

“Bill Birch, Minister of Everything”, by Brad Tattersfield

A Review

Minister of Finance, Minister of Energy, Minister of National Development, Minister of Labour, and Minister of Health to name a few Sir William (Bill) Birch was indeed the Minister of Everything.

Brad Tattersfield’s biography of Bill Birch tells the story of a remarkable man. A man who was near the heart of almost every National-led government from the early 1970s to the end of the century. The loyal lieutenant to three Prime Ministers: Muldoon, Bolger and Shipley.

While the biography is an authorised one and includes a foreword by Birch, the book retains its independence, is well researched and tells the story of Birch’s life in an orderly chronological fashion, a style that Birch himself would probably approve of.

The book captures well Birch the man. Birch is a man of high integrity. He was also incredibly hard working and expected an equal level of commitment and drive from those he worked with. Tattersfield relates the story of the Treasury officials who turned up for a 12 o’clock meeting at midday, only to be told to come back 12 hours later as the meeting was actually scheduled for 12pm, midnight.

Birch was also the consummate negotiator and trouble shooter: calm under pressure, always amicable, diplomatic and smart enough to leave something on the table so that both parties walked away satisfied when the deal was done.

As the biography notes, despite operating under intense pressure, Birch almost never raised his voice or showed much if anything in the way of visible signs of anger. Officials knew, however, that when Birch referred to something as “not tidy”, the Minister was not pleased.

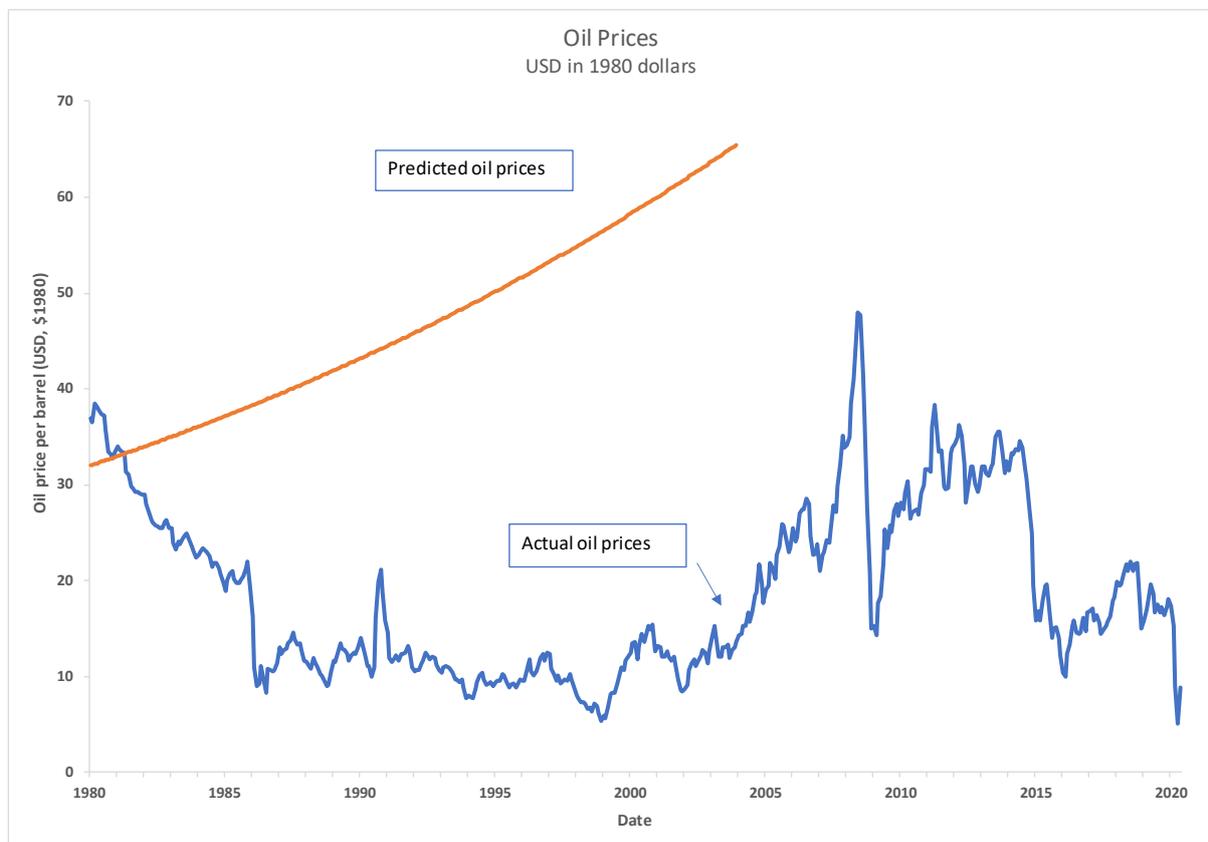
The book seeks, with some success, to reconcile the enigma of how Birch, a man who was a leading architect and the prime executor of the heavily interventionist Think Big projects of the late 1970s and early 1980s, could also, some decades later, be the Minister charged with deregulating the labour market and, later still, leading many highly successful privatisations of state assets, like the sales of Forestry Corp, Contact Energy and the share-market float of Auckland Airport. The answer perhaps lies in the fact that Birch was a careful listener, was prepared to change his views in the face of compelling argument and evidence and above all was a fixer, a man who responded to political incentives and enjoyed the power his position bestowed.

The book has some errors, some of which are technical. One such technical error is the claim that in 1994 Birch aimed to repay all foreign-held public debt within three years. The government’s aim in fact was to eliminate all net foreign-currency denominated debt, regardless of who held the debt (foreigners or New Zealanders). The reason for getting rid of foreign-currency debt was having debt issued in currencies other than New Zealand dollars exposed the taxpayer to exchange-rate risk. Another minor error is the assertion that Jenny Shipley created the Health Funding Agency when it was her successor as Minister of Health, Bill English.

A more important issue is the book’s treatment of the Think Big projects, one of the biggest state-led interventions in New Zealand’s history. The Think Big projects – the government-led ammonia urea, methanol, synthetic gasoline, petroleum refinery and steel expansion projects – were an attempt by the Muldoon government of the late 1970s and early 1980s to insulate the New Zealand economy from the oil price shocks of the time by using the domestic energy “surpluses” that had emerged. The

projects were, with the exception of the steel expansion, all supported by the key government agencies (the Ministry of Energy, the Prime Minister's Department, Treasury and Trade and Industry) at the time.

While Tattersfield suggests it is difficult to assess the net financial benefits of the projects, there is little doubt that, with the advantage of hindsight, the projects were very costly for the economy. As is well-documented in a Treasury report¹ reviewing the Think Big projects, the projects' estimated net cost to the taxpayer and the economy was over one billion dollars (around 4% of GDP at the time). The exception was the methanol plant which more than covered its cost of capital. The refinery and the steel expansion experienced large construction cost-overruns and delays. The major flaw in the projects though was they were premised on the assumption that their sales prices (steel, oil or refinery margins) would rise over the life of the projects. Oil prices, for example, were assumed to rise throughout the life of the synthetic gasoline project at around 3% per annum over and above the rate of inflation, reaching US\$65/barrel in 1980 dollars (or over US\$210 per barrel in dollars of today). The reality, as the graph below shows, is that oil prices fell steadily throughout the 1980s and 1990s and are currently around US\$30 to US\$40/barrel.



It is a myth that because these projects are still running that they were therefore successful. That the projects continue to operate is not testimony that they were good investments. It merely demonstrates that they are able to cover their operating costs, with much of their capital having been written off at huge cost to the taxpayer and, in the case of the refinery, by the motorist.

The lesson of the Think Big projects though is not that oil and other commodity prices are very hard to predict. The views on future oil and other prices that underlay the investment decisions were the conventional wisdom and the best available official advice at the time. The true lesson of the Think

¹ The Treasury, "Review of the Major Projects", 22 Nov. 1984, available from the National Archives.

Big projects, and one that could have come out more clearly in the book, is that governments are not well placed to be making such major commercial decisions. Government officials and politicians have neither the information nor the incentives that are faced by commercial operators with their own money at stake to judge, manage and mitigate the risks that surround such huge investment decisions. Nor can governments easily walk away from high profile strategies. It's very hard for a political leader to say "I got it wrong, now let's move on."

These are many lessons from the Birch biography that are relevant to New Zealand today as the country faces the COVID-19 crisis. The government is once again spending billions on "shovel ready" or Provincial Growth fund projects, and both sides of the House are promoting huge increases in infrastructure spending, with little or no rigorous cost-benefit analysis and few questions being raised about the role of the public sector in bearing major commercial risks.

The book is a useful reminder also, as New Zealand's public debt ratchets up again, of the costs of high levels of public debt. Following the Think Big and other spend-ups, by the early 1990s, the New Zealand government was spending more on servicing its debt than it was on either education or health. That is clearly not a position New Zealand wants to be in again.

Overall, the enormous contributions Birch made to New Zealand deserve to be lauded and it is important to have his story recorded. Birch was a minister who promoted and executed skilfully major economic reforms across a wide range of areas, including in the finance, electricity, health and producer board sectors. These reforms were often highly controversial at the time but Birch had a way of taking the sting out of them, of quietly toiling away and of delivering where others would flounder. He was superb both at getting the bureaucracy to deliver and at getting a not very structured meeting of his colleagues to make a sensible decision. That was where his power and influence came from. As the book notes well, Birch was incredibly professional as Minister of Finance in doing the real work while Winston Peters was Treasurer in the National/NZ First coalition government of the late 1990s.

One of Birch's greatest achievements was, as Minister of Labour, in leading the deregulation of the labour market in the early 1990s. In the period since, New Zealand has seen increased flexibility of wages and bargaining arrangements, with unemployment averaging 6%, much lower than the 10% average unemployment rate experienced by the more heavily regulated Euro countries over the same period.

Overall, despite the limitations noted above, the biography does an excellent job of telling the story of a truly remarkable man. A man who was a doer, not an originator, and a man who was every bit a team player. The book also captures well the life and times in New Zealand over the period when Bill Birch was in Parliament. Indeed, in many ways the book reads as an economic history of New Zealand for the last three decades of the twentieth century, so pivotal was Birch to virtually every major National-led policy or project over that period.

Philip Barry

Philip Barry is a founding Director of economics and corporate finance advisers, TDB Advisory. He is a former Director at the New Zealand Treasury and Counsellor Economic in New Zealand's Permanent Delegation to the OECD.

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