
The Global Financial Crisis and Natural Disaster: Impact on the Queensland Economy

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Abstract

The purpose of this article is to reflect on the way in which the recent financial crisis and natural disaster has impacted on the State of Queensland, Australia. Because the focus is on one Australian State, Queensland, a brief outline of the Australian and Queensland systems of government is presented so as to provide some contextual information. Then follows a brief summary of the state of the Australian and Queensland economies. The particular focus is based on an economic understanding of the Queensland economy and the impact of the global financial crisis. Attention is then turned to what are considered to be some of the mounting pressures inherent to Queensland. These pressures include the financing of capital works and the sale of State assets, an ageing population, pressure on communities, infrastructure requirements, and the environment. The latter point is developed with a discussion of recent natural disasters to hit the State, including devastating flooding and cyclones and their aftermath. The paper concludes with speculation on future challenges facing the State including economic recovery, political pressure, resource management, and recovering from natural disasters.

Keywords: Queensland economy; global financial crisis; natural disaster; economic recovery

Introduction

The purpose of this article is to reflect on the way in which the recent financial crisis and natural disaster have impacted on the State of Queensland, Australia. The discussion begins on a cautionary note. When reflecting on the issues to be presented in this article, the tensions inherent in the socio-political-economic process intrinsic to any democracy offered an opportunity to consider a number of issues. Such issues in Australia, and by extrapolation Queensland, include adjustment to the Four Pillars policy which prevents any of the top four banks merging, so as to maintain competitive pressure; interest rates; the expansionary actions of some gas and mining companies; changes to the tax regime for mining companies; food security; and asset sales. This article reflects consideration of what are deemed to be important to address and the research at the time is based on available desk-top data. In so doing, however, there is an awareness that it is a bit like making a list of the top 10 best Queensland rock albums ever made¹. There will always be disagreements about the choices made but those disagreements may at least suggest some engagement with the article and an on-going dialogue. Also, events move at a rapid pace and thus some of what follows may already have been superseded, particularly in terms of natural disasters and their outcomes.

The reflections take the following form. First, because the focus is on one Australian State, Queensland, a brief outline of the Australian and Queensland systems of government is provided so as to provide some contextual information. Second, a brief summary of the state of the Australian and Queensland economies is offered. Third, based on that economic understanding, attention is turned to what are considered to be some of the mounting pressures inherent to Queensland. The paper concludes with speculation on future challenges.

Australia's system of government

The Commonwealth of Australia, created in 1901 when the six British colonies, now the states, agreed to federate, is one of the oldest continuous democracies in the world. In November 2010 it ranked 6th out of 167 in the Economist Intelligence Unit's (2010) democracy index. This index provides analysis of the state of democracy for 165 independent states and two territories, covering the vast majority of the world's independent states and almost the entire world's population.

Australia's system of government, based on the values of religious tolerance, freedom of speech and association, and the rule of law, reflects British and North American models, while being uniquely Australian. The system of government is sometimes referred to as the 'Westminster system', after the British Parliament in the Palace of Westminster, London. Under this system, there are three separate arms of government:

¹ Email me for my list of the top 10 best Queensland rock albums

the Parliament (or legislature); the executive, which includes the Governor-General as representative of the British monarch, the Cabinet and the public service; and the judiciary. Australia has a bicameral popularly elected parliament with a House of Representatives and a Senate. Government is formed in the House of Representatives by the party holding a majority in that chamber. Candidates offering themselves for election to Parliament usually belong to a political party although any citizen may nominate for election. If elected, people not belonging to a political party are referred to as 'independent' Members. Executive government is conducted by Ministers appointed from these chambers, with policy decisions made in Cabinet meetings (About Australia, Our Government, 2010; Department of Foreign Affairs and Trade, 2010).

There are three levels of government; national, state or territory, and local. There are six states and two mainland territories. A written constitution defines the powers and responsibilities of the federal government, including foreign affairs, taxation, trade, defence and immigration, and postal and telecommunications services. Governments of states and territories have responsibility for all matters outside the remit of the Commonwealth, and they too adhere to the principles of responsible government. State parliaments are subject to the national Constitution as well as their state constitution. The federal and state levels of government mostly cooperate in many areas where states and territories hold formal responsibility, such as education, transport, health, and law enforcement. Income tax is imposed federally. Debate between the levels of governments about access to revenue and duplication of expenditure functions is a perennial feature of Australian politics (Department of Foreign Affairs and Trade, 2010). Local government bodies are created by legislation at the state and territory level and have responsibility for public recreation facilities, town planning and waste collection, (About Australia, Our Government, 2010).

The three levels of government initiate and action national policy reforms through the Council of Australian Governments (COAG), a forum designed to facilitate co-operation. COAG comprises the prime minister, state premiers, chief ministers of the territories, and the president of the Australian Local Government Association. Its objectives include dealing with major issues such as structural reform of government and reforms to achieve an integrated, efficient national economy and a single national market (Department of Foreign Affairs and Trade, 2010).

Queensland's System of Government

Like the federal system, Queensland has a popularly elected parliamentary system of government and adheres to the Westminster system. People standing for election generally belong to a political party although 'independents' may stand and be elected. Unlike the federal system, Queensland has a unicameral Parliament, meaning there is only one chamber, the Legislative Assembly.

The Government is responsible to the Parliament and must resign if Parliament expresses a lack of confidence in it. The Government is led by the Premier, who also heads the Cabinet or Ministry. Cabinet Ministers, of which there are 18, are allocated 'portfolios', areas of government administration for which they are responsible and, in theory, accountable. There are 89 electorates (or seats), each represented by a Member of the Legislative Assembly (MP).

The political party or coalition of parties winning the majority of seats in Parliament forms Government. At the most recent election on 21st March 2009 the Australian Labor Party (ALP) won a substantial majority of seats, and as a result formed Government (Queensland Government, 2010a). Nonetheless, it currently is an unpopular government with opinion polls consistently showing Labor trailing the conservative LNP opposition.

Australian Economy

In 2008-2009 the world economy experienced the most severe and synchronised recession since the Great Depression (Queensland Government, 2010b). Indeed, there is an argument that some countries experienced a depression. Major financial institutions such as Lehman Brothers crashed, leaving a reduced

supply of the credit needed to sustain businesses. Financial scandals, such as that self-admittedly caused by Bernard Madoff, resulted in a loss of wealth (Sheehan, 2010). Smick (2008) argues that income inequality abounded. There are some signs of recovery, at least outside the major industrialized economies.

The IMF (2010) argues that global economic recovery continued to strengthen during the first half of 2010 and is forecast to expand by 4.8 percent in 2010 and 4.2 percent in 2011. Many advanced economies such as those of the United States and the Euro area, however, continue to struggle with growth in these economies in the first half of the year at about 3.5%. Growth projections of 2.7% in 2010 and 2.2% in 2011, however, do not suggest a dynamic return to a position of strength. To support the rebalancing act required in those economies, business investment needs to improve, employment growth needs to occur, and further financial sector reforms are required. Additionally, serious fiscal adjustment needs to occur in 2011, including specific plans to cut future budget deficits. Such plans may already be seen to be in place in the UK where severe cuts to public spending have been announced and increased student fees have seen student protests.

By contrast, many emerging and developing economies are experiencing strong growth. WEO projections suggest expansion in these economies at rates of 7.1% in 2010 and 6.4% in 2011. In the Asian region, countries such as China and India continue to lead the way, with some net benefit to commodity exporter countries such as Australia. The benefits to Australia also arise from early in the year policy stimulus and exports supported activity. Enhanced trade links with China have increased Australia's resilience to cyclical downturns in traditional partners, such as the United States. While the performance has been relatively impressive, a note of caution is sounded. Any uncertainty in the external environment, such as slow recovery in the United States and the euro area, a slowdown in China, or negative spillovers from unanticipated financial shocks could impede the pace of recovery. Banking vulnerabilities remain a significant challenge amid lingering concerns about risks to the global recovery (IMF, 2010).

A negative spillover may be seen in the contraction of Australia's Education sector market. In 2007-08, the sector was Australia's third-largest export earner, contributing more than \$14 billion (Access Economics, 2009) to the economy. In 2010 it is reported that the sector is now worth \$18 billion per year (Maslen, 2010). A KPMG background brief commissioned by Universities Australia (KPMG Econtech report, 2009) argued that with all economic benefits and costs considered, the sector delivered a 14-15% real rate of return, a rate well above the 6-7% that is usually a measure of good policy. The rate of return means an immediate economic stimulus with "value-added multipliers" greater in higher education than other sectors.

But things have taken a turn for the worse in the sector. New foreign student visa numbers declined from 320,000 in 2008-09 to 270,000 in 2009-10 and the fall is continuing. The decline could result in the loss of 36,000 jobs in the sector by 2015. Of particular concern is the reduction in the Chinese and Indian student markets since March 2010. Annual growth rate has been 40%. Students are choosing other Commonwealth countries. In the 6 months to September 2010, commencement rates were down 50%. The drop is possibly caused by many factors including onerous new financial requirements whereby students need to show they have enough money to cover living expenses, return airfares and tuition fees for the duration of their course, an amount that often exceeds \$100,000; vocational school closures; street attacks on Indian students; and the rising Australian dollar (Hodge, 2010).

At the time of writing this article, the Australian dollar was experiencing a 28 year high against the US dollar, having pushed above parity to 100.57 US cents in early November 2010. By mid December it was back to a more moderate 0.99 US cents but continued to hover around the 100 cents mark in early 2011. The rate was thought to be a mixed blessing for the economy, being good news for importers and travellers to overseas destinations but less so for tax revenues, exporters, travellers to Australia, the travel and education industries, and international students.

Furthermore, the Australian Bureau of Statistics (2011a) Consumer Price Index released on 25th January 2011 showed a rise of 2.7% through the year to December quarter 2010, compared with a rise of 2.8% through the year to September quarter 2010. The most significant price rises were for fruit (+15.5%), vegetables (+11.4%), domestic holiday travel and accommodation (+3.8%) and automotive fuel (+2.1%). Further price increases for these commodities may be expected because of widespread flooding and cyclonic activity throughout the eastern states of Australia, particularly in Queensland.

Queensland Economy

As well as a negotiated share of federal income tax and the goods and services tax (GST), the state collects revenue through tax on duties such as property transfer (stamp duty), insurance, and vehicle registration. It also collects land, payroll and gambling taxes, and liquor licensing fees (Office of State Revenue, Queensland Government, 2010). Local councils fund their activities through rates on businesses and households, utility charges, funding from national and state grants, and loans (Infrastructure Charges Taskforce, 2010).

In its 2008 state budget submission to the Treasurer, the Queensland Chamber of Commerce and Industry Queensland (CCIQ), a non-Government organisation and the state's leading business association representing business interests to government at all levels, stated that in the period 2000-01 to 2008-09 payroll tax receipts increased by over \$1.5 billion (136.4%); stamp duties increased by almost \$1.8 billion (143%); and total state taxation receipts increased by over \$4.4 billion (92.7%) (CCIQ, 2008).

The volume measure of gross state product (GSP), the sum of all that is created in terms of goods and services, increased in all states in 2009-10. For Queensland it was 2%, (Australian Bureau of Statistics, 2010) somewhat less than the forecast 3%. It also compares unfavourably with an average of 4.1% over the last decade, suggesting that the Queensland economy is retracting.

Industries such as construction, tourism and retailing have all performed below expectations. Lower growth, combined with an increasing Australian dollar which among other things has cut royalties from mineral exports, is likely to further impact the budget. Queensland also has record levels of debt, with debt increasing from \$20 billion in 1999 to \$51 billion in 2010 and predicted to grow to \$83.5 billion in 2014-2015; and a current deficit of \$300 million (Langbroek. 2010).

The problems have been exacerbated with a recent reduction in Queensland's previous AAA credit rating. In February 2009, ratings agency Standard and Poor's downgraded the rating to AA1. The agency commented that *Queensland's balance sheet is unlikely to remain consistent with a AAA rating* (Standard & Poor's RatingsDirect, 2009). Similarly, in May, Moody's Investors Service (2009) lowered their rating to Aa1. They stated that *the downgrade reflects the state's deteriorating financial and debt performance and financial flexibility*. The rating may mean that Queensland has to pay more for its borrowings than it has in the past.

Nonetheless, prior to the natural disasters of late 2010 and early 2011, business investment is predicted to improve in 2010-11 after declining in 2009-10. Economic growth is forecast to accelerate to 4½% in 2011-12. Improved credit conditions are anticipated to support a recovery in commercial property and medium to-high density residential construction. Commodity export earnings are also forecast to return to previous levels, as world commodity prices stay relatively high and domestic capacity expansions support further growth in export volumes (Queensland Government, 2010b). A number of assumptions may be seen in the aforementioned outlook so the optimism ought to be treated with a degree of watchfulness. Caution needs to be exercised because of a number of mounting pressures that may be seen as intrinsic to recovery and long-term stability.

Mounting Pressures

On the 8th February 2011 at 11:03:34 (Canberra time), the resident population of Australia was estimated at 22,555,676. This projection was based on an estimated resident population at 30 June 2010 and assumed an overall total population increase of one person every 1 minute and 30 seconds (Australian Bureau of Statistics, 2011b). In the decade 2000-2009, Queensland's population grew by about 900,000 and while it was projected to continue rapid growth (Queensland Government, 2010b). The 2006 Census of Population and Housing estimates that Queensland's population will grow from just over 4 million in 2006 to about 6.2 million by 2031, a more than 50% increase (Australian Bureau of Statistics, 2009). Growth, however, comes at a cost including how to finance capital works, reduce debt and maintain growth; the impact of an ageing population; and increased pressure on communities, infrastructure and the environment.

Financing Capital Works

The State's significant capital works program, combined with federal infrastructure initiatives, is supporting the economy. The capital works program suggests, however, a significant need for further borrowings and/or asset sales. In an attempt to strengthen the balance sheet, limit the extent of borrowing and reduce debt, the Government has embarked on an assets sale programme. It considers such a program necessary to help restore the AAA credit rating within 5 years and to protect the State's ability to deliver additional infrastructure in key areas such as health, education and roads.

It is anticipated that the sale program will deliver an estimated \$15 billion in sale proceeds (Queensland Government, 2010b). Some of those proceeds will be used to pay off debt, thus enabling money that would have gone in interest payments to be directed into policies designed to relieve household costs. It could be argued that it is the only practical way to achieve its economic agenda and to present an attractive budget in the 2012 election year.

Privatisation includes rail (QR National), forestry, ports, water and the retail arms of electricity companies. QR National debuted on the Australian Securities Exchange (ASX) on 22nd November 2010. By tonnes hauled, it is the largest rail freight haulage business in Australia with 260 million tonnes of coal and freight a year transported. It is the world's largest rail transporter of coal from mine to port for export markets and the largest transporter of coal in Australia (QR National, 2010). Most pundits appear to agree that it was a successful debut, realising \$7.5 billion for the state's coffers and delivering an 8% return on its first day of trading. The Government retained a 40% share which it has promised not to sell for 2 years.

The sale follows the \$603 million sale of the 99 year licence for Queensland Forestry Plantations Queensland in June 2010 (Department of Environment and Resource Management, 2010) and the \$2.3 billion sale of the 99 year lease of the Port of Brisbane (Queensland Government, 2010c), the primary location of port operations, with facilities including *cargo wharves, cargo-handling infrastructure, motor vehicle storage and processing, warehousing and storage areas, container parks, logistical centres and intermodal transport interchanges* (Port of Brisbane, 2010).

The Abbot Point Coal terminal is expected to be sold in mid July 2011. A competitive bidding process for the 99 year lease currently is being undertaken (Queensland Government, 2010c).

Queensland Motorways (QML), an estimated \$3 billion asset, was to be sold publicly but the Government, aware of public hostility and a rather weak market for toll roads, has now entered into a six-month exclusive dealing period with Queensland Investment Corporation (QIC), an independent body (Queensland Government, 2010c). QIC is one of Australia's largest fund managers (QIC, 2010) and is the custodian of an estimated \$26 billion superannuation fund for public sector employees.

The general strategy to divest the State of its public assets has met with some resistance. In his reply to the state budget the Leader of the Opposition and Leader of the LNP John-Paul Langbroek (2010) stated that if elected the LNP would stop the sale of assets. He pointed out that since Labor privatised the electricity companies Energex and Ergon, electricity bills increased by 54% while investment in electricity fell. Investment in energy generation will be cut from \$710 million to \$367 million, a drop of almost 52%. Other increases have been in the cost of fuel, water, car registration, motorway tolls, and taking rubbish to the dump (Langbroek, 2010).

There is a concern that the sale of assets will be used merely to satisfy public service wage claims. Cook (2010) argues that privatisation threatens up to 10,000 jobs across Queensland. He points to previous privatisations including Qantas, the Commonwealth Bank of Australia and Telstra that have all resulted in massive job cuts and the renegotiation of working terms and conditions. Some of the anger, however, is because the Government did not outline the plan, nor consult with Queenslanders about their intentions, prior to the last election. Rather, the announcement was made three months after the state election (Cook, 2010).

Unfavourable opinion polls early in 2010 showed that 80 percent of Queenslanders, including more than 90 percent in regional areas, opposed the rail privatisation. Hostility to the sell-off and to the Labor government was one factor in the decline in support for the Labor Party in Queensland during the federal election on August 22, 2010. Across the state, the Labor vote declined by 9 percent, almost twice the national average of 4.9. The decline was even larger in working class electorates (Cook, 2010).

Ageing Population

In terms of an ageing population, the first of the baby boomer generation has now reached retirement age. It is estimated that the percentage of Australians over the age of 65 will increase from 13.5% currently to 22.7% by 2050. The percentage of Queenslanders aged 65 and over is estimated to climb from 13% in 2010 to 20% by 2030–31. The care and housing of this segment of the population presents as an imminent social problem. People who have not been able to buy their own home or who have not budgeted for retirement living may face a difficult future. Rents are beginning to spiral and there are reports of some people being forced out of their retirement villages as leasing arrangements change or as owners sell to developers or different retirement village providers.

It is argued that an ageing population will detract from growth in the labour force, slow economic growth and retract Government revenue growth. As health service use is strongly correlated with age it is also considered that there will be mounting fiscal pressures (Queensland Government, 2010b). The cost of health care is of concern to Australians generally.

A random digit telephone survey into how Australians view their health, the health care system and the affordability of health and aged care services was conducted in July 2010 by The Menzies Centre for Health Policy and The Nous Group (2010). They surveyed 1201 people, of whom 233 respondents were from Queensland. Data was post-weighted by age, sex, and education to reflect the population distribution. Analysis was conducted using the PASW Statistics 18 package. Some of the findings showed that Australians held a very positive view of their own health and generally were satisfied with their interactions with the health system (with the exception of public hospitals). They were confident that they will receive the best quality care. They were concerned, however, with the cost of that care and they considered that aged care services were not affordable for the people in need. These findings ought to be of some concern to all Australian governments. Currently, more than 804,000 people use aged care services and it is estimated that \$6.2 billion will be spent on aged care facilities, including retirement homes, in the current year.

Pressure on communities

The Queensland Council of Social Service (QCOSS) states that the community sector is a significant contributor to the Queensland economy. The sector provides social housing, aged care, mental health

support, respite counselling, parenting assistance, and financial help. More than 100,000 people are employed by about 1,500 organisations in the sector that contributes about \$5.3 billion to the economy (QCOSS, 2010). The services that are provided help people to connect socially and economically, and to build self-worth.

About 413,000 people (10.6%) of the Queensland population live in poverty. Homelessness and jobless families are unwelcome features of the poverty trap. 85.6% of families requiring emergency accommodation were turned away and in 2006 110,000 children (0-14 years) lived in such families. As mentioned earlier, Queensland residents have seen electricity bills increase by 54% and increases in the cost of fuel, water, car registration, motorway tolls, and taking rubbish to the dump. Electricity, gas, transport and water costs are predicted to soar above consumer price index (CPI) levels (QCOSS, 2010). Mortgage pressures including projected interest rate rises, and rising inflation, means that more families are likely to require assistance in the near future. Within such an environment, the sector's performance is seen to be a cornerstone of a civil society (QCOSS, 2010). As such, it is a sector that needs government support by way of full-cost funding to ensure well-functioning communities and sustainability of the sector (QCOSS, 2010).

There is some recognition in the business community that the strength of a business is intertwined with a well-functioning community environment. Wesfarmers, a group comprising of interests such as chemical, insurance, major retail chains and mining, invests in those areas of the community where it considers that it may contribute to building and supporting communities for the long-term (Westfarmers, 2010). Similar claims are made by Leighton Holdings (2010) and Watpac (2010), both of whom are construction, mining and services contractors.

Infrastructure

It is well recognised that a capable and reliable infrastructure is necessary for a sustainable Queensland economy and vital for the continuation of the standard of living enjoyed by Queensland's inhabitants. Continued business investment depends on the knowledge that basic infrastructure will be available and obstacles overcome. The Queensland Government has embarked on a strategy of continuing infrastructure improvement, even at the risk of regaining its AAA credit rating in the short-term. Embarkation has presented some difficulties.

The Queensland government generally uses a mix of financing methods for the provision of public infrastructure. There are five ways for it to do so. First is through *General taxation* including local government municipal rates. Second is by *Government borrowing* usually in the form of various bonds through Queensland Treasury Corporation. Third are *User charges*, fees imposed on the consumer of the goods; and charges which range from cost recovery through to full commercial pricing. Fourth are *Developer contributions*, upfront user charges for future infrastructure services. Fifth is by way of *Public Private Partnerships* where the private sector is contracted to create, construct, run, administer and fund new infrastructure and meet government obligations for a set period of time (Property Council of Australia (Queensland Division), 2010).

Partnership arrangements are in abundant evidence. Watpac (2010) has built a city mall redevelopment in Townsville and a research and business complex. Leighton Holdings (2010) has announced the award of a two-year mining services contract for the Dawson mine and the award of preferential developer status for the Ipswich City centre redevelopment. It also has announced that Thiess Services (a Leighton Group company) has signed a five year agreement with the electricity company Energex to provide network construction and maintenance works. The contract includes provision of services for overhead and underground distribution assets in the North Brisbane and North Coast regions.

The task for the government is to commit to public sector infrastructure spending at a time when revenues are collapsing due to global and local economic contraction. The Property Council of Australia

(Queensland Division) (2010) asserts that in South East Queensland alone, there is an identified \$124 billion of public infrastructure required by 2026. Funding partially is to come from a four year borrowing program of \$28.3 billion, most of this in 2009-10 as a stimulus measure to maintain employment through the economic downturn.

But, as suggested earlier, there have been a number of problems. A number of projects have been terminated. A major desalination plant has been mothballed. Water treatment plants have been closed and the construction of a major dam has been abandoned. A carbon reduction strategy that was recognised as making Queensland a leader in the development of clean coal also has been abandoned after the injection of \$150 million of public funds. A planned \$4.3 billion clean 530MW coal power plant in Central Queensland (ZeroGen, 2010) has been scrapped.

Local Government has a similar infrastructure problem. An Infrastructure Charges Taskforce was created by the Premier in May 2010. In an interim consultation report in November 2010 the taskforce stated that, while there were a number of ways Queensland Local Governments could fund local infrastructure, their funding regime often leaves shortfalls and means that alternative arrangements for funding must be found (Infrastructure Charges Taskforce, 2010).

Whilst the Queensland Government partially intends to address the shortfall through reductions in grants to local government and asset sales, such approaches to improve its fiscal position may be seen to have inherent difficulties. The asset sales approach has been addressed earlier in this article. Cuts to local government grants shift the problem of infrastructure financing elsewhere, suggesting a dilemma with funding the recognised infrastructure requirements through to 2026. While there may be some reliance on private sector participation in the provision of public infrastructure there remains a concern with how to persuade and facilitate private sector engagement (following Property Council of Australia (Queensland Division), 2010).

The QCCI, arguably the most effective business lobby group in Queensland, holds a different view. While recognising that there are some infrastructure deficiencies, the QCCI (2008) does not consider that infrastructure requirements are at a crisis point. Rather, the CCIQ argues that "other issues are of greater importance to Queensland business" (p. 15). Without meaning to sound like an apologist for the previously mentioned contracts awarded to the large construction companies, it is difficult to understand what a business lobby group might see as more important than some of those developments by these Australian companies.

It may also be argued that construction and mining companies, because of their contribution to economic development, wield huge power. Despite the aforementioned claims in terms of community contribution, such power is not necessarily wielded in the best interests of some stakeholders, including the general population. Historically, mining companies have moved on once the resources have been depleted and with little attention given to land rehabilitation. Where in the past some companies built community infrastructure, now some tend to bus or fly workers into remote areas for their shift period. Those workers have no ties to the local community and some appear to have a propensity to behave in ways that are not conducive to acceptable social order. In a recent study, Carrington, McIntosh and Scott (2010) showed that in some of the towns where the labour force was of an itinerant nature, a 'violent underbelly' existed with alcohol-fuelled violence, illegal sex workers and social disorder, including sexual harassment of the local population, widespread.

Environment

Like most Australians, Queenslanders are well aware of the vagaries of the natural environment. At a time when most of Britain and Europe were experiencing Arctic conditions with heavy snowfalls and below freezing temperatures, much of Eastern Australia was experiencing severe cyclonic conditions,

thunderstorms, heavy rainfall and flooding. Many cities and towns in Queensland were cut off, with roads and bridges flooded and loss of life. The flood damages bill, originally estimated as \$600 million is now expected to exceed \$3.9 billion. Further devastation may occur within the next 3 months, particularly with the early year cyclone season.

Natural disasters have economic implications. The current 'big wet' means that Queensland's sugar exports have declined to well below early forecasts. In 2009-2010, with a price of about \$509 a tonne, the total revenue was \$1.69 billion. The price per tonne expected in 2010-2011 is somewhat less at an estimated \$430 to \$485 per tonne and with an estimated production of 2.2 million tonnes (QSL, 2010).

Similarly, the heavy rainfall impacts negatively on mining operations. A number of mines were closed because of flood water hindering mining operations and construction work. As a result production was reduced. Royalties from coal were predicted to fall by between \$1.6 and \$2.9 million a day for the rest of the financial year. An industry analysis provided in the Queensland Resources Council's (2011) State of the Sector report, predicted that coal production in the March 2011 quarter would fall by between 25 and 50 per cent because of the floods. The benchmark was 51 million tonnes of quarterly production. It further forecast a \$4.5 billion to \$8 billion impact on Queensland's gross state product in 2010/11. This latter figure equates to the loss of a whole year's worth of economic growth.

The current Queensland government budget addresses environmental issues with a particular focus on the ongoing development of solar energy. The Treasurer announced new initiatives including subsidies to assist Queensland residents to install solar heating and reduce electricity costs; a program to install solar power at kindergartens; and further financial support for the Kogan Creek Solar Boost Project (Queensland Government, 2010b). This is the largest solar thermal project in the southern hemisphere (CS Energy, 2010).

There also is commitment to the reduction of waste and landfill sites and improvement in recycling. The argument advanced for so doing is that all other mainland states of Australia have introduced a levy which places Queensland in danger of becoming the dumping ground for other states. Such an argument seems spurious given the tyranny of distance in Australia. Similarly, the reform strategy will mean the application of a commercial waste levy for 34 local council areas with funding from the levy used to support waste programs and environmental initiatives, rather than the budget bottom line. Again, the argument seems tenuous with no mention of how such a strategy might be implemented and with local councils, businesses and individuals already struggling.

The Treasurer argues that *our natural heritage is vital to the nation's heritage*. Allocations are made, therefore, for increasing the protected estate by 50% by 2020 and to fund programs to support the acquisition of National Park estate and habitat for koalas at a total of \$80 million over the next four years. Such programs are seen as essential to industries like agriculture and biosecurity (Queensland Government, 2010b).

Such commitments present somewhat of a paradox. As demonstrated in the previous section, Queensland depends heavily on mining and construction for its growth. Based largely on expectations of continued demand from China for coal, export growth is estimated to reach 6¾% in 2009-10 (Queensland Government, 2010b).

The Coal Seam Gas (CSG) industry offers substantial benefits to the Queensland economy. One project alone, in the Surat basin, brings an investment of \$15 billion. CSG uses hydraulic fracturing, or fracing, to increase gas output but the process has the potential for significant adverse environmental and social impacts.

The National Water Commission (2010) has warned that there could be considerable, long-term adverse impacts on adjacent surface and groundwater systems if not satisfactorily managed and regulated.

Other risks include adverse impacts on other water users and the environment because of dramatic depressurisation of the coal seam; reductions in surface water flows in connected systems; alteration to natural water flows; and negative impact on water quality, rivers and wetlands. Significant adverse social impacts could occur because of large scale land subsidence affecting surface water systems, ecosystems, irrigation and grazing lands, and the subsequent disruption to current land-use practices. The local environment could also be damaged through infrastructure construction and access.

In some strange twist of fate, the expansionary approach has made farmers, traditionally conservative and LNP supporters, strange allies of the Greens and empathic with indigenous Australians and their fight for land rights. Some farmers have suggested they will go to jail rather than let miners on their land because they consider the miners have engaged in hostile takeover tactics that will result in the depletion of high quality grazing and crop growing land (Houghton, 2010; Passmore, 2010).

Speculation on Future Challenges

Economic Recovery

It is anticipated that many advanced economies will take some years to recover from the loss in output and increase in unemployment experienced during the global financial crisis. By contrast, the Australian economy is expected to return to full capacity within the next year or so. In a joint statement by the Australian Treasurer and the Minister for Finance and Deregulation (MYEFO, 2010), it was argued that despite the disadvantages of a high Australian dollar, the projected return to surplus for 2010-13 had been maintained. Real GDP was forecast to grow by 3.25% in 2010-11 and 3.75% in 2011-12. The unemployment rate was expected to fall to 4.5% by the June quarter 2012. It was anticipated that strong resource-intensive growth in China and India would continue. Business investment in mining, construction and manufacturing sectors was expected to continue. Many of these forecasts, however, will need to be revisited because of recent natural disasters, particularly those occurring in Queensland.

Political Pressure

One of the key challenges for the Queensland Government will be to address emerging political pressure for wider community engagement leading into the 2012 election year. Such engagement is seen as particularly important in the light of the assets sale fiasco. A further challenge will be to ensure that what may be seen as a relatively good economic position when compared to other states and countries, does not deteriorate. Thus, the restoration of the AAA credit rating is paramount.

What is of interest to many people is how the government's, and in particular the Premier's, handling of the natural disasters crisis will impact on their popularity. Most appear to agree that the Premier has demonstrated inspirational and appropriate leadership throughout the crisis. Whether her current popularity will offset some of the forthcoming economic pain, at least in the short term, remains to be seen. The 2012 election will be the final arbiter.

Resource Management

Queensland's natural resources need to be utilized in a sustainable way for the well-being of residents. Sustainability includes actions to attend to the needs of an ageing population such as improved health systems, housing and public transport. Pressure on communities will need to be eased through long-term policies to address increasing household and living costs. Infrastructure development and improvement needs to continue but in ways that ensure equity for all and are not at the expense of the natural environment.

Questions could be posed as to the type and appropriateness of infrastructure, transport systems and dwellings required to meet the needs of a growing population (following Sheehan, 2010). Environmental concerns will need to be addressed through the use of more sustainable and efficient use of resources and with a focus on creative and innovative urban and rural development. Rebuilding the state after the recent disasters will require revitalised thinking about housing and building development and construction, particularly in flood and cyclone prone areas.

Recovering from Natural Disaster

Arguably the largest, and certainly the most immediate, challenge for Queensland is to recover from the devastation caused by the floods of December 2010 and January 2011; and the January-February 2011 cyclones. The floods, described as of 'biblical proportions' and as Australia's worst natural disaster, covered 75% of the State. This is an area approximately equivalent to France, Germany and some of Poland combined. Cyclonic activity was mostly confined to the north of the state, with devastating impact.

As well as resulting in the loss of 22 lives with a further 9 people still missing, the floods have impacted on many households and businesses, and on thousands of people's lives. While the community response to the devastation was immediate, with thousands of volunteers, assisted by emergency services and defence personnel, as well as local council workers, turning out to help, it will be some time before communities return to familiar and what could be described as normal conditions.

The estimated costs of rebuilding flood devastated areas throughout Eastern Australia exceed \$5 billion. Queensland costs are estimated at \$3.9 billion. What these costs appear to omit at this stage are some of the longer term and relatively unknown factors including environmental damage to the waterways and seabed, and general population health issues. There are already reports of infections caused through injury during the flood clean up stage and of damaged sewerage plants where effluent is being left untreated. The cyclonic aftermath is estimated in excess of hundreds of millions of dollars.

While the floods had an immediate impact on the economy, the cost of disruption is expected to continue for some time. The Prime Minister advised that GDP growth in this financial year will be around half a percentage point lower due to the floods.

To assist the State with its recovery efforts, on January 27th 2011 the Federal government announced an immediate upfront payment to Queensland of \$2 billion to help with rebuilding. Funding will come from a one-off, one-year levy and from savings from delayed or reduced infrastructure projects. The projects to be affected are yet to be announced but will include carbon abatement programs including the Green Car Innovation Fund, Cleaner Car Rebate Scheme, the Carbon Capture and Storage Flagships and Solar Flagships, the Solar Hot Water Rebate, Green Start Program, Solar Homes and Communities Plan and the Global Carbon Capture and Storage Institute.

The following day, the Queensland Treasurer announced cutbacks in the state's budget to help cope with the rebuilding task, including public assets such as schools, roads and bridges that had been destroyed. With lost revenue estimated at \$2.5 billion over 4 years, cutbacks included a delay in construction of a major transport infrastructure project, the \$8 billion cross river rail link until at least 2015; and the loss of 3,500 public service jobs over 4 years. By contrast, \$5 million was to be allocated to Tourism Queensland for a new marketing program; \$400 million was made available to local councils to help cover their damages bill estimated at \$2 billion; and grants from a \$26.5 million pool were to be made available to sporting bodies to assist their recovery efforts.

A more accurate picture of the cost was expected to be made in the June 2011 budget.

Conclusion

The natural disasters experienced in the latter part of 2010 and early 2011 have pushed thoughts of a global financial crisis into the background. The Government and the population in general, are focussed on disaster management and recovery. While clearly the Government needs to keep a close watch on economic matters, balancing short term efforts with longer term requirements, most people affected are more engaged with rebuilding their lives. Nonetheless, at some stage thoughts and attention will return to broader issues.

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