

The Hon Mathias Cormann AC

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By email: gst.reforms@pc.gov.au

Dear Commissioners,

**Re: Response to the Productivity Commission Inquiry into 2018
GST Distribution Reforms**

Thank you for your letter of 12 February 2026 inviting me to contribute to the Productivity Commission's inquiry into the 2018 Goods and Services Tax (GST) Distribution Reforms.

I welcome this opportunity to provide a comprehensive explanation as to the background of these reforms, which I regard as among the most substantive improvements to federal financial relations during my tenure as Minister of Finance.

Thank you also for your invitation to meet and discuss these matters in detail. I stand ready to engage with you further and write this submission to your inquiry to set out my views in advance of any such meeting – to provide context for our discussions and to contribute formally and on the public record to this inquiry.

Executive Summary

The 2018 GST distribution reforms represented a fundamental recalibration of Australia's horizontal fiscal equalisation (HFE) system.

The reforms achieved three critical objectives:

1. **Restoring fairness for Western Australia**, which had been receiving an unsustainably low share of GST revenue (falling below 30 cents in the dollar), undermining the political and economic sustainability of the Federation.
2. **Preserving the important principle of HFE** by maintaining substantial equalisation while moderating the extremes that had emerged from equalising to the fiscally strongest state, particularly during and after the mining boom.
3. **Ensuring no state was worse off** through permanent additional Commonwealth funding, thereby securing political consensus and maintaining fiscal capacity across all jurisdictions.

These reforms were the product of extensive analysis, consultation and political negotiation.

They were informed by rigorous examination through the Productivity Commission's own 2017–18 inquiry into HFE, and they reflected a carefully calibrated balance between competing principles: equity between states, fiscal sustainability, economic efficiency and political viability.

The reforms have delivered as intended.

Western Australia's GST share has been stabilised and lifted, while all other states have received more GST revenue than they would have under the pre-reform arrangements.

The Australian Federation is stronger, more stable and better positioned to withstand economic shocks as a result.

Background: The Case for Reform

The principle of HFE and its importance

Throughout my political career in Australia, I consistently advocated for horizontal fiscal equalisation as a good and important principle which Australian Governments must continue to protect and preserve.

The concept that stronger states should support others so that all Australian citizens, regardless of where they live, can access comparable levels of services at comparable tax rates, is fundamental to the Australian Federation.

This principle has existed since Federation and has served Australia well.

The underlying concern which drove the 2018 reforms was that the specific methodology used to implement HFE had produced outcomes so extreme, so volatile, and so manifestly unfair to one jurisdiction in particular, that they threatened both the principle itself and the stability of federal financial relations.

Western Australia's unprecedented position

By the mid-2010s, Western Australia found itself in a position which could not be sustained in a functioning federation: at risk of receiving less than 30 cents in the dollar of its per capita share of GST revenue.

At its lowest point, WA's formal GST relativity fell to 0.30 in 2015-16, and was projected to continue its downward trajectory, meaning Western Australians received only 30 cents for every dollar of GST they would have received on an equal per capita basis.

In answers to questions I posed in Senate Estimates on 1 June 2011, the then Secretary of the Commonwealth Grants Commission John Spasojevic explained to me that, while the share under the formula could and would never quite get to zero (due to population shares and baseline grants), that under the system as it was operating, there was no defined floor and

hence no prescribed limit of how much further WA's share of the GST could drop. Over the years that followed that is precisely what continued to happen.

This outcome was unprecedented in the history of the Australian Federation – either under the system of general revenue assistance grants from the Commonwealth or since the introduction of the GST in 2000. No other state had experienced such a prolonged and severe reduction in its GST share (or its share of relevant federal grants under the pre-2000 system).

Western Australians were contributing to the GST pool like all other Australians, yet receiving less than one-third of what they would receive on a simple per capita distribution, while simultaneously being expected to maintain comparable service levels to other states – while dealing with the pressures of growth on infrastructure and services, including stronger population growth, that had led to this outcome.

This was not merely a technical accounting issue. It had real consequences for Western Australian families, businesses and public services. It created a legitimate sense of grievance among Western Australians that they were being penalised for their state's active economic development and success, leveraging its resource endowment, which was ultimately benefiting the nation via broader economic growth effects, increased taxation, investment and development.

The Structural Problem with Pre-Reform Methodology

The root cause of Western Australia's GST experiences lay in how the Commonwealth Grants Commission (CGC) calculated relativities under the pre-reform system. Three interconnected factors drove to a manifestly unfair outcome for Western Australia:

First, equalisation to the fiscally strongest state. The CGC equalised all states to whichever state had the highest fiscal capacity in any given year – during the mining boom, this was invariably Western Australia. This meant that WA's own strong revenue-raising capacity during the boom became the benchmark against which it, and all other states, were measured, mechanically driving down WA's relativity.

Second, extreme volatility and time lags. Resource prices and mining royalty revenues are inherently volatile. The CGC's methodology involved complex assessments with inherent time lags, meaning that WA continued to be assessed as having very high fiscal capacity even as commodity prices fell and its economy slowed. WA was being penalised for past boom conditions while simultaneously experiencing then-current economic contraction.

Third, the ratchet effect. Once WA's relativity had fallen to extreme lows, in relative terms, the existing methodology provided no mechanism for rapid correction. The system that had driven the relativity down so dramatically could not drive it back up with commensurate speed.

These three factors combined to produce outcomes that were not merely technically unfair but politically unsustainable. That is why, initially as a Senator for Western Australia, and later as Finance Minister with responsibility for maintaining a healthy scheme for fiscal equalisation, I advocated consistently, from my First Speech in the Senate on 15 August 2007 that the situation could not continue.

Impact on National Economic Efficiency

Beyond the direct fiscal impact on Western Australia, the pre-reform system created perverse incentives that undermined national economic efficiency and productivity growth.

When a state's GST share falls dramatically because of developing its resource sector and attracting investment, this functions as an implicit tax on economic development. The negative fiscal externality, where successful development triggers reduced GST distribution, discourages affected states from pursuing productivity-enhancing reforms and resource sector development.

This was one of the key issues that the 2017 Productivity Commission Inquiry was asked to examine: whether the GST distribution arrangements were supporting *productivity, growth and reform incentives*, or undermining them. The evidence strongly suggested the latter. The pre-reform system also created fiscal uncertainty that made long-term state budget planning extremely difficult for Western Australia, hampering infrastructure investment and service delivery planning.

The 2017–18 Reform Process Securing the Productivity Commission Inquiry

As Finance Minister from 2013, and as a Western Australian senator from 2007, I had advocated for years that the GST distribution system required review.

In April 2017, the Turnbull Government, at the urging of Western Australian federal representatives including myself, formally commissioned the Productivity Commission to conduct a comprehensive inquiry into HFE.

The terms of reference asked the Commission to examine whether the then current approach to HFE:

- Continued to deliver a reasonable level of equalisation;
- Supported productivity, economic growth and state reform incentives;
- Was sustainable for Commonwealth and state budgets;
- Could be improved while maintaining equalisation objectives.

This inquiry provided the rigorous, independent analytical foundation for a future body of reform. The Commission's draft and final reports documented the extent of the problem facing Western Australia and examined various reform options to address inequity.

Developing the Reform Package

Throughout 2017 and early 2018, intensive work occurred across Commonwealth agencies, and in consultation with state treasuries, to develop a reform package that could achieve multiple objectives simultaneously.

The key challenge was both political and technical: how to address Western Australia's legitimate grievances regarding inequity while ensuring that no other state would face budget reductions as a result. This "no state worse off" principle was essential to securing political agreement and maintaining the broader fabric of federal financial relations.

The solution involved a multi-faceted package combining immediate relief, structural reform, and permanent additional Commonwealth funding.

The 2018 Reform Package: Design and Rationale

On 5 July 2018, the Turnbull Government announced a comprehensive reform package that, in my capacity as Finance Minister I supported and helped design.

The package comprised four interconnected elements:

1. A continuation of immediate Top-Up Payments and Transitional Support

The package included a continuation, in the short term, of substantial immediate financial relief for Western Australia through top-up payments, which had previously prevented the fall of WA's effective share of the GST below 30 per cent and would now lift WA's effective GST share progressively:

Under the 2018 Reforms, WA's effective GST share would be lifted to approximately 50 per cent by 2018-19.

Further top-ups would lift this to 70 per cent by 2019-20.

These payments would continue during the transition to the new permanent arrangements.

This immediate relief was essential. Western Australia could not wait six years for structural reform to phase in. The state required urgent fiscal support to maintain services and infrastructure investment.

Between the initial 2015 top-up payments (approximately \$1.4 billion, which prevented WA's relativity falling below 0.30) and the subsequent reform package, Western Australia received substantial bridging support that stabilised its fiscal position.

2. Introduction of a GST Distribution Floor

The reforms established a permanent floor beneath which no state's GST relativity could fall:

- An initial floor of 0.70 (70 cents in the dollar) from 2022-23;
- Rising to a floor of 0.75 (75 cents in the dollar) from 2024-25 onwards.

This floor mechanism was crucial for several reasons:

Preventing future extremes. The floor ensured that no state can ever again experience the kind of extreme relativity that Western Australia endured. Even if a state has very strong fiscal capacity, it will receive at least 75 per cent of a per capita GST share.

Providing certainty. The floor gave all states including those that might in future have strong resource revenue certainty about their minimum GST entitlement, enabling better long-term budget planning.

Maintaining adequate fiscal capacity. A 0.75 floor ensures that even the strongest state retains sufficient GST revenue to deliver core services, reducing the pressure for states to impose inefficient taxes or cut services.

3. Changing the Equalisation Benchmark

The reforms fundamentally altered the methodology for calculating GST distribution by changing the equalisation standard:

Previous system: All states were equalised toward the fiscal capacity of the fiscally strongest state in any given year typically Western Australia during the mining boom.

Reformed system: States are equalised toward the fiscal capacity of the higher of New South Wales or Victoria, rather than the single strongest state.

This change was phased in over six years (2021-22 to 2026-27) to ensure smooth transition.

Rationale for the New Benchmark

This change was not arbitrary it reflected careful consideration of several factors:

Reduced volatility. New South Wales and Victoria have larger, more diversified economies that are less subject to extreme commodity price swings. Using the higher of these two states as the benchmark produces more stable relativities for all jurisdictions.

Representative capacity. NSW and Victoria together represent approximately 60 per cent of Australia's population and economic activity. Their fiscal capacity is more representative of mainstream Australian economic conditions than that of a resource-dominated economy during a mining boom.

Maintaining substantial equalisation. Equalising to the higher of NSW or Victoria still involves very significant redistribution. The reform did not move to equal per capita distribution or to equalising to an average it retained a strong equalisation target, just a less extreme one.

Breaking the feedback loop. Under the previous system, when WA was the strongest state, its own strength drove down its own relativity a perverse self-reinforcing mechanism. The new benchmark broke this feedback loop.

4. Permanent Additional Commonwealth Funding

Perhaps the most crucial element enabling the entire reform was the commitment of permanent additional Commonwealth funding to the GST pool:

The Commonwealth committed to provide additional payments from its own revenue sources (not from the GST pool itself) to ensure that every state and territory would receive more GST revenue under the reformed arrangements than it would have received under the pre-reform system.

This "no state worse off" guarantee was essential for three reasons:

Political feasibility. Without this guarantee, states other than WA would have opposed the reforms, making passage through Parliament and securing state agreement virtually impossible.

Fiscal responsibility. The reforms addressed a legitimate problem for WA without creating new difficulties for other jurisdictions. This was fiscally responsible federalism.

Growing the pie. Rather than engaging in zero-sum redistribution that would pit states against each other, the Commonwealth's additional contribution meant all states benefited, strengthening the overall Federation.

By 2026-27, this additional funding was projected to make every state better off than under the old arrangements.

Transitional top-up payments under the Abbott Government

Before turning to some of the criticisms that have been raised against the 2018 Turnbull Government reforms, it is important to recall the interim approach that was adopted under the Abbott Government.

The interim reforms announced in May 2015 were designed to address the immediate consequences of WA's unusually low GST share (and its projected downward trajectory) in the short term, while working on a more permanent structural reform proposal to improve the fairness and economic efficiency of the system.

About \$1.4 billion in federal GST top-up payments, prior to the 2018 Reforms, were provided in the form of additional Commonwealth funding for WA infrastructure and was explicitly designed as compensation to offset WA's sharp fall in GST revenue and to "in effect" keep WA at about 38 cents in the dollar, instead of dropping to around 30 cents and below in 2015-16 and beyond.

This was in the context where, at the height of the mining boom, WA's assessed revenue-raising capacity generated a sharp downward adjustment in its relativity. The lagged nature of the system translated into WA's GST share falling to historically unprecedented levels just as the state economy and state revenues were already slowing. In practice, absent any Commonwealth action, WA's effective share would have fallen below 30 cents in the dollar. That was clearly an unsustainable position for any state in the Australian Federation – especially a state dealing with the pressures on infrastructure and services that inevitably flowed from the strong population growth resulting from its economic development, investment and growth success at the time.

The Government's initial response was swift, targeted and temporary. We sought to preserve the principle of horizontal fiscal equalisation while preventing a short-term shock from causing lasting damage to WA's budget position and, by extension, to its capacity to support growth-enhancing infrastructure. The solution was to provide time-limited, project-linked top-up funding for priority infrastructure in Western Australia, calibrated to lift WA's effective GST return above the most extreme outcomes. These top-ups ensured that critical, productivity-enhancing investments could proceed, even while the underlying distribution

formula remained unchanged and the Government worked through the political and technical complexities of a more durable reform.

Those infrastructure-linked top-up payments should be seen as a stabilisation bridge rather than an end-state. They bought time and avoided the very real risk that an abrupt, historically low GST share for WA would force sharp fiscal contractions or under-investment in projects of national economic significance. They also demonstrated that the Commonwealth recognised both the legitimacy of HFE and the need to avoid pushing any one state beyond what the community would regard as a fair outcome. In that sense, the top-ups were an important confidence-building step on the way to a lasting structural solution.

The 2018 reforms then replaced this transitional response with a comprehensive, rules-based framework which operated to the benefit of all States and Territories. Instead of relying on one-off decisions about top-ups, the legislated floor and the new benchmark for equalisation embed in the system what those earlier decisions were trying to achieve on a temporary basis: protection against extreme relativities, a clearer alignment between states' underlying economic circumstances and their GST shares, and a more predictable environment for long-term infrastructure and service-delivery planning. This evolution – from temporary top-ups to a permanent and transparent architecture – is one of the strongest arguments in favour of the 2018 reforms.

Defending the Reforms: Addressing Potential Criticisms

Having followed this debate since leaving the Australian Senate in late 2020, I anticipate that this inquiry may hear criticisms of the Australian Government's 2018 reforms.

In anticipation, I therefore wish to address the most significant of these concerns directly.

Criticism 1: "The Reforms Undermine HFE and Interstate Equity"

Response: This criticism fundamentally misunderstands both the principle of horizontal fiscal equalisation (HFE) and the nature of the reforms.

The 2018 reforms preserved horizontal fiscal equalisation they did not abandon it. After the reforms, Australia continues to operate one of the world's most comprehensive systems of fiscal equalisation. States continue to be equalised toward a strong benchmark (the higher of NSW or Victoria), and substantial redistribution continues to occur.

The reforms addressed the extremity of the pre-reform system, not the principle of equalisation itself. There is nothing inherent to the concept of HFE that requires equalising to the single fiscally strongest state, particularly when that state's strength derives from temporary resource price booms. Indeed, such a methodology arguably violated the spirit of HFE by creating outcomes so extreme that they undermined political support for equalisation itself.

The 75-cent floor does not eliminate equalisation for strong states it moderates it. A state at this floor still transfers 25 per cent of its per capita GST share to support other states. This represents substantial ongoing equalisation.

Furthermore, the "no state worse off" guarantee meant that the reforms improved fiscal capacity for all jurisdictions. How can a reform that, in practice, made every state better off while ensuring a more appropriate balancing of HFE be characterised as undermining equity?

The real threat to HFE and interstate equity was the pre-reform status quo, which had created outcomes so manifestly unfair to one state that they risked generating political backlash against the entire principle of equalisation. I would argue that our reforms saved HFE by making it sustainable.

Criticism 2: "The Reforms Favour Resource-Rich States and Undermine Solidarity"

Response: This criticism ignores the unprecedented extremity of Western Australia's position and mischaracterises the reforms' impact.

Western Australia was not asking for preferential treatment it was asking to escape from a uniquely disadvantageous position that no other state had endured. Western Australia was receiving less than 30 cents in the dollar while being expected to maintain comparable service levels and contribute to national economic growth.

The notion that a state receiving only 30 per cent of a per capita GST share represents appropriate "solidarity" is simply not tenable in a functioning federation. At that level of relativity, Western Australians were legitimately questioning whether the Australian federal compact was working for them. Moreover, the reforms did not eliminate resource states' contribution to equalization they moderated it to sustainable levels. As already spelled out, even at the 75-per cent floor, a resource-rich state in WA's position would still be transferring 25 per cent of its per capita GST entitlement to support other states. This represents billions of dollars in ongoing redistribution and reflects continued solidarity.

It is also worth noting that the new benchmark (the higher of NSW or Victoria) meant that if another state becomes the fiscally strongest in future whether due to resources or other factors it too will benefit from the floor and the new benchmark. The reforms are not specifically designed to favour Western Australia; they protect any state that finds itself in an analogous position.

Criticism 3: "The Reforms Create Fiscal Pressure on the Commonwealth Budget"

Response: This criticism is legitimate in narrow budgetary terms but ignores the broader context and alternative costs.

Yes, the Commonwealth committed to permanent additional funding to ensure no state would be worse off. This represents an ongoing fiscal commitment. However, several points must be considered:

First, the alternative was worse. Maintaining the pre-reform system would have continued to create significant fiscal stress for Western Australia, potentially requiring different forms of Commonwealth intervention (special purpose payments, infrastructure funding, etc) to keep the state functional. The political costs of maintaining an unsustainable system would have been severe.

Second, the amounts are affordable. While permanent, the additional Commonwealth funding is manageable within the overall Commonwealth budget. It represents a sound long-term investment in federal financial stability.

Third, there are economic benefits for the nation. By removing the perverse disincentives facing Western Australia and improving the predictability of GST distribution, the reforms support better state decision-making, infrastructure investment and economic development. These economic benefits flow back to the Commonwealth in the form of stronger economic growth and higher tax revenue.

Fourth, this is the price of federalism. Managing federal financial relations involves trade-offs and costs. The Commonwealth's additional funding should be understood as the cost of maintaining a stable, politically sustainable federation, a cost that is well justified and delivers a tangible benefit to our country.

Criticism 4: "The Reforms Lock In Advantages Based on Temporary Commodity Booms"

Response: This criticism reverses the actual problem the reforms addressed.

It was the pre-reform system that produced extreme volatility and instability due to commodity price movements. Western Australia's relativity plummeted because the methodology treated temporary boom conditions as permanent features, then failed to adjust quickly when conditions changed.

The reformed system, by contrast, provides much greater stability regardless of commodity price movements:

- The floor ensures that no state's relativity can fall below 0.75, regardless of temporary strength;
- The new benchmark (higher of NSW or Victoria) is much less volatile than the previous benchmark (strongest state, often driven by resource prices);
- The six-year transition period smoothed the adjustment, avoiding sudden shocks.

If anything, the reforms protected and continue to protect against the effects of temporary commodity booms by ensuring that states are not penalised excessively when prices temporarily spike, nor do they lose support too quickly when prices fall.

Criticism 5: "The Reforms Were Politically Motivated Rather Than Evidence-Based"

Response: This seemingly regular criticism is demonstrably false.

The reforms were preceded by the most comprehensive independent inquiry into HFE arrangements in decades: the Productivity Commission's 2017-18 inquiry. This inquiry examined the operation of the existing system, documented its shortcomings, and assessed potential reforms against multiple criteria.

The reforms were also informed by decades of advocacy and analysis by Western Australian governments of both political persuasions, detailed submissions to numerous inquiries, and extensive Commonwealth Treasury and Finance Department modelling.

Yes, the reforms responded to a political problem, but that political problem arose because of genuine, evidence-based concerns about the fairness and sustainability of the existing arrangements.

Good public policy responds to both technical evidence and political reality.

The fact that the reforms were designed to ensure "no state worse off" does reflect a political imperative but it also reflects sound federal policymaking. A reform that had made some states worse off would have been politically unachievable, been substantively unfair and would have been seen in many parts of the country as manifestly unfair.

The Reforms' Performance: Evidence of Success

The 2018 reforms have now been in operation for several years, allowing an assessment of their real-world impact against their stated objectives.

Objective 1: A Fairer Deal for Western Australia

Outcome: Fully successful.

Western Australia's GST relativity has been substantially improved and stabilised:

- WA's effective GST share was lifted to approximately 50 per cent by 2018-19, then to 70 per cent by 2019-20;
- The 70-cent floor came into effect in 2022-23, rising to the 75-cent floor from 2024-25.
- WA continues to substantially contribute towards horizontal fiscal equalisation.

This represents the resolution of a long-standing injustice, has restored Western Australians' confidence that the Federation works for them, while ensuring an appropriate level of support is directed from Western Australia towards other states.

Objective 2: Better for National Economic Growth and Job Creation

Outcome: Substantial progress, with ongoing benefits.

The reforms have improved the fiscal environment for state economic development by:

- Reducing the implicit penalty on resource development and successful economic management;
- Providing greater certainty for state budget planning, supporting infrastructure investment; and
- Removing a major source of interstate tension that was hindering cooperative federalism.

While it is difficult to quantify the precise economic benefits, the removal of perverse disincentives and the improvement in fiscal stability clearly support better state decision-making.

Objective 3: No State Worse Off

Outcome: Fully successful.

The Commonwealth's additional funding has ensured that every State and Territory receives more GST revenue under the reformed system than it would have under the pre-reform arrangements.

This commitment has been honoured and states have benefited accordingly.

Additional Benefit: Greater Stability and Reduced Volatility

Beyond the three explicit objectives, the reforms have delivered an important additional benefit: GST relativities are now more stable and predictable.

By moving to a benchmark (higher of NSW or Victoria) that is less subject to extreme commodity price volatility, and by introducing the floor mechanism, the reforms have made GST distribution more predictable for all states. This supports better long-term fiscal planning and reduces the risk of future extreme outcomes.

As I said in various comments and statements in 2018, the reforms "help strengthen growth, better protect us against economic shocks and provide a more stable and predictable source of revenue for all States going forward."

This prediction has manifestly been borne out.

Lessons and Principles for the Future

As the Productivity Commission considers the operation of the reformed system and potential further changes, I offer several principles that should guide future policy:

1. Preserve the Core Elements of the 2018 Reforms

The 2018 package represents a carefully calibrated balance between competing objectives.

The floor mechanism, the new benchmark, and the additional Commonwealth funding work together as an integrated system. Unpicking individual elements without understanding their interconnections risks unraveling the entire settlement.

In particular, the 75-cent floor should be maintained. This floor is not arbitrary, it represents the minimum GST share necessary to ensure that even fiscally strong states can maintain adequate service levels and retain political commitment to the federation.

2. Maintain the "No State Worse Off" Principle

Any future changes to GST distribution should continue to respect the principle that reforms should not make any jurisdiction worse off.

This principle is essential for maintaining political consensus and avoiding zero-sum interstate conflict.

If future adjustments are contemplated, they should be funded through additional Commonwealth resources or through prospective changes that affect states only as their fiscal position improves, not through redistributing away from current entitlements.

3. Remember that HFE must be politically as well as technically sustainable

The pre-reform system failed not because its theoretical foundations were wrong, but because it produced outcomes so extreme that they became politically unsustainable. Technical elegance is worthless if it generates results that undermine political support for equalisation itself.

Future policy development must balance technical considerations with political reality. A system that is theoretically optimal but politically unacceptable will not endure.

4. Recognise that perfect equalisation is neither achievable nor necessary

Some critics of the 2018 reforms assume that full equalisation to the fiscally strongest state is the only legitimate form of HFE. This assumption is incorrect.

Horizontal fiscal equalisation is a principle that can be implemented with varying degrees of intensity. The question is not whether to equalise, but what benchmark to equalise toward and what level of residual difference is acceptable and fair.

The 2018 reforms continue to deliver very substantial equalization, just not to the previous extreme degree. This is appropriate and sustainable.

5. Ensure the system supports economic growth and reform

Federal financial relations should support, not hinder, national economic growth and state-level reform. GST distribution arrangements are part of the broader architecture of federalism and must be assessed not only on equity grounds but also on their economic effects.

The pre-reform system created perverse incentives that discouraged resource development and economic reform. The reformed system has reduced, though not eliminated, these perverse effects.

Future changes should be assessed partly on whether they further improve economic incentives or inadvertently reintroduce problematic disincentives.

Responding to Specific Terms of Reference

I understand the inquiry's terms of reference request an assessment of specific issues. I offer brief comments on several of your terms of reference:

Whether the 2018 reforms continue to deliver reasonable equalisation

Yes.

Australia continues to operate one of the strongest systems of horizontal fiscal equalisation in the world. States are equalised toward the higher of NSW or Victoria, a strong, stable benchmark, and states at the floor still transfer 25 per cent of their per capita GST share to support others. This represents very substantial ongoing equalisation.

Whether arrangements support productivity, growth and reform incentives

Yes, significantly better than the pre-reform system.

By reducing the implicit penalty on successful economic development and providing greater fiscal stability, the reformed arrangements better support state-level economic management and reform.

There remains scope for improvement, no system of fiscal equalisation can perfectly align incentives, but the 2018 reforms represented substantial progress on this dimension.

Whether arrangements are fiscally sustainable for the Commonwealth and the states

Yes.

The Commonwealth's additional funding commitment is affordable and represents a sound long-term investment in federal stability. All States and Territories have stronger fiscal positions under the reformed system than they would have had under the pre-reform arrangements.

The reformed system is also more stable, reducing the risk of future fiscal crises for individual jurisdictions and the Commonwealth interventions that would be required to address any arising crises.

Whether the operation of the system could be improved

Any system can be improved at the margins, but fundamental changes are not warranted.

The 2018 reforms represent a major accomplishment that has successfully addressed serious problems while maintaining the core principle of HFE. Major recalibration or reform of the settlement achieved in 2018 would be unwise and destabilising.

Minor technical adjustments to improve transparency, reduce assessment complexity, or fine-tune particular relativities may be worth considering, but these should be approached cautiously and only where there is clear evidence of specific problems.

Conclusion: A Defence of Practical, Sustainable Federalism

The 2018 GST distribution reforms represent one of the most significant achievements in Australian federal financial relations in recent decades.

They addressed a genuine crisis in the operation of horizontal fiscal equalization, a crisis that threatened both Western Australia's fiscal sustainability and broader political support for the principle of equalisation itself.

The reforms achieved this while:

- Preserving very substantial ongoing fiscal equalisation;
- Ensuring no State was worse off;
- Improving fiscal stability and predictability;
- Supporting better economic incentives for state-level development and reform.

This was not simple or easy, it required years of advocacy, rigorous analysis through the Productivity Commission inquiry process, complex technical design work and political negotiation to secure agreement. The result was a carefully calibrated package that balanced multiple competing objectives and has delivered on its promises.

I urge the Productivity Commission to recognise the 2018 reforms as a successful model of federal reform: evidence-based, politically achievable and substantively sound.

The core elements of the reforms – the floor mechanism, the new benchmark and the "no state worse off" guarantee – should be preserved, as they work together as an integrated system.

Perfect equalisation is neither achievable nor necessary for a successful federation. What is necessary is a system that is fair, stable, economically sensible, and politically sustainable.

The 2018 reforms deliver on all four criteria.

As someone who spent many years advocating for these reforms and working with my Cabinet and WA Parliamentary colleagues and many others to bring them to fruition, I am proud of the very substantial positive reform that was achieved at the time.

As someone who now works at the international level observing federal systems around the world, I can say with confidence that Australia's reformed GST distribution arrangements represent a model of sophisticated, practical federalism that appropriately balances equity with sustainability.

I look forward to discussing these matters with the Commission in person and to contributing further to this important inquiry.

Yours sincerely,

The Hon Mathias Cormann AC
Secretary-General, OECD
Former Australian Minister for Finance (2013–2020)

9 March 2026