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ON THE DRY SIDE   THE SAGA OF A PIPE LINE   John Hyde

Tombs are out of fashion and modern rulers must settle for a modest plaque or bust. But these may be associated with works bigger than Cheops' pyramid.

Even the least thoughtful visitor to say Cairo, Agra or Versailles, cannot but be struck by the folly of otherwise able rulers, whose works are now epitaphs testifying to an extravagant waste of national substance.

Public works are built upon the power to raise taxes and to borrow against future taxes. They tend to be more breathtaking in concept and design but more costly to construct and less securely tied to benefits than are private works, built upon mere post-tax profits. Of Australian post-tax profits and private works little enough remains.

Governments can borrow for as long as lenders believe the taxes can, with force if necessary, be collected. Whereas private citizens can borrow for only as long as lenders, who really don't like selling people up, believe there will be post tax profits. The dreams of private builders are checked by the need to earn more than the going interest rate. This is the mechanism which rations society's limited resources.

Palaces and pleasure domes - the New and Permanant Parliament House, the High Court building, the Sydney Opera House and publicly funded sporting venues - serve society but are not tested against interest rates. Are they the people's preferred use of limited resources? Like the Taj Mahal they are tested only by the power to raise taxes. Like the Palace at Versailles they best serve government's courtiers. Like both, no formal attempt is made to relate cost to benefit.

Dams, power stations, most buildings, hospitals, schools, roads and railways differ, in as much as even the government says it expects these to generate sufficient welfare to pay for themselves. Potentially each is a commercial enterprise which in the private sector would need to earn more than the cost of funds. In spite of promises, many such public investments return little, or worse like the Ord River dam, they attract good money after bad. To anticipate an objection: there are documented cases of this occurring in the private sector too, but there, poor investment ends in bankruptcy or, in more recent times, in take-over. The assets are revalued (not destroyed) and placed under better management. Bad management in the private sector is also costly to society, but there it is called bad management, and the threat of bankruptcy and take-over ensure a caution which is absent from the public sector.

The right question to ask about an investment is not, 'will it serve a purpose', but 'is this investment the best possible use of the resources'? Doctor Bruce Davidson argued that if the money spent on the Ord had been spent developing Esperance we would all be richer for the change. If the wealth had not been taxed from private hands to build the Ord River dam most of it would have been spent upon ventures which paid both tax and interest - no doubt some of it in Esperance.

The North West Shelf gas development illustrates well what happens when politicians make monuments of commercial ventures. If a study by the New Zealand consultants, Brown, Copeland and Co is only half correct, once the North West Shelf Consortium sells Liquified Natural Gas (LNG) on foreign markets it will return good profits for themselves and Australia. If so, they did not need any encouragement from the government to go ahead producing LNG. It will never be known, but I suspect if the WA government had kept its fingers out of the project it would have gone ahead exporting LNG. The greatest benefits are from overseas sales with only modest or negative returns from the sale of gas to the South West Corner of Australia - the Domgas phase. The cost of the gas near Perth is at least 50% more than Collie coal. There are untapped coal fields at Dongara (200 miles North of Perth) and at Esperance.

Whitlam's minister, Rex Connor, was first to dream of piping NW Shelf gas over long distances. His dream of a pipeline to serve the industrial South East corner of Australia was probably impractical and was vehemently opposed by the Liberal West Australian Government. But West Australians will rue that Connor's dream did not prevail over the WA Liberals' dream to pipe the gas South to Perth.

The Shelf Partners induced the State Government to commit future West Australian taxpayers and power users to a share of the risk of the project. This was achieved with substantial take-or-pay contracts. Perhaps, as is claimed by some, the project would not have proceeded without the contracts, but if indeed it was so risky then it should not. Investments should be commercial rather than political judgements.

The State Energy Commission spent $1069 million (January 1984 money) building a pipeline from Dampier to Wagerup, south of Perth. Needless to say the money was borrowed. Private German capital was willing to build the line, buying the gas in the North and selling it in the South but the Connor dream had taken hold of the State Liberals. It was not seriously considered.

The future cost of servicing the debt incurred to build the pipeline is likely to be minor beside the cost of the take-or-pay contracts. The envisaged contracts were far too large and the Energy Commission needed another major outlet for the gas, but the 1983 election was looming and they were signed none the less.

The major South Korean firm, Kukje, had evinced interest in building an aluminium smelter, using a lot of energy, in the South West. To attract it a subsidiary company ICC was offered a share of the pipe line contract. This was achieved by taking 100 km of line from the Italian contractor Saipem. An additional cost of at least $32 million was incurred. In the event Kukje became insolvent and was dismembered by the South Korean Government before it could deliver on an aluminium smelter - even if it would. The last hope for the smelter melted away when Reynolds, concluding that it was not economic, withdrew. The take-or-pay contracts have been partly re-negotiated, but unless the NW Shelf partners agree to substantial re-negotiation WA citizens are left paying for gas they can't use. There is a seven year holiday from servicing the pipeline loans but soon West Australians will be paying for those too. The Energy Commission is doing all it can do at this late juncture to ease the problem by flogging gas at, or as some say, below marginal cost. The Commission's policies prevent the development of the small Turbridgi and Woodada gas fields which are located near potential users. They inhibit the development of South West coal deposits.

(Spare taxpayers from monument builders. Bless them with politicians who see balanced budgets and sound economies as their gifts to posterity and their claims to earthly immortality.)