Volume 76 | Issue 3 Article 7

April 1974

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Events of the past few months, which come under the general rubric of the "energy crisis," have produced a whole new ball game for economists. Much of the economic analysis of the past decade is now obsolete. This analysis was a product of its time, because the developed countries of the world have been on the longest economic growth binge in recorded history. As is usually the case where there is excessive consumption — whether of alcohol or of goods and services in general — consumers will now have to pay a price. All we can hope now is that the hangover will not last too long nor be too severe.

The most widely dramatized "shortage" in this new economic milieu is that of energy.[1] But there have been spot shortages of other things, including a few that can be legitimately classified as necessities. It is an interesting commentary on the state of our civilization that the shortages which seem to worry Americans most are those of gasoline and toilet paper.

Even during the long period of preoccupation with economic growth in the United States there were occasional shortages. These were recognized as bottlenecks; that is, as temporary phenomena. But the worldwide confusion engendered by what must be objectively considered as a small-scale military action — the Yom Kippur War — has forced us to recognize that the *primary* concern of economics must be the allocation of *scarce* resources to various and unlimited uses. This means that if economics is to become a useful discipline once again we must concentrate on the issues of scarcity and choice.

One of Appalachia's major natural resources is coal. Twenty or perhaps even ten years ago it would have been hard to convince an objective observer that coal had much of a future. Prices had fallen to record lows, and only the most efficient operators could survive in the competitive jungle of the coal market. John L.

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[1] I should emphasize that when an economist uses the word "shortage" it is always in relation to a given price or set of prices. Thus, the present energy shortage must be related to the abundant supply of cheap energy that we in the United States have been accustomed to.

Lewis's famed mechanization agreement of 1950 provided a stimulus to technological change. Without this, even the fittest of the coal companies might have found it difficult to survive.

The turnaround in coal started almost a decade ago when production and employment began to edge upward. But until recently the coal market was dominated by a chronic over-supply situation, and coal prices remained low. Because of the "energy crisis," however, the nation's seemingly insatiable demand for energy has led to substantial price increases during the past four to six months. The spot price of coal has more than doubled, although this is not particularly relevant to the Appalachian coal sector. Even long term contract prices have been reported to be up by as much as twenty per cent, however, and this is only the beginning. The average price of twenty-five dollars per ton paid by some northeastern utilities last month is in sharp contrast to the twelve dollars per ton reported by the Consolidation Coal Company for its northern West Virginia sales. There is no sign that general inflationary forces are weakening, and I would not be surprised to see some coal selling at fifty dollars per ton before the end of this decade. This, of course, will have—or perhaps I should say *could* have—profound economic consequences for Appalachia.

Two things can be done with a depletable resource: (1) Take it and run (which appears to be what is happening to oil in some of the Arab countries); or (2) use at least part of the returns from the exploitation of the resource to shift to another economic base. As things now stand — to oversimplify for a moment — when all of the Arabian oil is gone there will be nothing left but desert. Similarly, as things now stand, when Appalachia's coal is gone much of the region's economic base will have disappeared.[2] Can anything be done to avoid this possibility? In general terms, the answer is clear: Make sure that part of the revenue derived from this depletable resource remains in the region *and that it is used to build an alternative economic base.*

There is a built-in guarantee that some of the additional revenue will remain in the region. The coal industry is the most labor-intensive in the energy-producing sector of the economy, and as the

[2]Appalachia's coal reserves need not be physically exhausted to produce these dire economic consequences. For example, the enforcement of strict air quality standards could prohibit the burning of much of the region's steam coal. Therefore, although hundreds of years of coal reserves remain in Appalachia, the region's coal industry could disappear in a much shorter time.

price of coal goes up wages will follow. The state will tap off its share of this increase in additional income taxes. But revenue obtained in this way will not be earmarked for specific purposes so there is no guarantee that it will help to build an alternative economic base.

If Appalachia is to realize long-range benefits from the depletion of one of its basic resources, there will have to be a specific tax on coal. The traditional view is that there should be a flat-rate severance tax. I personally would favor an ad valorem severance tax which would tie the state's yield to the rising delivered price of coal.[3] I would also argue that legislation enacting such a tax should include specific provisions for the use of this revenue. Some of it could go for the repair of past environmental damage caused by the coal sector, and some could go for the prevention of future environmental damage. This is one way—but, let me stress, only one — in which coal revenue could be used to build an alternative economic base. The remaining public revenue from coal should be dedicated specifically to the development of economic activities that are not resource-based.

In the time at my disposal I cannot begin to go into the complex issue of the rate at which coal should be taxed. This is something I will leave to my colleagues who are specialists in public finance. But we must recognize that the Appalachian coal industry is largely dependent on imported capital, *i.e.*, imported from other regions, thus the tax rate cannot be so high that it will discourage investment. At the same time, it must be high enough to insure that there will be an expansion of investment in non-resource based activities in the region.

The focus of this conference is on Appalachia, but it is becoming increasingly evident that we cannot look at this region in isolation. The entire world is becoming increasingly interdependent. This is a fact that some members of the economics profession have ignored during the "energy crisis," although political commentators and some journalists have become aware of it. I do not mean that we should think of regions less because of this. As a regional economist I want us to think more about regions, but not in isolation. We should recognize that regions are parts of an interdepen-

[3]A flat-rate severance tax is imposed on the tonnage of coal produced, *e.g.*, a tax rate of $0.50 per ton of coal produced. An ad valorem severance tax, on the other hand, is imposed on the value of the coal produced, *e.g.*, a tax rate of $0.50 per $25.00 value of coal produced.

dent *system* — regions are sub-systems of nations, which are in turn sub-systems of the world. It is another strange commentary on our times that while many professional economists appear to have forgotten that the world economy is an interdependent whole, some perceptive journalists have not, as the following quotation from the January 7, 1974, issue of the *New Yorker* illustrates:

> The Soviet Union increasingly depends on us, and the Arabs depend for their arms on the Soviet Union. The Europeans and the Japanese depend for their oil on the Arabs. We depend for our common defense and our economic well-being on the Europeans and the Japanese. And Israel, for its arms, depends on us. The chain runs full circle: the Arabs and the Israelis depend on each other.

Because of this growing interdependence, the notion of national energy self-sufficiency is not a viable one either in political or economic terms. The energy problem is world-wide.

The days of cheap energy and its profligate use are behind us. The critical word of the future will be "conservation," not exploitation. In recent months there has been some public concern about the decline in West Virginia coal production at a time when world coal markets are booming. This will not last. West Virginia will share fully in the expanding market for coal. Our real concern must be to conserve what we have left—to use it wisely. This means, *inter alia,* that the region should not be left economically barren when all the coal is gone.