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“What's in the GST carve up for regional Australia”

The Federal Government's proposal to change the manner in which GST receipts are distributed between the states and territories of this country addresses one division in Australian politics, but much more can be done about another.

The proposal makes progress in equalising the capacity for the states and territories to raise revenue in order to provide public services at about a uniform standard across the nation

However, it doesn't do enough to address the appalling gap in the provision of infrastructure between regional and metropolitan areas within each of the states or the territories.

In 2000 when the GST was introduced, a cross party House Representatives Standing Committee on Regional Services decribed this gap as dividing Australia into “two nations”.

Despite the Committee's 91 recommendations to close the gap, few have been implemented over the past 18 years despite the availability of the GST largess.

The system of transfer payments known as horizontal fiscal equalisation (HFE)which ensures that taxes collected from the bigger states are used to cross subsidize the smaller ones, has worked pretty well for the whole of Australia including regional Australia since its inception in 1933, when WA threatened to secede from the Commonwealth, right through to the 1970s.

But it has broken down in recent years following the failure of Commonwealth Grants Commission systems for distributing the GST.

This is evidenced by considering the GST payments as a percentage of total state government revenue in each state. In 2017-18 these percentages varied considerably from one state to the next as follows: NSW – 22%, Vic – 23%, Qld – 26%, SA – 33%, Tas – 40%, ACT – 23%, NT – 40%, WA – 8%

The Federal Government's proposal goes some way to addressing this inequality by providing “top up” payments to those states with weaker revenue raising capacity and putting in a floor that will ensure that all states receive at least 70, and then 75%, of the GST pool due to them based on their population levels.

This does not go as far as the reforms recommended by the recent Productivity Commission report.

But the only states that will gain from the Productivity Commission recommendations are WA and NSW, the others will lose.

A key reason the HFE system has worked well for both the states and regional Australia until the 1970s is that regional communities were generally well represented in State parliaments during these years.

This meant that we saw transfer payments allocated by the Commonwealth Grants Commission to the States spent not only in metropolitan cities but also in rural and regional Australia on roads, irrigation systems, the building and staffing of regional universities or centres of higher learning, extensive agricultural R and D programs, health services etc etc.

Since the 1970s the voice of regional Australia in our state parliaments in particular has been gradually turned down for a wide range of reasons including:

- the rising demands of the unrestrained population growth in our metropolitan cities.
- electoral redistributions and a reduction in the overall number of parliamentary representatives with rural and regional knowledge in state parliaments across the country.
- the rising number of former parliamentary or union staffers in our political class
- the decline in significance of cabinet portfolios like agriculture in state cabinets
- the declining influence of rural and regional bodies like water authorities and local government bodies.

As a consequence the divide between regional and metropolitan areas within each state has become just as important as the divide between stronger and weaker states across the nation.

Nevertheless, there is a simple way the Federal Government's GST proposal can address both divides. .

This is by enuring that at least a third of its proposed “top up” payments are “tied” to spending on regional infrastructure needs.

At present the proposal is that these payments be “untied” and so the states can spend them in whatever way they like.

Given the heavy focus of most state governments nowadays on the needs and demands of their metropolitan cities, the provision of “untied” transfer payments will not mean that much of the GST largess is spent in rural and regional areas. Most of it will end up funding the likes of metropolitan freeways, metropolitan rail services, airport upgrades and so on.

Ensuring that at least a 1/3 of the Federal Government's GST “top up” payments is “tied” to spending on rural and regional infrastructure would go a long way to addressing the “two nation” infrastructure provision problem identified by the House of Representatives in its comprhensive “Time is Running Out” report in 2000.

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