Australian mining tax passed through Senate

Patrick O'Connor
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Prime Minister Julia Gillard's watered-down version of her predecessor Kevin Rudd's mining tax was finally approved by the Senate on Monday night. The Minerals Resource Rent Tax (MRRT) establishes a new 22.5 percent effective tax rate on certain iron ore and coal profits.

The passage of the measure through the Senate was accompanied by claims from senior ministers that the tax was a progressive measure that would benefit working people. Treasurer Wayne Swan reprised some of his recent demagogic criticisms of mining billionaires Clive Palmer and Gina Rinehart. Gillard declared: "The mining tax is about ensuring that Australians get a fair share of the benefits of the resources wealth within their grounds... Put simply, it meant we determined to stand for the benefits to the many rather than the privileged few."

In reality, the MRRT will do nothing to improve the living conditions of "the many." Not a cent of the tax's revenue will go toward improving public schools, hospitals and other facilities, or to raising poverty-level welfare payments to the unemployment, disabled and elderly. The government has boasted that its mandated increase in superannuation contributions over the next seven years will raise the amount of money that workers receive when they retire. The real purpose of the superannuation change, however, is to further restrict retired workers' access to aged pension payments, and also to boost the pool of funds available for the finance sector. Increased superannuation payments to workers will be clawed back through real wage cuts, as the government has openly acknowledged.

The Gillard government has directed the vast majority of the MRRT revenue to benefiting business—lowering the corporate tax rate from 30 to 29 percent, expanding tax offsets and investing in export infrastructure projects. Its mining tax has always been aimed at boosting the overall competitiveness of Australian capitalism by redistributing part of the unprecedented profits generated through the mining boom to other sections of the corporate elite.

The prime minister's rhetoric about the "privileged few" was belied by the fact that a small layer of mining industry executives dictated the terms of the MRRT legislation. From Gillard's first day in office she was beholden to the major companies—BHP Billiton, Rio Tinto and Xstrata—that had played an important role in destabilising Rudd's position after he announced a 40 percent "super profits" tax affecting a range of mining exports. Immediately after Rudd was ousted in the June 2010 coup, Gillard appointed Don Argus, who had retired as BHP Billiton chairman just weeks earlier, to head a "policy transition group" tasked with drafting a tax proposal acceptable to the major miners.

The end result is that many of the most profitable mining corporations are expected to pay little or no additional tax under the MRRT. The Labor government has forecast revenues of $10.6 billion over the next three years, but many economic analysts have ridiculed this forecast. Calculations have been based on the assumption that the high point of world commodity prices reached in 2010-2011 will continue into the future. Iron ore tax revenue forecasts, for example, were based on a price of about $140 a tonne, but about $120 a tonne is now widely regarded as more likely over the next period.

The MRRT is premised on the false assumption of never-ending economic growth in China and East Asia. Gillard blithely dismissed journalists' questions about the impact of an economic slowdown or property market crash in China, saying: “We’ve been listening for a few years now to people who are saying well you know, a spectacular fall in commodity prices is just around the corner and what have we seen over all of that time? Very, very strong terms of trade and very high commodity prices... China is still going to be buying in absolutely record quantities the things that we have to sell out of our resources sector.”

Government forecasts have also almost certainly underestimated the impact of the tax offsets incorporated into the MRRT. The *Australian Financial Review* yesterday reported: “Citigroup analyst Craig Sainsbury said he did not think miners would be paying ‘anywhere near’ the Treasury projection of $3.7 billion in 2012-13 because so many tax breaks had been given as part of the deal to get industry acceptance of the impost.”

Revenue shortfalls will be made up through budget cuts in other areas, including to social infrastructure and services, health, education and welfare. Gillard has promised the financial markets a surplus in the upcoming annual budget, as part of the Labor government’s ruthless implementation of the austerity agenda imposed against the European and American working class.

There remains considerable uncertainty about the MRRT, reflecting deep divisions between different sections of the corporate and political elite. The sharpness of the conflict stems from growing fears over the economic impact in Australia of the European debt crisis and a slowdown in China. All of them are seeking to shore up their own position at the expense of others.

Iron ore company Fortescue may mount a High Court challenge, seeking to strike down the tax on the grounds that it is unconstitutional. The Liberal governments in Western Australia and New South Wales have indicated that they will defy the Gillard government’s instructions not to raise their state-levied royalties on mining exports. This will further cut any revenues raised by the tax, because the government, in its deal with the mining giants, guaranteed to reimburse them for any increases in state royalties.

The Labor government is also yet to legislate its planned 1 percent reduction in the corporate tax rate, first applying to companies with an annual income of less than $2 million. The Greens, who hold the balance of power in the Senate, have stated they want the tax cut to apply only to corporations with annual incomes of up to $5 million.

Tony Abbott, leader of the opposition Liberal-National coalition, has committed to voting against all the proposed corporate tax cuts on the grounds that they are part of the MRRT package, which he has promised to abolish. The Labor government has condemned the opposition for attempting to block the tax cut, promoting itself as the best representative of the corporate sector. Under Abbott’s pseudo-populist leadership, the deeply-divided Liberal Party now has no clear tax policy, nor any strategy to slash spending. Frustration is escalating within the ruling elite about the absence of any viable alternative to the minority Labor government.

Gillard’s pro-business measures are regarded as welcome, but grossly inadequate. The *Australian*’s editorial today ridiculed the government for describing its 1 percent corporate tax rate cut as a significant “reform.” It demanded that the rate instead be slashed by at least 5 percent, which would require even deeper inroads into social spending and thus the living standards of working people.