

**From:**  
Peter Raffles

**To:**  
GST Distribution Reforms, Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601, Australia

Dear Commissioners,

**Re: GST distribution reforms: Issues Paper (IP)**

Please accept this as my submission on the call for Submissions in the Issues Paper.

General Contextual Comment

The IP comments:

‘the principle of Horizontal Fiscal Equalisation (HFE) has determined GST distribution to the states.’  
Queensland, like Western Australia, is a very large state and GST contributions come from wide and far within those territorial borders.’

In 2024, the GST Revenue Sharing Relativities 2024 Update made the following comment:

‘Queensland’s assessed GST needs decreased largely due to:

- an increase in its capacity to raise coal royalties (a result of a large increase in coal prices and an increase in average coal royalty rates)
- ...
- a decrease in its requirement for investment in rural roads.’ P.48

The above comment sets the context for the questions and comments to follow. The following specific questions relate directly to the above quote:

- In respect to the coal royalties, where in Queensland are they earned? Are they mostly north of the Tropic of Capricorn (ToC)?
- Above the ToC there are five Federal Seats – Capricornia, Dawson, Herbert, Kennedy and Leichardt. How much is earned in Coal Royalties and GST above the ToC in those five seats? (These numbers are nigh impossible to track)
- How much GST is spent in those five seats? (Not traceable!)
- The records show that the most of the roads above the ToC are rural roads. The records also show that in 2025 the roads north of the ToC were a mess, including the Bruce Highway. The social consequences were dire: roads cut, emergency services restricted, and so on. So much were the roads a mess (with some of the highest death rates in the country) there were ad hoc commitments made by the Federal Government (as SPPs) to remedy the immediate problems. Will those SPPs influence the CGC in its future allocations?
- In summary, how did the CGC possibly reach its conclusion that there was a ‘decrease[d]’ need for investment in rural roads in Qld?

GST and SPPs

With the above in mind, the IP acknowledges a link between GST and SPPs:

“By affecting the fiscal capacity of the states, these SPPs may affect the GST distribution to the states.”  
P.13

The IP then asks the following question:

“Should other Commonwealth payments to the states, such as specific purpose payments and other general revenue assistance, be included in the Commonwealth Grants Commission’s assessments?”

- Should some of these payments be excluded? If so, which payments should be excluded and why?” p.13

There is absolutely no doubt that expenditure by governments in the lead up to the Commonwealth Games on the Gold Coast (in South East Queensland) in 2018 adversely affected expenditure above the ToC.

The evidence is already starting to mount about the money being spent in the South East corner for the Olympic Games that will affect government expenditure above the ToC.

The submission is that any payments to do with the Olympic Games (whether directly or indirectly) should NOT affect the CGC’s assessment for Queensland. Because if SPPs or other payments are not excluded, it will adversely affect the areas above the ToC.

### Change in Social Circumstances

The IP also asks the following question:

‘What changing economic and social circumstances are of most concern to states and territories?’

One of the most notable changes in Queensland is the increase in population in the south-east corner. At present, there is an electoral redistribution taking place for the State’s single house parliament. At present, in the single house parliament, there are 93 seats; and 77 of those seats are below the ToC, and there are just 16 above. There is no Upper House.

The issue in Queensland is ‘responsible government’. In the words of Mr Tony Fitzgerald KC:

‘With a single house of parliament, no bill of rights, and a history of political malpractice, the state is extremely vulnerable to the misuse of power’ (<https://www.abc.net.au/news/2015-01-28/fitzgerald-queensland-must-put-a-stop-to-the-political-rot/6052310>)

Vertical fiscal imbalance shifted towards the Commonwealth following High Court decisions in 1942 and 1957 leaving the Commonwealth in a position to decide how it distributes the excess revenue it collects. The CGC’s modus for allocation is horizontal fiscal equalisation ‘between States’. A simple allocation on a State basis, however, neglects consideration of vertical fiscal imbalances within States; and just as importantly, for Queensland, a lack of transparency surrounding fiscal equalisation within the State<sup>1</sup>.

### Productivity

The preamble to the Australian constitution includes the following:

*“WHEREAS the people ... have agreed to unite in one indissoluble Federal Commonwealth ...”*

What does federalism mean today? In the allocation of funds by the Commonwealth, terms like ‘co-operative federalism’, ‘co-ordinate federalism’, and ‘coercive federalism’ are used. Where does the application of these idioms lead in terms of national productivity?

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<sup>1</sup> Noting here that s.7 paragraph 2 of the Constitution was blocked in 1983 by electoral legislation initiated by a private member’s Bill in the Senate.

And thinking of productivity, another term surfaces – ‘competitive federalism’. Historically, the term competitive federalism might have conjured up images of the States competing and enlivening productivity across the nation.

Since the Commonwealth’s domination in recovering taxes and spending (mostly due to s.96 of the Constitution and its interpretation), the term ‘competitive federalism’ has taken on a new ‘vertical’ connotation. The Commonwealth spends in areas like health and education, and other areas where it does not have legislative power, in competition with the States. In many cases this has led to duplication - and blame shifting. Does this (in any sense, including GST allocation) aid productivity?

### Conclusion

The above submission points are broad, and hopefully will promote some thought about fiscal balance ‘in the whole of the federation’.

In making the comment about the ‘whole of the federation’, reflection on the concept of competitive federalism is encouraged. To wit, what are the levels of productivity within each of the States? Are there States, for example, where productivity is low, and that outcome is hidden or mollified by GST allocations? If so, does the following question become relevant: If you have an inefficient entity in a structure, will it improve if you keep propping it up?

Perhaps this question, from a general point of view, is contemporaneously too politically incorrect to be answered overtly.

Sincerely

P Raffles