

VITAL SPEECHES

— OF THE DAY —

VOL. LXII, No. 19

JULY 15, 1996

TWICE A MONTH

\$2.25 per copy

\$40.00 A YEAR

The Presentation Of The Israeli Government To The Knesset

THE JEWISH PEOPLE HAVE RENEWED THEIR INDEPENDENCE

Benjamin Netanyahu

Prime Minister of Israel — Page 578

The United States Must Remain Open To Trade

OUR GREATEST ACHIEVEMENTS ARE YET TO COME

Art Eggleton

Minister of International Trade of Canada — Page 580

Our Sisters' Sicknesses, Our Sisters' Satchels

THE PAST, PRESENT AND FUTURE OF WOMEN AND MEDICINE

Nancy W. Dickey

Chair, American Medical Association — Page 582

Survival Lessons

THE ENVIRONMENTAL DEBATE

Fred L. Smith, Jr.

President of the Competitive Enterprise Institute — Page 587

Survival Lessons

THE ENVIRONMENTAL DEBATE

Address by FRED L. SMITH, JR., *President of the Competitive Enterprise Institute*

Delivered to the Annual Meeting of the Gold and Silver Institutes, Los Cabos, Mexico, April 1, 1996

I'm honored to address this annual meeting of the Gold Institute. Although I've been working closely with your president, John Lutley, over the last year I first became aware of the problems facing your industry at an annual meeting of the (then) American Mining Congress in Las Vegas on risk management. Many of you have been to that event and know well the incredible display of mining technology exhibited there. As a policy analyst familiar with the political and economic issues affecting your industry but unacquainted with the reality, the show was extremely impressive. The gigantic earth moving equipment, the drills and massive array of machinery associated with coal strip mining — even the small incremental improvements in filters, lubricants and breathing masks — all attest to the ability of mankind to solve problems — to ensure the sustainable development of the resources of our earth. Yet, knowing as I did, the hostile propaganda that environ-

mental groups have used with great skill to delegitimize all extractive industries, I found myself saddened by the thought that much of this gleaming technology might early in the 21st century be rusting in abandoned mines throughout the United States — and indeed, if current trends are not reversed, throughout the world.

Your industry is in trouble and my message today is that your industry needs a communications strategy based on both a credible message and credible messengers. To succeed you must change public attitudes by clarifying that gold and indeed all mined resources are essential to a safer and more prosperous society. You must also mount a more intense campaign through the interest group world of politics.

To win the battle you need allies — spokespeople who can defend your industry, who are less likely to be perceived as only interested in "making money." In brief, the gold industry is

in a war of survival — a war of ideas and legitimacy. My message is that this is a war that you can and must win!

Let me briefly review CEI's role in the policy debate. CEI is a pro-market public interest group formed in 1984. We focus on regulatory concerns such as emerging financial instruments (derivative contracts, for example) and all major environmental issues. Like other public interest groups, CEI has a vision of how the world could, should work — we are ideological in the sense that we believe ideas matter. Our bedrock proposition is that private arrangements better advance the public interest. We therefore differ from the Naderite groups who believe that skillfully implemented political controls, run by the right people, will solve problems. In contrast, CEI believes that if you have a problem and government gets involved you have two problems. CEI is representative of a growing number of policy groups who hold these views.

CEI is a \$2+ million organization with 30 staffers involved in many of policy issues. Our recent book, *The True State of the Planet*, effectively counters the anti-technology, anti-growth environmental establishment. It clarifies that sustainable development is not a goal to be achieved through bureaucratic central planning but a reality where resources are integrated into the private property, free market system. CEI's environmental work has received global recognition. In a review of *True State*, the *Wall Street Journal* named CEI the "best environmental think tank in the nation." CEI's relationship to the business community is that of ally — we support your right to compete and succeed or fail in a free economy — in effect, CEI might best be viewed as a Battered Business Bureau!

1. LESSON ONE: THE CHALLENGES NOW FACED BY THE GOLD INDUSTRY ARE GENERAL NOT SPECIFIC

Many in industry, especially in the mining industry — view their plight as unique.

Like Butch Cassidy in that famous movie, industry keeps asking: "Who are these people and why are they after us?" What could we have done to avoid these problems? But that misses the point, the enemy isn't mad at you, they're mad at economic and technological progress. It's not personal.

Certainly, mining is under severe attack around the world — the Ok Tedi mine in Papua New Guinea, the Freeport McMoRan mine in West Irian, Indonesia are typical examples. Once lauded as bringing economic growth to the most isolated areas of the globe, the mining industry is now condemned for invading the Garden of Eden, for bringing sin to Paradise, for destroying long-established indigenous cultures. To some extent each of these situations reflect the long understood problem of "sovereign risk" — that is, the possibility that a nation state might modify the original legal and economic agreements which justified the initial investment. Nationalization and other sovereign risks are well understood for investments throughout the Third World. Ironically, such sovereign risk factors have become serious even in the developed world. The New World Mine near Yellowstone is just one example of this problem.

But let me suggest that the problem is not mining in general nor gold mining in particular. Gold mining is under siege largely because it is one of the few areas where profits continue to justify expansion, putting it in direct conflict with the anti-growth, anti-technology crowd. Any company that seeks to open new mines or expand older ones will encounter such problems.

Indeed, the problems posed by regulation extend far beyond

those associated with opening new facilities. Mining is also under attack on grounds that minerals are inherently dangerous — that metals in particular are "toxic" materials which threaten the life and health of all species. Even the relatively non-controversial Toxic Release Inventory (TRI), a measure that requires each facility to incriminate itself as a producer of "toxic" materials, may soon burden your industry. Regulators hope to extend TRI to mining, a move that could brand your industry as society's greatest source of hazardous waste. The TRI does not distinguish between truly dangerous and relatively harmless materials, nor do they differentiate between materials left on site and those that migrate to the properties of others.

The plight of the mining industry is reminiscent of the problems already faced by the petroleum exploration industry. Oilfield development has been effectively eliminated from the continental United States. Exploration rights exist only in pre-explored areas and in parts of the Gulf of Mexico. For that reason, a certain amount of paranoia in the gold and silver industry is understandable. That was made evident to me a few weeks ago when, early one morning, I picked up the *Washington Post*. The story headline that ended just above the fold stated:

"U.S. Agrees to Ban Mines!"

My first thought was that Secretary Babbitt had finally convinced the administration to adopt his policies. I then unfolded the paper and learned that the headline described a proposal to restrict the use of anti-personnel mines. Now, I was sleepy and Washington's actions do make most everyone jittery; still, the fact that I saw in this headline the natural extension of the assault now underway is instructive.

But the attack on your industry is not exceptional. I have addressed audiences in other industries and they have similar stories to tell. Forestry finds itself under attack because of endangered species concerns. The chemical industry's very existence is threatened by claims that chlorine chemistry is mimicking various sex hormones, undermining the survival of life on earth. Packaging is seen as a wasteful form of material exploitation that should be regulated out of existence. Automobiles are, of course, a source of distasteful externalities and the oil industry is attacked on all fronts, the latest being the successful assault on Shell's decommissioning of the Brent Spar oil platform in the North Sea.

Indeed, Ken Derr, Chairman of Chevron Oil, gave a talk a few years ago where he explained that the oil industry's domestic exploration activities have been almost totally eliminated in the United States. The industry lost over 500,000 jobs in the last decade alone, much of that attributable to exploration bans throughout the U.S. When asked why Chevron was abandoning the domestic economy Derr responded with bitterness that his industry had not left the United States, it had been exiled!

The problems you and most industries face are not unique. They do not result from inherent weaknesses of an industry, not from environmental or social failures, not even from a failure to communicate industry's vital importance. Rather, your enemies are motivated by an intense distaste for modernity, for technological and economic change. A small but influential group views economic and technological growth negatively. That value perspective makes it very hard for them to sympathize with your activities.

Let me illustrate. Some of you will remember the absurdist

World War II novel, *Catch 22*, which dealt with the experiences of an American bomber wing in WWII. The fatality rates in such wings were massive. At one point in the novel the navigator, Yossarian, had a breakdown, took off his clothes and climbed a tree. The wing psychologist, Milo Mindbender, was sent to counsel him.

"What's the matter?" he asked.

"They're trying to kill me," said Yossarian.

"No, no, no!" insisted Milo, "The Allies shoot at the Germans, the Germans shoot at the Allies."

"No," he insisted, "they're trying to kill me!"

"You don't understand," insisted Milo, "It's not personal, there's a war going on!"

The attacks on your industry are not personal. There's a major war going on between those who believe that technological and economic growth are dangerous to the future and those who believe that civilization is best maintained by increasing resiliency through economic progress and technological change. The dominant Green view of the world might be called the Terrible Toos: There are too many people! We consume too much! We rely too heavily on technologies which we understand too poorly! Their solution? Roll back the clock to a simpler era, slow down the rates of technical and economic change to the pace of the bureaucrat. The Greens are wrong but they do believe these things. And they have become increasingly powerful as we and other nations have joined the ranks of industrial civilization.

Unfortunately, the environmentalists are far more powerful than their numbers would suggest. Jonathan Adler, CEI's Director of Environmental Studies, has recently written a book, *Environmentalism at the Crossroads* (under the auspices of the Capital Research Center), that documents the size and growth of the modern environmental movement. The leading ten or so groups now command over \$600 million dollars in annual revenues and can call upon tens of thousands of volunteers and allied groups throughout the world. It is disturbing that while business commands far greater resources and employs far more people, the environmental establishment has thrashed the business community in the political sector. This has much to do with the fact that most of your resources are devoted to producing goods and services — not on affecting the political climate.

The media has not helped your case either. They view you as Goliaths in the age-old battle between good and evil; the Greens as the noble Davids challenging the greedy Philistines. But, in a very real sense, you are outgunned dramatically in the political battlefield. Consider the challenge to Shell Oil by Greenpeace in the Brent Spar issue mentioned earlier — Shell is a \$100 billion plus organization; Greenpeace, a \$100 million plus organization. Yet, who was the David, who the Goliath?

The challenge is not merely monetary; the media looks far more skeptically on information and policy statements made by economically motivated groups, by "private" interest groups. They are far more receptive to arguments made by "public" interest groups having "only" an ideological stake in the outcome. Groups such as CEI play a valuable role in balancing the public interest side of the policy debate. Still, the CEIs of the world are vastly smaller than the mainline environmental forces. Greenpeace, for example, expended an estimated \$2 million in its challenge against Shell Oil — almost CEI's annual budget!

Thus, my first and primary message to your industry is that

you are engaged in a war of survival, a war that you must win. You must recognize that wars are both expensive (therefore, you must spend far more if you wish to continue producing gold) and cannot always be avoided (these people will never agree with you). Finally, you need to understand that allies can play useful and critical role. Business needs allies in the public interest arena and should seek them out.

II. LESSON TWO: INDUSTRY'S CURRENT STRATEGY — IF WE JUST SIT DOWN AND TALK TO THESE GUYS, WE'LL REACH AN AGREEMENT — CAN'T WORK

Too often, the business community seeks to appease its critics by capitulation — by premature cringing as it were. This is not wise. Firms often defend their environmental record like this: We once produced x wastes, we're now down to 50 percent of that amount and our plans are to reduce wastes by another 10 percent over the next decade. By the 21st Century, pollution will almost be eliminated! Expecting applause, they are puzzled at the silence.

Why doesn't this method work? Let me suggest that to those skeptical of business, the above "defense" sounds something like this: "Yes, I beat my wife, but I've cut down dramatically over the last decade. Last year, beatings were reduced to once a week and by the 21st century — why, I'll be too old to beat her at all!" One doesn't get moral approval for doing less of something you shouldn't be doing at all. If you are doing something bad, then you should stop!

Your industry doesn't produce waste!

This approach cedes the moral highground to your enemies. Why apologize for pollution? After all, your industry isn't "producing" waste, you produce ores and metals, commodities which (as your current advertising campaign makes clear) have made the world a better place. Obviously, when energy and materials are converted from one form to another there are leftovers. Mining and refining are material-intensive processes that leave behind vast quantities of materials. But these are unavoidable by-products of a positive activity — you do not wake up each morning, wondering how you can increase your output of tailings.

To focus on residuals is to adopt a Freudian anal-retentive view of society. We should not enshrine constipation as a moral virtue — in either the human or economic sphere — and you should not be trapped into rhetoric which suggests such a goal.

Moreover, you should be aware that this rhetorical confusion also equates "emissions" with "pollution." We should not try to eliminate residuals but ensure that they are properly managed — ensure that trash is not dumped on another's yard, that all material flows are managed by contracts between consenting adults. Pollution and emissions (residuals) are two very different things and they should not be confused. To EPA, there may be no difference between two babies — one diapered, one natural — crawling across your new rug. After all, they both have the same "emissions profile." But to most people, the diapered child poses no pollution threat. Only those who see no virtue in toilet training their children, no value in house training a pet, should endorse this silliness. The rhetorical translation of "tailings" into "wastes" is a very dangerous cultural transformation which you should strongly resist.

Care is also important in endorsing green slogans: waste reduction, zero emissions, eco-taxes, full-cost pricing, life-cycle analyses, sustainable development, the precautionary principle, win-win environmental strategies, etc. These ideas seem rational to those unfamiliar with business practices. In reality they

do not meet the needs of successful business operation or effective environmental protection. The history of market economies is one of vast energy and material savings over time — consider the shift from copper to fiber optics. Tons of copper have been replaced by pounds of sand. But be careful of the strategy of seeing such residual reduction efforts as good in themselves.

For example, calls for energy efficiency or materials efficiency are misguided. Your goal should be economic efficiency. That may entail energy and/or material efficiencies, but if these inputs are relatively abundant compared to labor or capital they should be substituted for the more expensive alternatives. In colonial America, furniture makers produced chairs using a very different labor/material mix than their counterparts in England. Wood was abundant in America; skilled labor was scarce. The result was a far more wood-intensive technology in the colonies than in England. Yet, wood was not “wasted” in the colonies, labor was conserved.

The rhetoric of the environmental/resource debate has been carefully crafted by the Greens to place business on the defensive — and many within the business community have fallen into this trap. The only way to achieve many of the objectives of the Greens is to cease operations. Fortunately the Gold Institute has taken a very positive approach. Your new ad campaign focuses on gold as a critical component of our society, as a “good material” making “good” things possible.

III. LESSON THREE: YOUR CHALLENGE IS TO COMMUNICATE IN A WORLD OF RATIONAL IGNORANCE

Many business people believe that facts will win the day. Business leaders operate in a rational world where information is the difference between success and failure. You can believe in a mining site as much as you want, but if the gold isn't there, then it isn't there. This focus on facts means that businessmen often neglect people's political motivations. Businessmen act like that television character, Joe Friday. When asked: “Don't you want to know why I feel this way?” He replied, “No ma'am just the facts.”

Business leaders believe that if they can just educate the public on the true risks of mining — its real impacts on the environment, the safety and the environmental care built into modern mining techniques — the opposition will melt away. And, for some situations, this is true. For risks that are relevant, people will take the time to become informed (window washers will know much about ropes and walkways, scuba divers about decompression, farmers about tractor rollovers, miners about ceiling stability and ventilation adequacy). In general, workers know the risks of their jobs and rationally demand (and receive) appropriate risk compensation.

In contrast, many risks in society are irrelevant to most people. There are many risks in the world that only marginally affect each of us. Moreover, for those risks addressed in the political world, our ability to exert influence is minimal. It is not rational, therefore, to spend a lot of time educating ourselves on the facts of specific risks. The result is somewhat surprising: most people know far less about the elements that affect their lives than did individuals in primitive tribal society. Most people are rationally ignorant!

Today, there are too many things to know, about most of which we can do too little; thus, we remain blissfully unaware (save those of us in the policy work field) of the facts behind the fears of asbestos, copper, lead and dioxin. The idea that public participation or educational campaigns will fix this prob-

lem is foolish. The world cannot be run as a series of New England town meetings, despite the romantic attraction such tribal customs still elicit. The British playwright, Oscar Wilde, noted in this regard that the problem with socialism was that it takes far too many of one's afternoons! Most people are busy and therefore most people are rationally ignorant.

Still, Americans have opinions as we're told daily by our pollsters. But if facts do not inform these opinions, what does? The late Aaron Wildavsky argued that political opinions are generally proxies for more basic values. To Aaron, political issues were akin to inkblots — amorphous entities into which we read arguments for or against our basic values — and respond accordingly.

Karl Elers of Battle Mountain Gold made this point well at the annual meeting of the Colorado Mining Association. He noted that in his offices, and in many of your offices too I would imagine, are large photos of mining operations — large excavations, aerial shots of refineries, pictures of massive equipment. To you, these images convey progress. They are positive images of a proud company doing what it does best. Similar pictures also appear in the offices of the Mineral Policy Center and other environmental groups but they symbolize something very different. In that context, the pictures show the raping of the earth, its invasion and deterioration, the destruction of life. The same image — a different message.

For such reasons, values, not facts, dictate most people's views toward most political issues. But what values? Aaron viewed such “value” orientations as largely given — not readily changed by argument — and suggested that the policy active community displayed three primary orientations: “fairness,” “freedom” or “choice,” and respect for authority (scientific or religious).

These three dominant values characterized most societies. As noted, many business people are rationalists, believing that facts and science should determine our policies. They are upset that the scientific basis of environmental regulation is weak and favor “sound science” reforms. Individualists worry most about restrictions on choice and have become disenchanted with the regulatory state. Egalitarians are obsessed with the distributional consequences of policy and champion “fairness” above all. This value is dominant among the activist environmental community and explains their antipathy toward economic and technological growth — both of which are viewed as especially detrimental to the least advantaged in our society.

Too often, business communication neglects the value aspect of the debate, making arguments that appeal to themselves rather than their opponents. This same problem plagued Congress's reform attempts. Egalitarians don't care what you know until they know that you care — and the reform coalitions have done far too little to indicate that they do indeed care. Values trump everything in a world of rational ignorance.

IV. LESSON FOUR: POLICY VICTORIES ARE GENERALLY COALITION VICTORIES

The political battlefield is a complex place. Wars are fought between and among interest groups but the conflict takes place in a multi-tier fashion. In modern democracies, victories require both a moral and an economic attack — a ground game and an air game as it were. A coalition of ideological and economic interest groups is needed to win the battle. A victory must be seen as advancing the general interests of the nation — and be morally justified. Victories that occur without moral legitimacy rarely prevail.

In the colorful terms of American politics, such coalitions are known as Baptist and Bootlegger coalitions. The term arises from the frequent struggles in political jurisdictions to legalize the sale of alcohol, to repeal Sunday closing laws that shut down local bars and liquor stores. The Bootleggers — the economic beneficiaries of these regulatory restrictions — aren't the visible opponents of these measures — they leave that to those morally offended by the "legalization of sin." Still, the Bootleggers eagerly support such campaigns. Such coalitions are often the key to change — for good or bad — in the political process.

That bootleggers would be adversely affected by an end to prohibition is unlikely to prove the most effective argument. For similar reasons, arguments that current policies increase costs and shrink profit margins in your industry are unlikely to win public support. Indeed, it seems that the intent of many environmental policies is not so much environmental protection as to inflict pain on the business community. Many in the modern environmental movement do not like mining of any sort; to them it is incompatible with the world they seek. They want regulation to put you out of business.

Consider again the oil industry. Oil companies spent tens of millions of dollars over decades seeking to inform Americans of the value of oil exploration both offshore and in Alaska. They sought to highlight the jobs, taxes and wealth that would be lost if bans on exploration were continued and expanded. But these arguments had no impact on environmental opposition; indeed, such arguments may have strengthened their opposition. After all, if penance is the goal, then a greater sacrifice is preferred to a smaller one. Christ drove the money changers out of the Temple; the environmentalists seek to drive industry out of nature!

If arguments of this sort are to prove useful, they must be made by parties more credible than industry and they must not focus on the costs to business but rather on the impacts that policies have on fairness. A moribund society with lagging economic and technological growth will offer far less opportunity and be far more hurtful to the poor than a dynamic and growing economy. To be successful you need allies who can credibly make this argument. CEI and other free market think tanks can be critical allies, promoting the kinds of messages that are most likely to succeed in the policy wars.

Let me demonstrate this approach with an example from another area in which CEI is involved. The pharmaceutical industry is plagued by a Food and Drug Administration which delays the approval of new drugs (not unlike the mining industry's problem with delays in permitting new mines). Pharmaceutical firms clearly lose from such delays but these monetary arguments are beside the point. The FDA claims that its reviews are critical to prevent disasters like the thalidomide tragedy. In a money vs. lives debate industry has continually lost.

We at CEI decided to try a different approach — one that changed the debate from money vs. lives to risks vs. risks. We asked a previously unasked question, "If the FDA approves a drug that will save lives tomorrow, how many people died yesterday waiting for the FDA to approve the drug?" Let me show you our TV commercial that made this point.

This ad reframed the debate. It asks the question: If the FDA approves a drug that saves lives, how many people died waiting for the FDA to approve the drug? Yes, technology entails risk and we should be concerned about such risks; but the lack of technology also entails risk. The challenge of society is not to make the world safe — but rather to make the world safer. To balance the risks of technological change vs. the risks of technological stagnation.

The simple idea that if a technology will save lives tomorrow, then some lives could have been saved yesterday, does not, of course, argue that drugs should be approved without question. But it does force the FDA to take off its Regulatory White Hat and consider the tradeoffs that confront patients and their doctors. You in the mining industry face a similar challenge; mining, like pharmaceutical products, does entail risk. Your message should not focus on the absolute level of risk — arguing that risks are low — but whether making minerals more expensive and less available increases risk. The answer seems clear.

Your current ad campaign makes it clear that gold is an essential element in today's society. You focus on its value to people — not its profitability to your firms — and you avoid the apologetic tone too often adopted by other industries. This program should be expanded and gradually improved to target the arguments most likely to appeal to those now most opposed to mining. My suggestion is that you fine tune the ads to reveal how gold is making possible a fairer society — how gold helps the sick, the poor, minorities. I believe this is a topic worthy of further attention.

Whether you like it or not, you are engaged in a war. In this war, you are outgunned, out spent, and out positioned. The annual budget of the Gold Institute and CEI combined is less than one half percent of that spent by the major environmental groups. Platoons cannot defeat divisions. Of course, the Greens aren't supermen and they have far more targets than mining alone — but the odds are sobering. Certainly, victory will require more resources.

You need a positive message and credible allies to help you promote that message. Effective Baptist/Bootlegger coalitions for economic and technological growth must be developed. Public policy groups such as CEI provide a moral and intellectual basis for free market advocacy. The free market community needs the financial support and informational leads that only industry can provide; you need our effective credible ability to engage the moral/intellectual debate.

Finally you must realize that you are on the right side of this war. Free Markets have done far more to advance environmental objectives here and around the world than have political bureaucracies. The challenge is to clarify that point and illustrate what changes are necessary to integrate environmental issues in the market.

Congressman Don Young, who spoke on an earlier panel, pointed out that there is a "proliferation of well-funded organizations" that are antagonistic to industry in general. He stated that industry must dedicate funds to this battle if it is to be successful. CEI plans to convene a meeting of industry and public policy think tanks to formulate a strategy to this end. I look forward to your joining in that effort.

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