The ‘mining boom’ myth

The ‘mining boom’ is nothing more than the latest excuse for government interventionism, argues Sinclair Davidson

Mining isn’t the be-all and end-all of the Australian economy. If the ‘mining boom ends’, as widely predicted by politicians and other interventionists, life will go on.

Apparently, Australia is even luckier than we generally think. We have accidently found ourselves inhabiting a continent with vast mineral resources and all we need do is dig it up, put it on boats, and ship it off to China. And all this doesn’t take too much effort or education—prosperity is really easy.

This imminent end of the mining boom has become a justification for all sorts of rent seeking. Writing in The Age, Anna Greco—Chief Executive of the Federation of Automotive Products Manufacturers—wrote ‘If the day comes that Australia reverts to being no more than a farm, quarry and beach, I’ll join the estimated 1 million Australians who have taken their knowledge and skills overseas.’ Much like Prime Minister Kevin Rudd, she ‘wants to live in a country that produces things.’ Mining, apparently, produces nothing.

But Australia is not just a farm, or a quarry, or a beach. Agriculture, forestry and fishing makes up just 2.3 per cent of GDP, cultural and recreational services a further 1.5 per cent and mining 7.8 per cent. Farms, quarries and beaches explain only about 12 per cent of the national economy. Finance and insurance makes a greater contribution to the economy than does mining. Similarly, despite being less than its historical high, manufacturing still makes a greater contribution to the economy than does mining, at 11.2 per cent.

In this sense, the ‘mining boom’ is pure spin. After all, Australia didn’t suddenly become wealthy in 2003 or so when commodity prices increased. Australia has long been a wealthy economy and mining has played an important role in that wealth creation. The first gold rushes occurred in the 1850s.

Fundamentally, many people view economic booms and busts as being the result of good or bad luck. Australia is lucky to have mining resources, but unlucky to have a spendthrift population who cannot be trusted to handle their own money. In this view, only a wise and benevolent government—like the one that has taken power since November 2007—can invest our own money on our behalf. Placed in such terms, the ridiculousness of the whole ‘mining boom’ argument is shown up.

**The end is always nigh**

In early November 2006, then Treasurer Peter Costello proclaimed that the boom had finally ended, arguing that the government would experience a decline in revenue and consequently government spending might have to moderate, or that expectations of tax cuts should be reduced. Of course, no such thing happened. The Howard Government continued to spend, and tax cuts were modest. Yet the Treasury managed to underestimate government revenue 11 years in a row.

The end of the mining boom can mean many things. In recent years the ‘peak oil’ theory has been popular. This is the notion that the world is literally running out of oil. As oil prices have moderated in the last few months, so this hysteria has moderated too. Some individuals view the end of the mining boom in these apocalyptic terms. Much like the Club of Rome, they believe that resources will become physically exhausted in the near future. Others believe that the end of the mining boom means that demand for primary commodities will collapse. This could happen for some or other commodity, yet short of a catastrophic collapse in international trade, this is not going to happen for all commodities at the same time. More sober analyses suggest that current high prices may decline in future—an always possibility for any industry.

Predicting the end of natural resources, however, is nothing new. David Ricardo in 1817 first discussed mineral resources as being fixed in supply. This was a theoretical discussion, and has been largely ignored. William Stanley Jevons, however, has had a far greater impact. He is one of the founders of modern neoclassical economics. Jevons had worked as an assayer at the Sydney mint in the mid to late 1850s, and it was in Australia that he became interested in economics, and probably here that he first conceived the ideas that lead to the marginalist revolution in the 1870s. His 1865 book The Coal Question: An Inquiry Concerning the Progress of the Nation, and the Probable Exhaustion of Our Coal-Mines explored the idea that exploiting England’s cheap coal resources may ultimately be unwise. At that time England, with 2.5 per cent of global population and 0.04 per cent of the global land mass produced and exported half the world’s coal output. As we now well know, England produces little coal, yet the British economy seems to have survived.

The type of argument made by Jevons, and many others, is that coal and other natural resources are ultimately fixed in supply and will ‘run out’ at some point. At some level of abstraction, this is trivially true. Yet, it is not clear what practical relevance this observation has. As the cliché says: the Stone Age didn’t end because we ran out of stone.’ Similarly, the Stone Age didn’t begin because stone had been discovered; rather an entrepreneur discovered a use for stone.

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Mining snobbery

This highlights some of the assumptions underlying the whole ‘mining boom’ argument. The rot set in early, with David Ricardo indicating that metal is obtained by labour. By linking the end of the mining boom with the need for an education revolution, the government is somehow implying that mining is an unskilled or semi-skilled activity. Similarly, by claiming that the end of the mining boom creates a need for more research and development the government implies that mining is somehow low-tech.

All of these assumptions are wrong. Nature does not surrender her gifts easily, and the days of metal being obtained by the simple application of brute force are long gone. Oil rigs represent the pinnacle of innovative and creative genius in the commodity industry. And mining is very capital intensive. Many national stock exchanges have their origins in raising capital for mining operations. To be sure, not everybody who actually works underground has a PhD in poststructuralist literature, but that does not mean that the business of mining is a low-brow activity.

The capital and technology embedded in a modern mine far outstrips the crude caricatures so beloved by some anti-mining snobs.

Mining, like all others industries and businesses, relies on entrepreneurial insight for success. Miners do not accidentally or suddenly become wealthy. Like all other businesses they have to forecast future sales, and acquire resources to meet future demand. They need to carefully manage their costs which are often fixed while selling into highly competitive global markets. In addition to the business risks, miners also face very high levels of physical risk.

The current mining boom is no accident. Australian miners were not simply sitting on natural resources when Chinese and Indian business decided to go on a buying spree. Rather Australian miners have spent time, money and effort in searching out mineral deposits and developing the capacity to exploit those deposits. Had there been no demand for those resources, the miners would have lost their investments.

If we examine the relationship between mining value-added and subsequent GDP growth for OECD economies, Australia’s performance is exactly what we would have expected, matching the international trend. In other words, there is nothing unusual or untoward about overall economic performance of the Australian economy over the past 10 years.

The ‘mining boom will soon end’ hysteria highlights some common economic biases. In particular it highlights an anti-market bias and a pessimism bias. The anti-market bias is the tendency to under-estimate the benefits of the market mechanism. The corollary is that the benefit of government intervention is over-estimated. Widespread commentary from politicians and pundits has advocated increases to government investment to prepare for the end of the boom. Never mind that individuals and firms could and should be making their own plans.

The pessimism bias is the systematic under-estimation of the future performance of the economy. In the first instance, the entire Australian economy does not rely on mining and prices will rise and fall in future exactly as they have done in the past. The current level of high commodity prices is neither new nor particularly unusual.

Ultimately, the current mining hysteria has been fed by spin, opportunism and ignorance. Preconceptions about the capital and technological underpinning of mining combined with elitist snobbery towards miners has lead to popular disdain for a legitimate innovation industry, while supporting the clarion call for greater government involvement in the economy.