arising from exchange at production prices above value. Because the resource monopoly does not create new surplus value but merely re-distributes it, the consequence is that the resource monopoly rent is at the expense of the other brothers. So in theory a tax on resource rent that is redistribute to all of the brothers via tax cuts arguably should have been supported by the other brothers. There are some reasons why it wasn’t. First some of the other brothers, especially the Big 4 Banks – the banking oligopoly – in Australia might have understood they would be the next of the brothers subject to a rent tax.

Further, rent taxes may imply or send a more general message that it is OK to tax business especially for social welfare spending, undermining both the redistribution of monopoly rent taxes to other business via tax cuts and perhaps engendering ‘class warfare’ around slogans like tax the rich and big business. A much better solution to all this messy tax debate would be from business’s short-sighted approach be to cut social spending, or if tax is to be on the agenda, to concentrate more specifically on taxing labour, not capital. This explains I believe the push for land tax and the ongoing and incessant calls to broaden the base of the Goods and Services Tax and increasing its rate.

IV A CONCLUSION

What can we say to wrap up this discussion? Taxing resource rent is about taxing monopoly rents accruing to mining capital. The state as landlord – both Commonwealth and States and Territories – want to tax these rents to recoup some of the monopoly rent accruing to mining

176 Ibid.
capital. In doing this they are both filching some of the filched surplus value from the monopoly mining capitalists and at the same time would be returning it in the case of the Commonwealth through significant company tax cuts, if they were to go ahead, to all the hostile brothers, especially those whose surplus value has been redistributed to mining capital. Taxing resource rent reduces the profitability of mining capital, acting as a substitute for competition and helping overcome the alien forces that prevent the equalisation of profit to occur through competition.