Policy Brief 199

10-1-1999

The Global Economic Outlook: Threats and Opportunities for the U.S. Mining Industry

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Embargoed for release until
8:00 a.m. CDT
October 11, 1999

Center for the Study of American Business

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Policy Brief 199
October 1999

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by Murray Weidenbaum

A Presentation to the
National Mining Convention '99
St. Louis, MO

October 11, 1999

It's a very special pleasure to be invited once again to address the National Mining Association's annual convention. I don't know how many of you attended my first speech some years ago. I was the last speaker in the morning and the previous speakers had overrun badly. Even while I was being introduced, people were standing up to leave.

I don't know what came over me, but I grabbed the mike and shouted, "Sit down. I haven't dismissed this class." Most everyone was so startled that they all sat down. I gave the shortest speech on record. But ever since, when I've been invited back, I'm put on the program real early.

The Strategic Role of the Mining Industry

I'd like to start off by making three basic points:

1. The United States can boast the most advanced array of service industries in the world.
2. We also contain the world's most productive manufacturing industries.
3. And we possess the largest combination of extractive industries on the globe.

Anyone who does not see the close relationships of these three key sectors—services, industry, and mining—flunks Economics 101. We Americans have created the most powerful economy the world has known because we have built a unique service sector which is based on a unique industrial sector which is based on a unique mining sector. Harm any one of these three vital parts of our nation and you jeopardize the standard of living and future prospects of all our citizens.

Of course, we still have to educate those of our fellow citizens who take our economic success for granted. That's a tall order. It's not written in the stars that we remain number one among the nations. History is littered with examples of powerful countries that rose and fell—Egypt, Carthage, Rome, Byzantium, Spain, Portugal, and so many others.

However, I do not recall any examples of societies that declined because they spent too little on social programs. Ancient Rome is a cogent example to the contrary. Nor did they suffer because of inadequate regulation of business activity. Indeed, the economic stagnation of the Middle Ages reflected an awesome amount of government regulation.

Nor did these nations decline because they opened their society to trade with foreigners. To the contrary, China lost its global supremacy 500 years ago when one misguided emperor abruptly cut off dealing with the "barbarians" from other nations. China has not regained its leading position in the half millennium since.

The concern with maintaining the underlying strength of our economic structure and of our private enterprise system is not a matter of preserving narrow special interests. Rather, it is a matter of vital national security in a world that continues to present serious threats as well as opportunities.

Because we live in an increasingly global environment, let's take a few minutes to look at the role of American business in that ever-changing world economy. Then we'll focus on current and future public policy issues facing our private enterprise system.

The Global Economy

After a difficult period of adjustment, the outlook for the global economy has turned optimistic. Asia, Europe, North America, and much of South America are all enjoying a healthy upswing. Perhaps the best news is the least dramatic. In the decade since the end of the Cold War, the business enterprise has emerged as the leading actor on the world stage. The driving force in the global economy has shifted from military superpowers to economic supermarkets. The initiative for fundamental economic change now comes more from companies responding to consumer concerns than from capitals reflecting political pressures.

Governments can still mess things up, but the private sector increasingly has the ability to respond, albeit at some cost. Thus when the U.S. government limits work permits for foreign programmers, some companies simply shift the work overseas. When Japan raises its postage rates very sharply, direct mailers send their mailings in bulk to Hong Kong which charges lower postage to mail letters back to Japan. When prospecting for oil and minerals is restricted here at home, the prospects in faraway Bolivia and West China become more attractive.

The ramifications of technology-driven globalization are only beginning to become evident. Inefficient companies are especially hard hit because national boundaries no longer protect them from more efficient producers that offer lower prices or better value.

The very idea of globalization has ceased to be a buzzword. The facts of globalization are impressive. Around the world, international trade is growing twice as fast as production. Cross-border investment is increasing at least twice as fast as trade. The shipping label of one U.S. electronics firm gives us an idea of how global the marketplace has become: "Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, or the Philippines. The exact country of origin is unknown."

Analysts of the global economy generally agree that six factors make for success in the international marketplace:

- An economy open to foreign trade and investment. Most successful economies avoid the path of economic isolation.
- A government that minimizes controls over business.
- A judicial system that works well and helps minimize corruption.
- Greater openness in business decision making and increased availability of economic information to producers and consumers. This is the opposite of the "buddy" system, in which people do business mainly with friends and relatives.
- High labor mobility. This enhances productivity and generates higher living standards. To the uninitiated, labor mobility sounds like insecurity, but the reverse is true. Where it is hard to lay off workers, we find a dearth of new job creation.
- Ease of entry by new businesses. Competition limits complacency and protects the consumer far better than any government intervention can.

The United States may not be a 10 in all of these categories, but we surely rate very high in each one of them. Moreover, the American business system possesses several unique advantages that give many of our companies a leg up in international competition: a strong entrepreneurial spirit, a "small cap" stock market for small and midsize firms, rapidly advancing technology, comparatively low taxes, a low rate of unionization, and a world class system of higher education.

Any way you measure it, the American economy is the strongest in the world. People risk their lives to come to the United States. American English is the Latin of our time. It is the nearly universal language of business, science, and transportation. In a broader sense—one that transcends current issues of economics and business—American culture, warts and all, is the pacesetter for a great portion of the world's population.

The Threats from Government

That is the good news, so to speak. The bad news is mainly in the form of self-inflicted wounds. I am referring to the tendency for our own government to handicap American business. At times, it seems that U.S. companies are forced to engage in a two-front war. One front, as expected, involves dealing with overseas competitors. But the second front consists of the obstacles placed in the paths of private enterprise by our own government's policies.

Sadly, those obstacles are both numerous and growing. They cover taxation, regulation, and newer forms of government intervention such as global warming policies. In the area of taxation, the most serious shortcoming is burdensome taxation of saving and investment. This is especially harmful to the capital-intensive sectors of our economy, notably mining. Almost every other industrialized nation in the world has a more enlightened revenue structure in terms of encouraging, rather than discouraging, capital formation. This is not just a business issue. Capital formation is the strategic factor in achieving economic growth, job creation, and rising consumer living standards.

The last time I spoke to the Mining Conference, I discussed the rising costs of regulation. Well, they are still rising. I wish I could report today that relief is in sight. As Ronald Reagan would say, but in a far more positive vein, "you ain't seen nothing yet." The global warming issue is a very good—or rather very bad—example of what new government intervention could be in store for our economic future.

If the economic impacts of their policy proposals were not so severe, it would be fascinating to just watch the purveyors of environmental doom and gloom at work. First, they all attract our attention with way-out forecasts of global cooling. When that doesn't work, they try again with scary forecasts of global warming.

But the facts keep getting in their way. Each time they go back to their computer models, they are forced to cut back their projections of future warming. You can use a very simple rule of thumb: the more current the forecast, the lower the estimate of future global warming. Even climate history presents the alarmists with serious problems. For example, there is widespread agreement (we never get unanimity on any aspect of global warming, past, present, or future) that, over the past century, the earth has warmed up by about one degree Fahrenheit (or 0.6 degrees Celsius). First of all, that is not exactly an overwhelming trend.

But the most fascinating part is what we see when we divide the century into two equal halves. You really don't need a Ph.D. in astrophysics to perform that simple calculation. Nevertheless, the result is a real eye opener. Most of the warming occurred in the *first* half of the century. The bulk of the CO_2 emissions, which often are blamed for the warming, occurred in the second half of the century. How could the effect precede the cause? Apparently, in the global warming business, you don't have to be too precise.

All this has not deterred global warming alarmists from promoting austere policies to deal with the situation. The costs of meeting the proposed caps on CO_2 emissions contained in the Kyoto agreement would be large and permeate our entire society. That's because the role of coal and other fossil fuels is so pervasive in the economy. The electric utilities would be hardest hit and they serve every part of our nation. Manufacturing industries would also be major casualties, especially chemicals, paper, cement, steel, and aluminum. Let's not forget the strategic transportation sector.

The good news is that the Senate has made it overwhelmingly clear that it is in no mood to approve the Kyoto Treaty. The bad news, of course, is that this has not prevented the White House from beginning to carry out its provisions. But the really big decisions on global warming policy lie ahead of us.

I would like to end on an upbeat note by returning to the prospects for the global marketplace.

Outlook

The world economy is in the midst of a substantial and widespread upswing. The low point in recent experience was 1998, when the world economic growth rate fell below 2 percent. This year, the general expectation is for a healthy 3 percent rise. My crystal ball gets a bit foggier when I try to look out to the year 2000 and beyond. Nevertheless, a widely forecasted growth rate of 3.8 percent for next year is double the low level of 1998.

Every large economy—with the possible exception of Japan—is expected to grow substantially next year. All major regions are likely to participate in the continuing upturn—Europe, Asia, South America, and North America.

This optimistic outlook is not a tribute to government policy, but to the underlying strength of the private enterprise system. The end of the Cold War has encouraged the development of the private sector in most parts of the world. Surely, there is no serious sentiment anywhere for returning to Soviet-style totalitarianism.

As more people around the globe come to appreciate the benefits that flow from the combination of economic freedom and personal freedom, an optimistic outlook for the years ahead is more likely to be achieved. As the pacesetter of economic progress, the United States remains the envy of the world. We must be doing something right.

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