Business

In the shadow of Think Big

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By Owen Hembry
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Sir Robert Muldoon. Photo / APN

Prime Minister John Key last week unveiled plans for the biggest asset sell-off in more than a decade.

It is an unsurprising move for a right-of-centre political party, yet 30 years ago a very different picture was unfolding.

Then National Prime Minister Sir Robert Muldoon lit the fuse on the biggest state-driven surge of industrial construction New Zealand may ever see.

Unfortunately for Muldoon a foundation stone of the energy-focused plan, rising oil prices, dissolved away as the plants came on stream and in 1984 when Labour returned to power it was faced with serious debts and later embarked on an extensive asset sale.

Public debt had soared from $4.2 billion in 1975 when Muldoon became Prime Minister to $21.9 billion nine years later when he left office.

The years of media coverage have not been kind to the "think big" projects of the early 1980s - speculated to have cost taxpayers about $7 billion.

And yet 30 years on many of the assets are trucking on, churning out urea, steel or methanol, while their tumultuous creation informs the thinking of today's would-be asset builders.

Economist Brian Easton lays claim to coining the term "think big".

A speaker at the National Party conference around 1980 talked of the need to think big.

"I then took up the theme and talked about economic strategies," Easton says.

"One was called 'think big' and the other one was 'small is beautiful'."

The National Party has always been involved in big projects, he says.

"It's a peculiarity of New Zealand that both our main parties have been interventionist and it was partly because time and again the private sector failed to provide."

The projects were hit by an incredible stroke of bad luck, Easton says.

"The price of oil was against us."

According to BP the price of crude oil in 2009 dollar values rose from about US$10 a barrel in 1970 to more than US$90 by 1980, before falling back to about US$30 in the mid-1980s.

"[If] they'd been in position five years earlier [or] 10 years later they would have been a success."

The problem was that the risk was written so the Government took all the downside and none of the upside, Easton says.

The 1980s would not have been as stressful had the projects not been built and in that sense they were a failure, he says.

"The important thing, however, is the lessons we learnt.

"This affects the 1980s, 1990s and even through to today. The Government has to be careful about taking the risk on a project."

Sir William (Bill) Birch, Minister of National Development and Minister of Energy from 1978 to 1984, says a more fundamental concern was a "take or pay" agreement for Maui gas with Shell, BP and Todd.

Under the agreement, if the Government, which was a half owner of the gas discovery, did not buy specified quantities of gas it reverted to the ownership of the companies and so the value would be lost.

A Liquid Fuels Trust Board was set up to examine the issue and recommended the Kapuni ammonia/urea plant, Motunui synthetic fuel plant and Waitara methanol plants as the best uses for the gas.

Other projects often grouped under the "think big" banner include the Clyde Dam - built to meet a growing demand for electricity - and the expansion of the New Zealand steel plant at Glenbrook.

Investment came from government and private funding and assurances on policy, Birch says.

The Clyde dam is now owned by NZX-listed Contact Energy, having officially opened in 1984 at a cost of $1.4 billion.

"I don't think anyone now looks back and says the dam shouldn't have been built," Birch says.

In the climate of the time the projects were the right decision and had been thoroughly researched and debated, he says. "I don't think there was a failure among them.

"There was economic volatility in terms of prices but you look at the expansion of the steel mill, expansion of the refinery at Marsden Pt, the building of the infrastructure, the natural gas pipelines, introduction of LPG ... they've been tremendous advances in energy supply in New Zealand."

Bill Falconer, National Party Deputy Secretary for Energy from 1980-85, was closely involved in projects in Taranaki, particularly the Motunui synthetic fuel plant.

The Maui gas field had been developed in the expectation of it being used to generate electricity but generation capacity over and above the Huntly power station was not required, Falconer says.

There was a surplus of gas and also the country had endured the difficulties of the oil crisis of the early 1970s, he says.

"There was a move to see whether we could use our indigenous oil and gas reserves in order to ease some of the pressure of that constraint."

There was also a global concern that oil supply might be curtailed in consequence of the activities of the Opec producers.

"Over the longer haul I think you'd be able to say that although the plants may not have met their original vision, in fact they proved to be quite successful and quite beneficial for New Zealand."

The "think big" projects gave New Zealand probably its strongest and most professional engineering capability, he says.

"Out of the construction of all of those enterprises emerged a very strong New Zealand engineering industry which is still there and a lot of things have flown from that."

The circumstances that gave rise to "think big" are unlikely to occur again, Falconer says.

"I think these things would only occur one at a time and each on its merits and that has been happening, that will occur."

Sir Roger Douglas, Minister of Finance from 1984 to 1988, says the foundation of the projects was false.

"They were based on escalating [oil] prices that we had in the 70s and that was never going to [continue to] happen," Douglas says.

"They were failures essentially.

"Some of them managed obviously to survive and go on but that was because the government took billions of dollars of debt on to its own books."

The projects became part of a wider sale of state-assets by the Labour Government, which has been criticised for selling them too cheaply. This argument is nonsense, Douglas says. Although the debt was serious the more important issue was efficiency.

"Privatisation is not really about how much money you get for the asset, that's important, but the more important issues are to get the regulatory environment right so that competition can take place in the industry.

"What you measure your success by is the productivity that flows following the corporatisation / privatisation process."

Former Labour Cabinet Minister Michael Bassett says "think big" was an effort by Muldoon to give the National Party a political edge by saying they would revolutionise the economy.

"The incoming government in '84 was faced with this massive servicing of borrowing costs to build these things but they were never going to pay their way," Bassett says.

The Labour Government took the costs on to the balance sheet and tried to sell them for as much as possible.

"The world could read that we had spent an enormous amount of money that we were not going to get back and the run on the New Zealand dollar in 1984 was in large measure a result of 'think big' and the huge borrowing that we had done.

"By 1984, as the figures were now becoming painfully clear, 'think big' was posited on a financial basis that simply didn't hold water any more."

Think big had been an enormous political gamble that didn't pay off.

"I think one should always be pretty sceptical about any politician who comes along and says, 'Look, with taxpayers' money we're going to do this and this and this' ... and that's basically what Muldoon was saying from 79 through until 82, trying to paint his opponents as think small people," Bassett says.

"I look back on it and I think caution be my watch word," he says.

"Do not leap in where the private sector shows no interest."

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