

What is fair?

Submission to Productivity Commission Inquiry on GST Distribution Reforms by John Simon

In public debate around the GST distribution there have been many claims about what is fair. There are at least three definitions of “fair” that are being used. This submission focuses on what these three are, strips away the rhetoric, and highlights how only one of them is consistent with the definition of “fair” that underpins Australia’s broader tax and transfer system.

1. Three definitions of fair and one of ‘a fair go’

The three common definitions of “fair” that have been used in the debate about the allocation of GST revenue are: in proportion to income, in proportion to population or tax raised, and in proportion to need.

The first is captured by the Prime Minister’s statement “WA is a major driver of our national economy, and they deserve their fair share of the GST.” While, as is typical of statements by politicians, he is not precise, he is linking the concept of “fair” to the share of national income that WA generates. Similar arguments have been made, if somewhat more colourfully, by the WA Premier, Roger Cook: “WA is the economic powerhouse of the national economy... the changes would punish Western Australia for its success simply to prop up other lazy states.”

The second concept is implicitly embedded in the benchmark of state relativities that are invariably used to discuss GST allocations. Allocations are framed as being so many cents in the dollar of a hypothetical equal per capita distribution. Implicit in this framing are two frequently conflated concepts. One is the idea that each Australian should receive an equal dollar value of government expenditure – hence an equal per capita share. The other is that

tax paid by individuals should be spent on those individuals – hence that a “fair” allocation is 100 cents in the dollar of tax raised.¹

It is often assumed that these concepts lead to equivalent outcomes, that tax raised is approximately proportional to population. As has been noted by many, including the Commonwealth Grants Commission, it is very difficult to know how much GST revenue is raised in any given state.² My own back of the envelope calculations, based on household final consumption expenditure by state with a modification for expenditure on GST exempt categories, suggest that they are typically within about 10% of each other. Notwithstanding that, the concepts of fairness they embody are different.

The final concept is the one that is explicitly used as the basis for the system of horizontal fiscal equalisation operated by the Commonwealth Grants Commission: that Australians, regardless of where they live, should have the capacity to receive a broadly comparable standard of government services. In practice this means that states with higher costs of provision are provided with more funding per resident and states with greater own source revenue are provided with smaller distributions. That is, it emphasises fairness of outcomes not fairness of inputs.

Finally, it is worth spending a few words on what is generally meant by fair in Australia. While there could be endless debate about it, I would suggest the concept of “a fair go” captures much of it.³

A fair go emphasises that there ought to be equality of opportunity for Australians. That people ought to be able to use their natural abilities to succeed regardless of their background or circumstances. In particular, because things like healthcare and the standard of education received can affect people’s ability to succeed, this idea leads naturally to the conclusion that the provision of universal public education and healthcare is fair.

¹ As the Western Australian Government notes in its submission to this enquiry, “Western Australian residents pay GST, and expect much of this to be spent on services within Western Australia”, *Western Australia’s submission to the 2026 Productivity Commission inquiry into the GST distribution reforms*, p.23, February 2026

² See [https://www.cgc.gov.au/sites/default/files/2025-09/Occasional Paper No.12 - GST distribution - addressing some misconceptions_Final.pdf](https://www.cgc.gov.au/sites/default/files/2025-09/Occasional%20Paper%20No.12%20-%20GST%20distribution%20-%20addressing%20some%20misconceptions_Final.pdf)

³ This idea is reflected in the statement on “Australian Values” used by the Australian Government that emphasises “a fair go for all”: <https://www.homeaffairs.gov.au/about-us/our-portfolios/social-cohesion/australian-values>

A fair go also encompasses a fundamentally egalitarian ethos that is embedded in Australian life. That is, wealthy Australians are not considered more deserving or virtuous than poor Australians – all are equal.

2. Spelling out what each concept of fair means

While each of the definitions used in the debate about GST distributions have a certain rhetorical appeal, it is important to dig a bit deeper to understand what concept of fairness they implicitly embody.

2.1 Fairness reflects income

The first definition of “fair” appears to embed a principle that those who contribute more to the national economy – be they individuals, companies or states – deserve more. That, because they contribute more to the national economy, they deserve to be supported by other Australians via the distribution of Commonwealth Government taxation revenue. Conversely, the same principle applied to low-income Australians, who it is sometimes uncharitably suggested are low income because they are lazy, would argue they deserve less because they contribute less.

If we proposed this standard of “fair” with respect to income taxation it would suggest that high income people should receive greater services, or lower taxation, as a reflection of their greater contribution to the national economy and as a reward for their success.

To state it plainly is to reveal how flawed it is as a concept of fairness. It is a reverse Robin Hood argument – take from the poor and give to the rich – dressed up as somehow morally virtuous. It is flatly incompatible with the egalitarian concept of fairness that exists in Australia.

2.1.1 Fairness reflects reward for effort

Notwithstanding this, when such concepts of fairness are advanced, they usually embed arguments about incentives. That is, it is suggested that, if high income people are taxed too highly, their motivation to work is reduced, which reduces national income and general taxation receipts. It is, thus, argued that individuals need to retain sufficient fruits of their labour to encourage them to continue working hard; if they don't there will be a net loss to the government and economy. Similarly, in the case of the GST distribution, the argument has

been made that reducing GST payments to high income state governments will discourage them from undertaking reforms or making investments that grow the state economy.⁴

While such arguments certainly have merit, it is important to acknowledge that they embody a different definition of fairness than one framed around wealthier states or individuals deserving more. It is about what proportion of income they should retain, and what proportion it would be fair or efficient for them to contribute to the provision of general government services. With income taxation that benchmark is currently 53% of each additional dollar of income retained and 47% supporting the provision of government services. With the GST distribution system this could best be understood as an argument about how much own source revenue should offset GST distributions.

Thus, if this concept of fairness is not simply a reverse Robin Hood argument, it is about a different aspect of the GST system than the one most people focus on. In part this is because the GST distribution system already attempts to maintain incentives by using state average taxation rates rather than actual revenue – which would ideally lead to a state retaining 100% of any additional revenue it raised. Notwithstanding this, the PC has noted that dominant state effects can mean that, when one state dominates a particular taxation type, the revenue retained can be very low. Consequently, it has recommended modifications to the current system to address these disincentives.

Modifying the existing system to address incentives and dominant state effects would accord with a common understanding of fair in Australia – that there should be reward for effort. These incentive effects are, however, mostly a limit on how much equalisation should be attempted rather than a basis for determining the allocation in the first place.

2.2 Fairness reflects tax paid or population

As noted, there are two versions of this argument that are frequently conflated: returning tax paid in government services and equal per capita shares. The

⁴ I note that the interim report from the PC investigated these incentive effects and broadly found that they were not significant in the case of the GST distribution system: “To the extent disincentives for reform exist, there is limited evidence they have played a role in state policy decisions. Other fiscal tools are available outside the HFE system to mitigate any disincentives.” (*GST distribution reforms: Interim report*, p.5) This suggests that, while these concerns are important in principle, they are not in practice.

public debate is dominated by the first idea of fairness even if the second is more common in bureaucratic circles. I discuss both.

2.2.1 Fairness reflects tax paid

This definition of “fair” has at its core the idea that people should receive back in government services an amount equal to the taxes they pay. When people talk about one state receiving 70 cents in the dollar, or that it is unfair that WA only received 30 cents in the dollar, they are framing the discussion in a way that makes 100 cents in the dollar the natural benchmark and calling that “fair”.

This idea of “fair” is not the basis of our tax and transfer system. It is, most obviously, an argument that is inconsistent with progressive taxation as implemented in Australia. Progressive taxation means that those who have greater resources make a proportionately greater contribution to the provision of government services than those who have fewer resources. It means that low-income earners generally receive more in government services than they pay in taxes, while high income earners pay more tax than they receive in services.

This tax paid definition of “fair”, however, seems to take as its starting point the idea that the role of government is not to redistribute resources to provide for the less well off, but to be a kind of private club where the quality of service you get directly reflects the fees you pay. While some people support this concept of government, it is inconsistent with the egalitarian ethos that has typically infused Australian governments.

2.2.2 Fairness reflects population

The argument for equal per capita (EPC) distributions, when separated from arguments about tax raised, is harder to ground in principles of fairness. In part this difficulty reflects the fact that public debate mostly focusses on the state of origin of the tax revenue rather than articulating a separate justification for EPC distributions. Nonetheless, there are two strands of argument that are tied to fairness. The first is based on the arguments about incentives and policy neutrality discussed in section 2.1.1 above. The second, if it is tied to anything, implicitly assumes that equality of treatment means equality of expenditure.

Other arguments have been made for EPC distributions. For example, it is commonly argued that EPC is simple and transparent. These arguments are,

however, not grounded in principles of fairness but ones like practicality, so I do not dwell on them here.

The first fairness-based argument for EPC distribution is that it is policy neutral. That is, it doesn't matter what policy choices a state government makes, the GST distribution will be unaffected. Thus, there are no disincentives to a state raising more revenue or making investments that will generate greater revenue in the future.⁵ Notwithstanding this, and as already discussed in section 2.1.1, most discussion of this argument implicitly acknowledges that policy neutrality is not an end in itself, but a constraint on how redistributive different methods can or should be. That is, it is not a principle that can be used as a primary basis for allocations, but a secondary consideration to limit the disincentive effects of particular distribution methods. As such, it should not be used as the foundational concept of fairness to guide GST distributions.

The other fairness based argument is one that emphasises equality of funding rather than equity or equality of outcomes.⁶ If the cost of providing for Australian's needs were equal across states they would align. However, they do not.

It is readily recognised that the cost of providing services to, for example, remote areas, is much higher than in urban areas. Thus, equality of funding would lead to inequality of outcomes. Those in more remote areas would receive a lower standard of education and health services than those in lower cost areas.

This is an outcome that even proponents of EPC distributions implicitly acknowledge would be unfair. The NSW Government, in its submission to an earlier inquiry on this subject, recognises that an EPC distribution needs to rely on "other mechanisms of equalisation from stronger to weaker states" and that "Where some weaker states are unable to deliver a minimum or adequate

⁵ In WA's submission (ibid. p. 26) it notes that "While the PC did not examine EPC as an option in their report, it is notable that it is the only distribution method that would reduce all policy disincentives."

⁶ The NSW Government's July 2017 submission to the PC Inquiry into Horizontal Fiscal Equalisation states "An EPC distribution of revenue will be seen as fundamentally fair by the Australian people." p. 33 (https://assets.pc.gov.au/__data/assets/pdf_file/0016/220345/sub052-horizontal-fiscal-equalisation.pdf). They do not, however, justify this claim.

standard of services to their residents, the Commonwealth could meet these needs through targeted grants.”⁷

The disconnect between equality of funding and equality of outcomes also means that this concept is at odds with the concept of fairness embedded in many other areas of government service provision. While equality of funding has a naive fairness about it, I doubt that anyone who gave it more than a few minutes thought would agree that it is actually fair or consistent with other notions of fairness that they readily accept.

For example, Australians readily accept that wealthier people, who are able to provide for their own needs, should do so, while less advantaged people should be supported by the government. Reflecting this, many welfare benefits are means tested rather than provided universally. That is, government expenditure is not allocated equally to all citizens but distributed according to need.

As such, it is difficult to argue that equal per capita allocations are consistent with how Australians understand fairness and providing ‘a fair go’ for everyone. This is discussed more in the next section.

2.3 Fairness reflects need

The final concept of fairness is the most explicit because it has been used extensively by the Grants Commission in implementing horizontal fiscal equalisation. It is also the one most consistent with the principles underlying other tax and spending systems within Australia.

This concept emphasises equality of government support for all Australians regardless of where they live. Expressed in reverse, it states that it is unfair that someone who lives in Wilcannia should receive a lower quality of government services – be that education, health or whatever – than someone who lives in Peppermint Grove.

Equality in the standard of government services provided is aligned with the Australian concept of “a fair go”. It reflects that government services underpin the ability of Australians to perform to the best of their abilities. If some Australians receive worse education or health services than others, it means

⁷ loc. cit.

they are not on a level playing field and will be unable to reach their potential – that is seen as unfair.

The idea that some Australians might receive more government services than others, and certainly more than they contribute in tax revenue, is also embedded in the Australian practice of means testing benefits. Australia's tax and transfer system explicitly targets government support to those most in need. What this means, however, is that wealthy Australians receive less in government services than they pay in tax, while poorer Australians receive more. This is not considered "punishment for success", but an essential part of the Australian social compact.

3. Conclusion and Recommendation

The three concepts of fairness that have been advanced in the debate about GST distributions are very different from each other. In particular, the two used to defend post-2018 arrangements, or an alternative of equal per capita allocations, are fundamentally different from what has historically been accepted as fair in Australia.

People arguing for these two definitions of "fair" are welcome to argue their case. But they should be prepared to apply the principle of fairness that they are using consistently rather than selectively to this one issue. Thus, people arguing that "100 cents in the dollar of tax collected" is fair must also argue that wealthy people should receive more educational and health funding because they pay more tax. People arguing for distributions on the basis of income should also be prepared to argue that poor Australians shouldn't receive the kind of government support they currently receive – that they don't deserve support because they aren't "economic powerhouses". I suspect the proponents of these arguments would not be willing to do this.

Regardless, the historically accepted definition of fair – that distributions are based on need – should be used to guide GST distributions. Thus, I support the removal of an artificial floor on GST distributions because there is no commonly accepted principle of fairness that suggests Australians should expect to receive back in government services what they pay in taxes.

I also support the PC recommendation to address dominant state effects. The existing process can lead to unfair outcomes where increased revenue in one state is almost fully offset by reduced GST distributions.

Thus, **I support Interim Recommendation 4.1**. It will deliver an outcome that best accords with the Australian concept of fairness.

Finally, it is worth noting that discussions about the GST distribution are dominated by a framing that embeds a concept of fairness that most Australians would reject – that government is essentially a private club and individuals should receive back in services what they paid in taxes. This framing distorts discussion. Thus, the “GST relativity” framing should be replaced with a framing that reflects the underlying concept of fairness being used. **GST relativities should be expressed as “cents in the dollar of assessed need”**. This will ensure discussion about the distribution is conducted in terms that are consistent with the concept of fairness that underpins it.

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