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Economic Policy Debates

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A strong economy is one where businesses are confident of the future and are prepared to take the risk of investing, expanding and hiring. Our business tax cuts encourage small and medium businesses to do just that (Turnbull 2016).

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We will be a government for the fair go, fully paid for. Bringing down the deficit each and every year. Saving more than we spend over the decade. Returning the budget to balance at the same time as our opponents (Shorten 2016).

As is often the case, economic issues featured heavily in the election campaign—economic growth, job creation, infrastructure investment, business confidence, health and education funding were all key issues. The Coalition's agenda was built around a \$48 billion business tax cut, while the Australian Labor Party's (ALP) alternative centred on increased health and education funding. Despite these differences, the major parties professed a commitment to fiscal conservatism and elevated (at least rhetorically) the return of the Budget to surplus as an overriding imperative of economic policy. Yet, as this chapter will argue, neither side's platform, nor much of the mainstream media coverage, acknowledged the looming clouds on the global economic horizon in the form of the ongoing effects of the 2008 global financial crisis, including the resultant sovereign debt crises and global economic stagnation.

The election was not, of course, contested by *just* two parties—indeed, a defining feature of the 2016 election was the increased share of the vote that did *not* go to the Coalition or the ALP. More than 20 per cent of voters gave their primary vote to minor parties or Independents (Landers 2016). Without a doubt, these groups are part of the economic story of the election, and Australian political economy more generally. The Australian Greens has been campaigning for reform to negative gearing, capital gains and superannuation taxation for many years, arguably shaping the discourse surrounding these issues during the most recent election. The large swings toward minor parties with nationalist positions—such as the Jacqui Lambie Network, the Nick Xenophon Team and Pauline Hanson’s One Nation—could be argued to be related to the anti-political reaction to neoliberalism (see Hay 2007). Due to the space constraints, however, this chapter limits itself to an analysis of those parties and the issues that dominated the election campaign, which entails a focus on the major parties.

First, this chapter will discuss the political economic context in which the campaign was situated, before moving on to detail the platforms of the two major parties. From here, some evaluation of the feasibility and implications of each platform will be offered. Finally, the outlook and key challenges for the Australian economy will be outlined. It will be argued that while there are differences over economic policy between the major parties, these are not of a fundamental nature, with neither party recognising the likely challenges facing the Australian economy, let alone proposing meaningful solutions.

The economic context

The key phenomenon underpinning the Australian economy, but rarely discussed by politicians or commentators during the election campaign, is the crisis in which global capitalism has been mired since 2008. According to the International Monetary Fund (IMF), there is ‘a subdued outlook for the world economy—but risks of much weaker global growth have also risen’ (2016). Interest rates in the leading advanced capitalist economies are close to zero, indicating a waning ability for monetary policy to act as an effective lever of economic management. The spectre of deflation looms large.

To be sure, Australia has not experienced this crisis as acutely as many of the other advanced capitalist economies. A combination of the Rudd government's 2008–09 stimulus measures (see Wanna 2015: 313), the relative underexposure of leading Australian-based banks to toxic financial assets, a continued housing boom supporting private debt-led consumption and the favourable trading relationships between Australian-based extractive industries and Chinese manufacturers have contributed to the Australian economy not being beset by large rises in unemployment or sustained stagnant growth. Yet, the economic crisis provides the crucial context for understanding this election for several reasons.

First, the government's budget deficit, which underpins most political discourse about the economy and the spending policies of the major parties, exists as a direct result of the global economic crisis. Given the crisis, it is almost inconceivable that any Australian government could have maintained a budget surplus since 2008, irrespective of the policy measures it took. While the Rudd government's stimulus measures were historically contingent—that is, a different government could have responded to the crisis in different ways—a prolonged deficit was always likely as a consequence of the crisis.

Second, there are signs of weakness in the Australian economy, which mirror a broader global pattern of economic stagnation. Indeed, Australia's most recent year-on-year headline economic growth figure of 3.1 per cent belies deeper, structural economic problems. Real net disposable income fell by 1.3 per cent in the year ending in March 2016 (Australian Bureau of Statistics (ABS) 2016). Meanwhile, average real weekly wages have fallen by 0.6 per cent since Tony Abbott's election as prime minister in 2013 (Stanford 2016: 12). Gross fixed capital formation is down 5.7 per cent on the previous year (ABS 2016), while real business capital investment has also fallen 5.5 per cent since the Coalition's previous election victory in 2013 (Stanford 2016: 8). Official unemployment stands at 5.8 per cent. However, this hides the incidence of underemployment (i.e. those who are in paid work but wish to do more). Indeed, one measure puts the combined unemployment and underemployment rates at 17.9 per cent (Roy Morgan Research 2016). While Australia's headline growth figures are buoyed by mining-led production and exports, this hardly augurs well for the much-heralded transition to a non-extractive economy, particularly as the Chinese economy, which is the destination for much of this mining product, is now growing much more slowly than was the case prior to the onset of the crisis (McCurry 2016). Moreover, the Reserve

Bank of Australia's (RBA) cash rate, which it uses to regulate private sector interest rates, stood at 1.75 per cent at the time of the election, its lowest point since the practice of inflation targeting began in the 1990s (RBA 2016). Given that continued low inflation could prompt the RBA to cut rates further, Australia could well face the prospect of at or close-to zero interest rates, signalling the waning effectiveness of monetary policy as a key lever of economic management.

Third, there are signs that the crisis is forcing a reconfiguration of public policy in Australia and elsewhere. Since the early 1980s, successive federal governments in Australia have engaged in a neoliberal reconstruction of the Australian state and economy. During this period, not only have the state and economy been reconfigured through processes of privatisation, deregulation, marketisation, tax cuts, new public management and inflation targeting monetary policy, but broadly neoliberal precepts have come to form a new state 'rationality' (Beeson and Firth 1998; Davies 2014), underpinning a broad consensus, or 'settlement', among policy elites as to the proper conduct of public policy.

Yet, the onset of the global financial crisis, and its ongoing ramifications, potentially renders this still-dominant approach to policy dysfunctional with the twin imperatives for state elites to secure conditions for capital accumulation and maintain political legitimacy. There is a problem of how certain headline neoliberal policies, which have become standard tools of economic management, are functional in the context of persistent budget deficits. Tax cuts, for example, a staple of Labor and Coalition governments from the 1980s until the present, exacerbate the gap between government revenue and expenditure, potentially offsetting any boost to aggregating the demand they stimulate (though that 'boost' is not itself a given), as governments further retrench spending to make up the shortfall. With respect to privatisation, there are now so few state-owned corporations at the national level that the capacity of this policy to produce significant revenues to government has been severely diminished. Then there are the significant government expenditure precommitments to subsidising private providers of social services—such as to the private health insurance industry and to the independent school sector—and the huge effective subsidies that flow to the already wealthy in the form of various tax concessions linked to superannuation and property ownership.

Concurrently, evidence suggests that some key neoliberal measures enjoy little popular support. In Australia, privatisation has never enjoyed majority support and survey data suggests that such support that did exist waned as the practice became more widespread (Pusey and Turnbull 2005). The marketisation of public services enjoys more mixed levels of support—generally higher than privatisation but significantly dependent upon the particular service in question and still within the context of a strong attachment to direct public provision (Wilson, Meagher and Breusch 2005). Moreover, while trade union membership density has fallen dramatically during the last two decades, attachment to existing labour-market protections remains, as was evident in the 2007 federal election, the result of which has been attributed by some scholars to a backlash against the WorkChoices policy and the radical agenda of the labour market deregulation it represented (Wilson and Spies-Butcher 2011; Spies-Butcher and Wilson 2008).

Nonetheless, there is clearly a path-dependent character to neoliberalism. National Competition Policy has effectively institutionalised neoliberal policy principles within the apparatuses of the state at every level of government (Cahill 2014). Furthermore, decades of public sector retrenchment have denuded the capacity of the state to undertake public works directly, thus creating an institutionalised bias towards outsourcing, as was the case with much of the Rudd government's Building the Education Revolution program (Parker 2013). Such factors perhaps help to explain the noticeable disenchantment with formal politics and the decline of voter attachment to the major parties in Australia. Decades of continual commitment to neoliberal processes by both major parties, despite low levels of public support and highly uneven economic benefits, have eroded faith in politics and detached parties from their traditional support bases (Mair 2013). Similar processes are evident in the victory of the 'Leave' campaign in the recent British referendum on continuing European Union (EU) membership that have sent shockwaves through the global political economy.

In this context, there is evidence that political elites, both in Australia and internationally, are rethinking the desirability of neoliberal measures. At an international level, for example, the IMF Research Department recently cast doubt on the economic benefits of deregulation (Ostry, Loungani and Furceri 2016), while the Organisation for Economic Co-operation and Development (OECD) (2015) report, *In it Together: Why Less Inequality Benefits All*, recognises that inequality negatively

affects economic growth. More recently, Australian Competition and Consumer Commission (ACCC) Chair, and historically staunch advocate of neoliberal measures, Rod Sims launched an attack upon privatisation because of its damaging economic effects (Hatch 2016). Domestically, some of the headline policies of each major party mark a turn away from traditional neoliberal policy commitments.

As discussed in more detail below, in the election, each major party presented an internally contradictory policy agenda to the voting public. This is indicative of a period of 'institutional searching' (Heino 2015) in which political and economic elites and powerful social groups search for an institutionalised resolution to economic crisis. It is a pattern observable in each of the major crises to beset the global capitalist economy. In each case, there is the reliance upon traditional, and increasingly ineffective, policies inherited from the past, even as there is experimentation with new tools of economic management.

The platforms

The pretext for the election was the Senate's blocking of the government's bill to reinstate the Australian Building and Construction Commission (ABCC) (see Taflaga and Wanna, Chapter 2, this volume). Given this, one might reasonably have expected the Coalition's election campaign to prominently feature portrayals of Bill Shorten, and the Labor Party more generally, as beholden to trade union 'thugs', authorising lawlessness on construction sites and, given the recent Royal Commission into Trade Union Corruption, linking the ALP and its leader to institutionalised corruption within trade unions. Yet, such a campaign never eventuated (see Peetz, Chapter 23, this volume). Instead, the Coalition campaigned on a business tax cut worth \$48 billion, and foregrounded its 'plan' to create jobs and growth, while arguing that the Coalition had a proven track record of superior economic management and that Labor could not be trusted to provide stable leadership.

Labor, in contrast, campaigned on policies as potentially politically incendiary as negative gearing (the ability to claim losses incurred in generating rental income from an investment property as deductions against one's total taxable income) and capital gains tax concessions, and in the latter stages of the campaign relied heavily on allegations that the Coalition would, if elected, seek to privatise Medicare (see Elliot and

Manwaring, Chapter 24, this volume). Despite the differences between the platforms of the two major parties, Labor still conceded the necessity of achieving fiscal balance in the medium term, and the merits of business tax cuts (albeit limited to small businesses) as a stimulatory measure. Thus, substantial similarities are evident in the broad approach to the economic policy of each major party. These comparisons are drawn out through a more detailed analysis of the platforms of the respective parties before turning to an assessment of the likelihood that either platform is adequate to cope with current and, potentially, approaching economic problems.

Table 22.1. Policy summary

Policy	Coalition	Labor
Company taxation	Cut the company tax rate to 27.5 per cent for businesses turning over up to \$10 million per year, dropping to 25 per cent for all businesses by 2026–27.	Cut the company tax rate to 27.5 per cent for businesses turning over up to \$2 million per year, but maintain existing rates for larger businesses.
Negative gearing	Keep negative gearing for all investment properties.	Restrict negative gearing to new housing from 2017, without retrospective changes.
Capital gains	No change to the current capital gains tax discount.	Cut capital gains tax discount from 50 to 25 per cent, saving a projected \$32.1 billion over 10 years.
Superannuation	Increase tax on contributions from 15 to 30 per cent for people earning more than \$250,000. In retirement, earnings on super balances over \$1.6 million to be taxed at 15 per cent, and a \$500,000 lifetime cap on after-tax contributions.	Increase tax on contributions from 15 to 30 per cent for people earning more than \$250,000. In retirement, tax super earnings over \$75,000 per annum at 15 per cent, but alternatively will consider \$1.6 million cap.
Climate change	A 28 per cent reduction on 2005 levels by 2030; continue \$2.55 billion in Emissions Reduction Fund to encourage companies to reduce emissions.	Introduce two emissions trading schemes: one for the electricity sector and one for other large emitters; a 45 per cent drop in carbon emissions on 2005 levels by 2030.
Childcare	Increase funding by \$3 billion, and overhaul sector by streamlining subsidies into one payment. Scheme is delayed until July 2018, and contingent on family tax benefit cuts.	Will keep the current system, but also commit \$3 billion extra, promising to provide relief to families from January 2017, 18 months earlier than the Coalition.

Policy	Coalition	Labor
School funding	Will only fund four years of the Gonski changes; however, will provide \$1.2 billion to the states for the final two years the program was due to run.	Will fully fund the Gonski changes, including the final two years at a cost of \$4.5 billion.
University funding	Full deregulation policy ruled out, while 20 per cent government contribution cut from 2014–15 Budget delayed till 2018.	Opposes deregulation; will spend \$4 billion to lift course subsidies by \$2,500 per person; will restrict vocational education loans.
Medicare rebate freeze	Will extend existing freeze on the indexation of Medicare rebates by two years, in a measure expected to save \$925 million.	Will lift the current freeze on Medicare rebates, restoring indexed increases to account for inflation from January 2017.
Penalty rates	Will adhere to any Fair Work Commission ruling; some MPs support cutting Sunday rates to Saturday levels for some industries.	Lobby Fair Work Commission to protect rates, though not legislate to protect them.

Source. Compiled by authors from Leslie et al. (2016) and Karp and Hutchens (2016).

The Coalition

When Malcolm Turnbull announced that he would challenge Abbott for the leadership of the Liberal Party—and, thus, the prime ministership—in September 2015, one of the key reasons presented was that Abbott was not ‘capable of providing the economic leadership our nation needs’ (Turnbull 2015). The 2016 election was Turnbull’s chance to provide the economic leadership Abbott apparently lacked. And yet, far from taking a policy platform and economic narrative to the election campaign that was significantly different from Abbott’s approach to fiscal policy, Turnbull, for the most part, offered more of the same. Take the following as summative of Turnbull’s (and the Coalition’s) economic position:

At this election Australians will have a very clear choice; to keep the course, maintain the commitment to our national economic plan for growth and jobs, or go back to Labor, with its higher taxing, higher spending, debt and deficit agenda, which will stop our nation’s transition to the new economy dead in its tracks (Turnbull 2016).

The ‘plan for growth and jobs’ to which Turnbull refers consists of a measure announced in the 2016–17 Budget, which sought to immediately cut the company tax rate by one percentile to 27.5 per cent for businesses with annual turnover of less than \$10 million, and to

progressively lower the tax rate for *all* businesses from 30 per cent to 25 per cent over a period of 10 years. Lowering business tax is entirely in line with Abbott's approach, extending changes to the effective business tax rate made in the 2015–16 Budget; the purported aversion to debt and fiscal deficit was a definitive characteristic of Abbott's approach to fiscal policy (see Ryan 2015–16: 92). Perhaps it was the unpopularity of this cornerstone tax cut (see Martin 2016), or the Treasury's untimely downgrading of employment projections (Treasury and Department of Finance 2016; Jericho 2016), which led the Coalition then to pivot to the 'small target' strategy (Taylor 2016) of 'continuity'. In the latter part of the campaign, voters were told to trust the 'experienced economic leadership' of the Coalition, while arguing that Labor would 'put at risk living standards' (Turnbull 2016), retreating from the earlier emphasis on 'jobs and growth'. Nonetheless, there was significant continuity in the macroeconomic approach of the Coalition under both Abbott and Turnbull. Two key policies where the Coalition under Turnbull *did* shift direction somewhat were the 'innovation agenda' and changes to taxes on superannuation. The 'innovation agenda' was unveiled in December 2015, and then taken to the election. It consisted of around \$1 billion of spending directed toward research, and changes in bankruptcy laws in order to encourage risk-taking (Department of Prime Minister and Cabinet 2015). However, far from being a significant government initiative to drive the transition away from an economy based on natural resource extraction, it was partially a reinstatement of previous Coalition cuts to research funding. The proposed change to superannuation taxation first presented in the 2016–17 Budget was a more substantive departure.

These changes (initially proposed in the 2016–17 Budget, but which had not passed the Senate) looked to increase taxation on contributions to superannuation accounts from 15 to 30 per cent for people earning more than \$250,000, and to introduce a tax on earnings for super accounts totalling over \$1.6 million (Table 22.1). This policy was, perhaps, an attempt to ameliorate perceptions of Coalition economic policy as 'unfair', which have been widespread since Abbott's 2014–15 Budget (see Taflaga and Wanna, Chapter 2, this volume). Importantly, however, these changes *are* congruent with the key purported economic aim of the Coalition—namely, achieving a fiscal surplus. An oft-repeated mantra, this position was reasserted by Treasurer Scott Morrison when he stated that the purpose of the 2016–17 Budget was to 'ensure the Government lives within its means, to balance the Budget and reduce the burden of long

term debt' (2016a). These changes represent a break from the neoliberal norm (indeed, they were criticised both before and during the campaign by some Liberal Party MPs and institutional allies such as the Institute for Public Affairs), and are an example of institutional searching, as the state attempts to address the challenges arising from continued global economic crisis and resultant pressures on state revenue. Paradoxically, similar attempts at raising revenue from the Labor Party were labelled by Morrison as a 'war on growth' (2016b). A similar explanation might be brought to bear on the recent apparent focus on multinational tax minimisation—surely this can also be seen as a cash-strapped state operating autonomously from international capital in order to ensure its own fiscal sustainability? On 3 May 2016, Scott Morrison, with his Assistant Treasurer Kelly O'Dwyer, announced a new 'Tax Avoidance Taskforce' (Morrison 2016c). Far from being a departure from neoliberal norms, this \$680 billion spend only amounted to a *partial* reconstruction of the Australian Tax Office, after successive redundancies: the Taskforce consisted of 1,300 new positions, against the 4,700 redundancies during the Coalition government's previous term (Aston 2016).

The Labor Party

Against the 'small target' of continuity presented by the Coalition, the ALP presented a broadside of policy positions (see Table 22.1), including a more tightly targeted business tax cut, a restriction on negative gearing, an increase in the effective capital gains tax and more spending in particular portfolios such as school education, tertiary education and healthcare. Under the rubric of '100 Positive Policies', Labor presented what was one of the most comprehensive (and costed) alternative fiscal positions of any opposition party in Australian history. And yet, how different was the overall fiscal position between the government and opposition? Over the short term, Labor's platform was distinctly less contractionary than the government's, adding \$4 billion to the Pre-Election Fiscal Outlook (PEFO) in 2017–18, and \$4.7 billion in 2018–19—or a total of \$16.5 billion across the forward estimates (Grattan 2016). Moreover, relative to the Coalition's planned fiscal consolidation, the ALP is certainly less austere—Labor's platform was not simply \$4 billion of debt-financed spending, but a change in the balance of taxation and redistribution, meaning that social service provision would be markedly different from the austerity-type cuts to social services proposed by the government. Despite this, however, the ALP's platform during the 2016 federal election

did *not* constitute a break from the ‘common sense’ of fiscal conservatism. Indeed, Opposition Leader Bill Shorten emphasised during Labor’s campaign launch that an ALP government would ‘not be a big spending government’, promising to return the Budget ‘to balance at the same time’, 2019–20, as the Coalition (Shorten 2016). In an apparent attempt to give substance to this rhetoric, mid-campaign, the ALP announced its intention to make cuts to higher education and to increase revenue by freezing the Medicare Levy Surcharge and Private Health Insurance Rebate, and making cuts to the Family Tax Benefit Part A for families earning over \$100,000 per year (Coorey 2016; Dziedzic 2016). All of this after Labor had earlier criticised the Coalition for funding its election promises with a commitment to reduce ‘welfare fraud’ (Dziedzic 2016).

The fact that Shorten and Labor were so adamant they would not be a ‘big spending government’, accepting implicitly the idea that budgetary surplus is an imperative medium-term goal of fiscal policy—to the exclusion of a deficit-financed Keynesian-type stimulus during a period of global downturn—shows that the hegemony of neoliberalism is still deeply entrenched (see Cahill 2010, 2014). And yet, it would be an oversimplification to suggest that the two parties are economically identical. The measures employed by Labor make their deficit a qualitatively different one.

Evaluation

The claim that a reduction in the business tax rate will result in overall economic growth—and the assumption that such growth will necessarily result in a drop in unemployment—rests on the ‘common sense’ neoliberal belief in ‘trickle-down’ economics: that government taxing and spending is inefficient, crowds out the more efficient private sector, and thus depresses economic activity. Therefore, by reducing taxation rates those dollars will be put to more effective use, creating economic growth (see Quiggin 2010). As is often the case, this claim was made with support from neoclassical economic modelling, including heroic assumptions about unemployment and market equilibrium (Stilwell 2016). A report from Treasury suggested that for each \$1 of revenue lost, \$4.30 would be added to the economy (Kouparitsas, Prihardini and Beames 2016). This claim has been challenged with John Daley and Brendan Coates from the Grattan Institute using similar modelling to suggest the gain

would likely be much lower—between \$2.80 in the long term and \$1.20 in the short term (Daley and Coates 2016). With a four-to-one multiplier potentially dropping to as low as one-to-one, the malleability of neoclassical projections is highlighted; going further, however, some argue that Daley and Coates's critique is still unreliable. At the very least, the potential multiplier effect of tax cuts needs to be put in context, as historical evidence suggests that active redistribution and fiscal stimulus can have a much greater impact on 'jobs and growth' (Argyrous 2011). Compounding this, problems of tax evasion and leakages to firms' international shareholders mean that the strength of Turnbull's 'plan' is highly doubtful (Long 2016; Stilwell 2016).

Thus, the Coalition's leading policy—cutting business tax to 25 per cent over 10 years—is a predominantly *non-productive* expenditure. This is as opposed to Labor's combination of increasing revenue through ending concessions around negative gearing and capital gains, and increasing funding to education and health. While the net effect of Labor's policy may be to increase the fiscal deficit over the short term, this can be characterised as *productive* debt (at least in part), as these expenditures will likely increase growth in the long term. At this point, it is worth noting that the underlying cash balance of each party is misleading. The Coalition's fiscal position relies on a raft of cuts to expenditure—some of which were introduced to the parliament as early as the first Abbott–Hockey Budget—which have failed to pass the Senate, meaning their taxation expenditures are unlikely to be balanced by cuts elsewhere. Far from producing a more favourable Senate composition, the combination of a double-dissolution election, recent reforms to Senate voting regulations and widespread dissatisfaction with 'mainstream' politics has resulted in, potentially, a more recalcitrant Senate. As a result, the Coalition's claims of reaching surplus *beyond* the Treasury's forward projections (i.e. four years) are tenuous at best. Concurrently, the ALP's fiscal stance is really one of stability, rather than radical Keynesian departure, as their 'increases' in spending are, in many cases, simply reinstatements of funding to pre-2014–15 levels. This is 'paid for' largely through a smaller business tax concession, as well as other taxation changes that essentially wind back Howard-era expenditures. None of this constitutes radical change, and it fails to confront in any meaningful sense the many and significant challenges facing the Australian economy.

Conclusion

At the outset of this chapter, the crucial role of the global financial crisis in creating the context of the 2016 federal election was highlighted. The long-term structural issues within the global economy that caused the crisis have not been resolved. The shortfall in global aggregate demand created by the great stagnation of US working-class consumption and mass unemployment across Europe was, for a time, propped up by Chinese industrial consumption. But this cannot continue indefinitely, as Yanis Varoufakis warned as early as 2011:

To buy time, the Chinese government is stimulating its growing economy and keeps it shielded from currency revaluations, in the hope that vibrant growth can continue. But they see the omens. And they are not good. On the one hand, China's consumption-to-GDP ratio is falling; a sure sign the domestic market cannot generate enough demand for China's gigantic factories. On the other hand, their fiscal injections are causing real estate bubbles. If these are unchecked, they may burst and thus cause a catastrophic domestic unwinding (Varoufakis 2011, cited in Varoufakis 2015: 244).

The implications for the Australian economy of waning Chinese demand can be seen in falling coal and iron ore prices, and decreased investment in the mining sector. For all the Coalition's talk of transitioning away from the mining boom towards an 'ideas' boom, there is little evidence to suggest that this is likely to materialise in practice. In summary, Australia faces lower global demand for its exports, growth predicated on continued increases to private (especially household) debt, increasing unemployment and underemployment and interest rates rapidly approaching zero. Such issues are unlikely to be solved through a corporate tax cut, or a meagre increase in taxation revenue from superannuants.

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