Perceptions of Fairness and Territorial Redistribution in the Australian Federal System

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Abstract: Australian fiscal federalism is known to have one of the most egalitarian systems of horizontal territorial redistribution, yet we found that forty percent of Australians currently believe the state where they reside receives less than its fair share of federal government spending on various programs and transfers. What explains the interstate variation in respondents' perceptions on whether the Commonwealth treats their state fairly, relative to others? Do individual-level attributes influence public perceptions of federalism, or are these perceptions driven by state-based factors such as differences in revenue capacity and expenditure needs (i.e. territorial inequality)? Moreover, what are the potential political consequences of these subnational variations? In this article, we argue the primary factors influencing public perceptions of whether the central government treats states fairly or unfairly are driven by subjective and objective measures about a state's fiscal position (horizontal fiscal imbalances), awareness of tax and transfer allocations, and a respondent's national identity, rather than individual personal attributes.

Introduction

As of 2022, 25 democracies in the world adopt a federal system, accounting for 41.5% of the global population (Forum of Federations 2024). Federalism is a principle of governance and government organization with extensive applications. In comparative terms, Australia is widely perceived as having undergone a substantial and persistent degree of centralization since its Federation in 1901 (Braun 2011, Fenna 2007, 2012, Galligan 2012, *inter alia*). Unlike more decentralized federal systems, centralization in Australia has led to one of the most pronounced vertical fiscal imbalances (VFI) among federations. VFI refers to the difference between the revenues that states and territories collect relative to how much they spend (Fenna 2019). Due to the extensive taxation rights granted to the Commonwealth by the Australian Constitution, state and local governments currently collect less than 20% of the country's tax revenue, raising only half of the revenues they require to fund their expenditures (Stewart 2023). Consequently, the Australian states are internationally regarded as "fiscally inflexible" (see Fenwick 2023; Standard and Poor 2020; Rodden and Wibbels 2010).

In 2022-23, for example, the Australian government contributed 47.3% of total state expenditure, with approximately 48.5% of these funds provided by the Commonwealth being tied to national goals, priorities, and programs in the form of payments for specific purposes (Australian Treasury 2024.). This financial arrangement, both in theory and practice, creates a significant fiscal dependency of Australian states on the central government, thereby impacting their practical autonomy. According to federalism theory, writ large, such fiscal dependency *ought to* lead to horizontal inequality among states. In the Australia case, however, this tendency has historically been mitigated by three main forms of financial assistance from the Commonwealth to the states under Section 96 of the Constitution: general revenue sharing,

non-discretionary special grants to claimant states based on calculations by the Commonwealth Grants Commission (CGC), and discretionary transfers referred to as specific purpose payments (for more details, see Sanders 2023). During the 1970s, these special grants were replaced by income-tax-sharing to agreements with all states, with distributions determined by relativities based on equalization principles (Productivity Commission 2018).

Australia's fiscal redistribution system, known as *Horizontal Fiscal Equalization (*HFE), is meant to equalize the states on a fiscal needs basis–including both revenue capacity and expenditure needs. HFE plays a crucial role in enabling each of Australian six states and two territories to provide a nationally consistent standard of public services and associated infrastructure across the country, thereby upholding the principle of "equality" that is embedded in Australian federal culture (Braun 2006, Hobbs 2018). The HFE was designed as a mechanism to address both vertical and horizontal inequalities by redistributing financial resources in a way that levels the playing field among states. The methods and principles of the HFE were further clarified and became more firmly institutionalized in 2000 with the introduction of the Goods and Services Tax (GST). The GST not only replaced the unconstitutional franchise fees but also many of the earlier forms of financial assistance grants (Braun 2006, 27). Although enacted as a Commonwealth tax, the GST was to be collected and administered by the Commonwealth on behalf of the states, which paid an agreed annual sum for its administration. The entire revenue from the GST was then distributed to the states and territories, mirroring the distribution method of previous Commonwealth grants to the states and was equalized through the mechanisms developed by the CGC.

From 2000 until 2018, the Commonwealth Government had minimal involvement in the HFE process, with the Treasurer's role primarily limited to giving implicit support to GST relativities and conducting regular reviews of HFE methodology (Productivity Commission 2018). While the GST reduced the states' dependence on annual revenue decisions and improved their fiscal security, it did not enhance their fiscal autonomy, as approximately half of the payments from the Australian government to the states remained tied to specific purposes (see Fenwick and Stewart 2024).

Two key factors, however, are important to highlight. First, while Australian's fiscal redistribution system is considered one of the most egalitarian among federations, this does not empirically imply that regional differences across the states are absent (Aroney and Sharman 2018). Second, despite the high level of centralization, states and territories retain significant and visible policy authority in key areas such as health, education, housing, policing and crime, and transport (Lecours et al. 2021; Smith et al. 2023). These differences, one could argue, should lead to varying levels of satisfaction with Commonwealth-state fiscal arrangements and influence of the effectiveness of the federal system. Yet, interregional opinions related to fiscal federalism, including perceptions of a state's respect, fairness, influence, and place within the federation have been seldom studied in Australia. Instead, existing national survey data have focused more on interpersonal preferences for welfare state policies and attitudes towards regionalism (Schakel and Brown 2021). Our study aims to contribute to and extend the existing literature on federalism by focusing on what drives perceptions of "fairness," "influence" and "respect" in the context of fiscal federalism and assessing its political consequences for Australian federalism.

Based on our original survey results,[1] 40% of Australians believe their state receives less than its fair share of federal government spending on various programs and transfers with observable subnational variation in perceptions of fairness depending on which state the respondents reside (see Figure 1 below). This finding forms the basis of our research puzzle for two key reasons. First, as already stated, Australia has one of the most egalitarian systems of territorial fiscal redistribution in the world, and second, Australia is often considered to lack a "federal society" (Fenna 2023; Smith et al. 2023), i.e., it does not possess sufficient distinct social-economic, linguistic, or cultural characteristics that drive regional perceptions of inequality in federations such as Canada, Belgium, and Spain. This raises critical and still unanswered questions: What factors are driving the interstate variation in respondents' perceptions of whether the Commonwealth treats their state fairly compared to others? Are these perceptions shaped by the public's general attitudes toward federalism, or are they influenced by territorial-based factors such as differences in regional income? Moreover, what are the potential political consequences of these subnational variations?

[Figure 1: Insert Here]

Furthermore, could the differences in states' public perceptions of fairness help explain why only a quarter of Australians surveyed in 2023 (see Figure 2 below), agree with the statement that Australian federalism offers more advantages than disadvantages? As stated succinctly by Brown (2004), anti-federalist sentiment in Australia is not driven by the view that it should be more centralized, but rather by the belief that it is too centralized and is thus not serving its

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[1] Life in Australia Wave 78 of the ANU Poll 56 Questionnaire Survey, fielded in August 2023, with 3,296 respondents. The sample is representative of Australian citizens aged 18 years or older.

purpose and paradoxically, some have argued, should be abolished for a more regionally based, decentralized unitary system (see Crisp 1978; Galligan 1995; Macphee 1994a, 1994b; Hall 1998).

[Figure 2: Insert Here]

Redistribution and Territorial Politics

Existing studies from other comparable federations in Europe and North America suggest that public attitudes towards redistribution are broadly shaped by a combination of individual-level and territorial-based economic and political factors (see Dion and Birchfield 2010). Scholars of federalism emphasize additional factors such as solidarity and equality (Harmes 2019), attachment to regional identity (Balcells et al. 2015; Jacques et al. 2022), the strength of territorial politics (Lecours and Beland 2019), the importance of party dynamics (Aroney and Sharman 2018), as well as the structure of political parties and their organizational linkages as tools for influencing intergovernmental relations and fiscal transfers in federal systems (Gordin 2004; Fillipov et al. 2004; Chhibber and Kollman 2009; Thorlakson 2009). In the following sections, we discuss a range of factors and theoretical propositions identified in the literature as having an impact on our outcome of interest.

Individual Level Attributes

Comparative political economy research has extensively explored the role of individual-level factors, such as education and income, in shaping popular support for redistribution. Beramendi and Rehm (2015), for example, argue that higher levels of education and income are often associated with lower support for redistribution, as individuals with greater resources may feel

less dependent on state welfare programs and more resistant to policies that could result in higher taxes. This aligns with the broader literature on economic self-interest, which posits that individuals' material conditions strongly influence their policy preferences (Meltzer and Richard 1981; Iversen and Soskice 2001).

However, the impact of education on attitudes towards redistribution can be more complex. Some studies suggest that higher education levels can also correlate with greater support for redistributive policies, particularly among individuals who view inequality as a societal issue that needs to be addressed (Alesina and La Ferrara 2005; Luttmer 2001). This perspective is linked to the concept of enlightened self-interest, where more educated individuals may support redistribution not only out of personal benefit but also from a broader concern for social justice and stability (Cusack, Iversen, and Rehm, 2006).

Income, similarly, plays a dual role in shaping preferences for redistribution. While wealthier individuals are generally less supportive of redistribution due to the direct financial costs they would incur, those in lower-income brackets tend to favor redistributive policies that can enhance their economic security (Moene and Wallerstein, 2001). The interplay between income and support for redistribution is also influenced by perceptions of social mobility and fairness. For instance, Alesina and Angeletos (2005) suggest that in societies where social mobility is perceived to be high, even low-income individuals may oppose redistribution, believing they have a fair chance to improve their economic status without state intervention.

Moreover, cross-national studies have shown that these individual-level factors interact with broader institutional and cultural contexts, which can either amplify or moderate their effects

on support for redistribution (Korpi and Palme 1998; Esping-Andersen 1990). For example, the presence of robust welfare states in Scandinavian countries has been linked to higher overall support for redistribution, even among higher-income groups, compared to more market-oriented systems like the United States (Svallfors 2004).

In addition to education and income, other individual-level factors such as age, gender, and ethnicity have also been identified as significant determinants of attitudes towards redistribution (Blekesaune and Quadagno 2003; Shayo 2009). Younger individuals, women, and ethnic minorities, who may face greater economic vulnerabilities, are often more supportive of redistributive policies. However, these attitudes are also shaped by the extent to which these groups feel they are beneficiaries of such policies or if they perceive them as addressing broader societal inequities (Luttmer 2001).

Political and territorial factors

According to the literature and previous studies, political factors, including ideology, partisanship, and the structure and organization of political parties, are often considered crucial in shaping public attitudes towards federalism and fiscal redistribution. Scholars such as Harmes (2019) and Béland and Lecours (2018) suggest that the politics of fiscal federalism are frequently divided along ideological lines, reflecting the competition between left and right economic interests. These ideological and political struggles are viewed as significant in forming public perceptions about the fairness and nature of territorial redistribution. There is a consensus for example in the literature on decentralization and centralization, that statewide political parties on the left play a strong centralizing role, whereas parties on the right tend to be more pro-federal and decentralizing—primarily because decentralization may prevent the

implementation of key policy goals of the economic left, such as inter-territorial and individual equality (see Toubeau and Wagner 2015). However, this proposition has been contextualized over time by the strength of regionalist parties and territorial identities (Erk 2007).

The organization of political parties is also considered to be an important factor influencing public opinion, because party identification and partisanship within a party system—whether congruent or incongruent—are generally thought to shape citizens' perceptions of policy issues and their candidate preferences (Dalton 2020). The comparative federalism literature suggests that *vertical party integration*—referring to party system congruence or the sharing of a party label across levels of government—typically influences whether state party officials have the autonomy and capacity to shape their appeals in response to local priorities (Thorlakson 2009).

Beyond political and party-system factors, the fiscal distribution of finances within a federal system, which divides power among states and territories along geographical lines, extends beyond technical arrangements and formulas. The allocation of resources is inherently tied to critical power struggles and territorial identities, transforming technocratic discussions into politically charged, territorial-based conflicts (Béland and Lecours 2018). Drawing from social-identity theory (see Tajfel and Turner 1986), some scholars emphasize how the strength of territorial identity versus national identity can condition preferences and support for increased interregional fiscal redistribution (Medeiros and Gauvin 2021). Balcells et al. (2015) hypothesize identity-based factors matter because attitudes towards groups living in certain regions should impact preferences for territorial redistribution.

Identity, however, is not as central to regionalism as it is to sub-state nationalism. While regionalism does involve a territorial identity, one can still hold both a national and territorial identity that may be compatible (Lecours and Beland 2019). In regionalism-based territorial politics that are non-nationalist, however, the promotion of 'interests' takes precedence over 'identity' (see Lecours and Beland 2019). This theoretical distinction is critical because it further highlights why our research is politically significant—territorial politics based on 'interests' often arise from discontent with territorial economic disparities. This 'territorial discontent' is shaped and mobilized by public perceptions, both 'informed' and 'misinformed,' about the fairness of fiscal treatment relative to other states/territories.

Relevance of the Australian context

All federal systems undertaking the territorial redistribution of fiscal resources vis-à-vis centrally collected taxes and transfers designed to resolve vertical and horizontal fiscal imbalances run the risk of generating intergovernmental tensions (Rodden 2006). Australian is no exception to this rule, even though compared to more decentralized federations like Canada and Spain, these tensions might seem less salient. This is primarily because territorial politics are considered weaker in Australia due to its well-known lack of territorial socio-cultural cleavages (Aroney and Sharman 2018; Smith et al. 2023). The eminent theorist of federalism, William Riker, wondered why Australia even bothered with federalism (1964). Other Australian legal scholars consider the states to be "primarily historically derived administrative arrangements" (Hobbs 2018, 314). Some scholars further suggest Australia's lack of a federal culture/society explains both the extent of its centralization and its widespread ambivalence towards federalism (Tiernan 2015; Fenna 2019).

Notwithstanding these descriptive propositions, federal governance and the role states play in Australian democracy are likely to become more, not less, important in the future as the differences in state populations, size, wealth, changing regionally based economic circumstances, and territory specific policy interests becoming more pronounced over time (see Sanders 2023, Stewart 2023). For example, the importance of state leadership and the role of the states in mitigating Australia's response to the COVID19 crisis, has been noted in this context (Lecours et al. 2021, Stewart 2023). Moreover, the HFE reforms in 2018 which transformed the redistributive system from one of full to partial equalization (Fenwick and Stewart 2024), were explained as necessary because "the mining boom revealed that it does not function well when faced with economic shocks" (Parliament of Australia 2018, 7) and the CGC's previous three-year review were regarded as "unacceptable to Western Australians" (Premier Barnett 2010, quoted in Zimmermann 2012)—both statements reflect the increasing politics surrounding fluctuating state-based economic circumstances. Therefore, there is increasing evidence that states remain important and institutionally entrenched within Australian federalism, possessing both the necessary administrative power and sufficient electoral incentives to both appease and/or undermine national policies based on their unique regional interests. The national agenda can, and at times has, diverged from state-level policy priorities and electoral interests (Aroney and Sharman 2018; Lecours et al. 2021).

Regarding political factors, Australia has a highly uniform and unified party system dominated by the Australian Labor Party (ALP) on the Left, and the Liberal-National Party coalition ('the coalition') on the right. According to Fenna (2019), Australian politics since 1909 are nation-wide and divided on a left-right axis, where there have been no regional parties to inject a centrifugal dynamic into Australian federalism. Studies by Cameron and McAllister (2020) however, suggest that in the context of valence politics—where electoral choices are predicted

based on leadership images, partisanship, and evaluations of economic performance—the increasing ideological convergence between major parties in Australia has led to competition based more on competence and performance than on ideologically diverse policy platforms. In federal systems like Australia's, where both government competence and performance are shared between levels of government, valence politics can provide an incentive for lower levels of government to shift blame for their perceived weaker performance onto the Commonwealth government, even when state candidates share the same party label. This is further supported by Smith et al. (2023), whose key finding is that the strongest influence on the intention to vote for a regional incumbent during the last set of state elections was the voter's assessment of how well the incumbent dealt with COVID19.

Therefore, while Australia is considered in international comparative datasets to have high levels of vertical party integration (Thorlakson 2020), nationally based studies indicate that Australia's party system is more confederal than vertically integrated. This means that when state priorities diverge from national government policies, premiers, regardless of their party affiliation, are likely to openly criticize and voice their opinions about national-level programs and arrangements. This is compounded by two additional factors identified in the literature: the weak state-to-national career ladder, evidenced by the limited number of national parliamentarians with state-level experience, and the non-concurrent timing of federal and state elections, which reduces the viability of down-ballot or coattail effects. The literature does not dispute that having states governed by the Prime Minister's party can influence his or her popularity in the national parliament (McAllister 2003). Australian premiers, however, are not typically reliant on their federal counterparts for electoral success in state-level elections (Miragliotta and Sharman 2012).

For instance, Bolwell and Eccleston (2018) indicate that a party in opposition to the incumbent national governing party tends to perform better in state elections—for example in 44.6% of the regional elections since 1997, the incumbent party of the regional government differed from the party governing nationally (see Smith et al. 2023). This suggests that although Australian political parties are integrated/congruent and do indeed share organizational similarities across government levels, their influence in creating an incumbency advantage for state-level politicians of the same party label is limited compared to other federations with more vertically integrated party systems, such as the United States and Brazil.

Preliminary empirical analysis of our survey questions designed for this project aligns with findings from other research, such as studies conducted in Canada (Environics 2019. 2022; Borwein et al. 2023), that revealed only weak correlations between partisanship and preferences for greater or less fiscal redistribution, with no significant correlation for perceptions of fairness within the federation.[2] These findings suggest that, paradoxically, as in Canada—a highly decentralized federalism with strong regional politics within a non-integrated party system—factors other than ideology or partisanship may play a more influential role in shaping public attitudes towards territorial redistribution in Australia.

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[2] Political ideology was measured based on respondents' intended voting choices from the survey question: 'If a federal election for the House of Representatives were held today, which one of the following parties would you vote for? The ideology variable was then recoded into three categories: Left (The Greens); Centre (Australian Labor Party), and Right (Coalition). A Pearson's correlation found no statistically significant relationship between perceptions of fairness and political ideology. Similarly, including ideology as a control in our main analysis yielded no statistically significant results. These null effects may stem from using vote choice as a proxy rather than direct left-right self-identification. Future waves of our survey will incorporate direct self-identification to further investigate this relationship.

Hypotheses

According to our theory, discussed above, the primary factors influencing public perceptions of whether the central government treats states fairly or unfairly are likely driven by beliefs about state-level fiscal health, awareness of tax and transfer allocations, and respondent's national identity, rather than individual personal attributes. In both theory and practice, the states are expected to advocate for greater revenue autonomy. The increase in subnational debt accumulation over time should also be an additional push factor for great subnational fiscal autonomy (Fenwick 2023). However, having lost state-level revenue authority over time, state politicians instead blame shift onto the Commonwealth for the lack of resources to fund state-level priorities and explain state-level under performance. This is consistent with Cameron and McAllister's findings on the significance of valence politics in Australia (2020). According to Standard and Poor's reports (2024), Australia is increasingly fiscally divided between resource-rich states and the populous and increasingly highly indebted states such as Victoria, North South Wales (NSW), and South Australia (SA). Since 2009, state-level public debt has increased unevenly throughout the states (Fenwick 2023). This leads to our first hypothesis:

H1: The greater the fiscal imbalance across the states, the more likely respondents from those states are to perceive territorial fiscal redistribution as unfair.

The Commonwealth Grants Commission (CGC) recommends how the GST should be distributed among the states and territories using a complex formula aimed at equalizing the fiscal capacity of the states so that Australians enjoy the same standard of services, regardless of where they reside (Parliament of Australia 2018). Every three years, using the 'Direct Assessment Method,' the CGC calculates an Australia-wide average of state capacity to raise revenues and provide services on a per capita basis. In making these assessments, the CGC

accounts for divergences from the 'all states average' due to empirical structural factors, not based on a jurisdiction's policy choices.

The updated Horizontal Fiscal Equalization (HFE) system came into full effect in 2021 (Bill 143, 2018). These reforms were primarily politically driven, as the mining boom revealed that the previous system—where revenue allocations were based on standardized state budgets averaged over three years to determine allocations in the fourth year—did not function well in the face of economic shocks. The implemented reforms include additional short-term transition payments to ensure no states are worse off under the new system; states are now equalized to the standard of the fiscally stronger Victoria or New South Wales; a new revenue floor ensures that by 2024, no state will receive less than 0.75 dollars per person per dollar of GST; and the Commonwealth provides GST top-ups to boost the GST revenue pool using additional Commonwealth funds.

These changes have heightened political tensions and intergovernmental conflicts over resource sharing between states, bringing them into sharper public focus. However, despite this increased visibility, the complexities of the equalization system remain difficult to grasp, especially for those who are less informed. The intricate calculations inherent in the system can lead to misunderstandings among the public—particularly the misconception that to lift up states with lower-than-average revenue capacity (calculated tax by tax for every state), other states must be made worse off. In contrast, more informed citizens, who have a better understanding of the tax and transfer processes, may be better equipped to appreciate the rationale behind these allocations. As a result, they are less likely to perceive the system as unfair, even in the presence of fiscal imbalances. This leads us to our next hypothesis:

H2: As respondents' understanding of how taxes and transfers are allocated among states increases, the effect of state-level fiscal imbalance on their perception of territorial fiscal redistribution as unfair becomes weaker.

In Australia, electoral success for state politicians' hinges on their ability to address the unique policy challenges specific to their states, which vary considerably across the country (Aroney & Sharman 2018). Given this diversity, state-level politicians are expected to prioritize their state's interests when navigating Commonwealth-State fiscal arrangements. According to theoretical expectations, the sharing of a party label across different levels of government should discourage state politicians from politicizing these fiscal arrangements. However, the reality may be more nuanced.

We explore how the level of national versus state identification influences respondents' support for the current federal-to-state distribution as "fair." While shared partisanship across government levels might be expected to foster a unified stance on fiscal arrangements, we hypothesize that the strength of a respondent's national identity could play a more decisive role. Specifically, we propose that a strong national identity might lead respondents to support the current distribution of taxes and transfers, perceiving it as fair regardless of their state's fiscal position. Conversely, a stronger state identity might drive respondents to view these distributions as unfair, particularly if they perceive their state as disadvantaged. Thus, our third hypothesis is as follows:

H3: Respondents who identify more strongly with a national identity are more likely to perceive territorial fiscal redistribution as fair.

Empirical strategy

Data and methods

To test our hypotheses, we designed a module on Federalism and the Role of Government within the Life in Australia Wave 78 of the ANU Poll 56 Questionnaire Survey, which was fielded in August 2023 and comprised a total of 3,108 respondents.[3] This module explores three critical aspects of federalism in Australia that are central to our study: the personal attributes of respondents, the perceived fairness of financial transfers from the federal government to subnational governments, and the identity of Australians in the context of federal-state relations.

Personal attributes of respondents

The first area of our module collects essential demographic information about the respondents. While the options provided for gender identification included 'Man,' 'Woman,' and 'Non-binary,' no respondents selected 'Non-binary,' resulting in the variable being treated as a dichotomous measure with 'Man' and 'Woman' as the only categories. Their ages are categorised into four groups: "18-29 years", "30-49 years", "50-64 years", and "65 or more years". Education level is recorded according to the highest qualification attained by the respondent, with categories ranging from "Secondary Education – Years 9 and below" to "Postgraduate Degree Level," encompassing seven additional categories in between. Household income is captured in a detailed manner, with respondents selecting from a range of income brackets, starting from "AUD$0 to $24,554" and extending to "More than AUD$222,300," with eight categories in between.

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[3] The original survey comprised 4,204 respondents, but for our analyses we included only those who identified as Australian citizens and treated 'don't know' responses as missing values.

Fairness of financial transfers from the Commonwealth to the States/Territories

The second key focus of our survey module examines respondents' perceptions of fairness in the distribution of federal resources among states and territories. We ask respondents whether they believe their state receives "more than its fair share," "less than its fair share," or "about its fair share" of federal funds. This question is crucial for understanding how citizens perceive the equity of federal transfers. The responses to this question provide insights into public sentiment regarding fiscal federalism and whether individuals feel their state is being treated fairly within the broader national context.

Identity and federalism

The third area of our module focuses on how Australians identify themselves in relation to their state and the nation. We ask respondents to indicate whether they see themselves as "an Australian only," "an Australian first, but also someone from [RESPONDENT'S STATE]," "equally an Australian and someone from [RESPONDENT'S STATE]," "someone from [RESPONDENT'S STATE], but also an Australian," or "someone from [RESPONDENT'S STATE] only." This question is crucial for capturing the respondents' national identity in comparison to a more state-centred or mixed identification.

Dependent variable

We use the question on the perceived fairness of financial transfers from the federal government to subnational governments as our dependent variable (DV). This variable, *fairness,* is specifically derived from the question: "Thinking about all the money the federal government spends on different programs and transfers to the states and territories, do you think [STATE

NAME] receives…?" For our analysis, we dichotomised this variable by assigning a value of 1 to respondents who selected "About its fair share" and 0 to those who chose "Less than its fair share." This dichotomization allows us to focus on the binary distinction between those who perceive the distribution as fair and those who see it as unfair.

The decision to dichotomize the variable is driven by both theoretical and practical considerations. Theoretically, our primary interest lies in understanding the factors that lead individuals to view the federal distribution as fair versus unfair, rather than distinguishing between different forms of perceived unfairness (whether a state is seen as receiving too much or too little).[4] By simplifying the response categories into a binary outcome, we can more directly test our hypotheses about the predictors of perceived fairness.

Practically, dichotomising the variable also enhances the clarity and interpretability of our results. It allows us to streamline the analysis by focusing on the fundamental question of fairness, which is central to our investigation of fiscal federalism in Australia. This approach provides a clear and concise measure that aligns with our research objectives and facilitates more straightforward comparisons across different respondent groups.

Independent variables

The independent variables in the analysis include *female*, *age group*, *education*, *income*, *national identity* and *GST*. We retained the original dichotomous classification for gender and renamed the variable 'Female' to highlight that a response of 'Woman' is coded as 1, while 'Man'

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[4] Examining the different forms of perceived unfairness presents a valuable direction for future research.

is coded as 0. The variable *age group* remains unchanged from the original categorization. The original educational attainments were recoded to align with the Australian educational structure. The revised variable, *education*, is categorized into four levels: 'Below Secondary,' 'Secondary,' 'Graduate,' and 'Postgraduate.' The original household income variable was simplified into three broader categories based on the Australian socioeconomic structure. In the recode variable 'income,' the 'Low Income' category includes incomes from $0 to $52,884, the 'Middle Income' category covers incomes from more than $52,884 to $222,300, and the 'Upper Income" category encompasses incomes greater than $222,300. This recoding helps to streamline income analysis by grouping detailed income brackets into more general categories.

To assess national versus state identity, we employed a question based on Moreno (2006) that allowed respondents to indicate whether they identified solely as Australian, solely with their state, predominantly with their state, or equally with both levels. We dichotomized this variable by assigning a value of 1 to those who identified as "An Australian only" or "Australian first" and 0 to all other responses. This dichotomization facilitates a clearer analysis by distinguishing between individuals with a strong national identity and those with a more nuanced or dual sense of identity. It emphasizes the contrast between exclusive national identification and other forms of identification, which is crucial for examining the impact of national identity on perceptions of federal resource distribution.

To measure fiscal imbalance across Australian states, we use the *assessed* Goods and Services Tax (GST) relativities, which captures the disparities in fiscal revenue capacity and expenditure

needs among states.[5] They are calculated every three years based and then reviewed annually by the Commonwealth Grants Commission (CGC). The CGC assesses each state's ability to raise revenues relative to the nationally calculated average, as well as each state's cost of providing nationally equivalent services, relative to the national average. These assessed calculations do not include the application of any negotiated revenue floors. The use of assessed GST relativities as a measure of horizontal fiscal imbalance, rather than a simple revenue-to-expenditure ratio is justified by the comprehensive approach taken by the CGC in their calculations. Unlike a revenue-to-expenditure ratio, which only considers the immediate financial inflows and outflows of a state and reflect a jurisdiction's policy choices, assessed GST relativities account for a wide range of factors that influence a state's fiscal capacity and expenditure needs. These factors include mineral endowments, land values, property transactions, taxable payrolls, remoteness of the population, share of indigenous peoples, the existence of big cities, and the extent of Commonwealth Payments for Specific Purposes (tied grants).

In this way, assessed GST relativities offer a single, standardized measure of fiscal imbalance, integrating multiple dimensions of fiscal performance into one concise metric. States with an assessed GST relativity of less than 1.00, will receive an entitlement smaller than their per capita share of the revenue pool, while states with a relativity of more than 1.00, will receive more than their per capita share to balance out their lower-than-average assessed capacity to

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[5] In Australia's GST distribution, several types of relativities are calculated and provided by the Commonwealth Grants Commission (CGC): recommended, standard, blended, and assessed. The recommended GST relativities are based on detailed assessments of each state's fiscal capacity and needs, ensuring equitable distribution. Standard GST relativities, calculated using a baseline formula, serve as a benchmark but may not fully capture the complexities of each state's situation. Blended GST relativities mix aspects of recommended and assessed measures, often used during transitions to smooth the impact of changes. Assessed GST relativities, which we use in our analysis, are specifically adjusted to reflect differences in real fiscal capacity and expenditure needs, making them an accurate measure of fiscal imbalance.

raise revenues and/or higher-than-average-assessed expenditure needs. Therefore, a relativity of 1.00 represents that a state's revenue capacity and expenditure needs equal the nationally calculated average, serving as an ideal measure of horizontal fiscal disparities.

Post-2018, any state whose assessed relativities full under the 0.75 floor, effectively becomes a 'winner' in the new system. The only state to hit this floor too date is WA. There are in fact however no 'loosers' in the new system as the Commonwealth has extended the no worse-off payments until 2030. Table 1 below depicts the *assessed* GST relativities, shares, and the GST distribution for Australian states and territories for the fiscal years 2023-24.

[Table 1: Insert Here]

Table 1 highlights important differences in the GST relativities among Australian states and territories, particularly between the Northern Territory and Western Australia. The Northern Territory has a GST relativity of 5.06681, although slightly below its assessed relativity 2020-2023, it remains the highest in the country, indicating a significant fiscal dependence in the NT on horizontal fiscal redistribution. In more tangible terms this means the Northern Territory receives 507% of its per capita GST revenues. This figure underscores the substantial fiscal challenges faced by the Northern Territory, due to their lower than national 'all states ability' to raise revenue, and higher expenditure needs to provide nationally equivalent public services. As a result, the Northern Territory receives 4.7% of the national GST share, amounting to $4,002 million. This allocation, while representing a relatively small portion of the total GST pool compared to other states, is substantial on a per capita basis due to the Northern Territory's small population of 250,000. For instance, larger states like New South Wales and Victoria have populations of 8.2 million and 6.7 million, respectively.

In stark contrast, Western Australia has an assessed GST relativity of 0.11902, the lowest among all states and territories. This can be understood as Western Australia *ought* to be receiving approximately 12 cents for every dollar of GST per person in 2024, based on their revenue capacity/expenditure needs averaged over three years, 2020 to 2023. Western Australia's strong revenue-raising capacity is primarily driven by its robust economic activities, particularly the higher-than-expected international iron ore prices over the previous years. However, due to the existence of a guaranteed revenue floor meant to mitigate the effect of economic volatility in the mining sector, Western Australia in 2024, receives 0.75 cent per dollar per person of GST in 2024, regardless of their assessed entitlement based on their 3-year standardized state-budgets.

Method

Given the binary nature of our dependent variable, "fairness," a logistic regression model is well-suited for our analysis. This model enables us to assess how predictor variables influence the probability that Australian respondents perceive their state as receiving a fair share of federal transfers. In logistic regression, we estimate the odds of the binary outcome occurring—perceiving federal transfers as fair—relative to it not occurring.

According to our first hypothesis, we expect that respondents from states with a greater fiscal imbalance will be more likely to view the redistribution as unfair. We test this hypothesis by including GST relativity as a primary predictor in the model, with the expectation that higher GST relativity will be associated with a stronger perception of unfairness. Our second hypothesis posits that a better understanding of the allocation process will reduce the perceived unfairness associated with fiscal imbalance. To explore this, we include an interaction term

between GST relativity and education in the model, using education as a proxy for respondents' knowledge about the transfer process. We anticipate that higher education levels will weaken the impact of fiscal imbalance on perceived unfairness, reflecting a more informed perspective on redistribution. According to our third hypothesis, respondents with a stronger national identity are more likely to view the current distribution of taxes and transfers as fair. We test this by incorporating our binary measure of national identity as a predictor in the model.

The full specification of our logistic regression model is as follows:

$$
\begin{aligned}
\text{logit}(P(\text{fair\_share} = 1)) = {} & \beta_0 + \beta_1 \times \text{female} + \beta_2 \times \text{age\_group} + \\
& \beta_3 \times \text{education} + \beta_4 \times \text{income} + \\
& \beta_5 \times \text{national\_identity} + \\
& \beta_6 \times \text{assessed\_gst} + \\
& \beta_7 \times (\text{education} \times \text{gst}) + \\
& \gamma \times \text{State} + \delta \times Z
\end{aligned}
$$

In this model, the term *logit(P(fair_share = 1))* represents the log-odds of a respondent perceiving the distribution of GST as fair (fair_share = 1). The intercept β_0 is the baseline log-odds of perceiving fairness when all the independent variables are at their reference levels. Each coefficient (β_1 to β_7) represents the change in the log-odds of perceiving fairness associated with a one-unit increase in the corresponding predictor variable. The term *γState* represents the fixed effect (FE) for each state, accounting for variations between states, such as population size, cultural norms, cost of living, and geographic characteristics. This ensures that the model controls for state-specific factors that might influence perceptions of fairness in territorial distribution.

The term δ × Z represents a vector of control variables, where Z includes the region where the respondent resides (categorized as either living in a capital city or not) and whether the respondent identifies as Aboriginal or Torres Strait Islander. Respondents residing outside capital cities may perceive public service provision as inadequate or may have less access to high-quality services, such as education and healthcare. This could influence not only their perceptions of the fairness of federal distribution but also their actual access to these services. Similarly, respondents who identify as Aboriginal or Torres Strait Islander may view the distribution of resources as unfair due to their experiences of inequities. Historically, these communities have faced significant disparities in education, healthcare, and other public services. Consequently, they may be more likely to perceive the distribution of federal funds as biased or insufficient in addressing their specific needs.

Results and discussion

Our results are depicted on Table 2 below. While none of the variables capturing personal attributes (gender, age, and income) showed statistically significant effects, the coefficients for our main independent variables support our theoretical expectations. Respondents with a stronger national identity are more likely to perceive fiscal redistribution as fair (H3), while those from states with greater fiscal imbalances tend to perceive it as unfair (H1). However, this effect of fiscal imbalance is less pronounced among more educated respondents (H2), who may have a more nuanced understanding of the fiscal system.

[Table 2. Insert Here]

The coefficient for assessed GST is statistically significant at the 0.05 level and in the expected negative direction, suggesting that, holding all other variables constant, an increase in assessed

GST relativity (indicating greater fiscal imbalance) decreases the log-odds of perceiving the distribution as fair. In other words, respondents from states experiencing greater fiscal imbalance are more likely to perceive the transfer distribution from the federal government to their state as unfair. The interaction term between education and assessed GST is positive and statistically significant at the 0.05 level, indicating that the negative effect of fiscal imbalance on perceptions of fairness is moderated by the level of education. Specifically, for individuals with higher levels of education, the negative impact of fiscal imbalance on perceptions of fairness diminishes, supporting Hypothesis 2. In other words, respondents with higher levels of education are less influenced by state-level fiscal imbalance in their assessment of fiscal fairness, potentially due to a better understanding of the complexities of tax and transfer systems.

The coefficient for national identity is also positive and statistically significant at the 0.05 level, indicating that, holding all other variables constant, respondents who identify as "Australian only" or "Australian first" are more likely to perceive the distribution of federal funds as fair compared to those with a mixed or state-specific identity. This result is consistent with Hypothesis 3, which suggests that respondents who identify more strongly with a national identity are more likely to perceive the distribution of taxes and transfers as fair.[6]

Figure 3 below provide a more substantive interpretation of our results, by showing the coefficients in odds ratio. The odds ratio provides a more intuitive understanding of the effect

---

[6] Among the control variables, only the variable for residing in a capital city achieves statistical significance. The negative coefficient indicates that, holding all other variables constant, residents of capital cities are more likely to perceive the territorial distribution of federal funds to their states as unfair compared to those living outside of capitals. While this result may seem counterintuitive given that these residents typically have better access to services, it may be that they perceive their state's share as insufficient relative to its economic contribution. Additionally, greater exposure to political discourse and media coverage in capital cities might amplify these perceptions, leading to a heightened sense of unfairness. These considerations suggest areas for further research.

of each independent variable on the likelihood that respondents perceive the distribution of federal funds to their state as fair.

[Figure 3: Insert Here]

The coefficient for national identity corresponds to an odds ratio of approximately 1.294, suggesting that respondents who identify either solely as Australian or as Australian first are about 29% more likely to perceive the distribution of federal funds as fair, compared to those with a mixed or state-specific identity. The coefficient for assessed GST corresponds to an odds ratio of 0.336, indicating that for each one-unit increase in assessed GST relativity, the odds of perceiving the distribution as fair decrease by approximately 66%. This reflects a strong negative impact of fiscal imbalance on perceptions of fairness. The coefficient for the interaction term between education and GST corresponds to an odds ratio of 1.329, implying that as education levels increase, the negative effect of GST relativity on the likelihood of perceiving fairness is mitigated. Specifically, individuals with higher levels of education are less negatively affected by increases in fiscal imbalance when assessing the fairness of federal fund distribution. In fact, for each unit increase in GST relativity, the odds of perceiving the distribution of federal funds as fair increase by about 33% among respondents with higher levels of education, compared to those with lower levels of education.

Conclusions and future directions

Our results suggest that national identity, state-level fiscal imbalances, and education all play important roles in shaping how respondents perceive the fairness of territorial redistribution. Respondents with a stronger national identity are more likely to view the distribution as fair, while those from states with greater fiscal imbalances—typically correlating with being less wealthy or having a lower capacity to generate revenue compared to others—are less likely to

perceive it as fair. However, the negative impact of fiscal imbalance is mitigated among more educated respondents, highlighting the nuanced ways in which these factors interact.

The effect of perceived state-level fiscal health (also referred to in the literature as "regional income") is counterintuitive in the Australian context. It aligns with theoretical and empirical findings from more fiscally decentralized federations, such as Canada (Jacques et al., 2022) and Spain (Balcells et al., 2015), where state (provincial) autonomy and inter-regional fiscal disparities have been shown to generate public perceptions of differential treatment by the federal government. In Australia, we observe that living in a state assessed by the CGC as having higher-than-average fiscal capacity and lower-than-average expenditure needs, such as Western Australia, increases perceptions of unfairness in the system, likely because respondents from WA perceive themselves as net contributors. Conversely, those living in states assessed by the CGC as having lower-than-average revenue capacity and higher expenditure needs, such as the Northern Territory, Tasmania, and South Australia, also perceive the system as unfair, despite being net recipients. This seemly contradictory effect—where fiscal imbalances, whether in wealthier or poorer states, condition perceptions of unfairness—reflects the complex dynamics at play.

Second, this demonstrates that despite Australia being one of the most centralized and fiscally egalitarian federations among comparable federal countries, both objective and subjective measures of regional income continue to shape public perceptions of fairness. Our descriptive results show that respondents living in states that perceive their state as being treated unfairly by the Commonwealth, relative to other states, are also the ones most likely to disagree that federalism has more advantages than disadvantages, even when residing in states that receive higher than per capita allocations of GST revenues (including WA post-2021). Thus, consistent

with Beland and Lecours' findings regarding WA (2019), the HFE both accommodates and exacerbates territorial politics in Australia, as state-level politicians can mobilize subjective perceptions of regional wealth and disparities in treatment by the Commonwealth, especially in the context of worsening state-level economic and fiscal conditions. Public confidence in the advantages of a federal system of government in Australia may indeed be driven more by changing subnational economic and fiscal conditions than by cultural and normative assumptions.

Future research is needed to evaluate whether place-based resentment exists in Australian federalism and to fully assess the impact of both knowledge and information on respondents' perceptions of fairness and support for the current system of territorial redistribution. Priming respondents with objective information about each state's fiscal position relative to others should encourage them to make informed inferences about who is really receiving what, how much, and why. Similarly, educating respondents on how the HFE operates in practice should lead to higher levels of appreciation for its objective fairness.

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APPENDIX

Appendix A. Descriptive Results

Figure A1. To what extent do you agree or disagree with the following statement? Australian federalism has more advantages than disadvantages for [STATE NAME]
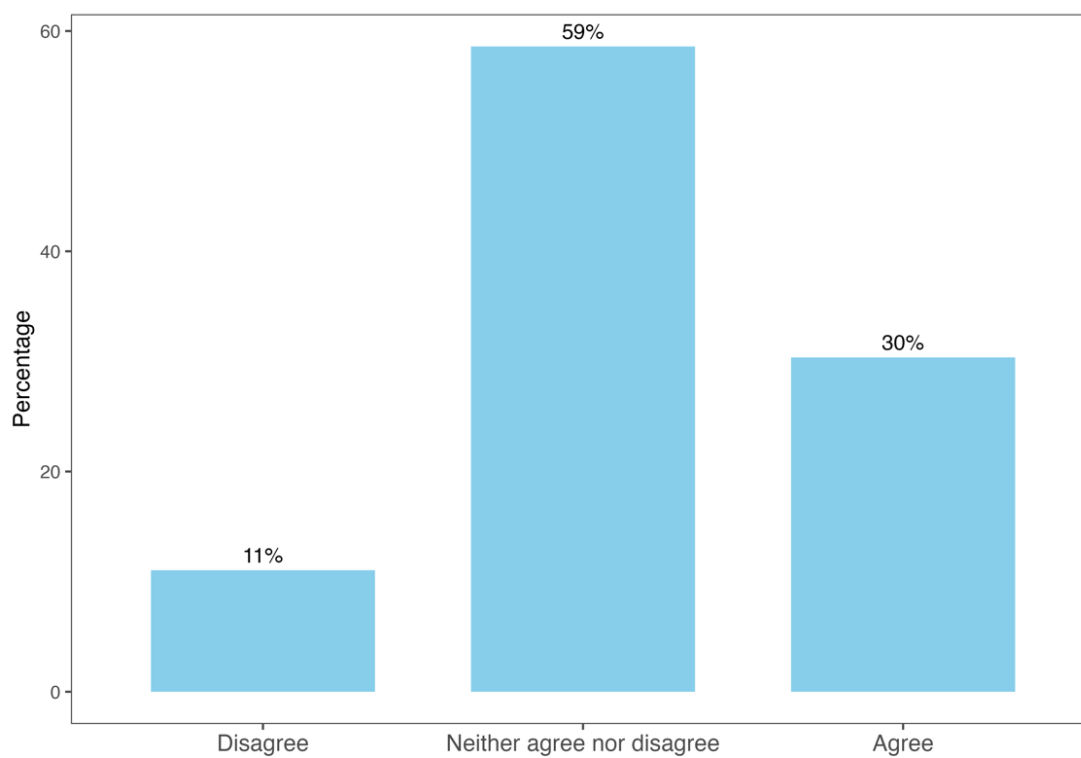
Figure A2. Do you think the state governments should give some powers to the federal government, or do you think the federal government has enough powers already?
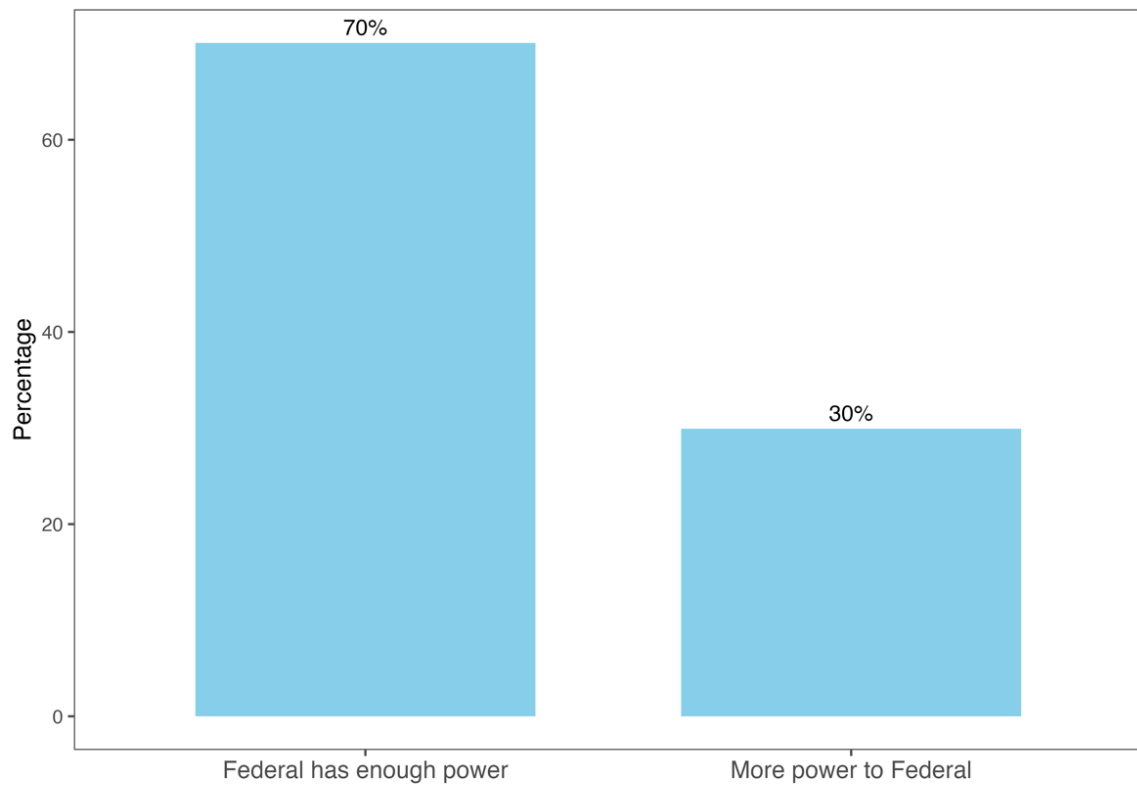
Figure A3. Do you think the federal government should provide more money to the state governments, or do you think the states have enough already?
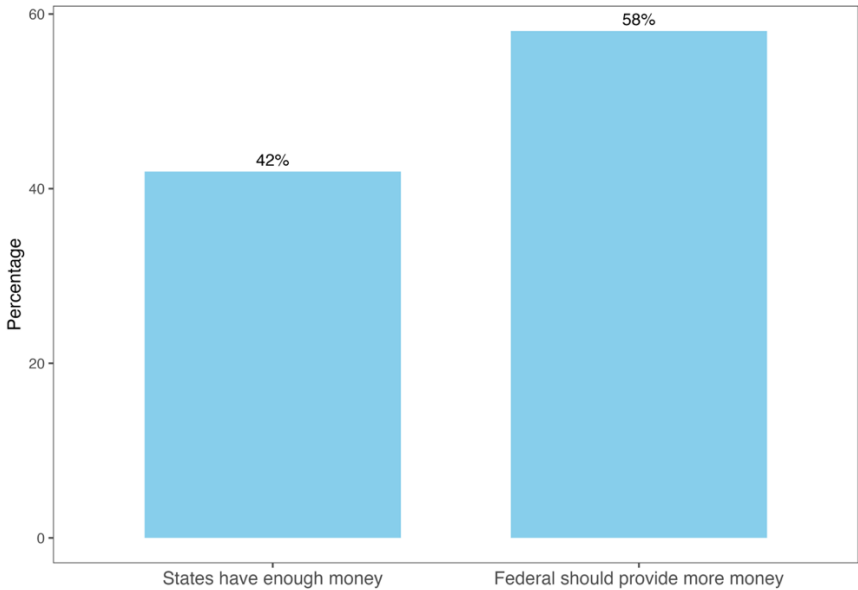
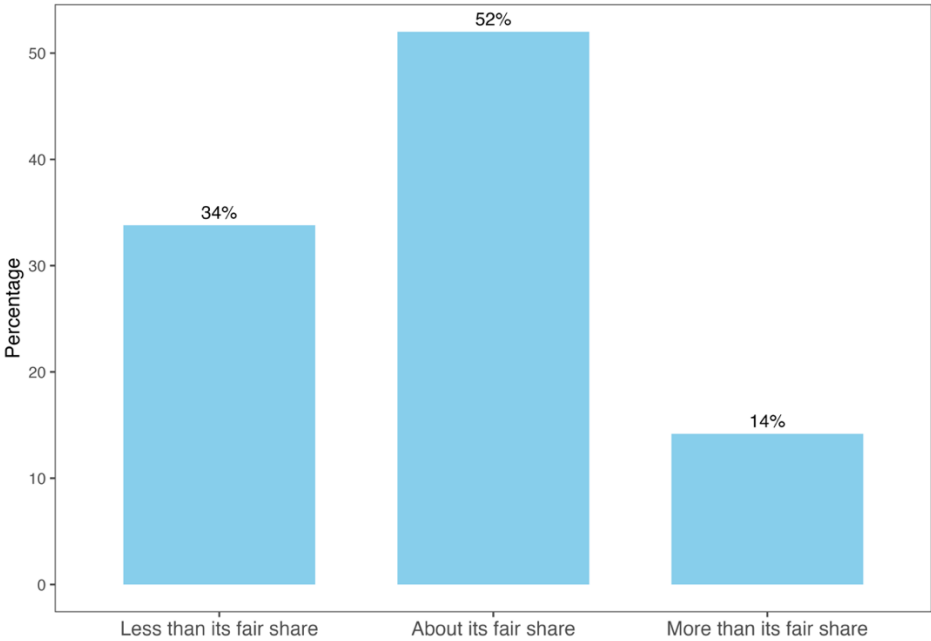Figure A4. How much influence does [STATE NAME] have on important national decisions?
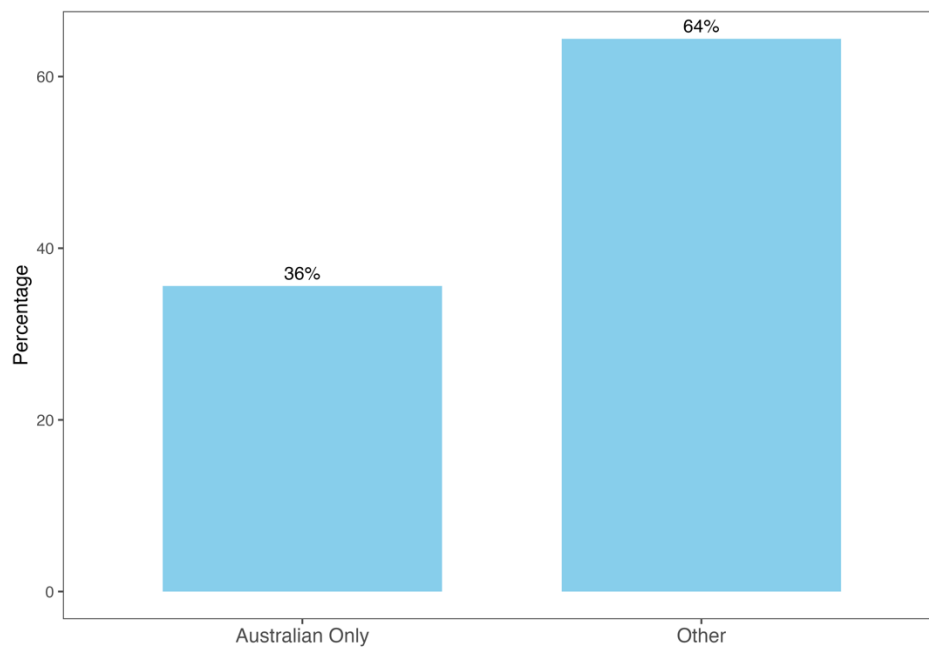
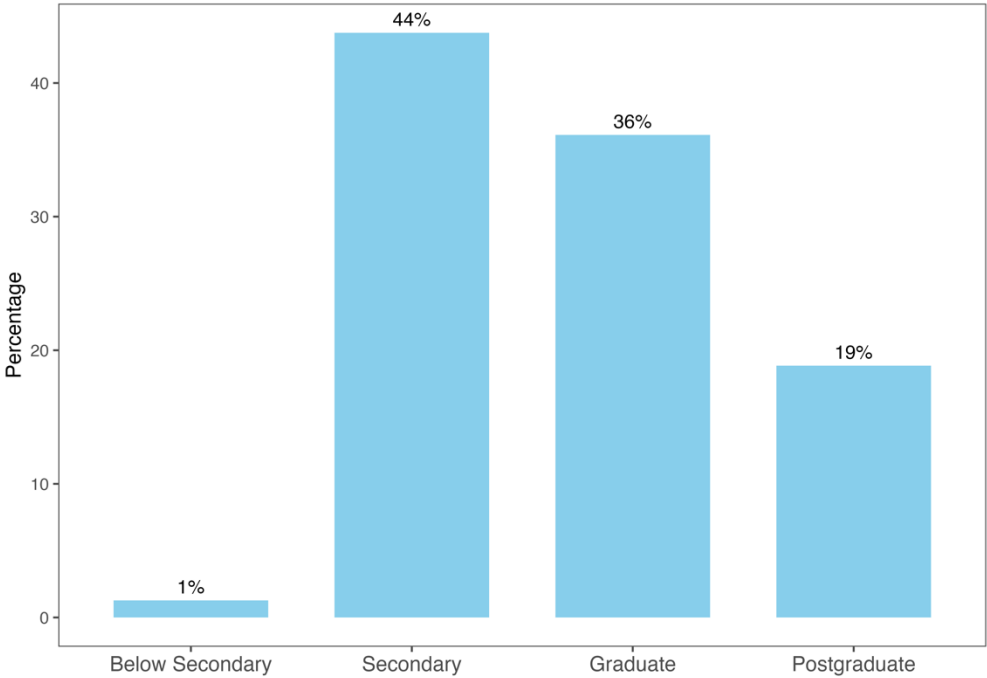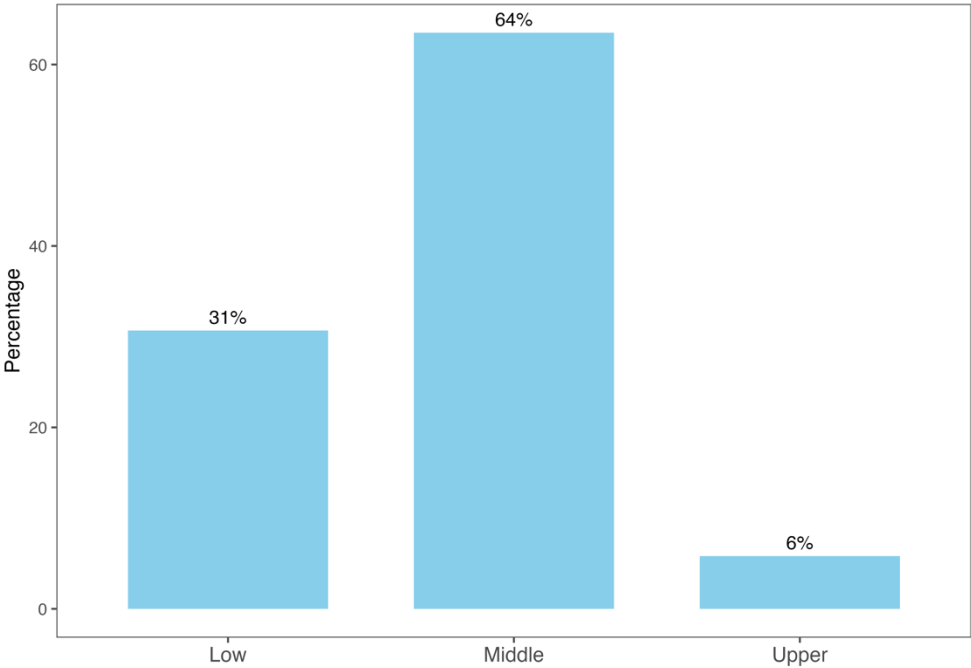Figure A5. Do you consider yourself to be…?

Figure A6. Highest Education Level

Figure A7. Household Income

(Low = Between $0 and $52,884

Middle = Between $52,885 and $222,300

High = More than $222,300)

Tables Lists with Captions [Individual Pages]

Table 1: Assessed GST Relativities, GST Shares, Estimated Distribution (in Millions), and Population (in Millions) for 2023-2024

State	*Assessed GST Relativities,	GST Relativities	GST Shares (%)	GST Distribution ($m)
Northern Territory	5.14575	5.06681	4.7	4,002
Tasmania	1.90532	1.82832	3.8	3,257
South Australia	1.47986	1.40312	9.7	8,214
ACT	1.28082	1.95400	2.1	1,778
Victoria	1.04150	0.85169	21.9	18,541
Queensland	1.02879	1.03118	21.2	17,929
New South Wales	0.94378	0.92350	29.0	24,535
Western Australia	0.11902	0.75000	7.6	6,419
Total	**-**	**-**	**100.0**	**84,675**

Source: Commonwealth Grants Commission Calculations (CGC 2024).

Notes: * based on 2020-2023 averages from State Standardized Budgets

Table 2. Explaining Australians' Perceptions of the Fairness of Federal Transfers to States

	Dependent variable:
	Fair Share Perception
Female	0.050 (0.077)
Group Age	-0.008 (0.041)
Education	-0.220 (0.149)
Income	-0.022 (0.074)
Capital	-0.197* (0.084)
Aboriginal	-0.147 (0.264)
National Identity	0.258* (0.079)
Assessed GST	-1.090* (0.550)
Education x Assessed GST	0.284* (0.141)
Constant	1.139 (0.726)
Observations	3,108
Log Likelihood	-2,037.577
Akaike Inf. Crit.	4,107.154
Note:	Significance level: * $p<0.05$.
	Standard errors in parentheses.
	Coefficients for State FE omitted.

Figure List [with captions]

Figure 1: Perceptions of Fiscal Fairness per State

Figure 2: Perception of the advantages vs. disadvantages of a federal system of government

Figure 3. The Impact of Fiscal Imbalance, Education, and National Identity on Perceived Fairness of Federal Transfers (Odds Ratio)