Interest rate hikes, inflation, rent and financial parasitism

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20 May 2023

Central banks around the world, including the Reserve Bank of Australia, have maintained that interest rates hikes instituted over the past year are necessary to bring down inflation, now at its highest level in four decades.

But according to a former member of the economic policy establishment, Professor Ross Garnaut, a one-time economic policy adviser to the Hawke-Keating Labor government, the opposite is the case.

Interest rate hikes actually increase the rate of inflation because of changes in the structure of the Australian economy over the past several decades, above all the rise of monopolies which make their money not through productive activity but by the extraction of economic rents.

Garnaut's analysis is set out in a public lecture he delivered earlier this month entitled "The economic public interest in a world of oligopoly." That is a situation in which the economy does not operate according to the fables of the "free market" and "competition" but is dominated by a handful of powerful corporations.

He began his address by noting there had been "big changes" in the Australian economy over the course of this century that "greatly affect Australia's capacity to deliver rising standards of living to most people in a growing population."

"Most importantly," he continued, "there has been a large increase in the rent component of total income. This has diminished growth in productivity and output, while reducing the share of income accruing to the general run of citizens. More recently, it has contributed to the decline in the real incomes of most Australians."

The issue of rent does not generally figure in the official discussion of the economy based on the mythology of the "free market." But it is assuming a dominant role in every area of economic life. It refers to a situation in which the income of corporations is derived from the appropriation of value because an asset is privately owned, rather than the creation of new value by productive activity.

The classical case, going back to the dawn of capitalism, is the rent extracted by the landowner. The landowner creates no additional value. That is the result of the production of agricultural commodities, either by the small farmer or the workers employed to till the land. From the profit so obtained, the landowner extracts a portion in the form of rent, which means that the price of the goods produced is higher than they would be otherwise.

Under "free market" conditions this would produce a movement of capital into this area, increasing agricultural production until the price came down and the rate of profit in this sector fell to the average in the economy as a whole.

But that is not possible in this case because the land on which to carry out such production is held by private owners, monopolised, and not freely available. So the price of agricultural products remains higher than it would otherwise be.

Rent appropriation has gone far beyond its beginnings in the private ownership of land and now extends to virtually all areas of the economy, not least intellectual property in communications and pharmaceuticals, as well as in areas where there are so-called natural monopolies such as the supply of electricity and water.

In the case of intellectual property, Apple is a case in point. But for its intellectual property rights, the price of an iPhone would be far lower than that charged. A great proportion of the price is the rent obtained by the company from its ownership of intellectual property. Its importance for such firms can be seen in the way in which they regularly sue each other for alleged theft of intellectual property.

Of course, firms appropriating such rent—phone companies, drug companies and others—seek to "justify" their super profits by claiming it is the reward for their research. They conveniently forget the fact that any limited advances they may make are the results of decades of scientific development, freely available and much of it publicly funded.

In his review of the Australian economy and the distribution of income between profits and wages, Garnaut noted that in the past, high terms of trade—higher export prices relative to import prices—had been associated with pressure for higher wages.

"Australian terms of trade over the past year have been higher than ever before. Yet real wages in Australia have fallen more through last financial year and this than in any other two-year period in our history. The official forecasts anticipate continuation of real wage reductions through the next financial year.

"It is a striking fact that the profit share of income is decisively higher than ever, and the wages share lower."

One of the sources of this disparity was rent and he examined two key areas, rent for houses and energy supply.

In the case of house rents, he pointed to what amounts to a self-reinforcing feedback loop.

"Higher rents feed into a higher CPI, which is interpreted by the RBA as a signal to raise interest rates again. Higher interest rates reduce investment in housing and after a time raise rents, and so strengthen the single-instrument case for even higher interest rates."

Turning to the question of energy, he said electricity and gas increases, 15 percent and more than 26 percent respectively, had been the largest contributor to a higher CPI over the past year to which the RBA has responded by lifting interest rates. This had the effect of further increasing power charges.

This is because for many households "the charges for using poles and wires represent about half the power bill. Prices are regulated by arrangements that guarantee specified rates of return on past investment. The rates of return rise with higher interest rates, so higher interest rates feed directly into higher power prices."

Furthermore, he continued, to the extent that higher interest rates reduced the demand for power [because working class families must cut back on their power consumption to meet their rising mortgage repayments, which have risen by more than $1,000 a month in many cases], "the reduced use of poles and wires requires a compensating increase in prices" because of the lower volumes of sales.

In pointing to the increasing role of economic rent more broadly in the accumulation of profit, he said returns to business investment were higher than ever in the developed world and particularly in Australia.

"Attempts have been made to rationalise the facts. The Business Council of Australia and the Governor of the Reserve Bank have said that mining profits (including petroleum extraction) are more than half the total and if you exclude them there has been no increase in the profit share."

Garnaut denounced these efforts as "speaking power to truth," rather than the reverse.

"Take mining out of the denominator as well as the numerator and the profit share is still historically high. This is at a time when the cost of capital in competitive markets is close to zero, and when low productivity growth demonstrates that high profits are not flowing exceptionally from innovation and entrepreneurship."

However, his denunciations of the RBA interest rate hikes only raise a broader question: why is the central bank proceeding with them if they are inimical to its stated goal of bringing down inflation?

Here Garnaut is bereft of any analysis. The best he can come up with is that "good policy" would bring a different outcome. In other words, the problems he identifies come from a faulty mindset.

This is the classic response of all would-be reformers of the capitalist system.

They never care to probe too deeply into its class dynamics lest this raises many troubling questions, not least to the conclusion that Karl Marx, to whom they are organically hostile, was right and the essential logic of the capitalist system is the accumulation of fabulous wealth at one pole and poverty and misery at the other.

Any understanding of the reason for the interest rate hikes of the RBA and other major central banks begins with the recognition that, while it is advanced in the name of "fighting inflation," this an ideological cover for the real agenda.

The RBA is concerned essentially with only one price—that of labour power, the commodity sold by the worker to the owner of the means of production and received in the form of wages. Under conditions of rising prices—the highest in 40 years—driving workers into struggles, it is imperative this movement is suppressed, if necessary, by driving the economy into recession.

One of the key driving forces for the RBA policy, aimed at lowering wages, is to be found in capitalist rent. This becomes apparent from a closer examination of its modus operandi.

Rent, as we previously noted, is not derived from the creation of new value. It is essentially parasitic, depending on the host for the supply of fresh blood into arteries. The value it strives to appropriate depends on the exploitation of the working class by other sections of capital. Enhancement of this flow of value depends on the suppression of wages.

Not only must wages be suppressed but social services, such as health and education, must be cut. This is because, in the final analysis, these expenditures are a deduction from the surplus value extracted from the working class available for appropriation by capital.

The more rent capital grows, the greater its significance in the economy, which, as Garnaut notes, has surged in recent decades. The more it grows the more strident become its demands that the value flow, which it has done nothing to produce but on which it parasitically feeds, must be increased.

Garnaut can offer no solution to the mounting social problems to which he points, at least partially, apart from a call for some regulations and increased competition.

Here it is necessary to recall that rent seeking is not some "bad" side of capitalism which should be curbed in favour of the "good."

The logic of the capitalist system is not aimed at the production of goods and services to sustain the population.

Its driving force is the transformation of money into an even greater quantity of money, and this leads inexorably, as Marx drew out, to modes of accumulation—rent, share market trading and financial speculation—which completely bypass the production process.

Anyone tempted to buy into Garnaut's call for policy changes should remember that, as the saying goes, he has "form" in this area.

He was one of the principal architects of the policies of the Hawke-Keating Labor government of 1983-96 which he holds up as providing a necessary transformation of the Australian economy.

Two key aspects of the Hawke-Keating agenda have played a critical role in shaping the present economic and social landscape.

The "free market" agenda, coupled with major privatisation of state-owned resources, carried out by this government with the fulsome support of Garnaut, cleared the way for the rapid growth of financial parasitism and rent seeking.

The successive Accords with the trade union bureaucracy, backed by the force of the courts and the military power of the capitalist state as in the case of the use of troops against the 1989 pilots' strike, were pivotal in the transformation of the unions from limited defence organisations of the working class to the role they play today as the policemen for the suppression of wages.

The socialist and Marxist movement is no late comer when it comes to the issue of the role of rent in the capitalist economy. The growth of a rentier class receiving unearned income was the subject of examination by Lenin in his pamphlet *Imperialism*, published in 1916, which in many ways formed the foundational platform of the socialist revolution he was to lead the following year.

He regarded this parasitic growth as another expression—together with the world war—of the rot and decay of capitalism, that had completely exhausted its once progressive historical role, necessitating its overthrow by the working class and the establishment of higher form of society, socialism.

Today, the rentier parasitism of which Lenin only saw the beginnings in the form of coupon clipping has reached gigantic proportions and is at the very centre of vast corporations and whole economies.

As the world hurtles towards another world war, under conditions of an ever-greater assault on the social position of the working class, not least because of the insatiable demands of rent appropriators, Lenin's conclusion is even more relevant, in opposition to the bankrupt nostrums of would-be "reformers" such as Garnaut.