

# PRIVATE AND PUBLIC ENTERPRISE: FLETCHER CONSTRUCTION AND THE BUILDING OF NEW ZEALAND

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## ABSTRACT

This paper shows how a New Zealand company, Fletcher Construction, created wealth in partnership with the state. The first Labour government was elected in 1935 with a firm commitment to full employment and a broad social security system. Because Labour's determination to get things done through local industry coincided with James Fletcher's, and then his son's, drive for company expansion and profits. Fletchers' design or construction of roads, wharves, saw-mills, flour mills, pulp mills, paper mills, factories, railway stations, university buildings, hospitals, department stores, office blocks, houses, and ownership and management of stone quarries, brick-works and forests, left a mark in almost every town and city in the country. Many projects required building methods and materials new to New Zealand, the innovative use of traditional materials, large-scale plant, specialist, skilled staff, and technical know-how from United States and British construction and engineering firms. In this way Fletcher projects drew together many different suppliers, equipment makers, skilled tradesmen and financiers. As a provider of employment in construction and manufacturing, with easy access to established business and political leaders and a powerful influence on policy making, the company became a potent force in New Zealand's full employment welfare state.

## Introduction

Much attention has been paid to the state as political and economic manager in New Zealand.<sup>1</sup> The Fletcher story of alliance and compromise takes up this theme, illustrating political and commercial problems faced by modern governments as they negotiate with powerful, private, commercial and professional interests in order to manage national economies and welfare states. As Beer, Ashford and others have shown, modern governments cannot perform without producer groups.<sup>2</sup> As Ashford argued, influential groups shared in the control of welfare states, helped to make policies, and also benefited from these. James Fletcher, as leader of a large, rapidly diversifying company, with important management and technical expertise and easy access to established business and political leaders when crucial decisions were being made, took on just such a dual role in New Zealand. Fletcher fought public ownership but willingly cooperated with governments of both major political parties. As a provider of employment in construction and manufacturing, his company became a potent force in New Zealand's full employment welfare state.

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Large corporations in New Zealand are also beginning to receive serious, detailed attention from historians. This study joins these to show how a large firm was an important agent of modernisation and wealth creation alongside the state. In a modest way it builds on Chandler's studies of the historical evolution of large firms, their place in national economies as 'learning bases', and the dynamic way in which they draw together many physical and intangible assets, and so create wealth.<sup>3</sup> The Fletcher company's design and construction of roads, wharves, saw-mills, flour mills, factories, railway stations, university buildings, hospitals, department stores, office blocks, houses, and ownership and management of stone quarries, brick-works and forests, left a mark on almost every town and city in the country. Many projects required building methods and materials new to New Zealand, the innovative use of traditional materials, large-scale plant, skilled staff, and technical know-how from United States and British construction and engineering firms.

### **Labour, Industry and the Welfare State**

New Zealand's first Labour government was elected in 1935 with a firm commitment to promote local industry to boost employment, and to shelter the small economy from sharp change in overseas markets. At this time, most local factories were small workshops, few employing more than fifty people. A good many enterprises were family firms. Both market and labour-force were too small to sustain much heavy industry. Some large-scale operations were engineering works in Christchurch and Dunedin and some freezing works and timber-mills.<sup>4</sup> As in the United States during the New Deal, the government took the lead in economic regulation to curb competition and ensure "stabilisation", and played an active, practical role in public housing and economic development. Landmark legislation including the Industrial Efficiency Act 1936 and the Social Security Act 1938 allowed Labour to attempt to control and manage the economy and bring a welfare state into being. The Industrial Efficiency Act gave it wide powers to direct the development of industries and their location by concentrating production or business at a limited number of licensed centers, avoiding costly duplication of plant or equipment or expertise. The Minister of Industries and Commerce could license entry into specific industries, such manufacturing cement or pulp and paper, or into specific occupations, such as pharmacy.<sup>5</sup>

A sharp drain on overseas funds at the end of 1938 prompted more drastic regulation of industry in the form of controls on the movement of foreign exchange, and import licensing or import quotas, which gave priority to materials and equipment rather than finished goods. By regulating imports, the government sought to influence the direction of industrial expansion. In the longer term it hoped to "insulate" New Zealand producers from the vagaries of world markets and protect and promote local industry, even at a cost to consumers. When allocating import licences the government gave preference to plant, equipment and raw materials for local processing, rather than to finished goods for immediate consumption. These regulations governing imports and the move-

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ment of foreign exchange were to remain in force throughout the war and into the post-war period. Together with price controls to curb inflation, they marked the beginning of a controlled and regulated economy that was to last for the next forty-five years.

The Labour leaders were determined to address in a practical way urgent problems left by the Depression's hardship and turmoil. Employment came first, then the housing of families, which meant construction of many good quality homes, then education. Because no large project, such as guaranteed prices or welfare through industrial development, had been planned and costed in detail, there was a big gap between dream and action.<sup>6</sup>

### Fletcher Construction

The government's pragmatic efforts to create employment and get things done through local industry coincided with James Fletcher's drive for company expansion and profits. Like other business leaders, James Fletcher, a prominent Auckland builder and business-leader, was aware of this keener government attitude toward industry in 1935. He had arrived in Dunedin from Scotland in 1908. His first small company was prospering when his two brothers joined him, convinced by enthusiastic descriptions of the fortune that lay ahead.<sup>7</sup> Together they won contracts for large public buildings such as a town hall, an Otago University building, and the Dunedin City Baths. Each one tested their materials, equipment and methods. James Fletcher had an electric winch built for the awkward and time-consuming task of hoisting bricks and concrete to upper storeys. His stonemason brother's experience was crucial when laying bricks and facing the walls with white Oamaru stone.<sup>8</sup> Because access to supplies of raw materials presented many difficulties, the company acquired a controlling interest in large brick works in Wellington and another in Auckland, and bought into a marble quarry in the South Island.<sup>9</sup> They set up a joinery in Wellington to manufacture doors and window frames in quantities and up to the standard required. Further sawmills and timber companies were acquired. By 1919, no longer a small, provincial building company, Fletcher Construction was operating nationally and gaining a dominant position in New Zealand's construction industry.

A 1925 advertisement for Fletcher Construction lists 24 major building projects on hand, including three hospitals, government office buildings and factories.<sup>10</sup> Rising costs forced the streamlining of processes such as moving materials from factories to building sites, forward planning to keep men and equipment fully employed, refining building techniques, such as tubular steel scaffolding, and using new building materials, such as hollow tiles for partitions. As costs rose sharply, the company's bank overdraft grew. James Fletcher sent his brother John to the United States to get first-hand information on ferro-concrete, which offered new prospects in design and construction, impossible with either material alone. He purchased a complete plant, including diamond saws, carborundum planers and polishing machines, to shape the marble and concrete which gave strength and dignity to buildings. Such refinements might mean greater profit, or a chance to put forward tenders that other companies could not match.<sup>11</sup>

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During his journeys, James Fletcher cultivated friendships with bankers, merchants, farming leaders, and members of the government. He repeatedly made public statements urging more state encouragement of industry. In a 1930 speech, with unemployment rising rapidly, he challenged vested interests and spoke harshly about timid attitudes toward industry, which was "sick," he said, with antiquated methods and ill-planned, ill-equipped, inefficient factories. Primary producers and land settlement schemes seemed to be much more important than secondary industry, which could offer most employment. The government Department of Industries and Commerce budgeted for a paltry sum each year, and busily collected statistics to show industry inefficiency. This department should be behind the wheels of industry with levers of advice, finance and constructive criticism, with power to insist on costing systems and efficiency methods, investigate new industry propositions, and authorise, within limits, financial assistance. New Zealand was importing galvanised iron for roofing. Why not prohibit the use of iron for roofing in all public and private buildings and promote locally produced tiles, and foster employment for hundreds in the clay working industry, make use of coal from local mines, and create big business for the railways? Local manufacture of glass bottles had shown that sheet glass manufacture might also be successful, based on good deposits of silica sand. In short, the cure for unemployment was "the Surgeon's knife: not the Doctor's dose of more protection."<sup>12</sup>

James Fletcher's practical suggestions for employment included drainage schemes for small towns on the edge of Auckland, using local pipes and local sand, and a government building scheme to replace slum housing using locally made bricks. He still supported the Reform Party but watched, with interest, Labour in opposition, especially Peter Fraser, a Scottish-born deputy-leader, and Walter Nash, the financial expert.<sup>13</sup> Convinced about who would win the coming election, James Fletcher told Nash in 1934 that Labour would need "some pretty solid schemes ready for putting into action." His own housing scheme was only one of many, he warned. A programme of works should be drawn up to offer temporary employment until such times as permanent employment was secured through the development of the country along certain definite lines. The Labour Party would "have an opportunity" said Fletcher, and he would be only too pleased to help in any way he could.<sup>14</sup> He was realistic and, like other business leaders, seemed comfortable with the idea of a rather heavy-handed state. Once Labour swept to power in 1935, there was little option but to get friendly with the new government.<sup>15</sup>

Labour quickly restarted languishing public works programmes, including one of the last great New Zealand rail projects, a line through rugged northern Hawke's Bay from Napier to Gisborne, built in part across an enormous viaduct. New electric power schemes were authorised. Labour took political credit for building Wellington's massive new Railway Station. Fletcher Construction's contract for this project was the largest ever let in New Zealand.<sup>16</sup> The huge brick building with its granite base and tiled roof posed several engineering challenges, especially its construction on land recently reclaimed from the sea at Wellington's harbour's edge, alongside an earthquake fault line. The Fletcher company built around a steel frame, using almost two million bricks reinforced with

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steel rods as cladding, plus 1500 tonnes of stone.<sup>17</sup> Construction began in the last years of the Depression in 1934 and kept 700 workers employed.

### Building Houses for the State

Of all Labour's achievements, state housing along with social security are perhaps the two most vividly impressed upon the memories of those who lived through these times. "I think that we can have smiling homes in New Zealand; that we can use the public credit for the purpose of building homes worth living in – homes for the Native race; homes for their pakeha brethren... We have the timber and the mills and the men, and the women, too, willing to go to work building the homes," promised the Prime Minister, Michael Joseph Savage, in 1936.<sup>18</sup> Labour was not the first New Zealand government to build houses, but the scale of its scheme was unprecedented. Government ministers confidently considered making housing a direct government responsibility, bringing together on government terms unemployed building workers, unused building materials, vacant land, local money, and people in desperate need of reasonable housing.<sup>19</sup> The Minister of Finance, Walter Nash, assumed charge. Full control of the Reserve Bank, gained by buying out the private shareholders, would ensure that the government had the credit with which to pay for its plans. But in spite of their self-assurance, the Labour ministers and public servants knew little about organising and administering large enterprises such as social security, national health, or state housing. The Prime Minister later told a group of critical trade unionists that five minutes conversation with the Chief Engineer had convinced him that the Public Works Department could not build a hen house let alone a £5 million housing scheme.<sup>20</sup> With his firm operating on a national scale, his experience in managing large construction projects, his access to building materials, and his political skill, James Fletcher was ready for this major building opportunity.

The leading ministers proposed buying the Fletcher business and using its national organisation for public buildings and housing, and invited James Fletcher to become director of a state housing construction department. Fletcher courteously declined, but promised his whole-hearted support and even his own expertise, free, for six months. Aware that housing affected many sectors, he warned the prime minister to invite cooperation of every major construction interest, not just his own building firm, pointing out that his acceptance of any appointment without a general invitation to the building trades might be regarded as an invidious distinction. Because his company had many major commitments already on hand he preferred to avoid any radical change in the organization, such as the sale of the building and contracting business to the government. At the same time he provided the Cabinet with a detailed, practical plan to organise large-scale construction.<sup>21</sup>

Preparation of plans, bills of quantities and specifications began, so that tenders could be called as soon as a government housing department was up and running. In 1936 James Fletcher agreed to draw up a housing scheme for land held in Auckland, and in Wellington. He organised under-employed architects to draw up plans for many dif-

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ferent house designs. He enlisted the good will of builders who so far stood aloof from the scheme. He gained government agreement for two state owned joinery factories. He was determined to keep costs low, so that the houses could be let at an economic rental.

Fletcher Construction won the contract for the first state housing schemes in March 1937, and supplied many of the designs. Because of a shortage of skilled labour, Fletcher agents in England and Scotland recruited several hundred carpenters and joiners for the company's "Government Housing Factory" in Wellington. Three years employment and a 40-hour working week were guaranteed.<sup>22</sup> While visiting housing schemes and the Middlesex Brickyard plant, James Fletcher himself interviewed carpenters in England. "If I can arrange accommodation I can have quite a number away in July and August boats", he reported in July 1937. The continuous-system brick factory was "certainly an eye-opener." "We have nothing in either New Zealand or Australia to compare with it for efficiency and low cost," he said.<sup>23</sup>

To ensure supplies for the housing scheme, and in the face of strong opposition from manufacturers and builders, the government built and let two joinery factories in Wellington and Auckland complete with kilns for drying the wood, planing mills, quantity surveyors, clerks and management.<sup>24</sup> To head off problems in assembling materials for the building of many hundreds of houses in Auckland and Wellington each year, and extending the scheme to other cities, James Fletcher arranged for concrete tile manufacturers to add new capacity to their works, and for new entrants to set up plants. Competing suppliers, e.g. on stoves, could arrange for a fixed price for a fixed quota. Timber was delivered by ship from the company's sawmill on the West Coast of the South Island. But kiln-drying huge quantities of native timber resulted in several loads being unusable. Some prefabrication of house frames, and delivery of these on flat top trucks, speeded construction. But labour turnover was high because other contractors offered more money, and the unions disliked Fletchers' operating building gangs for foundations, framing, exterior sheathing and so on.<sup>25</sup>

By the end of February 1938 almost 2000 state houses had been built. Thousands of people depended for their jobs on the government's housing programme. Many manufacturers depended on orders coming forward for state housing.<sup>26</sup> By February 1939, the Fletcher company had themselves built 877 houses. Of only 371 state houses completed on time, Fletchers had built 317.<sup>27</sup> The company went on to build well over 10,000 state houses, in regimented subdivisions. They were solid looking single units, more substantial in construction than much public housing. No two in any street were to be of the same design. The rents were higher than people had expected, not much less than current prices, and probably out of reach of the very poorest.

This effort stretched company resources too far. With costs rising sharply including the cost of timber, and a shortage of skilled workers, Fletchers lost money on the first 1000 state houses — £90,000 (£100 per house). The company's progress was interrupted by work on the huge Wellington Exhibition building, which drew off many tradesmen and tightened supplies. Faced with clamorous creditors and no money, he decided to pull out of state house building. According to Fletcher's biographer, the Prime minis-

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ter, Savage, told him "You can't do that ...the people need houses, and we need you to construct them. Good houses, honestly built. We must have them."<sup>28</sup> He guaranteed Fletchers a large overdraft with the Bank of New Zealand.

The Labour leaders acknowledged their debt for the success of state housing to James Fletcher. The secretary for housing, John A Lee, described his good relationship with Fletchers — as "with everyone doing a good job for the Labour Government." Lee himself was fighting, for "immense industrial expansion" and Fletcher was a man who understood the need for expansion. "Of course he was a capitalist and I was a socialist, but I would say he aided the expansion of industrial New Zealand enormously, as much by precept as by example."<sup>29</sup> Fletcher was "New Zealand's building genius, willing to cooperate with anyone, capitalist or socialist, who wants to build."<sup>30</sup>

In 1941 James Fletcher wrote to the Minister of Finance, Walter Nash, describing his hopes and plans for the company's future. As usual, his words were shrewdly and tactfully chosen, so that official approval for a substantial increase in the company's capital was soon granted:

We have saved this country hundreds of thousands through the efficiency of the equipment we have installed ...and the men with whom we have surrounded ourselves...Our organisation...is ready to move ahead and assist in the development of this country. After the war we will be in position through our plywood factories, our malthoid roofing factory and our asbestos factory, plus the big Government Joinery Factories, of producing housing at prices and of a quality that will definitely be unique in this country ... Apart...from the building side...there are innumerable secondary industries that are crying out for development on sound lines... In your own interests, you will be requiring immediately after the war some organisation to cooperate with you in the establishment of such business as the Pulp and Paper Mills...where you can use the enormous timber reserves that are going to waste. Here our organisation can come in and assist with the building, and equip and start up such a plant. We can do it at a fixed fee basis or ...on a lump sum basis.<sup>31</sup>

### Organising for War Production

When Japan entered the war in 1941, pushing the "Co-Prosperity Sphere" south into the Pacific, defense assumed first priority in New Zealand. All private building ceased. The Labour government appointed James Fletcher Commissioner of Defense Construction. He was to link up the hundreds of firms and thousands of people to build military camps, aerodromes, stores, ammunition dumps, garrisons for forces in Guadalcanal, and repair war-damaged shipping. His sweeping powers caused some friction in the public service, and to competitors, because of his access to substantial information about their operations.<sup>32</sup> To prime minister Fraser and the war cabinet, Fletcher was "the one man in New Zealand" who was capable of so organising the resources of manpower and materials to enable the country to provide for its adequate defence.<sup>33</sup>

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The labour force, depleted by thousands of New Zealanders in the forces overseas was surveyed, organised and regimented for an extraordinary array of projects - including building a township with accommodation for 20,000 in eight weeks, when the U.S. Invasion Army arrived. The Marines, marching from their transport to what they hoped would be decking for tents, cookhouses, and possibly one water tap, were staggered to find a hillside lined with row upon row of barracks fully stocked with power, water, sewerage and telephones.<sup>34</sup>

In 1943, with the emergency passed, defense projects were again reorganised within the Ministry of Works, which directed government and private construction for New Zealand's war effort. James Fletcher's appointment as Commissioner of Works in 1943 aroused further suspicion.<sup>35</sup> As usual he aimed to simplify procedures and modernise plant and materials. He could award contracts to his own company, now under the direction of his son, Jim Fletcher.

One of many important contacts made by James Fletcher at this time was with Admiral Cotter, a member of Admiral Halsey's staff in the Pacific. Cotter suggested a joint venture for civil engineering work in New Zealand, which would provide the excuse for a return visit. After the war the admiral became president of the salvage, marine and civil engineering company, Meritt Chapman and Scott of New York.<sup>36</sup> James Fletcher paid his first visit to Merritts in New York in 1950, which led directly to a decision to tender for a major pulp and paper plant in New Zealand.

### **Managing a New Pulp and Paper Industry**

When the new National Government took office in 1949, it made no fundamental change to Labour's long-term strategy of conserving foreign exchange and promoting the growth of local industry. National was as committed to providing full employment, and to social security, as Labour had been.<sup>37</sup> It aimed to raise the cost and restrict the availability of imported goods, and eke out foreign exchange, by selecting imports so as to guarantee a large share of the domestic market to local producers. The Department of Industries and Commerce managed this broad policy. In spite of election promises to dismantle at least part of Labour's network of economic controls, departmental officials still kept tabs on most aspects of the economy, and strongly encouraged any industry deemed to have export potential. Its 1945 annual report, for example, outlined its tasks of ensuring the provision of plant and raw materials to expand and develop secondary industry and using the 'machinery of Industries and Commerce to devise and implement the plans best suited to the Dominion's economy'.<sup>38</sup> By the 1950s New Zealand manufacturing industries could be roughly divided into those using domestic raw materials, those importing raw materials in either a crude or simply transformed state, and those manufacturing mainly by assembling imported parts, with little local content in the final product. Examples of the first category were flour milling, dairy factories, breweries, woollen mills, cement manufacture, and pulp and paper mills based on pine plantations.<sup>39</sup>

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The most ambitious government scheme for local industry was the manufacture of pulp and paper for export, based on the huge "exotic" forests on the pumice plateau of New Zealand's central north island, one of the world's largest concentrations of annual wood growth. The most extensive planting was the Kaingaroa Forest, stretching for about forty-six miles to the north from Lake Taupo and bounded on the east by the Rangitaiki River or its tributaries. Several varieties of pine grew extremely rapidly in the equable Kaingaroa climate, including *pinus radiata*, known also as *insignis* pine or Monterey pine, introduced from the west coast of the U.S., Douglas fir, Corsican pine, Ponderosa pine and Lodgepole pine. Well-planted *radiata* pine, for example, produced 300 cubic feet per acre per annum, compared to no more than 40 cubic feet for spruce in Eastern Canada, or 28 cubic feet in Scandinavia, and even 100-odd cubic feet for the southern Douglas fir and hemlock in North America. Corsican and lodgepole pine could be used interchangeably with *insignis* pine for groundwood, and all four for the production of chemical pulp.<sup>40</sup> Many trees planted between 1913 and 1931 were now mature. An appreciation of these problems and opportunities had led to numerous investigations and reports on the possibility of the manufacture of pulp and paper products from the fast-growing pine plantations.<sup>41</sup>

The Labour Government had argued that state ownership would prevent wasteful competition and ensure the best technology. The British firm, Walmsleys of Bury, a manufacturer of paper and board machines, enthusiastically supplied technical data and cost estimates to the New Zealand Forest Service. A World Wood Pulp Conference in Montreal in 1949 predicted a newsprint shortage for the next seven to eight years. The same year the Labour Cabinet approved in principle a national pulp and paper project at Murupara, on the eastern boundary of the Kaingaroa Forest.<sup>42</sup>

The arguments for large-scale, local manufacture of chemically produced wood pulp and newsprint using New Zealand grown timber certainly seemed strong. Various kinds of paper had been made on a small scale for the past hundred years. The New Zealand Paper Mills at Matura with one mill and old, slow machines, produced wrapping papers and some writing papers from imported pulp and some waste paper.<sup>43</sup> Whakatane Board Mills produced groundwood pulp, a type of pulp produced mechanically from its own pine plantation, to make heavy cardboard under a licence granted in 1940.<sup>44</sup> NZ Forest Products, made fibre board also from groundwood pulp and, in 1943, managed also to gain a licence to manufacture paper from sulphate or kraft pulp, not including newsprint.<sup>45</sup> All these operations were small scale by world standards, and geared to producing for the New Zealand market, fully protected against imports with selling prices in excess of available imported products. Most newsprint was imported from Canada.

The only feasible export market for New Zealand paper at this time because of distance and lack of shipping services to other markets was Australia, a large importer of sawn timber, chemical pulp and newsprint. Australia imported most newsprint needs, duty free, but had high tariffs on other papers. Thus newsprint was the only possible product for an industry project aimed at exports. This newsprint would have to be produced on a large paper machine, for supply at world prices for export and in New Zealand.

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Given the small size of New Zealand's market, competition for export markets, and limited local capital, there was good sense in entrusting local forest resources to few companies each specialising in technically related products.

The National government in general preferred to rely more on private enterprise, both local and overseas. Yet the government could not turn over these immense national assets to private interests without setting out basic policy. In 1951 the Minister of Forests invited international tenders for the right to purchase an annual supply of 23 million cubic feet of exotic softwoods, to be used in a sawmill, pulp mill and newsprint mill. The government circulated its prospectus around the world to pulp and paper and timber firms in Scandinavia, the United Kingdom, North America and Australia. It outlined terms and conditions for the sale of logs, plus a significant government commitment to supply electricity, build a new railway to connect the mill with the forests, and a modern overseas port through which the mill's products would be exported, and provide part of the capital needed for the whole project.

Perhaps the greatest attraction for would-be tenderers was the low price set for the logs to help ensure the prosperity of the new enterprise:

The basic concept of the sale, is to sell logs carrying as low a stumpage as possible, consistent with the recovery of growing costs, so that the enterprise itself may operate at a high profit rate and form as attractive an investment as possible. The real value of the raw material will be secured to the Government by sharing in the manufacturing profits through appropriate capital participation. This arrangement obviates the necessity for complicated and difficult adjustment of stumpages according to market fluctuations.<sup>46</sup>

Several companies showed an interest in the invitation, including Australian publishers and Australian and British paper-makers. But the only serious response came from a consortium headed by Fletcher Holdings on behalf of Tasman Pulp and Paper Company, a company they proposed to form. The National Government can only have been disappointed with this response to the largest development scheme ever undertaken in New Zealand.

### **Tasman Pulp and Paper**

The Fletcher company had steadily gained expertise in forestry and mill construction. The company had purchased a small forest to supply timber to the joinery factory, and built the plant for Whakatane Board Mills to make cardboard from exotic timber. James Fletcher and his son toured Scandinavian engineering companies that supplied the machinery. As Commissioner for Defence Construction, James Fletcher was involved in national forestry strategy when reviewing applications for licences under the Industrial Efficiency Act to produce wood pulp, and made useful contacts with government officials concerned with state forests. Fletchers' contract to build a new wharf for the Auckland

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Harbour Board in 1951, strengthened the company's ties with two leading American construction firms, Raymond Concrete Pile Company of Delaware, and Merritt Chapman and Scott of New York. Merritt Chapman designed and built plants to make pulp and paper and could wield influence in the supply of necessary equipment.

At this time the pulp and paper industry was moving away from old-fashioned sulphite hardwood pulp mills, using slow-growing timbers of limited supply, to kraft pulp mills based on softwoods. Most of these softwoods grew in the southern United States. One of many Merritt paper mills was in Lufkin, Texas, built for the Southland Paper Mills company, the first in the world to make newsprint from southern pine – not unlike some New Zealand-grown varieties of radiata. Pine was still a despised timber in New Zealand, used for boxing and packaging. Fletchers' first major venture into radiata pine milling in 1946 in Canterbury had been a disaster, and confirmed the view that the company should leave ownership and milling of radiata to others. But when the National Government advertised the Kaingaroa log sale in 1951, the chance to source cheap supplies of pine, without an investment in the forest but through a large public company as intermediary, was too good to miss.<sup>47</sup>

Buoyed by financial success with their American associates, and inspired by American expertise, James Fletcher and his son, Jim, recognised that this same consortium had the skills and experience to undertake the even more ambitious construction project of the sawmill, pulp mill and newsprint mill. Fletchers already had long experience working with government departments. Much company business had relied on cooperative arrangements with the state. With Merritt-Raymond, the company submitted design and construction proposals for a paper mill with a daily capacity of 175 tons of newsprint, and a bleached kraft pulp mill with a daily capacity of 150 tons, both to operate 24 hours a day, 7 days a week. A 30-month construction programme was based on firm offers of plant and materials from the United States.<sup>48</sup> This New Zealand proposal was based on one already developed by Merritt Chapman for the Southland Paper Mill in Texas.

With technical support already at hand, Fletchers sought promises of financial support from Australian and United Kingdom investors. The new company's £6 million capital be raised by the New Zealand government (£2 million), Fletcher Trust (£1 million), A.E. Reed, the British paper group (£1.5 million) the Commonwealth Development Finance Corporation (£500,000), the remaining million being offered to the New Zealand public.

Even for a risk-taker like Fletchers, tendering for such a large and technically complex venture was a bold move. The company's proposal offered only £700,000 in share capital. Even this small amount was 44 per cent of the shareholder value of Fletcher Holdings.<sup>49</sup> Owning and managing a pulp mill and a paper plant, both unfamiliar operations, would be a huge step. Indeed the company's initial plan was construction only – the associated town, the mill and the plant, not the manufacture of pulp and paper.

Government response was rapid. Prime Minister Holland informed Fletchers of the government's agreement in principle. He told Parliament that all the careful examination of the scheme showed that the project should be a profitable venture, which would pro-

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vide sufficient newsprint and pulp to supply the needs of New Zealand and some of the needs of Australia.<sup>50</sup> Privately, of course, the Prime Minister was more cautious. He congratulated Fletchers on progress, and on “the determination with which you approach the future,” but warned of the problems of raising such large sums for the scheme:

Bearing in mind the failures of such schemes as the Ground Nuts scheme and Gambia egg and poultry scheme and other State operated projects, I have been anxious to avoid the pitfalls that seem to be inevitable in wholly State operated schemes. For that and other reasons I have been happy in the [Tasman] scheme to take advantage of the long and varied experience and knowledge of your organisation...I cannot, however, be blind to the problem that still remains of raising the large amount of money inside New Zealand to finance the scheme. New Zealand, like most other countries has embarked upon a programme of public expenditure for what is called the welfare state that takes so much of the national income...I should like to continue the policy we started off with of Tasman walking before it attempts to run and of beginning small and growing afterwards...When we accepted your original “proposal” I felt we were fortunate in linking you and your organisation with the Government in this undertaking. Everything that has happened since has confirmed my original opinion.<sup>51</sup>

From the date of the first acceptance of the Fletcher proposal, the government and the company worked closely. The Treasury, Forest Service and the Public Works Department looked after negotiations. The new Tasman Pulp and Paper Company was incorporated in July 1952. James Fletcher headed the board of directors, whose members were the Secretary to the Treasury, the Director of Forestry, the Commissioner of Works, James Fletcher’s son, who had played an important part in negotiations, and the company secretary. Treasury was the department primarily responsible for overseeing the government’s interest in Tasman, the government shares being administered by the Minister of Finance on behalf of the Crown. Once the share capital was agreed, the way was open for the construction of the plant and infrastructure.<sup>52</sup>

Fletcher, Meritt, Raymond established the first camp for construction workers, and in 1953 earth moving work began on the mill site at Kawerau on the fast flowing Tarawera River. The site was chosen after Ministry of Works drilling teams found what seemed to be a reasonably large geothermal steam-field in the area, and because of its closeness to the sea. Major contractors from fourteen different countries combined to build essential equipment.

Fletchers took on the management of the pulp mill and newsprint mill, while the government agreed to underwrite the burgeoning cost from the Consolidated Fund. The government would own and operate the supply facilities to get the raw material to the mill, and the mill’s products to the market, as it had undertaken to do, including logs, electricity, geothermal steam, rail services and housing.<sup>53</sup>

The national importance of a New Zealand forest products industry, the huge investment and large-scale operation needed, the limited local market, and competitive

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prices required to compete overseas, persuaded the National Government continued to “supervise” the companies manufacturing, or proposing to manufacture, these products under the Industrial Efficiency Act 1936. (This Act was repealed in 1956, but the licensing provision perpetuated under the Industries and Commerce Act 1957.) In this way National hoped to ensure that individual efforts would be “along planned lines rather than indiscriminately competitive.” National used its powers under this legislation to guarantee Tasman a monopoly of the manufacture of newsprint. In view of the scale of the Tasman project, the government’s contribution, and plans for future expansion, the Minister of Industries and Commerce negotiated a truce between Tasman and other industry representatives in particular N.Z. Forest Products. Tasman undertook to limit production of kraft pulp for sale for a “stay” period of seven years, and during that time to keep out of the markets for kraft paper, multiwall bags and building board.<sup>54</sup> Tasman would have exclusive rights under licence to manufacture newsprint, fine papers, groundwood pulp for sale overseas together with the domestic requirements if any of N.Z. Forest Products, up to 45,000 tons annually of sulphate pulp for sale locally and overseas. N.Z. Forest Products could make kraft papers, and make sulphate pulp to supply Whakatane Board Mills and N.Z. Paper Mills – but could not sell the pulp overseas until Tasman had sold its full production for each year. N.Z. Forest Products was to withdraw its application to the Bureau of Industry for licences to make groundwood pulp for newsprint, sulphite pulp, and fine papers.<sup>55</sup>

Protection through import licensing and tariffs also helped the Tasman venture to become internationally competitive. Overseas manufacturers of newsprint in Japan or the U.S. for example were refused a licence to import newsprint if Tasman could keep up with local demand. With the easing of balance of payments problems, from the mid-1950s, and a less urgent need to conserve dollars for the sterling area, National allowed the number of imports requiring licences fall to about 40% of total imports. The only item recontrolled was pulp, which favoured Tasman.<sup>56</sup>

The government’s relationship with Tasman, and the Fletcher company, was to continue for the next thirty years. Tasman made a major contribution to government revenue through taxation and the purchase of government services. The government received market interest on all monies loaned to the company. The railway serving the mill was the most profitable stretch in New Zealand. The initial expense to establish the port of Mt Maunganui was followed, without further government outlay, by developments and expansion of great value to horticultural and pastoral exports, as well as of forest products.<sup>57</sup>

Whether measured by shareholders’ funds, annual turnover or even the number of employees, Tasman quickly became one of the largest New Zealand-based companies. Measured by profits or return on investment, however, the company’s early years were a failure, with problems in newsprint production, design, and the hiring of operators and supervisors with experience, particularly of wide, fast machines. But such a measure would misrepresent the venture. Tasman was a huge project in a developing country without a strong tradition of skilled managers. Its costs were twice that of the South

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Island Roxburgh Dam project, for example. Its management structure was put together hastily with poor lines of accountability and communication. There was little analysis of where the outputs could be sold. Tasman was often scrambling to resolve problems rather than taking pre-emptive action. Nevertheless, during the first decade, profits steadily improved, and total assets increased. By 1960 Tasman accounted for 20 per cent of New Zealand's exports. The start up of a second newsprint machine in 1962, designed by Beloit of Wisconsin, built by Walmsleys of Bury, UK, and the fastest newsprint machine in the world, was the high point of the company's expansion. This growth in output was accompanied by new technology, skills and experience. The forestry industry flourished in the central north island, and remains one of New Zealand's major industries. Tasman also signalled the beginning of the growth of the Fletcher business interests into a multi-national corporation and a major domestic employer.<sup>58</sup>

### **Conclusion**

During the 1930s James Fletcher's company was almost alone in the business community promoting secondary industry in New Zealand, and was among the first to benefit from its development. It vigorously sought its share in the construction business generated by government support, but played an important role in its own right. The Labour Government ministers made generous promises of welfare, education and housing but depended on the practical management skills of business leaders such as James Fletcher to make these promises a reality. In this way the company created wealth in New Zealand, and began to build infrastructure. In partnership with Labour and then National governments, Fletchers helped to create a skilled, industrial labour force and took advantage of technical advances in construction methods and materials. As the company expanded from its base in construction from the early 1950s, it joined with overseas companies in joint ventures, providing a channel for United States and British capital and technology into New Zealand. Further research will set this particular story in a more solid context of other, local manufacturers, and explore the influence on Labour's leaders of the success of Roosevelt's New Deal and municipal housing schemes in both Britain and Sweden. For example, an interesting comparison might be made between Labour's granting of financial resources, thereby helping to create jobs, with Hoover's establishment of a government bank, the Reconstruction Finance Corporation. Such examples of day to day bargaining behind public spending show how unhelpful are the formal, abstract concepts of cabinet government and the 'unitary state'. More detailed documentary studies are needed in order to re-assess government policies and their effects with increasing authority, and to draw some broad conclusions about New Zealand's business history—which at the moment is still a series of pragmatic case studies.

### **Notes**

1. An important recent study is Michael Bassett, *The State in New Zealand 1840-1984: Socialism without Doctrines?* (Auckland: Auckland University Press, 1998).

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2. Beer, Samuel, *Modern British Politics: Parties and Pressure Groups in the Collectivist Age* (London: Faber, 1982); Ashford, Douglas, *The Emergence of the Welfare States* (Oxford: Basil Blackwell, 1986).
3. See especially Alfred Chandler, Jr, Franco Amatori and Takashi Hikino (eds) *Big Business and the Wealth of Nations* (Cambridge: Cambridge University Press, 1997).
4. See in general Gary Hawke, "Economic Trends and Economic Policy, 1938-1992", in Geoffrey W. Rice, *The Oxford History of New Zealand*. Second Edition (Auckland: OUP, 1992).
5. See Department of Industries and Commerce Annual Report 1938, *Appendices to the Journals of the House of Representatives* 1938, H.44, p.21, and J.B. Condliffe, *The Welfare State in New Zealand* (London: Allen & Unwin, 1959), 238.
6. Keith Sinclair, *Walter Nash* (Auckland: Auckland University Press, 1976), 156; Bassett, *The State in New Zealand*.
7. Recollections of Sir James Fletcher dictated 1953, Fletcher Challenge Archives, Series 0467 Box 1 item 4. See also Oliver Moore, Sir James Fletcher, Man of the Month, *Scope: Magazine for Industry*, September 1949, pp.56-67.
8. Neil Robinson, *James Fletcher: Builder* (London: Hodder & Stoughton, 1970), 26-34.
9. F.N.G. McLean, A major capitalist institution in a dependent economy: A case study. MA thesis, Victoria University of Wellington, 1968, pp.14, 66.
10. The Fletcher Construction Company, *New Zealand Free Lance*, November 25 1925, Fletcher Challenge Archives, 1352/1.
11. Neil Robinson, *James Fletcher: Builder* (London: Hodder & Stoughton, 1970), 48-50.
12. James Fletcher, 'The Industrial situation in New Zealand today: An introspection', Rotary Club, Auckland, 24 March 1930, pp.3-11.
13. Robinson, *James Fletcher*, pp.110-111. See also John A Lee to Sir James Fletcher, Notes for questions from an historian, 19 November 1965, Fletcher Challenge Archives, Series 0467 1/17, p.2.
14. Fletcher to Nash, 8 November 1934. Nash 2196, folio 0112-0266 Housing, National Archives.
15. Labour's and Fletcher's ideas had links with the interwar conceptions of European corporatism.
16. *Appendices to the Journals of the House of Representatives* 1934, D 2, p.xxiii.
17. Matthew Wright, *New Zealand's Engineering Heritage* (Auckland: Reed Publishing, 1999).
18. *Parliamentary Debates* 1936, Vol 244, p.65.
19. See R.T. Metge, The house that Jack built: The origins of Labour state housing 1935-8 with particular reference to the role of J.A.Lee. MA thesis, University of Auckland, 1972.
20. Burdon, *The new dominion*
21. Fletcher to Prime Minister (Savage), 13 June 1936, pp.1-2. See also Fletcher, Proposals for organisation of building construction, 13 June 1936, pp.6. Nash 2196 Folio 0112-0266 Housing, National Archives.
22. See one example, Mitchell, Glasgow, to Calder, Inverness, 21 July 1937. Fletcher Challenge Archives, series 0134/7 item 7.
23. John A. Lee, quoting James Fletcher 1 July 1937 in Memo to Director, Department of Housing Construction, 20 July 1937, pp.1-2, HD, 3/1/8 Part 2 Housing General, Accession W1353, National Archives.
24. John A Lee, Progress in Housing, National Archives, Department of Housing Construction, 3/1/8 Part 1. See, too, typescript by J.C. Fletcher, 1982. Fletcher Challenge Archives 1351/1/7.
25. Typescript notes by J.C. Fletcher 22 February, 1982, p.1-2,7. Fletcher Challenge Archives, 1351/1.7.
26. [Nash] Papers on Labour Party Policy 1935-38, Nash 2117, folio 0114, National Archives.
27. Department of Housing Construction, 3/1/8, Part 3, National Archives.
28. Robinson, *James Fletcher*, pp.118-9.
29. Lee to Fletcher, 19 November 1965(?), Fletcher Challenge Archives, 0467/1/17.
30. John A. Lee, *Simple on a Soap-Box* (Collins: Auckland, 1963), p.78.
31. Fletcher to Nash, 15 September 1941, Fletcher Challenge Archives, 0467/1/23.
32. John Victor Baker, *Official History of the Second World War 1939-45: The New Zealand people at war. War economy* (Wellington: Internal Affairs, 1965). 227.
33. Peter Fraser to James Fletcher, 16 December 1944, pp.1-2. Fletcher Challenge Archives, 0467 Box 1 item 9.

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34. Scope Magazine for Industry, September 1949, p.65. Fletcher Challenge Archives, Series 0467/1, item 16.
35. See formal appointment by Governor General and Minister of Works, 8 July 1943, Fletcher Challenge Archives, 0467/1/11.
36. James Fletcher speech, 'Tauhara Forest', 16 October 1987, p.3. Fletcher Challenge Archives series 1369, Box 3.
37. National's initial rhetoric suggested otherwise – i.e. dismantling the controlled economy. Nevertheless, by 1950 the Minister of Finance, in his Budget speech, stated that 'efficient manufacturing' would continue to be protected. Holland, Minister of Finance, Financial Statement, 24 August, *Appendices to the Journals of the House of Representatives* 1950, B.6, p.27.
38. Department of Industries and Commerce, Annual Report 1945, *Appendices to the Journals of the House of Representatives* 1945, H.44, 9.8.
39. Department of Industries and Commerce, Annual Report 1958, *Appendices to the Journals of the House of Representatives* 1958, H.44, pp.13-14.
40. Proposals for the sale of logs from Kaingaroa State Forest New Zealand, Corbett, Minister of Forests, Alex Entrican, Director of Forestry. Fletcher Challenge Archives.
41. Report concerning national pulp and paper mill at Murupara, Rust Engineering, Pittsburgh, Penn., 28 March 1949, Fletcher Challenge Archives, Series 0064, Box 1.
42. Morris Guest and John Singleton, "The Murupara Project and Industrial Development in New Zealand 1945-65", *Australian Economic History Review* 39, no.1 (1999): pp.52-71.
43. John Angus, *Papermaking Pioneers* (Mataura: New Zealand Paper Mills, 1976).
44. Application to the Industrial Efficiency Appeal Authority, Bureau of Industry (undated). National Archives IC1 21/2/3 Part 1.
45. The term kraft comes from the German 'strong', a chemical method for producing wood pulp, based on a solution of caustic soda and sodium sulphide as the liquor in which the pulpwood is cooked to loosen the fibres.
46. Proposals for the sale of logs from Kaingaroa State Forest in New Zealand, issued by E.B. Corbett, Minister of Forests and A. R. Entrican, Director of Forestry. Fletcher Challenge Archives.
47. A.T. Jewell, *Fletchers and the New Zealand pulp and paper industry 1951-1980*, April 1995. Fletcher Challenge Archives.
48. Murupara Long Sale, Proposals submitted by Tasman Pulp and Paper Co, A Company to be formed. Fletcher Challenge Archives, Series 0064 Box 1 item 5.
49. Selwyn Parker, *Made in New Zealand: The Story of Jim Fletcher* (Auckland: Hodder & Stoughton, 1994), p.84.
50. Financial Statement 7 August 1952, *New Zealand Parliamentary Debates* 1952, Vol 297, p.790.
51. Holland, PM, to Fletcher, 6 January 1953, Fletcher Challenge Archives 0064/5/5.
52. See Taylor, Treasury, to Fletcher, 13 October 1952 re Finance Bill, containing clauses to enable the government to assist on the pulp and newsprint mill, to be introduced into Parliament.
53. See costs in *New Zealand Parliamentary Debates* 1952, Vol 297, p.790.
54. Watts, Minister of Industries and Commerce, Memo for Cabinet, 10 July 1953, pp.1-3. National Archives IC 1 21/2/2 Part 1.
55. Discussions between reps of Tasman and NZFP, 23 September 1953, pp. 1-4. National Archives IC 1 21/2/2 Part 1.
56. *Appendices to the Journals of the House of Representatives*, 1954, H.46, pp.12-18.
57. Schmitt to M. Bassett, 10 June 1997, Fletcher Challenge Archives 1402/1/1.
58. Guest p.3, p.28. See also Sir James Fletcher's 'Tauhara Forest' speech, 16 October 1987, referred to in n.35 above.

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