

3/15/99

KUFM / KGPR

T. M. Power

What Is to Blame for the Lack of Gold Exploration Activity in Montana?

The gold mining industry has taken the offensive in Montana after suffering a series of political and economic losses. The bankruptcy of the state's major gold mine operator, heavy fines for toxic leaks, and the voters approval of a ban on cyanide-based mining certainly weakened the industry. Now, however, the gold industry is fighting back. It is trying to use the legislature to overrule the citizen-approved initiative and is blaming the state's environmental policies for shutting down gold exploration and mining in the state.

Here are some of the "evidence" offered for what the state's environmental policies have done to gold mining. In 1989, we are told, \$28 million was spent on gold exploration in Montana. In 1999 only \$100,000 is projected to be spent. What is not said is that in 1989 the price of gold in today's dollars was \$540 an ounce while today it is \$290, about half the earlier level. The gold industry has emphatically argued that the current price is below the break-even point for many operating mines and way below the point that would justify the opening of new mines. Of course, the gold industry makes this point only when it is arguing against the International Monetary Fund selling its gold reserves to raise money rather than asking US taxpayers to give the IFM more money. The industry fears that an IMF gold sale would lower gold prices even further. Instead it wants the US taxpayer to indirectly subsidize the price of gold.

Other evidence of the state's harsh treatment of gold mining is that for the first time since 1980 one of the state's mineral drilling companies has no rigs exploring for gold. What is not said is that in 1980 the price of gold was \$670 per ounce which in today's dollars would be \$1,350 per ounce, almost five times as high as the price of gold is today. That drilling company had a payroll of \$11 million in 1996 but is now down to \$610,000. Again, in 1996 the price of gold was \$425 per ounce in today's dollars, a third higher than it is now.

You get the point. The economic conditions in which gold exploration and mining take place have changed dramatically over the years. Gold prices have plummeted to record lows. The potential profitability of gold mining has plummeted with prices and that has led to a reduction in exploration and mining activity. The state of Montana, of course, did not cause the world-wide price of gold to decline.

There is gold exploration taking places in some areas of the world, those with the highest likelihood of yielding very high quality, low cost ores. Montana has been

picked over by gold prospectors for a century. It is not one of the regions where major economic finds are expected given current gold prices.

We have been through this mindless scapegoating of state policies before by the mineral industry. Back in the 1980s, we were told that the reason that Montana's coal mining was not expanding as fast as that in Wyoming was because of the level of our coal severance tax. The fact that Wyoming had a considerable advantage in transportation distances and costs to markets and had considerably lower mining costs were ignored in this political attack on the coal severance tax. We were promised that if we reduced the tax, Montana's coal industry would boom and the state would actually collect even more taxes. Straight supply-side economics. We slashed the tax by two-thirds, and there was no significant expansion in coal mining. All we got was a big hole in the state's budget that has been filled by taxing each and everyone of us more heavily.

We were also told that it was Montana's taxes on oil and gas production and the environmental regulations governing oil and gas exploration that were responsible for the decline in exploration activities in the state during the late 80s and early 90s. If we just reduced the taxes and water quality regulations, the drilling rigs would return. The fact that oil and gas exploration had plummeted across the nation because of very low oil and gas prices was ignored. Government, not economic conditions, was the scapegoat. So we accommodated the industry and, as any rational person would have expected, got nothing in return but lower tax revenues and more water pollution.

It is startling that what are supposed to be business-savvy conservatives would fall for these arguments that ignore the most fundamental of economic facts and principles. But maybe not. Within an ideology where the government can only do evil and where tax revenues are evidence of economic sin, facts and principles are thrown out the window and any opportunity, no matter how far fetched, to attack the government and reestablish private economic privilege is embraced. This self-interested ideological crusade, of course, is not a path that is likely to improve either the economy or well-being in Montana.