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Having returned from the brink, Queensland finds its strength

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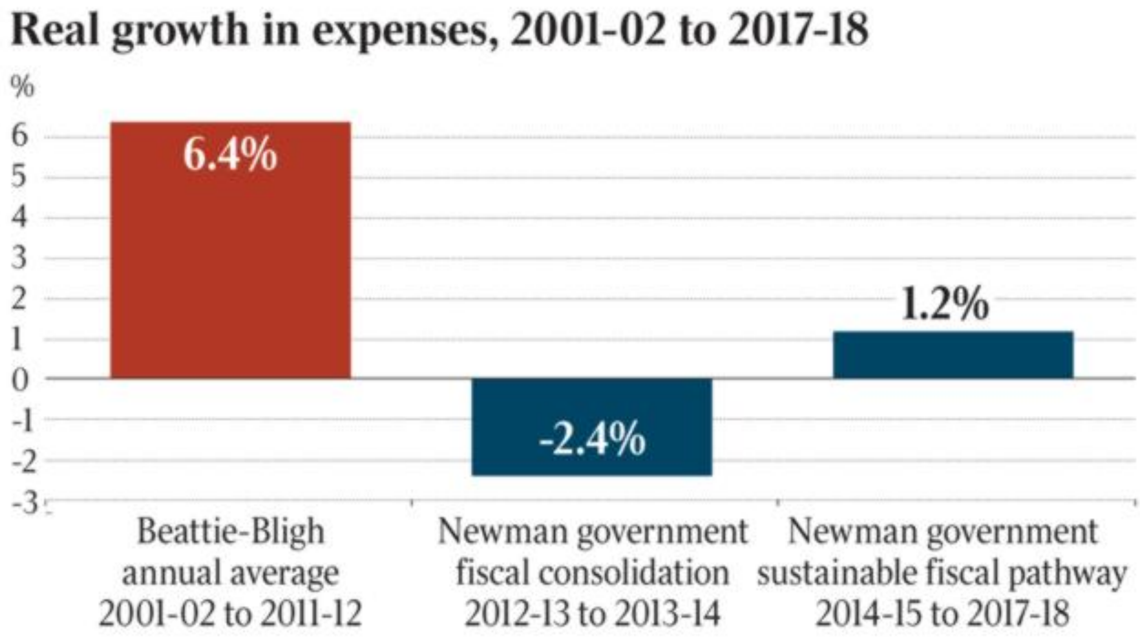

Expenses. Source: TheAustralian

ONE thing is certain: Labor left Queensland in a mess. And it is equally certain that Campbell Newman has been willing to take the hard decisions needed to turn the situation around.

But while great progress has been made, more remains to be done, both to consolidate the gains and on issues the LNP has been reluctant to address, such as deregulation of shopping hours. However, instead of pushing those reforms, Labor seems intent on repeating the errors that brought the state to the brink of fiscal collapse.

The situation the Newman government found on coming into office in March 2012 is readily explained. In the decade prior to the change in government, public spending grew by more than 6 per cent a year in real terms. And while revenues held up during the mining boom, the government's borrowings exploded from $3.5 billion in 2001-02 to $29.5bn in 2011-12.

The result was a rapidly deteriorating fiscal position, with total liabilities in the general government sector rising from 100 per cent of revenues in 2001-02 to 174 per cent on the election of the Newman government.

And the mess was even worse than the headline numbers suggested. For example, Labor spent $9bn on a water grid whose value has already been written down by $3bn. Because of that poor investment and others, the state's balance sheet was littered with assets whose values were overstated.

Little wonder the state lost its AAA credit rating in February 2009. And little wonder tough choices were required to bring the public finances under control.

Drawing on a sizeable dose of political courage, the Newman government made those choices. Together, the 2012-13 and 2013-14 budgets cut spending by nearly 5 per cent in real terms. And the state's wages bill, which had been rising by almost 9 per cent a year under Anna Bligh, has been reduced by 5.8 per cent since 2011-12, even before correcting for inflation, as the public service shed 14,000 jobs.

Those decisions put Queensland on a sustainable fiscal basis, achieving an $8bn budget turnaround in just four years and so allowing an expected return to surplus in 2015-16.

That turnaround has far exceeded expectations, with the Newman government borrowing $11.6bn less than the 2012 Commission of Audit's "business as usual" scenario had envisaged. Moreover, 85 per cent of the turnaround has come from lower spending, rather than through higher taxes and charges. And the gains have been made at a time when the phasing down of the resource boom has meant that economic growth has been weaker than the audit expected.

None of this implies the cuts have been painless. The numbers working in the Brisbane CBD, for example, are down about 5 per cent. However, thanks to efficiency improvements, spending reductions have not compromised public services.

Waiting lists for elective surgery in public hospitals, for example, have been slashed by outsourcing operations to the private sector in those areas where patients were routinely experiencing lengthy delays — a policy Labor bitterly opposed. In March 2012, 6500 Queenslanders had waited longer than the clinically recommended times for surgery; by September 2014, that had fallen to 530, a reduction of 92 per cent.

Better management has also reduced the numbers on the public dental waiting lists for more than two years from 62,000 in February 2103 to zero in June 2014.

And an increased emphasis on efficiency is apparent in infrastructure spending, too. Labor had, for example, committed to a "cross river rail" project in which $10bn was to be spent to ease one hour of congestion a day on the Maryvale rail bridge. However, following a "first principles" review of transport in South East Queensland, which found the benefits could be secured by a targeted expansion in bus and rail capacity, the project has been redesigned, saving at least $5bn.

While those changes will reduce the burden on taxpayers, the Newman government has also sought to increase the state's growth potential, removing the "green tape" in which Labor had smothered new resource ventures.

The contrast with the Coalition government in NSW is telling. In 2012, industry experts generally viewed Queensland as the more difficult jurisdiction in which to obtain development approvals; now, thanks to extensive planning reforms, the time required for major approvals in Queensland has been halved, while it has actually risen south of the border.

The difference is starkest in coal seam gas, which is effectively subject to a moratorium in NSW. By establishing the Gasfields Commission Queensland, which gives farmers a forum in which to secure a reasonable share of the gains from gas extraction, the Newman government has helped neutralise opposition to the CSG industry. That will allow CSG extraction to quadruple by 2020, adding an estimated $20bn annually to Gross State Product.

Further improvements in the state's long-run growth can be expected from the government's proposed "capital recycling" initiative, in which it would lease electricity, water and port assets to the private sector. Of the announced $37bn in estimated proceeds, $25bn is to be used paying back debt, $8.6bn on infrastructure investment (mainly roads, rail and public transport) and $3.4bn on a recently announced "cost of living" subsidy, which will help Queensland households meet utility bills, which skyrocketed because of Labor's disastrous solar panels policy.

As with the "Restart" program in NSW, the infrastructure spending should be able to secure grants from the Asset Recycling Fund which the Abbott government has announced. The result will be greater efficiency in the management of the assets being privatised and, so long as the infrastructure investments are chosen wisely, fewer constraints on the state's ability to expand.

However, while those achievements are impressive, the reform task is far from completed.

The labour market is a case in point. As a large, dispersed state, with 30 per cent of its population in relatively small, isolated labour markets outside the major conurbation, Queensland benefited more than most from labour market reform, which helped reduce its unemployment rate to under 4 per cent. But the Fair Work Act quickly reversed that improvement, pushing the trend unemployment rate up to between 5.5 and 6 per cent. And since then, the end of the resource boom has taken the unemployment rate above 6 per cent, highlighting the need to renew the reform effort.

The state's archaic laws on retail shopping hours also deserve an overhaul. Under the current regulations, the state is divided into fifty different shopping time zones, with opening hours dependent on location and the day of the week.

And there is plenty of room to increase efficiency in public infrastructure too. Transport absorbs 13 per cent of government expenditure, with one-quarter of that going on rail and bus services in Southeast Queensland. Escalating transport outlays reflect the fact that only one-third of bus costs are met by fare revenues, while in passenger rail, fares barely fund one-fifth of operating expenses.

Unfortunately, while taking some important steps on labour market reform, these issues have not been the government's priority; but instead of picking up where the LNP has left off, Labor's program aims at pulling the state backwards.

Much of Labor's focus has been on the proposed privatisations. Although the LNP has done a better job of public consultation, the asset sales are similar to those the Bligh government implemented in 2009-10 when it privatised the freight component of Queensland Rail (since renamed Aurizon) and the Port of Brisbane. However, that similarity hasn't stopped Labor opposing them, with Labor leader Annastacia Palaszczuk and opposition treasury spokesman Curtis Pitt backflipping on positions they had previously taken.

Citing work done by Queensland University Professor John Quiggin, Labor argues the asset sales would worsen the state's fiscal position. Quiggin had made the same claim about the Bligh government's asset sales. And then as now, his assessment assumes the assets will not be operated any better in the private sector than under public ownership.

That assumption was difficult to justify at the time of the 2009-10 privatisations; to make it now is simply to ignore the effects those privatisations had. For example, Aurizon, which reduced its costs by $130 million in 2014 alone, has 2000 fewer full-time equivalent employees than it had at privatisation, while carrying no less coal. Equally, at the Port of Brisbane, trade volumes have risen by 15 per cent since privatisation, while productivity has increased sharply as the port expands.

The scope for efficiency improvements will be factored into the price bidders offer, boosting the state's proceeds compared with announced expectations and to the stream of dividend payments the state will be giving up. And even more importantly, efficiency gains will lift growth in the Queensland economy, yielding higher incomes and expanding the state's revenue base.

Labor, however, denies those gains can be achieved, even though it claims privatisations will "cost jobs" (implying there is room to increase productivity). But that leaves it with the problem of how to fund its election promises.

Part of the answer is that Labor will not subsidise a proposed 300 kilometre rail extension in the Galilee basin, which was an element in the Newman government's agreement with the Indian mining giant Adani. Labor's decision, which has been cheered by anti-coal campaigners, seems likely to ensure Queensland faces in future the problems which proved so damaging in the first decade of the 2000s: capacity constraints that prevent mining output from expanding when demand picks up.

Labor also claims it will cut costs, without any redundancies, by merging the electricity assets the Newman government intends to sell while retaining them in public ownership. The assumed savings, however, seem very large compared to historical experience and even if secured, are unlikely to be sustained. And Labor's promise to "quarantine" the merged entity's dividends, supposedly so as to use them for debt reduction, makes inefficiency all the more likely, as it increases the incentive to strip excessive dividends out of the business and reduces the business's ability to manage its capital program.

Ultimately, Labor hopes to pit "growth" against "austerity" — as if spending would pay for itself. Even putting aside the echoes of voodoo economics, Labor's policies stand a better chance of slowing growth than promoting it: for instance by reversing the Newman government's moves to avoid state/commonwealth duplication of controls over the Great Barrier Reef.

And to make matters worse, Labor's policy commitments leave vast room for it to impose new taxes, threatening an already weakened economy.

None of that means Labor can't win. After all, Newman's cuts have hurt, and the Abbott government's budget woes have reverberated in Queensland too. But having crawled back from the brink, it would be a pity if Queensland now veered over it — leaving future generations to pay for the damage.