



Productivity Commission  
Inquiry into GST distribution reforms  
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### Submission on Grants Commission and Housing

The Centre for Independent Studies appreciates the opportunity to make a late submission to the Inquiry.

On the central issues at stake, the CIS considers the process of horizontal fiscal equalisation to be too complicated. Many of the variations involved do not have a clear efficiency or equity rationale. On the contrary, they dampen incentives for economic development and create outcomes that appear arbitrary. The process is difficult to understand. These arguments are familiar, being frankly acknowledged by the Grants Commission itself, for example [Grants Commission, 2025](#).

We wish to address an issue that has attracted less attention. It has a minor place in your terms of reference but is important to the work of the Grants Commission and economic policy more broadly. We believe housing completions should be considered a disability by the Grants Commission. So states that build more housing would receive a higher GST distribution.

The Grants Commission does something similar with transport expenditure. In recognition of its greater transport spending requirements, NSW receives \$1.24 billion more than an equal per capita distribution, while Queensland receives \$762 million less. ([Commonwealth Grants Commission 2020](#), Volume 2 Part B, Table 21-17).

Treating housing as a disability recognises that States with rapidly growing housing stocks have greater need for capital expenditure on roads, schools, utilities etc. Whereas the benchmark for operational spending is an equal per capita distribution, the benchmark for capital expenses should be growth. In principle, growth in population might be considered more relevant. However growth in housing is highly correlated but more relevant to incentives.

In regard to incentives, the policy is similar to the National Competition Policy (NCP) Payments recently agreed by State and Federal Treasurers ([Chalmers, 2025](#)). The top item on [the list of reforms](#) is “liberalising and standardising commercial zoning rules and planning requirements”. The Productivity Commission ([2005](#)) concluded “National Competition Policy (NCP) has delivered substantial benefits to the Australian community which, overall, have greatly outweighed the costs.” (See also its [2025](#) update.)

However, using the Grants Commission is a preferable approach to NCP payments in several ways:

- NCP payments and other special purpose payments add to Commonwealth budget outlays, whereas the Grants Commission is fiscally neutral.
- Advocates for NCP payments, such as the Grattan Institute ([2025 p67](#)), with whom the CIS usually agrees on housing policy, suggest they be tied to specific reforms, in particular changes

in zoning restrictions. However, councils have hundreds of ways they can delay or prevent construction if their incentives are awry. Process-related incentive payments in the United States and Canada have been riddled with anomalies, administrative costs and gaming. For example, Los Angeles, a poster-child for restrictive zoning, is designated “prohousing” and receives large incentive payments as a result. [This media story](#) has examples of phoney plans designed to satisfy process requirements. [Furth and Hamilton, 2018](#) discuss. If you pay for plans, you get plans. If you pay for completions, people get somewhere to live.

- NCP payments are typically small. The National Productivity Fund, from which payments are currently made, is \$900 million. Payments from an earlier version of the policy, from 1997–98 to 2005–06, were on a similar scale. That may encourage a bit of process innovation but it is rounding error on a 1.2 million dwellings target.

Grants Commission distributions would bear a closer resemblance to the New Homes Bonus, which will pay \$3 billion to states that meet their housing target by 2029. That translates into \$15,000 per dwelling above specified thresholds. Three modifications are needed.

- As with NCP payments, the bonus adds to outlays, whereas GST distributions are fiscally neutral.
- The bonus is paid in 2029 (after the forward estimates), too late to provide effective incentives or financial support.
- \$3 billion is not commensurate with the gravity of the problem. There is agreement from both major parties and at National Cabinet that housing affordability is a top national priority.

Two objections to the proposal are worth addressing.

First, housing is said to be a “state responsibility”.

- One cause of the housing affordability crisis is that the Federal government is responsible for immigration policy, while the States are required to finance the resulting demand for infrastructure. This division of responsibilities means we haven’t been building enough housing to accommodate our rapidly growing population. Bringing Commonwealth grants to states in line with differences in growth rates would reduce that imbalance and internalise costs and benefits.
- Closely related, grants to states are often justified on the grounds that the Commonwealth gets the benefits of economic growth through tax receipts whereas the States bear the costs. However, this argument is less applicable to housing reforms than other NCPs as most of the benefits accrue to capital gains to owner-occupied housing and increased consumer surplus, which are lightly taxed.
- The electorate and all political parties regard housing as a priority for the Federal government. If financial incentives are disregarded due to legal nuances, inferior policies will be implemented.
- Population mobility creates externalities across states. NSW is exporting its housing shortage to other states and Victoria is absorbing much of the brunt. Construction in one state benefits other states.

Second, grants for capital expenditure should reflect population growth, rather than housing construction.

- In principle, that has merit from an equity perspective. However, states do not directly control population. They do control, to a large extent, housing supply. State incentives to accommodate higher population are improved by making grants sensitive to construction.

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