

GST and the Aussie fair go

The GST debate is an opportunity to discuss the kind of nation we want

The principle governing the way the GST is shared among the states underpins the Aussie fair go. This principle, that every state should have equal capacity to deliver public services and infrastructure, dates all the way back to 1933, well before the GST was introduced.

The Productivity Commission is reviewing the current GST distribution arrangements. We should see this as an opportunity to discuss the broader issues within our federation that have led us to this point, and to ask what nation we want for our communities and ourselves.

[Dave's Submission – Productivity Commission's Review of the GST Distribution Arrangements](#)

Yes, we're talking about everyone's favourite topic, the Goods and Services Tax. But don't let it distract you from what we're really talking about: horizontal fiscal equalisation (HFE) and the Australian Federation.

Now, I know what you're all thinking: "Dave, I love an overly bureaucratic term that only has meaning to a handful of people as much as the next person, but there is such a thing as too much fun in one post!"

To that I say, yeah, you're probably right, but let's have a crack and see what happens.

I've gone through some of the background for you in the FAQs below.

So, what's happening in the world of GST and HFE?

You may have heard that the Productivity Commission is reviewing arrangements made in 2018 that changed the way the GST is distributed among the states.

What were these changes?

In simple terms, WA gets billions more dollars, while the other states receive as much as they would have before the 2018 changes, although that is only guaranteed until 2030. If the guarantee were discontinued, every state would lose GST revenue because of the additional distribution flowing to WA.

The Productivity Commission's Interim Report found that WA received almost \$22 billion of the \$23 billion cost of these changes between the financial years ending in 2019 and 2025.

Why were these changes made?

In the lead-up to the 2019 Federal Election, WA government, media and business groups ran a concerted campaign for a greater share of GST revenue, arguing their portion was unfair. Both Liberal and Labor fell over themselves to redesign the distribution system to sway votes in marginal Perth seats that had the potential to decide the election.

So, was WA getting a fair share, or was their argument warranted?

To answer that, we must explore the question of what kind of country we want to be. Now we're talking HFE.

Let's go back to the 1930s.

We're three decades into the Federation, in the pits of the Great Depression, and WA's economy is on its knees. WA was reluctant to join the Federation in the first place. It received little support from the Federal Government while paying federal taxes, and it was seriously questioning the benefit of being part of this national structure.

They were questioning it so hard, in fact, that WA held a referendum to secede from the Federation. On the same day WA elected an anti-secessionist government to its state parliament, WA voted yes to leave the Federation.

You couldn't make this stuff up!

But that's not the quirkiest part. Having successfully voted to leave, WA then discovered the referendum was not legally binding. There is no provision in the Australian Constitution for a state to leave the Federation. For a state to secede, a national referendum would need to be held to amend the Constitution.

"Dave, this is all very interesting. We too are excited by quirky anecdotes from the history of our Federation, but what does this have to do with my new favourite topic, HFE?"

Well, faced with a state revolting, the federal government had to act. The Lyons Government established the Commonwealth Grants Commission to advise on allocating grants to the states to meet relative need.

This is the birth of HFE in Australia. Since 1933, the Grants Commission has sought to allocate federal funding so that every state has equal capacity to deliver the average level of public services and infrastructure.

This underpins the principle of the Aussie fair go: no matter where you live in this country, you will not be left behind.

Almost a century later, of all the federations in the world, Australia has the lowest discrepancy in living standards across jurisdictions, with help from the principle of HFE.

How does HFE apply to the GST?

Fast forward to the year 2000 and the GST is introduced. A big reason for its introduction was that a significant portion of state taxes had been ruled unconstitutional, and the states needed a reliable, unconditional revenue source to fill that hole.

The Howard Government committed to providing all GST revenue to the states to cover the loss. But then came the question: how do we share it among the states?

There were two main arguments. The first, led by NSW, was for an equal share per capita, based on each state's share of the population. With the most wealth and the highest population, it was a no-brainer for NSW, but it would have left smaller states with greater need behind.

Victoria, showing great leadership and support for its federated partners, responded that the principle of HFE should determine how GST revenue is distributed. The GST was to be distributed based on the Aussie fair go.

The Grants Commission remained responsible for assessing what's known as each state's relative fiscal capacity. In practice, it assesses each state's ability to raise its own revenue and each state's relative cost of delivering services, which varies by state. It then compares the two to assess each state's ability to fund what states do, and allocates GST revenue accordingly.

Why does WA think its share of GST was unfair?

When WA began collecting record revenue from the Mining Boom, its capacity to raise revenue was massive compared to other states. This led to a sharp fall in WA's assessed need and a sharp reduction in its share of GST revenue.

We often hear commentary that WA is being punished for performing so well, while other states are rewarded for poor decisions and under-performing. But this argument ignores the great lengths the Grants Commission goes to ensure policy neutrality. Every effort is made to ensure that state policy and performance do not determine where the dollars flow, but state circumstances and characteristics.

It also ignores the fact that WA has received decades of support under the HFE principle, dating all the way back to 1933. That raises the question: if the Federal Government had turned its back on WA in 1933, saying "we're not going to reward you for poor decisions and poor performance", would WA ever have been stable, secure and prosperous enough to capitalise on the Mining Boom the way it has?

That's the big question for us as we look ahead to the country we want for our communities. If this is the pivotal moment when we turn our backs on HFE, we will be ending the Aussie fair go.

We must consider what we're turning our backs on. What booms will we be ruining for ourselves? What wealth, what prosperity, what opportunities might we erase from our future?

So Dave, what have you done about this?

After 7 years as an economist working in federalism, I wasn't going to let this review go by without having a say. I've made a submission to the Productivity Commission review on your behalf. It argues that the decision to walk away from the principle of HFE shouldn't be a knee-jerk political decision to buy votes, but the result of an informed national conversation about how our federation works for us.

I've made suggestions for what that conversation should consider, with a focus on moving us towards a system where federal, state and local governments work together in our interests.

FAQs

Why is the GST so important?

In Victoria, a quarter of our total state revenue comes from the GST, which is our primary source of federal funding. It's our largest single source of revenue, and it helps the Victorian Government deliver public services like hospitals, schools and road maintenance.

Because Victoria can use this funding wherever it's needed, it's as if we'd raised the revenue ourselves, with no conditions attached.

For years, the states have been asking the federal government for more untied funding to meet the growing cost of services like hospitals, schools and housing. The response has always been no, until it became politically expedient to provide it for WA.

What does this mean for Victoria?

Over the period from the financial year ending in 2019 to 2025, WA received an extra \$22 billion from the 2018 changes. If the \$23 billion cost had been allocated based solely on need, Victoria would have received around a quarter of it. Instead, Victoria has received no additional funds.

This year, the cost of the changes is expected to be \$6.6 billion. Based on need, Victoria should receive around \$1.7 billion of that. Instead, billions of extra dollars keep flowing to WA when some of that revenue should be supporting Victorians.

What are the risks?

The GST No Worse Off Guarantee is in place until 2030, preventing any state from receiving less than it would have if the 2018 arrangements were not in place. The Victorian Budget estimates that without the guarantee, Victoria would be \$8.3 billion out of pocket over the four years from 2025-26 to 2028-29. If the guarantee were discontinued, it would cut billions of dollars from Victoria's annual budget.

The Productivity Commission's Interim Report found the reforms are costing more than expected. Yet the major parties have shown they're more interested in marginal seats than in giving a fair go to all. It's something all Victorians should raise their voice about.

But I thought Victoria was broke because of corruption and mismanagement?

Corruption and poor governance have played a part in Victoria's position, and in WA's position before the 2018 changes were made. WA's Royalties for Regions program required 25% of forecast mineral royalties to be set aside for regional development. The WA Audit Office found the program lacked transparency in monitoring and evaluating projects, and the department didn't know whether they would achieve long-term benefits. A Commission of Inquiry found that "botched major projects, ignored warnings from senior officials, governance problems and poor management of the Royalties for Regions scheme [had] combined to cripple Western Australia's finances..." (Kagi, 2018).

Despite WA's shoddy governance and mismanagement, the federal government didn't hesitate to help Western Australians when it came to securing marginal seats in Perth. Victorian communities shouldn't be ignored because of the poor behaviour of the major parties!

Doesn't the way the GST is distributed punish states for high performance and reward others for poor performance?

This argument always neglects one key point: the stringent effort made to ensure policy neutrality. The Commonwealth Grants Commission, the agency tasked with calculating state shares, takes every precaution to ensure the flow of dollars is determined by state circumstances and characteristics, not state policy.

Before the 2018 changes, the GST was shared among the states based on need. The Grants Commission assessed each state's ability to raise its own revenue and the relative cost of providing state services to the public, and from those measures determined each state's relative need. Those with higher needs receive a greater share of GST revenue. This is fundamental to the Aussie fair go.

WA's low share of GST wasn't a punishment for performing so well. It reflected WA's incredibly high ability to raise its own revenue, which other states could only dream of. That's why the Grants Commission assessed WA as having lower needs than the other jurisdictions, and therefore requiring a lower share of GST revenue.

The GST is a federal tax though. What does it have to do with Victoria?

As covered above, GST revenue makes up around a quarter of Victoria's revenue, so it's very important to our state.

We live in a system where the states rely on funding from the federal government. States need to be vocal on these matters, because the funding has a massive impact on their ability to deliver the services and infrastructure their citizens need.

It's often an argument of political convenience that such-and-such an issue is another government's responsibility. While it's important to understand which level of government is responsible for what to avoid the blurring of these responsibilities, this argument ignores the fact that federal, state and local governments are there to work together for us.

There is no such thing as federal, state or local government revenue, only public money that belongs to the Australian people. It's the responsibility of all governments to work together to spend this money towards building the future we want as a national community.