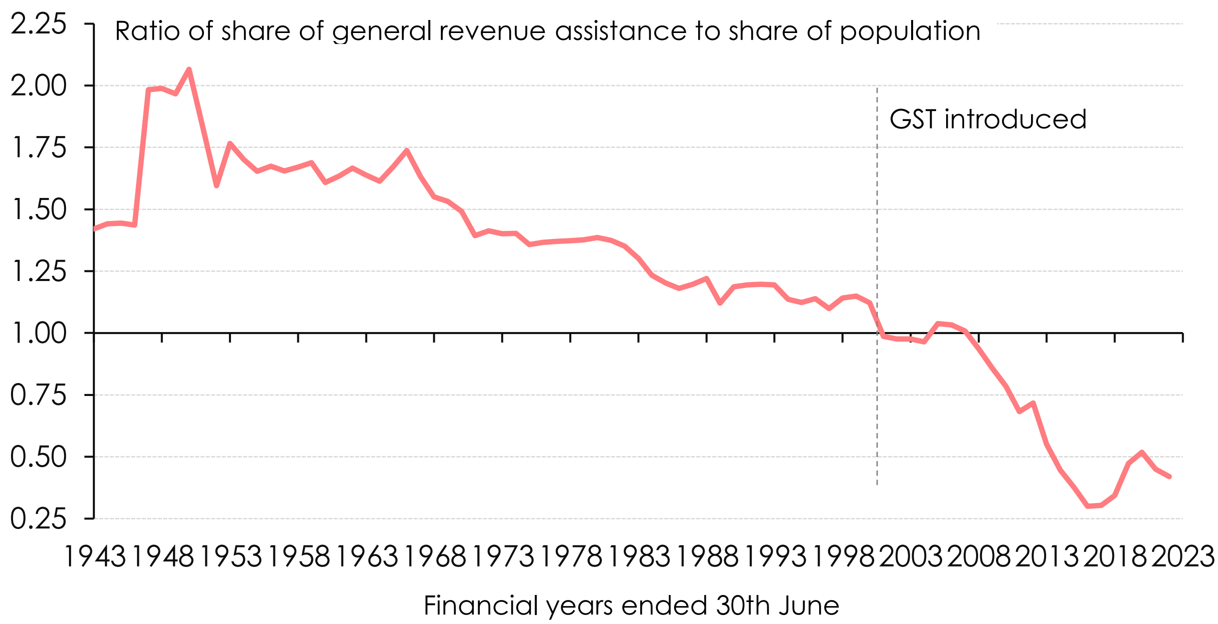
Western Australians, and their political representatives, have since 2005 devoted a great deal of time and energy in pursuit of changes to the way in which the revenue from the GST is carved up among the states and territories, on the recommendations of the Commonwealth Grants Commission. They have repeatedly claimed that there is something both 'unfair' and 'unprecedented' about the extent to which their share of GST revenues has fallen during the past decade, relative to their share of Australia's population. And two years ago, they succeeded in having the rules under which the carve-up of GST revenues is determined changed, to their advantage.

It's therefore perhaps worth remembering that the Grants Commission was set up, in 1936, as a response to the 1933 'WAexit' referendum, which was in turn a response to the (legitimate) grievances Western Australians felt about the way they'd been treated by Federation.

For more than 70 years after that, WA received a larger share of whatever untied Federal monies were forthcoming from Canberra, than it would have received had those monies been distributed according to population shares (which of course they never have been) (see Chart 1).

Chart 1 – Western Australia's share of general revenue assistance from the Federal Government relative to its share of Australia's population



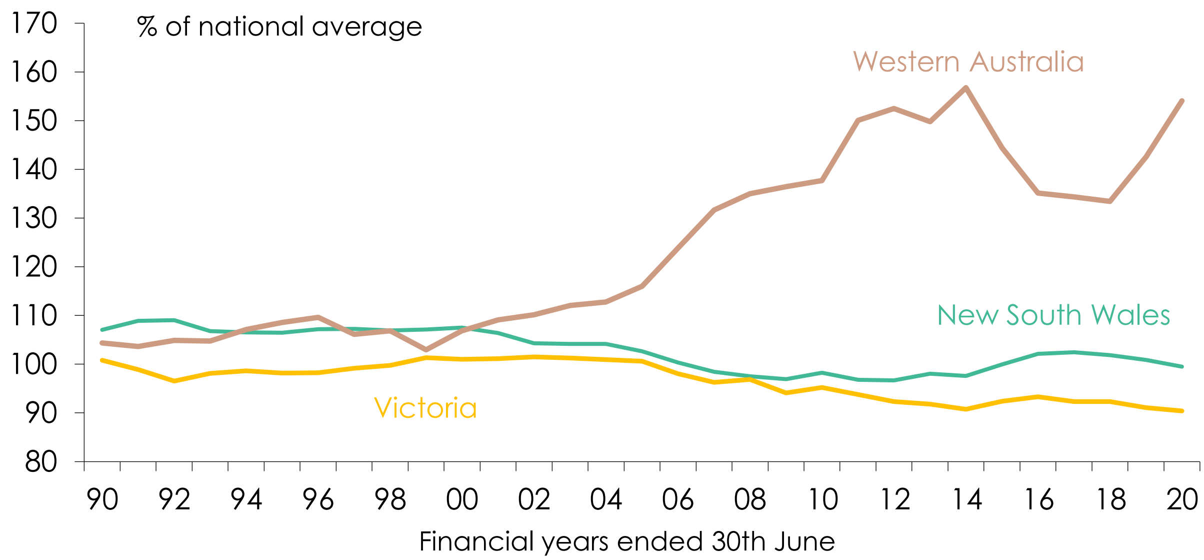
Source: Commonwealth Grants Commission.

That's because the recommendations of the Grants Commission have always been based (as they are still today) on very detailed and considered calculations as to the costs incurred by each state (and since the 1980s, territory) in providing public services to their citizens (costs which it has always recognized are greater in WA than in most of the eastern states), and their differing capacities to raise revenue from their own resources.

Up until the early 2000s, WA was, by most measures, not as capable of generating revenue from its own resources as NSW and Victoria (in particular), whilst incurring higher unit costs than other states in providing things like schools, hospitals, police services and roads – so it got a bigger share of what were variously known as tax-sharing grants, financial assistance grants, general revenue assistance grants and (after 2000), revenue from the GST than its share of Australia's population.

Since around 2005, however, WA has been the richest state in Australia – and for nearly every year since then, by a much larger margin than NSW or Victoria ever were, when they were the richest states in Australia (see Chart 2).

Chart 2 – Gross state product per capita as a pc of the national average



Source: ABS *State Accounts*.

That's why WA's share of GST revenues fell to such a low figure, relative to its share of Australia's population, in the early years of the past decade, and would do so again in 2021-22 had it not been for the 'deal' which the Federal Government imposed on the states and territories two years ago.

The only reason this was 'unprecedented' was because WA's capacity to raise revenue, relative to that of the other states and territories, was so unprecedently large.

WA is now the only government in the country running, and forecasting, budget surpluses – indeed, it is probably one of very few governments anywhere in the world which is running budget surpluses – *not* because successive WA State Governments have been especially frugal in their management of the state's finance, but rather because of the enormous revenues it is now raking in from iron ore royalties.

Previous generations of Western Australians didn't put all that iron ore under the mountains of the Pilbara. Western Australians didn't drive the price of iron ore up from less than US$25 per tonne in the 1990s to where they have been over the past dozen or so. Nor – notwithstanding the contributions of people like Gina Hancock and Andrew Forrest – have Western Australians supplied most of the enormous amounts of capital that have been required to quadruple the production of iron ore over the past dozen or so years. That came, predominantly, from companies and shareholders based in the eastern states, or overseas. Even many of the workers who have toiled in those mines have come from the eastern states, either as FIFO workers or as people who have moved, sometimes temporarily, to WA.

Unlike Queensland, or NSW, where the state governments have built the railways which transport coal from the mines to the ports, in the Pilbara that infrastructure has been constructed by the mining companies themselves (again, usually with capital raised in the eastern states or from overseas). Yes, the WA State Government incurs costs in providing schools, hospitals and other services in remote mining towns – and those costs are still, to this day, explicitly recognized in the way the Grants Commission calculates the carve-up of GST revenues.

One of the consequences of the changes to the system of carving up the GST revenues which the Prime Minister imposed on the states and territories two years ago is that the Grants Commission is now no longer asked to recommend a carve-up which would allow every state and territory to provide the same range and standard of public services to its citizens (if it wished to) as the richest state (which had been the 'principle' since 1981). Rather, it now has to recommend a carve-up which allows every state and territory to provide the same range and standard of services as the stronger of NSW or Victoria.

That means that if WA has a greater 'fiscal capacity' (to raise revenue from its own sources) than NSW or Victoria – which has been the case for almost all of the past dozen years – then other states and territories *won't* be enabled to provide services to their citizens at the same level as those who live in WA are able to obtain.

As a practical matter, this means that WA in effect gets to 'keep' more of the windfall gains it is currently reaping from the current sky-high price of iron ore than NSW would do it the iron ore had, by some chance, been located in Broken Hill rather than in the Pilbara.

Until 2026-27, the cost of allowing WA to keep more of its windfall gains will be borne by the Federal Government. Its deficits will be several billions of dollars larger than they would have been otherwise, so that WA's surpluses can be several billions of dollars larger than they would have been otherwise.

But from 2027-28 onwards – depending of course on what happens to the price of iron ore between now and then – the cost of allowing WA to hang on to more of their windfall gains than would have under the old 'rules' will be transferred to the other states and territories, who will almost certainly be ill-placed to bear it.