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The Verdict on Thatcherism Is Clear

Simply compare how her UK squandered its oil wealth compared to Norway.

By Mitchell Anderson, 10 Mar 2014, TheTyee.ca

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Margaret Thatcher, elected PM in May of 1979: Anti-tax ideology robbed her people of vast petro-proceeds.

Nothing says free market capitalism like Margaret Thatcher. The Iron Lady once proclaimed, "Socialist governments traditionally do make a financial mess. They always run out of other people's money."

Thirty-five years after she swept to power as British prime minister, it is ironic that socialist Norway now has $830 billion in the bank and enjoys fully funded social programs that most of us can only dream of. Meanwhile the U.K. is enduring another round of wrenching austerity and owes over £1.3 trillion -- about US$2.2 trillion. That massive debt grows by about $3.8 billion each week, while every seven days Norway adds another billion dollars to their bank account.

What happened? Both countries were in dire economic straights in early 1970s. Both countries came into the financial windfall of North Sea oil around the same time, exploiting the same resource -- sometimes from the same drill rig. How could they have ended up in such vastly different places?

Rarely in history has there been such a clear-cut opportunity to explore the real world success or failure of competing world-views. Thatcherism has gone on to become an economic school of thought with true believers in positions of power around the world. The doctrine of cutting taxes, privatizing government assets and embracing deregulation continues apace around the globe to this day. But does it work?

First let's agree on some fundamentals. Wealth flows from resources and oil is a particularly lucrative bounty. The 75 billion barrels of light sweet crude discovered in the North Sea was worth over $8 trillion at 2014 prices. With that much money on the table and the resource roughly evenly split between the U.K. and Norway, let's see how socialism and Thatcherism fared in this economic cage match.

For starters, Norway isn't precisely "socialist." Like other Scandinavian countries, they have a mixed-market economy with relatively high levels of taxation and comprehensive social programs. The main difference was that Norwegians did not have an allergic

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aversion to public participation in their economy.

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One of the first things the Norwegian government did was to incorporate a state owned oil company -- Statoil -- to ensure they had an equity stake in their own oil production and to act as a repository for oil expertise. Since Norway knew essentially nothing about the oil business, they had to learn fast and having a player on the field helped them do that.

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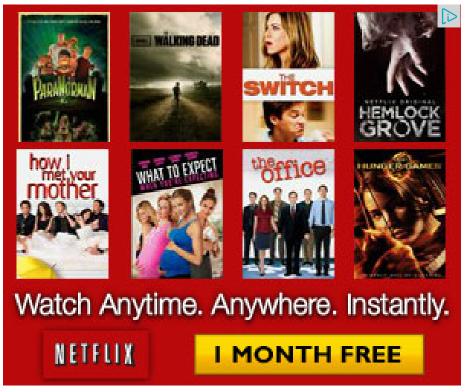

Oil is also a good investment and the Norwegian taxpayer has enjoyed over $23 billion in Statoil dividends from their government's stake in the company since it was founded in 1972. The equity value of those shares is worth another $64 billion.

Lady Thatcher on the other hand embraced the conservative ideal of minimizing government presence in the marketplace, virtually inventing the process of privatization. One of her first acts on election was to sell 80 million shares of British Petroleum, ending the majority stake the U.K. government had held in the company since 1913 on the advice of Winston Churchill. Thatcher sold the U.K.'s remaining 1.7 billion shares in BP immediately after the stock market crash of 1987. While this raised $20 billion at the time, adjusted for inflation, those same shares would be worth over $87 billion today.

Taxation is of course another yawning philosophical divide between Thatcherism and the Norwegian model. While Norway needed outside expertise and capital to develop offshore drilling operations, they also wanted to tax foreign companies to limits of tolerance -- to "squeeze the lemon to the maximum" as one historian told me. An unspoken role of Statoil was to pass on informed intelligence from within the oil industry on costs, prices and players so the Norwegian government could better prevail at the negotiating table.

This was no garden party. With literally trillions of dollars at stake, Norway was playing to win. At one iconic meeting in 1974 the Norwegian government announced to a delegation of oil companies that they were raising the level of taxation on petroleum profits to 90 per cent from 50. After the shouting had died down, the minister expressed disappointment that some of them did not walk away from their offshore leases. "We should have taken more," he admonished his bureaucrats in full view of the enraged oil executives.

Thatcher on the other hand seemed more enamoured with ideology than money. She told a Conservative conference in 1977, "Our aim is to make tax collecting a declining industry." She and successive governments succeeded in that dubious goal. Even though the U.K. extracted nine per cent more oil and gas by 2011, they collected $156 billion less in petroleum taxes and royalties than the Norwegians.

Norway's way: Citizens' stake, slower paced

But Norway has another separate and vast stream of revenue in addition to merely being a resource rent collector. Back in the 1970s, the Norwegian government decided the taxpayer should be preferentially awarded equity in new exploration leases over and above their stake in Statoil. Unlike the U.K. or Canada, the Norwegian taxpayer now owns 40 per cent of their current petroleum production and about half of their reserves.

Through a mechanism called the State's Direct Financial Interest (SDFI), the taxpayer shares the development costs, risks and profits with oil companies -- essentially acting like a senior business partner. By actively participating in how their petroleum is developed, Norwegians brought in an additional $227 billion by 2011.

The pace of development was another major difference between the U.K. and Norway. Norwegians intentionally decided to go slow with their oil production to avoid flooding their small country with petro dollars. Early in their oil history Norway set out specific policy goals in their Ten Commandments of petroleum development, which among other things prohibited wasteful flaring of natural gas.

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The U.K. had the opposite approach, incentivizing companies to extract oil as quickly as possible, and allowing them to flare off enormous amounts of gas to speed up recovery of more profitable oil. In 2012, companies collectively burned off 1.3 billion cubic metres of relatively clean and finite natural gas per year -- enough energy to supply 20,000 homes. Most petroleum reserves are now depleted, and the U.K. has become a net importer of both crude and natural gas -- much of it from Norway.

Since Thatcher was in such a rush to develop their oil resource, the majority was sold when global prices were a fraction of what they are today, resulting in hundreds of billions less in public revenues. The difference between U.K. and Norwegian production since the 1970s means Norwegian taxpayers have an extra 3.3 billion barrels still left in the ground, on which they can expect another $120 billion in taxes and public profits.

Adding all that up shows the Norwegian taxpayer benefited some $658 billion more than their U.K. counterparts for exploiting the same resource at the same time. This also does not include the $190 billion SDFI owns in oil and gas reserves. So much for Laissez-faire economics.

UK: Cupboards left bare

It gets worse. While Lady Thatcher trumpeted the value of thrift and saving for a rainy day, not a penny of the $302 billion collected on behalf of U.K. citizens was set aside for such inclement weather. Instead, sweeping tax cuts were the main legacy of U.K. oil wealth with the stated aim of stimulating the economy.

Three recessions later and things are not looking so good. Personal and public debt is now at an all time high in the U.K. and the debt to GDP ratio just passed 90 per cent. True believers in conservative economic policies no doubt maintain that the patient merely needs more and stronger medicine. However the facts speak for themselves. The U.K. just lost its triple-A credit rating and cuts to local governments have reached the undignified point where they can no longer provide essential services -- a potential violation of the European charter of local self-government.

Interestingly, Norway would have been even farther ahead had they not caught their own case of the neoconservative contagion sweeping the globe during the Thatcher years. Norwegians originally planned to store far more of their oil wealth underground, proceeding with modest oil development limited to 90 million tonnes per year. However, Norway had a serious banking crisis after deregulating their financial sector and decided to discard this self-imposed ceiling on petroleum production to stimulate their sagging economy. They paid dearly for it.

Oil production more than doubled during the 1990s and the Norwegian government set up their now iconic pension fund as a repository for these excess petroleum sales. However, global oil prices averaged less than $20 a barrel during the decade when much of the Norwegian reserves were extracted. Had they stuck to their guns and maintained the level of production below 90 million tonnes per year, they would now have an additional 14.2 billion barrels in the ground -- worth about $1.5 trillion at current prices.

In other words, Norwegians would have been ahead by a further $522 billion in tax revenue and public oil profits had they spurned their own whiff of Thatcherism.

Thinking of the children

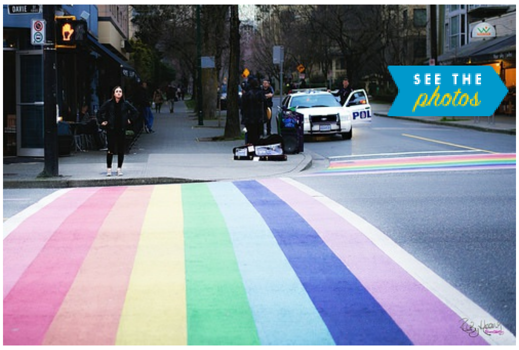
Of course $830 billion is nothing to sneeze at. Setting up the oil fund was another example of Norwegians intentionally charting their future rather than letting the market have what it wanted and hoping for the best. Creating a separate pool for oil money and investing it outside Norway was specifically intended to avoid Dutch Disease -- the artificial inflation of currency at the expense of the manufacturing sector due to excess petro dollars. This was exactly what happened in the U.K. in the early 1980s.

By creating a firewall between petroleum wealth and general revenue, they also ensured that governments would maintain fiscal discipline by only allowing four per cent of the oil fund to spent each year. That works out to about $33 billion per year -- again nothing to sneeze at given that investment returns on the principle are often double that. Their oil fund currently holds about one per cent of global equities.

Lastly, the Norwegians wanted to consider intergenerational equity -- recognizing that it would be unfair for this windfall of resource wealth to only benefit citizens who happened to be alive today. So seriously did they consider the ethics of their vast petroleum prosperity that they hired a staff philosopher to ponder such weighty issues.

Thatcher on the other hand dismissed such woolly headed ideals. The Iron Lady famously stated, "There is no such thing as society." Assuming for the sake of argument that society does in fact exist, which society has become more pleasant and prosperous to live in?

Norway is currently ranked number one in the world on the Human Development Index, is the world's best-governed nation according to the Democracy Index and the third best country in the world to be a mother. On those scores the U.K. ranks 27th, 16th and 23rd respectively, behind such nations as Slovenia, Malta and Italy.



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Thatcherism can perhaps best be summed up with this poignant quote from the Iron Lady: "There is no such thing as public money; there is only taxpayers' money." This is the nucleus of neoconservative thought. It is also nonsense.

Wealth flows from resources, and the North Sea oil represented $8 trillion of public money. Realistic governments see resource development as a hard-nosed negotiation with their private business partners. They aggressively fight for their taxpayers against outside interests who naturally want to keep as much of that money as they can for themselves. Norway did a far more competent job managing their oil wealth than the naive ideologues in the U.K. The numbers speak for themselves.

Thirty-five years later, Thatcherism is not merely a failure. It has become a well-funded construct of those very outside interests seeking to access public resources around the world at rock-bottom prices. And by that yardstick, it has been wildly successful.

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Mitchell Anderson is a Vancouver based freelance writer and frequent contributor to The Tyee. He is writing a book to be titled *The Oil Vikings: What Norway can teach the world about wise resource use*. Find his Tyeeseries reported from Norway **here** and all his pieces published by The Tyee **here**.

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