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## University of Tasmania expert warns of rising inequality as a result of GST review

University of Tasmania political scientist Richard Eccleston says a change to the distribution of GST funding risks increasing inequality between states.

Professor Eccleston has written widely on federalism and his most recent book, *The Future of Federalism in an Age of Austerity* (2017), analysed the impacts of the Global Financial Crisis on federal systems.

According to reports published today, future GST payments will no longer be fully equalised to ensure that all states, subject to their capacity to raise revenue and delivery costs, can provide similar public services.

"The proposal to equalise to the 'average' of all states rather than the current system of equalising to the wealthiest state may seem like a technicality, but will have major implications for poorer states and the Australian federation over the longer term," Professor Eccleston said.

"What is clear is that there are significant long-term risks for Tasmania. Perhaps more importantly, Australia's system of horizontal equalisation across the federation has been undermined which, based on international experience, will result in greater regional inequality and risks undermining national political cohesion."

Of the various models considered in the Productivity Commission's Draft Report published in October, the model being proposed is one of the worst for Tasmania over the longer term. According to the Productivity Commission, without compensation Tasmania would have been \$168 million worse in 2017-18 had the proposed new system been in place.

"The Federal Government is likely to offer generous short-term compensation to states worse off under the new model, but there are

significant long-term risks for states such as Tasmania and South Australia," Professor Eccleston said.

"While the compensation package should ensure that Tasmania can manage the 'shock' over the next four years, the more important question is what the changes mean for Tasmania in a decade or more.

"Given rising costs of providing essential services, governments can take little comfort from the Commonwealth's commitment that the dollar value of Tasmania's GST funding won't decline."

Professor Eccleston said Tasmania's GST share has increased by \$741 million over the past decade, which equates to almost 12% of State Government spending in 2017-18. Had Tasmanian GST funding been frozen in 2008 and spending stayed the same, this year's State budget would have returned an operating deficit of just under \$700 million, rather than a \$54 million surplus.

"The longer-term implications of the proposed changes will depend on the relative economic performance of other states," Professor Eccleston said.

"The risk, based on the international experience, is that wealthier states will be able to offer better services and lower taxes over time, increasing inequality across the federation."

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