

Submission to the Productivity Commission Inquiry into the 2018 GST Distribution Reforms

From: Paul Lindwall

Date: 26 September 2025

Executive Summary

This submission addresses two fundamental concerns with the current GST distribution system:

1. Western Australia's excessive share of GST revenue under the 2018 reforms, which is historically inconsistent and inequitable. For most of its history, WA was a *net recipient* of Commonwealth grants, yet it now benefits disproportionately from the GST system due to the legislated floor and Commonwealth top-ups.
2. Horizontal Fiscal Equalisation (HFE) must focus on structural capacity differences, not subsidising the consequences of *poor state government decisions*. Victoria's fiscal position has been undermined by a series of policy failures — including cancelled infrastructure projects with nearly \$1 billion in sunk costs, extreme COVID-19 lockdowns, mismanaged bids for international events, and the highest excess infrastructure costs in the country. Compensating for these avoidable decisions with GST revenue creates moral hazard and undermines accountability.

Rebalancing the system to reflect these principles would restore the integrity and sustainability of Australia's federal financial relations.

1. Western Australia's Excessive Share of GST Revenue

Historical Context

- WA has not always been a “donor” state. For much of the 20th century, it relied heavily on Commonwealth financial assistance to develop its infrastructure and services.
 - In the 1930s, WA's fiscal weakness was so severe that it was a major beneficiary of special Commonwealth grants, leading to the establishment of the Commonwealth Grants Commission in 1933 specifically to address WA's needs.
 - Even in the 1980s and 1990s, WA received significant net transfers from the Commonwealth to support its economic development and population growth.

Current Situation

- The 2018 reforms introduced a 0.75 GST relativity floor and mandated Commonwealth “top-ups”, ensuring WA’s GST share could never fall below this level even when its own revenue-raising capacity is far higher than other states.
- With global iron ore prices at sustained highs:
 - WA has enjoyed record mining royalties, reporting budget surpluses of over \$3 billion annually in recent years.
 - Without the floor, WA’s relativity would be close to zero, reflecting its extraordinary fiscal strength.
- Instead, the Commonwealth tops up the pool to protect WA’s allocation, shifting the burden onto other states such as NSW and Queensland.

Why This is Distorting and Unfair

- WA’s current privileged position inverts the original purpose of HFE, which was to support fiscally weaker states.
- It also creates perverse incentives, as WA has less reason to engage in tax reform or efficient spending when its share is artificially protected.
- The historical record shows that WA has benefited enormously from federal solidarity when it was weaker. It is therefore inconsistent and inequitable for WA to now receive protection beyond what a fair, needs-based system would provide.

Recommendation

- The GST floor should be phased out, with WA’s share determined solely by its actual revenue-raising capacity and structural spending needs.
- Commonwealth top-ups should be redirected to the overall GST pool for equitable distribution, not earmarked for one state.

2. HFE Should Compensate for Structural Disadvantage, Not Poor Governance

HFE exists to account for structural differences in capacity between states — such as geography, demography, and economic base — which are outside the control of governments.

However, the current system too often rewards poor policy choices, forcing fiscally responsible states to cross-subsidise those that make avoidable, costly decisions.

Victoria: Case Study in Policy Failure

Victoria provides a clear example of why this distinction matters. Several decisions in recent years have significantly worsened its fiscal position, none of which should be underwritten by GST equalisation:

1. Cancellation of the Suburban Rail Loop Contract

- The Victorian Government cancelled a major infrastructure project (the East West Link Project, incurring over \$1 billion in cancellation fees and sunk costs. The Victorian Auditor-General later found that this was one of the largest cancellation costs for a public infrastructure project in Australian history, with costs from compensation project preparation etc. The Parliamentary Budget Office later estimated the long-term cost to Victoria's balance sheet of more than \$1.3 billion when considering opportunity costs.
- These costs reflect poor planning and governance, not structural disadvantage.
- The Productivity Commission's Public Infrastructure inquiry report provides many recommendations that would reduce the cost and improve the effectiveness of public infrastructure. Adopting these recommendations would offset any lost GST revenue under this submission's proposals.

2. Extreme COVID-19 Lockdowns

- Victoria imposed the longest and harshest lockdowns in the world, far exceeding those of other Australian states.
- The economic and social impacts — including business closures, job losses, and population outflows — were the direct result of policy choices.
- These were not inevitable costs and should not be subsidised by other states via the GST.

3. Commonwealth Games Bid and Withdrawal

- Victoria successfully bid for the 2026 Commonwealth Games, committing substantial resources, then withdrew, incurring significant reputational and financial losses.
- These costs were entirely self-inflicted.

4. High Infrastructure Excess Costs

- Independent benchmarking shows that Victoria has the highest excess infrastructure construction costs in Australia, by a wide margin.

- These inefficiencies reflect governance and procurement failures, not unavoidable factors.

Principle at Stake

When GST equalisation compensates for these types of decisions:

- It undermines accountability, shielding state governments from the consequences of poor management.
- It penalises responsible states, which must effectively pay for the mistakes of others.
- It distorts incentives, encouraging risk-taking and over-spending by states confident they will be bailed out.
- Competitive federalism requires that States have the flexibility to implement their policies and the responsibility to accept the consequences of those decisions.

Recommendation

- The PC should explicitly distinguish between:
 - Structural capacity differences (e.g., remote populations, low revenue bases), which *should* be addressed by HFE; and
 - Governance-related costs, which *should not* be equalised.
- Victoria's fiscal position should be assessed with a deduction for self-inflicted costs, preventing these from inflating its GST allocation.

Conclusion

The GST distribution system must reflect its original purpose: supporting equitable service provision across Australia while encouraging responsible governance.

- Western Australia currently receives an excessive and historically inconsistent share of GST revenue. The 0.75 relativity floor and Commonwealth top-ups should be removed to restore fairness and efficiency.
- Horizontal Fiscal Equalisation must focus on structural disadvantage, not compensate for the fiscal consequences of poor decisions like those made by the Victorian Government.

Implementing these changes will strengthen the sustainability of the GST system, improve accountability, and ensure that federal financial relations promote the best outcomes for all Australians.