

CROSS-SUBMISSION TO THE PRODUCTIVITY COMMISSION

Inquiry into the 2018 GST Distribution Reforms

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In Response to: Terms of Reference issued by the Hon Jim Chalmers MP, Treasurer

I. INTRODUCTION AND STANDING

1. This cross-submission is made in response to the Productivity Commission's inquiry into the 2018 Goods and Services Tax (GST) distribution reforms, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998.

2. The submission draws upon, and should be read in conjunction with, the author's comprehensive submission to the Fair Work Commission's Annual Wage Review 2026: "Correcting a 26-Year Systemic Mathematical Failure and Breach of Social Contract" (hereafter "the FWC Submission").

3. The author has standing to make this submission as a citizen and taxpayer directly affected by the federal financial relations framework, and as a person who has identified a fundamental mathematical relationship between the national minimum wage, state fiscal capacity, and the sustainability of the GST distribution system.

4. Core Proposition: This submission demonstrates that the 2018 GST distribution reforms cannot be properly evaluated in isolation from the broader architecture of federal financial relations—specifically, the systematic suppression of the national minimum wage to approximately 73.6% of the Commonwealth's own legislated adequacy standard. This 26.4% structural wage gap creates mathematically certain distortions in state revenues and expenditures that directly impact the operation, effectiveness, and sustainability of the GST distribution system.

II. RESPONSE TO TERMS OF REFERENCE: CLAUSE 1(d)

FISCAL SUSTAINABILITY FOR THE COMMONWEALTH AND STATES

The Terms of Reference explicitly require the Commission to investigate whether current arrangements are:

“Fiscally sustainable for the Commonwealth and states and territories.”

A. The Wage-GST-Revenue Nexus: A Quantified Relationship

The FWC Submission establishes, with mathematical certainty, that the national minimum wage has been calibrated to a fixed proportion (72.2% mean over 26 years) of the Commonwealth's own pension adequacy benchmark. The current gap stands at 26.4%—a worker earns only 73.6% of the income the Commonwealth itself declares necessary for basic self-sufficiency.

This suppression has direct, quantifiable impacts on state fiscal sustainability:

1. State Payroll Tax Revenue: Direct Theft of \$1.9 Billion Annually

Payroll tax is a primary own-source revenue for all states and territories. It is calculated as a percentage of wages paid.

The Mathematical Relationship: For every dollar withheld from a worker's wage through systematic underpayment, approximately 4.5-6.5 cents (depending on state threshold and rate) is simultaneously withheld from state payroll tax collections.

The Quantified Impact: The cumulative national wage shortfall of \$880 billion (2000-2026) represents a direct transfer of value from state budgets to employer balance sheets. In a single year, the current 26.4% wage gap creates an estimated \$1.9 billion structural shortfall in state payroll tax revenue.

Significance for GST Inquiry: This shortfall is not a cyclical or temporary phenomenon. It is a permanent, engineered feature of the federal financial architecture. States are then forced to rely more heavily on GST revenue to fund essential services—hospitals, schools, policing—precisely because their own-source revenue base has been systematically suppressed.

2. WorkCover and State Insurance Schemes: The Premium/Payout Mismatch

State-run workers' compensation schemes (WorkCover, WorkSafe, etc.) are funded by premiums calculated on wages. Payouts for injured workers are often calculated based on post-injury earning capacity and living costs.

The Structural Defect: Premiums are calculated on suppressed wages. Liabilities are indexed to living costs inflated by the GST and other factors. This creates a mathematically certain structural underfunding

The Incentive Distortion: Schemes are perversely incentivised to dispute claims and minimise payouts to maintain solvency, shifting costs onto injured workers and the social security system (a Commonwealth responsibility).

Significance for GST Inquiry: This represents a fiscal spillover from state to Commonwealth budgets, undermining the clarity and sustainability of the entire federal financial relations framework.

3. The GST Revenue Paradox: A Self-Defeating Feedback Loop

The GST is a consumption tax. It relies on disposable income being spent. The cohort most affected by minimum wage suppression—low-to-middle income earners—has the highest marginal propensity to consume.

The Mathematical Certainty: Suppressing the disposable income of high-propensity consumers directly shrinks the consumption base the GST is designed to tax.

The Paradox: The Commonwealth, in maintaining a wage-setting framework that suppresses the income of its citizens, is simultaneously undermining its own GST revenue base. This creates a self-defeating feedback loop: suppressed wages → reduced consumption → lower

GST collections → greater pressure on the Commonwealth to "top-up" the GST pool (as per the 2018 reforms) → increased Commonwealth fiscal exposure.

4. Superannuation: The Future Age Pension Liability

The FWC Submission quantifies the career superannuation loss per worker at approximately \$260,000. This is not merely a private loss; it is a future Commonwealth fiscal liability.

The Transfer: Every dollar of superannuation not accumulated is a future dollar (or more) that must be paid by the Commonwealth through the Age Pension.

The State Impact: While the Age Pension is a Commonwealth responsibility, the demand for state-funded services (health, hospitals, concessions) is directly correlated with the financial security (or insecurity) of the retired population.

Significance for GST Inquiry: The 2018 reforms, by focusing solely on the distribution of the GST pool, fail to address this structural driver of future state expenditure demands.

III. RESPONSE TO TERMS OF REFERENCE: CLAUSE 1(a)

DELIVERING A REASONABLE LEVEL OF HORIZONTAL FISCAL EQUALISATION

The Terms of Reference require the Commission to investigate whether current arrangements are:

Delivering a reasonable level of horizontal fiscal equalisation.

Horizontal Fiscal Equalisation (HFE) aims to ensure each state has the fiscal capacity to provide services and infrastructure at the same standard, if each makes the same effort to raise revenue.

5. The Suppressed Wage Base as a Distortion of HFE Calculations

The Commonwealth Grants Commission (CGC) assesses both the revenue-raising capacity and the expenditure needs of each state. These assessments are fundamentally distorted by a wage base that is systematically suppressed relative to any objective measure of adequacy.

Revenue Side Distortion: The CGC assesses each state's capacity to raise payroll tax based on the actual wage base. If that wage base is artificially suppressed “nationally”, the assessment masks the true revenue potential of a properly functioning wage system. States are assessed as having "equal" capacity when they are all equally disabled.

Expenditure Side Distortion: The CGC assesses state expenditure needs based on demographic and other factors. However, a population whose wages are suppressed below adequacy generates higher demand for state-funded services (health, social housing, community services) than a properly remunerated population. This demand is a direct function of Commonwealth wage policy, yet its cost is borne by state budgets.

The HFE Paradox: The current system equalises the capacity to provide services based on a suppressed revenue base while facing elevated demand for services created by that same suppression. This is not reasonable horizontal fiscal equalisation; it is the equalisation of systemic failure.

6. Western Australia's Grievance and the National Wage Floor

Western Australia's long-standing grievance regarding its share of the GST pool stems partly from its perception that it subsidises less fiscally fortunate states. However, this framing ignores the national wage floor as a mechanism of equalisation.

The National Minimum Wage as De Facto HFE: The national minimum wage applies uniformly across all states. In a low-wage state with a weaker economy, this wage floor provides a proportionally greater benefit relative to local economic conditions. In a high-wage state like WA, it is less significant. The national minimum wage is, in effect, a form of horizontal fiscal equalisation delivered through the wage system rather than the transfer system.

The Unseen Subsidy: When the national minimum wage is suppressed below adequacy, the beneficiaries are employers in low-wage states who gain a competitive advantage (lower labour costs) without bearing the social costs (strained state services, higher demand for

Commonwealth income support). This creates a hidden cross-subsidy that is never accounted for in GST distribution discussions.

IV. RESPONSE TO TERMS OF REFERENCE: CLAUSE 2

INTERACTION BETWEEN GST PAYMENTS AND OTHER COMMONWEALTH PAYMENTS

The Terms of Reference require the Commission to examine:

The interaction between GST payments and other Commonwealth payments to states, including the principles for exempting payments from the Commonwealth Grants Commission's assessments.

7. The "No Worse Off" (NoWO) Payments and Wage Suppression

The 2018 legislation introduced, and the 2024 Funding Agreement extended, "No Worse Off" payments to ensure states do not lose from the transition to the new distribution model.

The Irony: While states are guaranteed they will be "no worse off" from changes to GST distribution, workers are systematically guaranteed they WILL be worse off relative to the Commonwealth's own adequacy standard.

The Fiscal Transfer: The NoWO payments represent a direct Commonwealth transfer to states, funded by Commonwealth revenue. That revenue is partially derived from income tax on suppressed wages. Workers are therefore taxed on their inadequate wages to fund payments that compensate states for a distribution system designed in part to manage political fallout from wage suppression.

The Principle for Exemption: The CGC exempts certain Commonwealth payments from assessment to avoid distorting HFE. There is a strong case that any payment to states that is

necessitated, in whole or in part, by the fiscal consequences of Commonwealth wage policy should be exempt from assessment and treated as a compensatory transfer.

8. National Partnership Payments and Cost Pressures

National Partnership Payments are made to support specific projects or reforms. Their effectiveness is undermined when states face baseline cost pressures directly attributable to wage suppression.

Example: Health and Hospitals Funding. National Partnership Payments for hospitals are consumed more rapidly when the population presents with higher rates of stress-related illness, housing insecurity, and inability to afford primary care—all consequences of inadequate income. The Commonwealth pays on one hand (National Partnership) while maintaining a wage system that increases costs on the other.

V. STRUCTURAL REFORM RECOMMENDATIONS

Pursuant to the Terms of Reference, which invite recommendations including "a range of options," the following proposals are submitted for the Commission's consideration.

Recommendation 1: Link GST Distribution to Wage Adequacy Metrics

The Commission should recommend that future GST distribution models incorporate a Wage Adequacy Adjustment Factor.

Mechanism: The quantum available for distribution, or the relativities between states, should be adjusted to account for the proportion of a state's workforce earning below the Commonwealth's own adequacy benchmark (50% of the single Age Pension cut-off).

Rationale: States with a higher proportion of workers below the adequacy threshold face objectively higher demand for services and reduced capacity to raise own-source revenue. The current HFE model does not capture this.

Implementation: Data is readily available through the ABS and ATO.

Recommendation 2: Commission an Intergenerational Report on Wage Suppression and State Fiscal Capacity

The Commission should recommend that the Treasurer commission the next Intergenerational Report to include specific modelling of:

1. The impact of sustained minimum wage suppression on state payroll tax collections to 2060.
2. The impact on state health, housing, and justice budgets of a workforce structurally unable to achieve financial independence.
3. The interaction between wage adequacy, superannuation accumulation, and future Age Pension liability (a Commonwealth cost with state service delivery implications).

Recommendation 3: Review the CGC's Methodology for Assessing Revenue Capacity

The Commission should recommend a review of the CGC's methodology for assessing state revenue capacity, with specific reference to whether the current approach adequately captures:

1. The distortion caused by a nationally suppressed wage floor.
2. The relationship between wage adequacy and the demand for state-funded services.
3. The need to distinguish between cyclical economic variation and structural, policy-driven wage suppression.

Recommendation 4: Establish a Federal Financial Relations Adequacy Standard

The Commission should recommend the establishment of a statutory Federal Financial Relations Adequacy Standard, defined as:

The minimum level of national wage necessary to ensure that states can fund essential services from their own-source revenues without requiring extraordinary Commonwealth top-up payments or GST distribution adjustments.

Rationale: The current system manages the consequences of wage suppression through complex transfer arrangements. An Adequacy Standard would address the cause, not the symptom.

Measurement: The Standard would be directly linked to the Commonwealth's own pension adequacy benchmarks, creating internal coherence in Commonwealth policy.

Recommendation 5 (Option with Funding Relativity Floor): Fund State Transition to Wage Adequacy

If the Commission considers a funding relativity floor comparable to the current level (0.75) appropriate, this submission recommends that any Commonwealth top-up funding be explicitly linked to supporting states through the transition to wage adequacy.

Mechanism: A portion of the Commonwealth top-up could be conditional on states reviewing their own payroll tax thresholds and rates to ensure they do not capture an undue share of wage increases intended for workers.

Rationale: This would align Commonwealth and state interests in achieving wage adequacy, rather than creating a perverse incentive for states to prefer Commonwealth top-ups over a sustainable wage base.

Recommendation 6 (Option without Top-Up Funding): Return Fiscal Responsibility to States Through Wage Adequacy

If the Commission considers options without Commonwealth top-up funding, this submission recommends that the pathway to fiscal sustainability lies in restoring the adequacy of the national wage floor.

Mechanism: A binding recommendation that the Commonwealth, through the Fair Work Commission, correct the national minimum wage to \$1,287.70 per week (50% of the single Age Pension cut-off).

Rationale: This would:

- Increase state payroll tax collections by approximately \$1.9 billion annually, reducing reliance on GST distributions.
- Reduce demand for state-funded services by improving the financial independence of low-income households.
- Grow the GST revenue base by increasing the disposable income of high-propensity consumers.
- Eliminate the structural underfunding of state insurance schemes.
- Reduce future Age Pension liability, freeing Commonwealth funds for other purposes (including, if desired, continued GST top-ups).

VI. IMPLEMENTATION FEASIBILITY AND RISKS

The Terms of Reference require that recommendations include:

An assessment of implementation feasibility and risks.

10. Feasibility of Recommendation 6 (Wage Correction)

Legal Feasibility: The Fair Work Commission has the statutory power to set minimum wages. Nothing in the Fair Work Act 2009 prevents it from adopting a transparent, objective benchmark linked to Commonwealth adequacy standards.

Economic Feasibility: The cumulative national wage shortfall of \$880 billion represents demand that has been withheld from the economy for 26 years. Its gradual return (through a staged implementation, if preferred) would stimulate consumption, investment, and economic activity.

Political Feasibility: The original 2018 GST reforms were themselves a response to political pressures. A reform that addresses the underlying fiscal unsustainability of the system, rather than merely redistributing its consequences, offers a durable political settlement.

11. Risks and Mitigations

Risk – Mitigation

Inflationary Pressure: A rapid wage increase could fuel inflation. Staged implementation over 2-3 years. Simultaneous direction to ACCC to scrutinise price movements in sectors with high low-wage labour exposure.

Employment Impact: Employers may reduce hours or jobs. The current wage is 26.4% below adequacy—this is not a market rate but an engineered suppression. Modelling by the FWC and Treasury should assess the demand-stimulus effect of increased wages, which historically offsets employment concerns.

State Budget Windfall: States could capture wage increases through payroll tax, negating worker benefit. Recommendation 5 (conditional funding) would require states to adjust payroll tax thresholds to exempt the wage correction from taxation, or rebate the windfall to workers.

Commonwealth Fiscal Exposure: Top-up payments may increase if the GST pool grows slower than wages. The GST pool will grow as consumption increases with higher wages. Modelling should assess the net fiscal position, including reduced welfare payments and increased income tax collections, which are likely to offset any increased top-up requirements.

VII. CONCLUSION

The 2018 GST distribution reforms were a response to political and fiscal pressures arising from the distribution of a consumption tax. They did not, and could not, address the fundamental driver of fiscal unsustainability in the Australian federation: a national wage floor calibrated to 73.6% of the Commonwealth's own adequacy standard.

This structural wage gap:

1. Deprives states of approximately \$1.9 billion annually in payroll tax revenue.
2. Creates structural underfunding in state insurance schemes.
3. Increases demand for state-funded services while suppressing the revenue base to fund them.
4. Reduces the GST revenue pool by suppressing the disposable income of high-propensity consumers.
5. Transfers future Commonwealth Age Pension liability onto state budgets through increased demand for services.

No reform to GST distribution can achieve genuine fiscal sustainability while this foundational distortion remains unaddressed. The Commission is therefore respectfully urged to recommend that the Commonwealth:

Acknowledge the relationship between wage adequacy and state fiscal capacity.

Quantify the impact of wage suppression on state budgets and GST requirements.

Initiate a process, through the Fair Work Commission, to correct the national minimum wage to \$1,287.70 per week—50% of the Commonwealth's own pension adequacy benchmark.

Ensure that any Commonwealth top-up funding is conditional on states not capturing the wage correction through unchanged payroll tax settings.

The 26-year mathematical anomaly identified in the accompanying FWC Submission is not merely a matter of industrial justice. It is a structural defect in the architecture of Australian federalism, the correction of which is essential to the fiscal sustainability of the Commonwealth, the states, and the territories.

Respectfully submitted,

Robert George Paturzo-Elliott

15 February 2026

APPENDIX: KEY DATA SUMMARY

Metric Value Source/Calculation

Current National Minimum Wage \$948.00 per week FWC Determination

Commonwealth Adequacy Benchmark \$1,287.70 per week 50% of Single Age Pension cut-off (\$2,575.40/fortnight)

Wage Adequacy Gap 26.4% $(1 - (\$948.00/\$1,287.70)) \times 100$

Cumulative National Wage Shortfall (2000-2026) \$880 billion FWC Submission calculation

Annual State Payroll Tax Shortfall \$1.9 billion Author's estimate based on average state payroll tax rate (approx. 5%) applied to annualised wage gap for minimum wage workers

Career Superannuation Loss per Worker \$260,000 FWC Submission calculation

Historical Mean Wage Proportion (2005-2026) 72.2% of Adequacy Benchmark FWC Submission dataset

Standard Deviation 0.5% FWC Submission dataset