W. Va. Assessm, 6-71, per Ron Pearson

W. Va., Norman

Chas. Haden II, State Tax Comm.

Ron Pearson 304-348-2501

Chas. Bucci (drove me to)

John Melton (drove me fro)

Albertazzi (Deputy Asst. Berkeley Cty.)

(Cal. r.e. salesman, Antelope Valley Cad.)

Don Shafer? (Coal mapping technician

| FROM | TO | CLASS | CARRIER FLIGHT | DATE MONTH | LEAVE | ARRIVE | STAT | MEALS |
|---|---|---|---|---|---|---|---|---|
| Wash/Nat'l | Charleston | S | PI 61 | Jun 11 | 7:30AM | 8:18AM | OK | B |
| Charleston | Wash/Nat'l | S | PI 66 | Jun 11 | 8:40PM | 9:28PM | OK | |
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| | | | | | | | | |

| HOTEL | CITY | ACCOMOD | FROM | TO | STAT | RATE | CFMD BY |
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| CAR RENTAL CO. | CITY | TYPE | FROM | TO | STAT | RATE | CFMD BY |
|---|---|---|---|---|---|---|---|
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# Coal: New Fuel for Inflation?

AS volatile as the explosives they work with, coal miners have a long history of blasting the best-laid plans of mine operators, coal users and U.S. Presidents. For the past month the United Mine Workers, torn by dissension and corruption, have been negotiating with the mine owners to formulate a new labor contract and avoid a strike on Thursday, Sept. 30, when the present pact expires. Though a peaceful settlement seems likely, nobody is discounting a walkout that could threaten the nation's critical need for electric power and jar the Administration's new economic policies.

Coming in the midst of President Nixon's wage-price freeze, the situation poses an immediate challenge to the Administration's goals. U.M.W. President William Anthony ("Tony") Boyle has said that he will try to make any benefits effective immediately by seeking an exemption from the freeze—a request that is sure to be turned down by the Cost of Living Council. Even if the miners agree to wait until the freeze ends on Nov. 13, their pay boost will probably have to be ruled on by whatever wage-price review board may be created during Phase II of the Administration's program. The miners' demands include 1) daily wage increases ranging up to $13 over three years, bringing the pay for the highest-ranking workers to $50 a day; 2) a doubling, to 80¢, of the "royalty" on each ton of coal that the operators pay into the union pension fund; 3) paid sick leave and improved welfare benefits.

Any settlement along those lines would probably be greater than the inflationary contracts agreed to recently in steel, copper and aluminum. Those industries settled for rises in wages and benefits of 30% or more over three years. The miners argue that all the increases provided in their present contract have been eaten up by inflation. Largely as a result of productivity gains, today's 100,000 miners produce more than did the 400,000 men who worked in the industry in 1950. The operators could certainly live with a fat pay increase. Last year the after-tax earnings of seven major mining concerns doubled to $47 million. The rising need for electric power practically insures that demand for coal will continue increasing at its present annual rate of 4.5% for a long time to come.

Yet even a peaceful labor settlement would be no guarantee against trouble. The union is ripe for rebellion. Admirers of Joseph Yablonski, the assassinated U.M.W. official who lost a presidential race to Boyle in 1969, have maintained their dissident organization called Miners for Democracy. The Labor Department is now in court seeking to force a rerun of the 1969 election on grounds that it was conducted illegally. Boyle is under indictment by the Justice Department, charged with illegally using union funds for political contributions. To add to Boyle's problems, another bloc called the Black Lung Association has threatened wildcat strikes if he does not raise his wage-and-benefit demands even further.

**Testing Credibility.** Boyle faces still another major test: President Nixon's post-freeze policies aimed at curbing inflation. If the White House stands by its pronouncements, any wage-review board would have to reject a settlement in the 30% area. The union's reaction to that, warns Boyle, would be to "fight." At worst, a strike could result in a power shortage, forcing the Government to take over the mines and possibly bring in troops to work them. That would further inflame organized labor and might vitiate the President's entire economic program.

If the Administration backed down in its first important wage confrontation, the consequence could be shattered credibility. The miners are by no means the only workers pushing for "more." The International Longshoremen's Association, representing 45,000 dockhands from Maine to Texas, stands ready to walk out when its contract ends Oct. 1. If negotiations collapse, a nationwide dock tie-up is possible; stoppages by West Coast dockers have closed down ports since July 1. The major East Coast demand is the expansion of a featherbedding wage guarantee to compensate union members for work lost because of containerization.

In addition, the Brotherhood of Railroad Signalmen may also strike on Oct. 1 unless its present wage rate of up to $3.78 an hour is raised by a huge 54% over a little more than three years. Contracts are also running out in the aerospace industry. The International Association of Machinists and Aerospace Workers and the United Auto Workers are bargaining with McDonnell Douglas and Lockheed Aircraft. A prime demand: enriched cost of living benefits.

Obviously, organized labor has not fallen in line with the President's wishes. The Administration's response will test its ingenuity and determination to make its policies succeed.

DAVID GAHR



U.M.W.'S BOYLE

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September 23, 1971.

the parlor wall.

**Why are the Egyptians angry** with the Israelis?—Egyptians have never liked Israelis since Joseph, the youngest son of Jacob the Israelite, divined that Egypt was in for a seven year famine and saved the Egyptians by advising the pharaoh to lay in plenty of food. Egyptians are just as human as the French. If there's one thing they dislike, it is a nation that has saved their necks.

**Why** with cause

weeks.

**Why are both Egypt and Israel** willing to risk war over the Gulf of Aqaba?—The gulf contains many fish as well as an occasional camel in search of a salt bath, all of which the Egyptians claim as their own. The Israelis deny the claim. Thus, national honor is involved.

**Where does Lebanon** stand?—Lebanon has, in Beirut, the best belly dancers in the middle east, but they are not in a class with those to

THE JOURNAL

*Sunday, May 28, 1967*

# Plant to Extract Gasoline From Coal

From Press Dispatches

**Cresap, W. Va.** — A $5.5 million pilot research plant for the extraction of gasoline from coal was dedicated here Saturday. Interior Secretary Stewart L. Udall said high quality synthetic fuels extracted from coal burned clean and could eliminate a major source of air pollution. The extraction process has proved technically feasible and it is hoped that it can be produced on a mass scale by 1975, plant officials said. Gasoline is extracted from coal by first drying and dissolving crushed coal in a solvent. The dissolved coal in liquid form is separated from the undissolved solids. The liquid then is refined and the solids can be used as a boiler fuel.



*Udall*

THE MILWAUKEE JOURNAL

*Sunday, May 28, 1967*

...azieff has re... from Paris to con... his observations of Mt. ...a, Europe's tallest volcano, ...ow in its most violent erup... tion in two decades.

Tazieff said his studies indicated that long extinct Mt. Rainier might erupt 2,000 or more years from now, endangering Seattle, and extinct Mt. Hood might become active again and menace Portland.

**He Loved Home**

"Barney really loved his hometown," recalled Hames. "At a homecoming, he told the crowd that the Pacific was supposed to have the deepest water, but he knew it was in the millpond at Waubeka, and that the highest mountains were supposed to be in Switzerland, but he knew the pinnacle was here."

Hames followed Cigrand as a Stony Hill teacher by

...s winners of four year college scholarships in competition sponsored by the National Merit Scholarship Corp.

The list represents about one-third of the total number of winners. On April 14 the 26 Wisconsin recipients of four year general scholarships from business and industry were announced, followed a week ago by the list of 26 state winners of $1,000 scholarships.

This year's total of 81 Wisconsin winners compares with

Wednesday's winners will receive four year scholarships, ranging from $100 to $1,500 per year, depending on their financial need. The winners were selected by the sponsoring college or university.

The winners were chosen from 15,000 finalists, all of whom were considered by National Merit as worthy of scholarships if enough money were available for an award to everyone.

Four Wisconsin schools were among the 174 sponsoring colleges and universities.

...ege,
pon; th...niversity of Wisconsin—Green Bay, and the University of Wisconsin—Madison.

Winners, their high schools and the college or university they will attend:

**Milwaukee** — Randal C. Brever, 3220 S. 13th St., Don Bosco High, and Marc A. Muskavitch, Marshall High, UW—Madison.

**Menomonee Falls** — Bruce E. Beuchel, N51-W15910 Fair Oak Pkwy., Hamilton High, UW—Madison.

...St.
son.

**South Milwaukee** — James R. Toth, 1108 Sycamore Ave., South Milwaukee Junior — Senior High, Carroll College.

**Whitefish Bay** — Laurie Leonard, 1032 E. Sylvan Ave., Whitefish Bay High, UW—Madison.

**Burlington** — Marion K. Zwirgzdas, Central High, UW—Madison.

**Colfax** — Thomas P. Bron-

*Turn to Merit, page 9, col. 1*

# *Affluence in Appalachia: Hillbilly Myth Dies Hard*

**By Bill Peterson**
Louisville Courier-Journal

**Pikeville, Ky.** – There is a popular myth that all people who live in Appalachia are poor, that they go barefoot, that their stomachs groan with hunger all through the cold winter months.

Like most myths, there is some truth to this one. There are indeed many poor people in Appalachia. In fact, it is the nation's poorest region.

**Rich Are Here**

But consider a town of 4,700 with more than 50 millionaires (according to local bankers) . . . 35 lawyers . . . 25 doctors . . .a Cadillac dealership with a waiting list . . . 20 swimming pools . . . a $7 million hospital under construction . . . three banks with deposits totaling more than $100 million . . . a country club that one former member terms "as snobby as they come anywhere" . . . the likelihood that a beginning doctor can earn $30,000 to $50,000 his first year in practice.

No, this isn't a slice of horse farm territory in the lush Kentucky Bluegrass.

It's Pikeville, Ky., in the heart of poverty stricken Appalachia, a place with more than a few "rich hillbillies."

The "good livers," as they are called here, take no offense at being called "hillbilies." That's just something anyone who grows up in an area with a lot of hills is called.

But they don't like the picture everyone has of their home area. It hurts their pride, their sense of fair play, their social life away from home and sometimes even their business.

**Image Is Problem**

"Our image is a real problem. Everyone thinks that everyone here lives in a log cabin in some hollow. They have a Li'l Abner view of us," said Atty. Henry D. Stratton, who lives in a new $100,000 home.

"It hurts us economically. No industry wants to move into a place that sounds like that. Some insurance companies won't even insure anything here."

Ed Venters, owner of the local Cadillac dealership, agreed. "A lot of people




would be damned surprised if they saw what things were really like here," he said. "Newspapers make us look like dirty clods."

Venters sells 20 to 25 new Cadillacs a year, some in the $11,000 range.

Expensive luxury cars aren't uncommon on the streets of most mountain county seats. But Pikeville has more than its share.

It also has more than its share of big money.

Where does the money come from?

Coal.

Who has the money?

"The coal people and everyone they do business with — the doctors, the lawyers, the merchants, everyone," said Walter P. Walters, an insurance broker, as he turned his car into Bowles Addition, Pikeville's elite suburb.

**Some Homes Palatial**

"When someone hears 'Pikeville,' they say 'That's up in the poverty area.' They picture us carrying moonshine jugs and leading hound dogs around all the time like some ignoramus mountaineers," he said.

Bowles Addition sits in the flat bottomland on the north side of town. Its sprawling brick ranch houses, ranging in value from $35,000 to $200,000, look about as far from poverty as you can get.

Last year was a good year for coal. It also was a good year for Walters. He sold insurance carrying more than a million dollars in premiums.

"You can see the money in the houses," he said.

"Sure, we have some bad housing, but the worst place we've got doesn't compare with what you've got in Louisville ghettos.

**Professional Center**

"Now, if they do away with the coal business like they're trying to with this mine safety law, they'll do away with prosperity here," Walters said.

Pikeville long has been the medical and legal center for the surrounding area. As such, it always has had what the sociologists call a "strong upper middle class."

The coal boom that brought hints of prosperity to parts of Eastern Kentucky the last two years enlarged this group with a crop of new rich and made many of the old rich richer.

Bank deposits have mushroomed. Pikeville banks now

*Turn to Appalachia, pg. 10, col.*

# Tax on Iron Deposits Backed to Spur Development

Journal Madison Bureau

**Madison, Wis.** – A bill to put a $5 an acre tax on unused but commercially usuable iron ore deposits ought to seek at least $50, the Senate Housing and Urban Development Committee was told Tuesday.

John Ryback Jr., Butternut, a member of the Ashland County Board, said $5 was just a token.

Kenneth Todd, Ashland, chairman of the County Board, said his county and Iron County had been trying for 15 years to get taconite mining developed.

"A $5 tax wouldn't break any company and would test their sincerity," Todd said.

H. W. Kinney, Iron County resource agent, said the tax would encourage research and development, adding, "If the land is worth holding, they should be able to pay some tax."

Louis Lopez, Iron County Board chairman, said: "The companies sold the counties a bill of goods in setting 99 year leases with no strings."

The Gogebic Iron Range won two wars and got big steel companies started, he said, "and now that they've taken all the ore, we're the forgotten people."

Under the bill, counties would get a third of the taxes, municipalities a third and the state and state geologist (who would administer the law, a third.

If the tax were delinquent for three years, the mining rights would go back to the surface owner. If this owner was the delinquent party, the land could be sold at sheriff's sale to pay the tax.

The bill was proposed by an Advisory Committee on Mineral Rights, headed by Sen. Arthur Cirilli (R-Superior), the hearing committee chairman. It was formed to try to get mining companies to do some mining on their leased lands in northern Wisconsin.

Cirilli said the bill was not meant to be punitive, but to encourage development.

The Senate page assigned to the hearing, Ron Alleva, Hurley, a University of Wisconsin student in wildlife ecology, stepped up to testify for the youth of the area.

He said the tax ought to be $100 "so these companies start paying the bill."

# Healing of Mine Land Urged

Journal Madison Bureau

**Madison, Wis.** – Restoration of the environment after surface mining must be one of the costs of doing business, state geologist George Hanson told a Senate committee Tuesday.

The Housing and Urban Development Committee headed by Sen. Arthur Cirilli (R-Superior) took testimony on a bill requested by Hanson to set up a system of state permits for surface and open pit mining.

The bill would be administered by a new Bureau of Mineral Conservation and Mine Reclamation in the Natural Resources Department. As amended, it would require bonds to assure restoration.

Hanson said in a mineral based society, wise use of the resource was essential to maintain the standard of living. No industry has a worse public image for environmental degradation, he added.

Louis Lopez, Iron County Board chairman, said it was a good bill, but he hoped that it would not hurt the chances of getting taconite mining in the state.

H.W. Kinney, Iron County Resources Agent, added that fair rules were needed to make restoration work and they would be best at the state level.

Edward R. May, project manager for Great Lakes Exploration Co. at Ladysmith, said rules would be useful to his industry. He is doing preliminary studies on possible copper and other mineral deposits in northern counties.

Peter Anderson, Madison, of the Wisconsin Environmental Decade, .and Duncan Harkin, University of Wisconsin resource economist, both said that reclamation costs would be less than one-tenth of 1% of the cost of the minerals.


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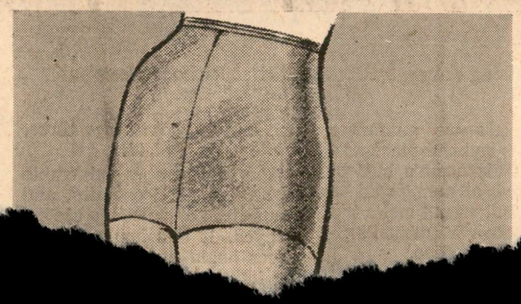
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For decorating ideas, see the Sunday Home Section.


GIMBELS ECONOMY BASEMENTS







THE MILWAUKEE JOURNAL
L. W. NIEMAN, FOUNDER, 1882 HARRY J. GRANT, 1916-1963

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## A Proper Investigation

Just in case it should happen to be true that the state attorney general's office was compiling secret dossiers of personal gossip about some legislators — and that sort of thing is not unbelievable these days — it should of course be inquired into, uncovered if possible, stopped and rebuked. Denial of an accusation like that by the office concerned is to be expected, and may well be true, but it is self-serving and not sufficient reassurance standing alone.

It is perfectly proper, and the Assembly is entitled, to have a select committee make a judicious inquiry. It may not learn much, because of course no such files, if there ever were any, would still be lying around loose. But the inquiry can serve at least to put the quietus on any such activity or on suspicions of it.

The situation is politically volatile because the complaint comes from Democrats in an Assembly controlled by their party, and Atty. Gen. Robert Warren is the leading Republican officeholder in a Democratic administration, heir apparent to his party's next governor nomination. So the thing is bound to smack of being a partisan ploy by whichever side you want to believe.

This requires both sides, for their own sakes, to look to their own credibility and honesty. Any inquiry should be calm, judicious, lawyerlike, fact finding. The response should be forthright and co-operative.

If Warren's office is quite innocent, as it may be, it must nevertheless acknowledge that sneaky official surveillance of the citizenry is an authentic menace in this country today. People have a right, regardless of politics and party, to be alarmed by any hint that anybody might be doing it anywhere. Where the suspicion is groundless, it must be laid to rest evidentially, not just protestingly.

## Black Panthers and Justice

In New York, a jury has acquitted 13 members of the Black Panthers on all 12 counts of conspiring to bomb a department store. In New Haven, Conn., Black Panther Chairman Bobby Seale and Ericka Huggins, a local Black Panther leader, were freed after a jury was unable to agree on a murder-kidnap charge. Seale remains in custody on a Chicago contempt case.

The New York trial t
months. The Con
was the longest ar
state history. F
the full cl
ty

months that a Black Panther could not get a fair trial in this country. The falsity of this was proved in New York and Ne
ven, and these cases a
unique. In other rec
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of evid

# The Mourning Dove: For Singing or Shooting?

### This Relative of the Passenger Pigeon Is the Center of a Wisconsin Controversy; Some Contend We Should Hunt It, Others Want to Make It Our Peace Symbol

*By* WALDON R. PORTERFIELD of The Journal Staff

THE birds migrated in such hordes—columns up to 10 miles long—that the sound of their wings was compared to a waterfall.

They were gregarious: A single tree might contain 100 nests. Men chopped down the trees to get the nestlings or knocked them to the ground with poles. Adults were shot or netted.

An old account lists 990,000 dozen birds sent to New York from western Michigan in three years. Another relates that three carloads daily—each containing 150 barrels of birds—were shipped for 40 days from a single community.

One authority records shipments of 1,500,000 birds from Petoskey, Mich., between March 22 and Aug. 12, 1878, plus more than 80,000 shipped alive to be killed by trapshooters.

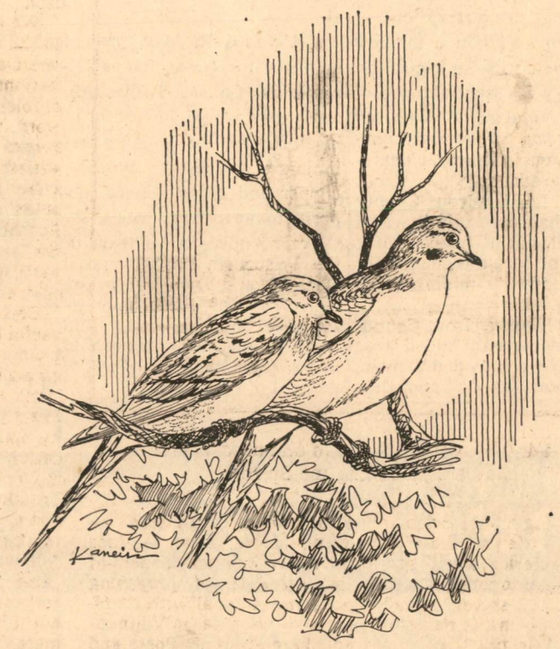
The birds sold for as little as 20 cents a dozen.

### Last One on Earth

The ceaseless butchery of the birds continued through nesting seasons to an inevitable conclusion: The last wild one of record was killed in 1904.

The birds were passenger pigeons, and the last one on earth died in the Cincinnati (Ohio) Zoological Gardens at 1 p.m. Sept. 1, 1914.

A close relati
pass



*Mourning doves, by Journal artist Richard Kaneiss*

pigeon unless we guarantee this bird its rightful place as a songbird, Wisconsin's bird of peace among all men," said La Fave. His bill would make the
dove Wisconsin's of-
ace.

Life magazine had a series of pictures showing lines of gunners, men and women, shooting white winged doves in Texas' lower Rio Grande Valley.

Life described it this way: ". . . virtually everyone in the Rio Grande region able to raise shotgun to shoulder—and many barely able to do even this—takes up arms for the three day season and moves out to put the blast on the gray birds with the blue ringed eyes.

"This season, their numbers swollen to more than 10,000 by dove addicts from other parts of Texas and points as far distant as New York, the hunters racked up an estimated 50,000 white-wings (limit 10 per day per person), plus an equal amount of the more numerous mourning dove and uncounted numbers of blackbirds, sparrows and other feathered henchmen so imprudent as to have been airborne over the area at this most inopportune time."

### Doves Were Shot Shredded

A Life correspondent wrote of the firing line: "Except for occasional friends who worked
everyone hunts with-

one or two, sometimes three, white eggs are laid.

The twig nest is vulnerable to storms and enemies, and many eggs or nestlings are d
stroyed. If this happ
doves begin a

ral Resources Committee, however, has recommended Sen. La Fave's bill that would classify the mourning dove as a songbird.

At present the mourning dove is the No. 1 game bird in the US, shot more often by hunters than any other species. Adult birds only weigh, on the average, from four to six ounces.

### Biblical Dove of Noah's Ark

Doves, members of the pigeon family, have figured in literature for thousands of years.

The Bible's Genesis says: "And it came to pass at the end of 40 days that Noah opened the window of the ark which he had made.

"And he sent forth a raven, which went forth to and fro, until the waters were dried up from off the earth.

"Also he sent forth a dove from him, to see if the waters were abated from off the face of the ground;

"But the dove found no rest for the sole of her foot, and she returned unto him into the ark, for the waters were on the face of the whole earth. . .

"And he stayed
seven days; and a
forth the do

"And

Pipestem, June 8, 1971

Notes for talk, Final

Intro

a. Rent-a-con boy.

So that's how they do in the big city.

b. Privilege to be here

Most important profn.

Quality of assmt. job is as imptnt. as law.

Latitude – you have legislative power. You deny it, but I'm wise to you

It is a profession. Entrusted w. wide discretionary power. That's what a profn. is. No legislature can tell MD how to operate — require he meet profnl. standards.

No legisl. can box you in.

You are a profn. not recognized as such. But this is changing. Moving in Australian direction -- a Valuer has social position of Dr., banker, & college prof.?)

So let's discuss profusion.

I see assr. as the public's auditor. Fee holder is not owner, but custodian of land. Land all origly. public. Turned over to pvt. on the idea it was a way to get it used well.

Assr. audits. He ests. value of resource independently, requires owner to earn a return on that for the public. ~~Stan~~

Is analogous to corp. raider. Only for the public.

A society that lacks such prompting devices decays.

And simul. raises rev. Some jurisdictions war fat & happy on this. Minn. is best case. Maybe W. Va.

Much minerals held by dozing owners. Assess w. a clear conscience — good for them. Hi tax ad val. stimulates their enterprise, rather than depresses. No other tax can make that statement.

Much held by big corps. in the bus. of holding white appreciates. Assess w. a clear conscience — are taking a share of accrual, an ~~share~~ income that otherwise escapes — is unpreempted by any other level of govt.

Major points

1. Most common failing of assrs, ~~value~~ is undercass. unripe prop. (Case of coal, that means reserves). Profulness has not reached here — is most needed.
2. Don't let big fellows snow you
3. Coop. on state level
4. Propty. tax is good way to tax

---

1. Undercassg ~~unripe~~ ripening prop. Most common failing

Vacant lots.

Acreage inside SMSAs.

~~Abstracted reserves~~ Singles invaded by CBD or apts --- resid. ~~invaded by~~ in transition to mercantile

Mineral reserves

Nader - Mitchoff study.

Same in W. Va.

Like St. Patrick's Day. Everyone wants to be green. Have succeeded in large measure. "Greening of Am."

~~Major points:~~

Should you ~~allow~~ discount for this factor? Yes. But

a. But shdn't mult. proper discount by ~~10~~ 10 or 20, erode away the whole ~~thing~~ tax base.

If not, you're being inconsistent. Only reason for not mining now is it's worth more tomorrow

b. Shdn't hold values fixed.

Green means growing. In absence of other info., prima facie, grow. If not, you're calling owner a dumbbell, & you wdn't want to do that. Why hold reserves. Net value ↑s/j, either bes. demand ↑s/j or costs falling.

At 7%, double every 10 yrs.

c. Shdn't hold in lower value class until suddenly jump when use begins.

d. Shdn't allow greater discount to larger owners bes. of thin higher R:O.

Great cause of regressive assmt.

~~3.~~ As corollary, shdn't bully smaller opps. relative to lawyer bes. they cannot afford lawyer. You are the little ~~poor~~ man's lawyer.

If tempted, ask self, how wd. you come thru in a horse opera (the morality play of our times) knuckling to the rich, grinding the poor.

e. Shdn't take use as ~~index~~ proof of ripeness, or non-use as proof of unripeness.

Use is not an adequate index to potential

Live in world of unequal purch. power.

Lawyer owners, higher R.O. Dewey Martin. Vt. Marble Co., Bennington City, Bennet Tann.

Don't act as a party to cartel by hitting users. Remember fr. as social auditor. Ferret out value, potential. -- act as society's corp. raider.

Rationale for assg reserves.

b. Makes tax progressive. Accrual is the kind of inc. the richest people get.

c. Fosters compn.

a. Catches accrual inc.

They say, no inc. w. which to pay.

$\Delta$ is inc. $\Delta \propto V$; $T \propto V$; so $T \propto \Delta$.

Accrual inc. is unpreempted by Fed.

d. Doesn't suppress or penalize enterprise

No other tax can make that statement

If anything, critic will say it speeds use too much

Not to worry

Severance tax slows down

Rate very low.

2 of My other 3 points all covered

Last, coop. on state level. ~~You're lucky~~ As long as you have profnl. minded & progr. Comm., work w. him. If not, ICAO, state assn orgn, etc.

Need confidence of assn, swapping info., reinforcing profnl. principles. That's what makes a profn. I congrat. you on this excellent meetg.

~~Mapping program & matrix program, not the last word, but~~ the first.

Congrat. you, Comm., on leadership.

# State Tax Department of West Virginia

Charleston 25305

CHARLES H. HADEN II
COMMISSIONER

May 12, 1971

Mr. Mason Gaffney
Resources for the Future
1755 Massachusetts Avenue, N. W.
Washington, D. C. 20036

Dear Mr. Gaffney:

I am pleased that you have accepted an invitation to speak at the Tax Commissioner's Annual Meeting for County Commissioners and Assessors. The dinner at which you will be the sole principal speaker is on Tuesday night at 7:00 p.m.

One of my staff attorneys was most impressed with your criticism of property tax inequities at Nader's Conference several weeks ago. By frank discussion of the abuses of the property tax system before those directly involved, it is my hope to improve the property tax administration in West Virginia.

It will be helpful to me if you will send a biographical sketch of yourself to me to facilitate your introduction. It is also necessary that you notify us of your anticipated arrival in the area so that a member of the staff can meet your airplane and take you to Pipesteam.

I am looking forward to meeting you and hearing your presentation on Tuesday night.

Very truly yours,

Charles H. Haden II
State Tax Commissioner

CHHII:pldj

# Preliminary notes for talk

State geologist needed. Bcs. the more the asst. knows, the better valuation he can make.

Intro. You can't know very much, otherwise I wdn't be regarded as expert. / May not know much, but sure have strong opinions. That's why I'm here. I'm for the propty. tax. I'm for gas men. You are an important profn. Shld. be treated like Drs. etc. & as in Australia. My book, only ref. says "Difficult art of actually assg, we defer..."

But why did I say propty. tax good? Gives some clues.

Coal yields surplus above cost. Is capd. into value. It is % of value is a % of rent. Belongs to people.

Prop. tax is a way that public equity can be asserted w/o ~~taxing indy.~~ stifling indy. In fact, argument is it is likely to be just the reverse, mine too fast.

No great discovery problem here. No great incentive needed for that.

Tax as practiced now ~~capl.~~ slows recovery:

- creates pref. for using less capl. / care.
- asset probly raises cost value when owner gets closer to it.

(Strip mining may use less capl/care than other kind — shaft, tunnel, etc.)

(Where discovery creates Terrae, propty tax avoids <u>over</u>motivating explr.)

But where cost already known or probable, tax motivates explr. & extraction. Thus, encourages us to liquidate results of past findings, rather than hold ripe reserves cold while seeking more. In time of short capl., seems wise

How to keep up as progressive knowledge brings ever steeper detail of a field into ken — protracted study & revelation of its detailed anatomy (earth as mother symbol, ~~$~~ ultimate sex symbol.)

ha!

Over time, experience turns <u>homogeneous probabilities into heterogeneous certainties</u>. As it does, keep changing assmts.

Sec. tax defers date of ripening, hes. is hardest on mgnl. mines, As gain from holding until yields surplus.

This is done by ff. the mkt. – if there is one. (If there isn't, keep raising assmts. until there is. No mkt. is ~~still~~ good sign of underassmt.)

1. Much land held by absentees; divided owners; dorij owners; big cops in the bus. of holdij while appres.

Assess w. a clear conscience. Good for them. What you are doing is all right.

Tax assn. as social auditor. Most efficient device ever devised by men for auditg the work of those to whom we have entrusted — the custodians of nat. ress. of this country. They're not the beneficial owners — we are. They're custodians — who don't even know it, think they are owners, don't think they're pilferij. It is up to you to keep them straight.

2. Compact fields, Lower collection costs, etc.

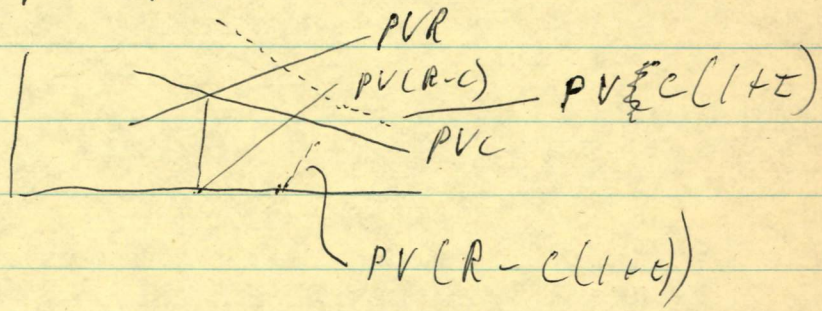
3. Use best first. Use is not an adequate index to potential. Mgnl. mines. P:O ratios

4. Collect some inc. while ripenij. This is unpreempted

by Feds.

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Taxing capl. defers ripn's!




It doubly Δs the rate of growth of value.
- lowers base
- raises slope

---

Compact fields mean compact rural towns. Nearness to town is element of value

4. Tax highly progressive. Ownership of coal — 7 sisters etc., & richest get the best.

5. Prop. tax encourages more uniform pressure.

Now, small fellows of hi i.r. & medj empl. produce more than their share. Better coal goes to

big who can wait.

Result: anomaly of using mgnl. coal, freezing best coal.

Prop. tax on coal equalizes. Gary ~~Dont~~ on mgnl. coal — high ~~tht~~ on best. But same rate on all --- equalizes pressure.

5. Promote compn. Burnish vert. integ.

Falls heaviest on firm seeks to control reserves. Is a tax on mgpy.

Falls on buyer -- they have higher R:O ratios.

But don't tax capl. Today, hit the competitor who fructifies reserves, not them unpat who sterilizes them.

Ease entry. Break up big holdgs.

Don't join the energy cartel!

---

Do your own assg. Cf. Nader on TS.

Sulfur content of coal, shift of demand to west.
But all that can change tomorrow. Keep on the roles.
No strow jobs.

Mine-mouth generating — why not? But t.o.s. owning
capture mines want. Need utilities.

Mine-mouth liquefaction, why not? Every mine an oil well
"Flush" mines, gross ≅ net.

Rent a Car boy

Cops get worse all the time. Puffed up w. importance

Still not so bad in city, but suburban cops wait take 10 — rather give you a ticket.

Asst.

So what else is new.

---

Catch 'em at the water hole.

When they overstate value for inc. tax

Value non-produc'g prop.

Mitchoff & Nader found this was ignored, Ts, by P&C. (Green propty. ignored, generally.) Ts, at only nominal values, or not "rendered" at all. Produc'g props, at 56% of parity.

Δ is inc., unrealized.

Corps. w/o hydrocarbon reserves are discounted by mkt.

Sudden jumps in value are signs they have been hiding it from you.

2. Lack of info.

a. Pres for disclosure

b. Treat secrecy as evidence you're too lean.

c. Use your leverage to produce info. Overcome, let them supply proof.

3. Regressive assmt.

Unfairness & size of owner. No!

4. Do your own assg.

Use soil & expert of state B of E.

Enlist state geologist.

5. Put aside temptation to bully the smaller owners & trouble to those who can hire lawyers.

Often heed of that. Shameful — hope none of you is guilty — Small owners need a friend. Ask, how

wd. you look on a horse opera — the morality plays of our times — doing that?

1. Assn. who holds down assmt. bcs. green shd be rais'g it continually, yrly., as it ripens.

The assn. who says ress. is green, ~~but~~ & holds it down, must practise corollary. If its green, it's grow'g.

3. You can amortize a cap. item in 20 years as well as 40, at 7%.

20 yrs., crf = $\frac{.07}{1-\frac{1}{4}} = \frac{4}{3}\ .07$

40 yrs., crf = $\frac{.07}{1-\frac{1}{16}} = \frac{16}{15} \times .07$

But inc. stream of mine is cut in half, from $\frac{1}{20}$ to $\frac{1}{40}$

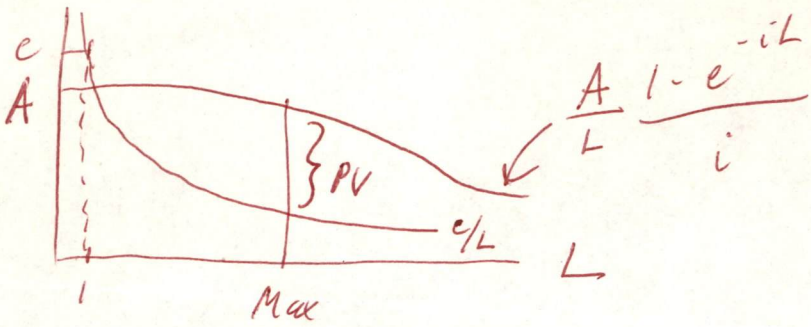
So don't buy any argument that must hold long reserves, & assn. must coop. by low assmt.

Uncertainty in coal values.

Ban on strip mining coming? Could devalue

Ban on sulfur — has raised values of western cpd. to eastern coal. Best new techniques for desulfurization could change again.

Asst.'s job is not to be expert on all this, except not to be snowed. His job is to know the risks in coal land. Others take risks, forecast demand, including effects of various laws. Asst. finds risk. value.




$$PV = -\frac{c}{L} + \frac{A}{L}\,\frac{1-e^{-iL}}{i}$$

$$= \frac{1}{L}\left[\frac{A}{i}\left(1-e^{-iL}\right) - C\right]$$

Talk to W. Va. assessors, 6-71

1. Tax minerals when green.

a. Fed. govt. has not preempted this rev. source.

b. Don't fear premature mining will result.

i. Pressure grows as minerals ripen, so is greatest on ripest ones.

ii. Ripe ones meet demand, hold back demand for green ones, when ripe ones are used.

iii. Ripeness means near plants & xptn., has location element, economizes on roads etc.

iv. Anticip. taxes holds down green values, so tax not great. Capn. effect.

v. T.r. low of i.r. anyway.

2. Value of green mineral is disc. value of spot value when ripe.

3. Time of ripeness may be earlier than when owner plans to begin use.

— He may have local market power, like Ore. timber owners or Vt. Marble Co.

— He may be slack mgt., absentee owner, divided ownership --- typical corp. planning beats surplus, minimizing mgmt. work by slow turnover

So don't hold down assmt. only bcs. owner plans to use in remote future. His reason may be restraint of trade. That cd. make assr. party to conspiracy in restraint of trade (S vs. local elemnt.) Mineral is only green if highest bidder wd. think so.

Highest bid is what owner wd. pay to keep from selling -- i.e. his h.o. price. Use this approach espy. if owner ~~is~~ has mkt. power.

How to tell. If owner outbids rivals who wd. use sooner.

4. Threat of energy mnpy.

" " absentee control of App. coal.

Local assns. have lever to combat.

5. Peter Wagner of NPCA --- asks for mtrl.

Joel D., Herf, etc.

6. Green ⊘ reserves include those "being mined" by capacity in place, but not yet mined.

Try not to have to
~~Do not~~ raise assmt. when pvt. capacity is put in.

That shows you were underassg. before. It makes the ~~tax~~ assmt. on ~~mine capacity really a~~ reserves really a tax on

the mine capacity.

Of course if you don't uncover value until owner reveals it by developing, then it is better to assess him then than not at all. But if this happens once, it Tells you you have not been keeping up w. value of green resources, so it is your clue to get after them.

7. Stop ~~actual~~ assg. in such ways as to favor big absentee spec. over small local firm. Favoring size, slow decent, slow me.

Lazy assmt. works that way.

8. Stop relying on cost approach. It exempts land.

Find ways to keep up w. mkt. value.

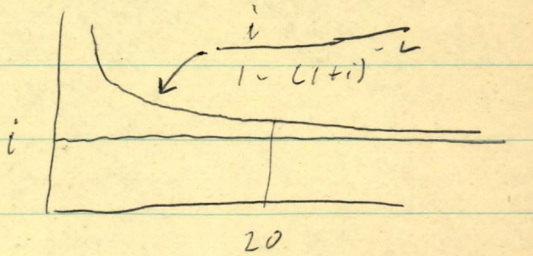
9. After mining starts, all ore is still green. Not really ripe until moment it is removed from pit head.

Large opr. typically has more reserves ahead, in years -- no matter how large his capacity.

He will argue it is mostly green, bcs. he plans to hold it so long.

Don't buy that. 20 years is about the max.

a. Show c & f., how you can amortize plant over 20 yrs.




b. Show how max. PV of mine by fast use.

c. Cf. Hoskold formula for mine valuation ... reject.

10. Never let mkt. values remain static.

Lazy inertia way is to assume values fixed, in absence of other evidence. That is wrong. In absence of other evidence, assume values rise at 9% yearly. i.e. like money in the bank. Why else wd. owner hold it?

11. Don't worry about discovery costs.

a. Coal already discovered

b. Prop. tax not supposed to exempt disc. costs anyway.

c. Inc. tax already subsidizes discovery, too much.

d. Need to use coal already discovered.

12. Coord. & synch. assmt. w. planning of public (not pvt.) capl.

Put heat on where xptn. available.

Remember you rep. the public — the public influence over pvt. land use decisions. & other pvt. capl. like utilities

But distinguish public capl. from pvt. capl. of owner.

13. Nader on W. Ts., shows how a gaggle of students can document undersmt. You can too.

14. Active mkt. now --- learn how to evaluate trading of corp. shares.

15. Make them disclose info. you need. as org. of assns. by pushing legislation. As

indivs. by taking attitude. When in doubt, shoot high, let taxpayer prove low valuation.

I am amazed at the diffidence of some assrs. They talk as tho rep'g the taxpayer, rather than the public. Big prop. owners are fully able to rep. selves w/o help from you.

16. Review ERT
" ERT new files

17. Opaqueness } syn. -- either correct.
Opacity }

# Factors Inhibiting Appalachian Regional Development

## *West Virginia, a Case Study*

*By* CARL W. HALE*

A LARGE PART of the diverse geographic area making up Appalachia remains stagnant despite the phenomenal business expansion of the period 1961–68 and in spite of the efforts of the Area Redevelopment Administration (ARA), the Economic Development Administration (EDA), and other federal agencies.[1] Unfortunately, Appalachia continues to play its historic role as a barrier to east-west commerce, and the region itself continues to generate economic activity at a slower rate than the rest of the nation, although 18 Standard Metropolitan Statistical Areas are located within the Appalachian region.[2]

It should be realized that Appalachia, as defined by the Appalachian Regional Commission, is to some extent a political conglomeration of "Appalachias." Between 1962 and 1965, the annual rate of employment change for Appalachia was 2.3 per cent as opposed to 3.2 per cent for the nation. However, the Appalachian portions of the various states making up the region registered markedly different annual growth patterns during the period. Only the Appalachian portions of Kentucky, New York, Ohio, Pennsylvania, Virginia, and West Virginia registered slower growth rates than the nation. It is the Appalachian portions of

* The author (professor of economics at Memphis State University) expresses his thanks to Robert Main, William Miernyk, and Anthony Stocks for numerous helpful suggestions with regard to this paper. The time and facilities necessary to complete surveys and other supporting work related to this article was provided by the Bureau of Business Research and the Office of Research and Development of West Virginia University. See: Carl W. Hale, *The Contribution of Local Subsidies to the Economic Development of West Virginia,* (Bureau of Business Research and Office of Research and Development), West Virginia University Economic Development Series, No. 12, January 1969.

[1] The Area Redevelopment Act was passed in 1961, the Public Works Acceleration Act in 1962, the Public Works and Economic Development Act in 1965, the Appalachian Regional Development Act in 1965, the Manpower Development Act in 1962, and the Economic Opportunity Act in 1965. These are the major pieces of development legislation that have had some impact on Appalachia. Discussion of this legislation ought to be strictly separated from welfare activities, such as the program involving the distribution of surplus commodities.

[2] For an extensive discussion of the various attempts made to bridge the Appalachian barrier prior to the Civil War see: Carter Goodrich, *Government Promotion of Canals and Railroads* (New York: Columbia University Press, 1960).

these states that have depressed the overall Appalachian employment growth rate below that of the nation.[3]

The total population in the Appalachian region in 1960 exceeded 15 million, but only 47.5 per cent of this population was classified as being urban. Furthermore, the region suffered an absolute population decline of 3.1 per cent in metropolitan areas and 5.1 per cent in non-metropolitan areas during the 1950–60 census years for persons 18–64 years of age—the most economically-productive age group. The total net migration from the Appalachian region between 1950 and 1960 was over 2 million persons.[4] Although Appalachia as a whole has experienced some intra-regional specialization, *i.e.,* steel works in Birmingham and Pittsburgh as opposed to industrial chemicals in Charleston, West Virginia, and concentrations of textile manufacturing in the Southern Appalachians, much of the overall region has been homogeneous with regard to a history of dependence on either bituminous coal mining and/or low productivity farming.

Although West Virginia occupies the geographic center of Appalachia and exhibits many of the economic characteristics common to the whole region, it is not a completely representative gauge of the region as a whole. However, attempts at developing a truly integrated Appalachian regional economy depend on the development of the transportation facilities of the region, particularly in West Virginia.[5] The Appalachian economy is economically segmented: the various economic activities of the region are more closely linked with industrial activity in other regions than with economic activities within the region.[6]

When the discussion is confined to West Virginia, the major factors

[3] Appalachian Regional Commission, *Appalachia,* Vol. 2 (November 1968), pp. 27–29.

[4] Out-migration from Appalachia has tended to develop around two axes: the pull of East North Central cities such as Cincinnati and Cleveland on the populations of East Kentucky and North Central West Virginia, and a "District of Columbia migration system," reflecting the pull of Washington, D.C., on migrants from the eastern portions of West Virginia and the mountainous western portions of Virginia. See: James S. Brown and George A. Hillery, Jr., "The Great Migration 1940–1960," in Thomas R. Ford (ed.), *The Southern Appalachian Region; A Survey* (Lexington: University of Kentucky Press), pp. 64–65.

[5] The purpose of the development highway system is to connect the various regions comprising Appalachia with major urban areas outside the region. The result will be a relative increase in interconnectivity (commodity movements, migration, and commuting) between Appalachia and Non-Appalachia. However, such a development will also cause an increase in connectivity within the Appalachian Region.

[6] *Ibid.,* p. 55. This segmentation becomes a problem, because it weakens the intra-regional spread effects which would otherwise develop as a result of expansions of economic activity in the growth centers of the region.

contributing to this segmentation and inhibiting growth in the state appear to fall into three main categories: (1) the non-standard transportation system; (2) the paucity of public investment, the antiquated governmental structure, and the attitudes of the state; and (3) the industrial structure of the state. The state of West Virginia constitutes a satisfactory unit of study because its geographic location makes it of crucial importance in the developmental highway plans for the state and in the Appalachian interstate highway systems.[7] Furthermore, many of the political and economic problems faced by the local units of government in the state are common to the Appalachian counties of other states.

## I

## Non-Standard Transportation System

THE TRANSPORTATION AND COMMUNICATION SYSTEMS constitute the major integrating factors in a market system. Thus, it is largely the development of the transportation system that furnishes the more imporportant location factors (whether market orientation or raw material orientation is involved) in a market-directed economy. However, location studies dealing with manufacturing activity generally show that market orientation is the major factor determining the geographic incidence of private investment in the United States.[8] The importance of market orientation as a location factor reflects the transportation rate structure as well as the "connectivity" of the transportation network, and indicates that the costs of distribution are the dominant factor in determining plant location over a wide range of industries.[9]

The close relationship between the transportation and communication systems and industrial location reflects the impact of national transporta-

[7] Total Appalachian highway mileage amounts to about 2,500 miles, with the West Virginia share of the program involving over 400 miles of highway. The interstate highway program in West Virginia involves the construction of more than 600 miles of interstate highway.

[8] Glenn E. McLaughlin and Stefan Robock, *Why Industry Moves South*, National Planning Association Committee of the South, 1949; H. S. Perloff, *et al*, *Regions, Resources, and Economic Growth* (Baltimore: John Hopkins Press, 1960), p. 394.

[9] For a discussion of some measures of "connectivity of the Interstate Highway System," see *Papers and Proceedings of the Regional Science Assn.*, 1960, Vol. VI pp. 121–37. For a historical description of the effects of freight rates on economic development see: William H. Joubert, *Southern Freight Rates in Transition* (Gainesville: University of Florida Press, 1949). Leland H. Jenks, "Railroads as an Economic Force in American Development," *Journal of Economic History* 4 (1944); Thomas Senior Berry, *Western Prices Before 1861* (Cambridge: Harvard University Press, 1943); Louis B. Schmidt, "The Western Movement of the Wheat Growing Industry in the United States," *Iowa Journal of History and Politics* 18 (July, 1920); Robert G. Albion, "New York Port and Its Disappointed Rivals, 1815–1860," *Journal of Economics and Business History* 3 (1930).

Table 1

WEST VIRGINIA HIGHWAY SPENDING AND FEDERAL INTERSTATE APPORTIONMENTS
FY 1957–1969

($1,000,000)

| Fiscal Year | New Construction Primary[1] | New Construction Secondary[2] | Maintenance Primary[1] | Maintenance Secondary[2] | New Construction Interstate System | West Virginia Apportionment[3] | West Va.'s Percent share of National Apportionment[4] |
|---|---|---|---|---|---|---|---|
| 1969 | —— | —— | —— | —— | —— | 86.3 | 2.27 |
| 1968 | —— | —— | —— | —— | —— | 77.4 | 2.28 |
| 1967 | —— | —— | —— | —— | —— | 68.0 | 2.27 |
| 1966 | 25.2 | 7.1 | 10.4 | 12.9 | 63.4 | 42.0 | 1.50 |
| 1965 | 23.8 | 4.2 | 7.8 | 10.1 | 51.9 | 40.3 | 1.50 |
| 1964 | 15.8 | 2.5 | 8.3 | 9.9 | 30.0 | 39.0 | 1.50 |
| 1963 | 11.4 | 2.5 | 20.5 | 16.1 | 13.1 | 36.0 | 1.50 |
| 1962 | 11.9 | 2.4 | 18.4 | 16.6 | 19.9 | 27.1 | 1.23 |
| 1961 | 11.4 | 2.5 | 17.9 | 17.0 | 19.9 | 22.3 | 1.24 |
| 1960 | 17.1 | 2.7 | 14.0 | 15.6 | 38.0 | 31.2 | 1.25 |
| 1959 | 22.1 | 1.9 | 14.4 | 12.1 | 19.0 | 26.0 | 1.18 |
| 1958 | 21.9 | 0.9 | 12.9 | 14.4 | —— | 20.3 | 1.19 |
| 1957 | 20.4 | 1.2 | 13.9 | 12.2 | —— | 13.9 | 1.19 |

SOURCE: Letter from John R. Provan, Acting Director of Administration, U.S. Department of Transportation, dated February 2, 1968; and the *West Virginia Blue Book.*

[1] The West Virginia Primary highway system consists of all highways connecting counties.
[2] All other West Virginia highways except the interstate system.
[3] Interstate highway funds apportioned to West Virginia but not necessarily obligated by the state.
[4] The per cent of National funds appropriated for interstate highway construction apportioned to West Virginia.

tion policy on regional growth. Thus, any regional development program must adapt itself to the evolving transportation system and to the subsidies extended to the various competing transportation modes if it is to have any chance of success. From this it would seem that a national transportation policy ought to be the basic platform of any national and regional development program, and it suffices to say that once the national transportation policy has been set or has evolved through economic and political pressures, the regional development policy can only be adapted to it. Furthermore, it is clear that regional developmental programs can be rational only in so far as the national program is rational.

A major factor retarding economic activity within West Virginia is the non-standard transportation system—specifically, the highway system of the state. This low-quality transportation network stretches economic distance, *i.e.,* the time required to move goods and services from one point to another in the state, and severely impedes the establishment of a wide range of industries in the state that are dependent on truck transportation, either for obtaining raw materials and/or components or in distributing final products. Given the existing importance of distribution costs and consequent market orientation of large segments of the manufacturing industry, an efficient short-haul transportation system is needed for the Appalachian region.[10] The need has been largely met throughout the rest of the country by the interstate highway system, financed under the auspices of the Federal-Aid Highway Act of 1956. A look at the data available in the *1963 Census of Transportation* indicates the importance of the motor carrier as a transportation mode. Clearly, the use of truck transportation is related to the length of haul of manufactured products, or put another way, to the degree of market orientation of the commodity.[11]

One of the most obvious aspects of the non-standard nature of the highway system is the average travel time on West Virginia (or Appalachian) highways. The existing Appalachian highway system, because of its steep grades and narrow winding roads, places severe restrictions on the region's ability to support industries depending on truck transportation. Average travel time of the primary highway system now in place in much of West Virginia is close to 45 miles per hour (for passenger

[10] President's Appalachian Regional Commission, *Appalachia, A Report by the President's Appalachian Regional Commission, 1964* (Washington: U.S. Government Printing Office), pp. 32–34.

[11] The median distance that commodities were shipped was computed from "distance-tons shipped" distributions. The average distance shipped of manufactured goods was about 255 miles, with the average distance for specific commodity groups ranging from about 139 miles in the case of "stone, clay, and glass products" to over 486 miles in the case of "machinery."

Table 2

INDEXES OF FISCAL CAPACITY, TAX EFFORT, AND TAX SEVERITY FOR THE APPALACHIAN STATES—1960

| | *Fiscal Capacity Indexes:* percapita State data as a percentage of U.S. average percapita data | | | | *Tax Effort Indexes*[2] | | | *Tax Severity Indexes* (1): The Tax Effort Index divided by indexes of percapita personal income (U.S. Base) | | *Tax Severity Indexes* (2): The Tax Effort Index divided by indexes of percapita income produced (U.S. Base) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| State | Personal Income[1] | Income Produced[1] | Yield of Representative Tax System | Actual Tax | Personal Income[1] | Income Produced[1] | Yield of Representative Tax System[3] | Personal Income[1] | Yield of Representative Tax System | Income Produced[1] | Yield of Representative Tax System |
| Alabama | 66 | 65 | 66 | 60 | 91 | 92 | 91 | 138 | 138 | 142 | 140 |
| Georgia | 72 | 74 | 69 | 70 | 97 | 95 | 102 | 135 | 142 | 128 | 138 |
| Kentucky | 70 | 74 | 74 | 59 | 83 | 80 | 80 | 119 | 114 | 108 | 108 |
| Maryland | 108 | 94 | 93 | 99 | 92 | 105 | 106 | 85 | 98 | 112 | 113 |
| North Carolina | 69 | 76 | 72 | 69 | 99 | 91 | 96 | 144 | 139 | 120 | 126 |
| Ohio | 106 | 106 | 103 | 94 | 88 | 88 | 91 | 83 | 86 | 83 | 86 |
| Pennsylvania | 102 | 97 | 91 | 87 | 85 | 89 | 96 | 83 | 94 | 92 | 99 |
| Tennessee | 70 | 69 | 71 | 67 | 95 | 96 | 93 | 136 | 133 | 139 | 135 |
| Virginia | 83 | 85 | 81 | 68 | 82 | 81 | 84 | 99 | 101 | 95 | 99 |
| West Virginia | 76 | 81 | 74 | 75 | 97 | 91 | 101 | 128 | 133 | 112 | 125 |

SOURCE: *Measures of State and Local Fiscal Capacity and Tax Effort,* The Advisory Commission on Intergovernmental Relations, October, 1962, pp. 54–55, 75–76.

[1] Based on 1959 data.

[2] Actual state tax collections in 1960 as a percent of selected state income series in 1959 and of yield under representative tax system divided by National tax collections in 1960 as a percent of national income series in 1959 and of yield under representative tax system.

[3] Based on personal income received.

cars).[12] Furthermore, the average speed of truck transportation on West Virginia highways falls well below 45 miles per hour because of the steep grades of the highway system.[13]

In contrast, travel time on the interstate system averages 60–70 miles per hour for passenger or commercial vehicles. This causes at least a doubling of economic distance where commercial traffic is concerned in the state—except for that portion of the region being served by the West Virginia Turnpike.[14] Any increase in the volume of truck transportation on the existing West Virginia highway system tends to sharply decrease the capacities of West Virginia roads. The effect of a dual-axle truck is equivalent to two passenger cars on level terrain, and four and eight cars, respectively, in rolling and mountainous terrain—and a very large part of the West Virginia primary road system is in rolling terrain.[15]

The viability of the motor truck in the American transportation system does not arise because this mode of transportation is low-cost—it clearly is not, where long hauls are involved. Truck transportation is demanded because of the dependability and flexibility of motor transportation. This flexibility cuts down on the lead time required for ordering a raw materials and components, reduces inventory requirements and, because of door-to-door service, reduces the transfer costs associated with the physical handling of goods.

In addition to the advantages of flexibility associated with the use of motor transport, improved highways in central Appalachia would reduce the operating costs of motor transportation in the region.[16] Thus, highway improvements that decrease the operating time of motor vehicles also confer operating savings, or benefits, on the users of the highway improvements. The benefits to commercial highway users of time saved as a result of highway improvements (upgrading of highways to interstate

[12] For a technical discussion of this problem see: Harry C. Schwender, O. K. Normann, and James O. Granum, "New Methods of Capacity Determination for Rural Roads in Mountainous Terrain," *Highway Research Board,* Bulletin 167, 1957.

[13] *Ibid.,* p. 11. It should be noted that faster speed can be attained on that portion of the West Virginia highway system located in the western part of the state. Here, traffic is light and highways, running in a north-south direction, follow the mountain valleys.

[14] It should be noted that the western portion of the turnpike begins in Bluefield, West Virginia, while the combination turnpike and inter-regional highway terminates in the west at the border of east Kentucky. Thus, the turnpike-interstate highway begins and ends in Appalachia.

[15] *Ibid.,* p. 11.

[16] For an extended discussion of this problem along with a bibliography see: *Supplementary Report of the Highway Cost Allocation Study,* U. S. Department of Public Roads, 1965, pp. 212–36.

standards) that allow higher speed, decrease the accelerations and decelerations, and reduce grade changes contribute to the viability of truck transport in the region.[17] The benefits are large, ranging from about $3 per hour in the case of small, two-axle, single-unit trucks to more than $4 per hour for six-axle truck-trailer combinations.[18] Such benefits would confer new locational advantages to industrial sites in West Virginia as well as make possible truck transportation "through" the central Appalachian region.

The highway system is an important factor in attracting industry into a specific geographic region, particularly when marked differences exist in highway standards in adjoining regions. For instance, industries such as apparel, textiles, and fabricated metal products—industries having wage bills that are important relative to their other costs—are attracted to low-wage areas in the lower south. However, they have largely bypassed much of Appalachia, probably because they are dependent upon truck transport. Of course, what is needed is a well-developed transportation system encompassing all modes of transportation—when one important mode is lacking, the impact made by the presence of other forms of transportation is dampened. This situation develops because a firm often receives raw materials via one mode of transportation while using a different form of transportation in shipping its final product. The inability of West Virginia to act promptly, after the passage of the Federal-Aid Highway Act of 1956, to start construction on her part of the interstate highway system has been a serious handicap to state (and Appalachian) development during the recent business expansion.

The degree to which this handicap has been reflected in slower rates of economic growth has been dependent upon the extent to which decentralization of investment has occurred since 1960. This process of investment decentralization has been widespread and was reflected in the statistics of Standard Metropolitan Statistical Areas (SMSA's). In the period from 1958 to 1963, value added by manufacturing grew 44.1 per cent in areas outside SMSA's as opposed to 32.8 per cent inside SMSA's. The dispersion of industry was particularly strong in the Midwest, the Great Lakes, and the Southeastern States—areas encompassing and surrounding the Appalachian region.

[17] It is clear that, for rather long periods of time, the pay scales of the independent haulers and the over-the-road workers represented by the International Brotherhood of Teamsters are basically independent of any time saved by highway improvements. See: National Master Freight Agreement (April 1967 through March 31, 1970), Articles 48, 49, 50, and 51.

[18] Bureau of Public Roads, *Supplementary Report of the Highway Cost Allocation Study*, 89th Congress, 1st Session, House Document No. 124, p. 221, Table 62.

It should be noted that the demand for truck transportation services is dependent upon the length of the haul and the bulkiness of the cargo as well as the size of the plant initiating the shipment. Truck transportation generally is not well-suited to handling long-haul, bulky cargoes. However, smaller manufacturing plants typically make much greater use of truck transport than any other means of transportation.[19] This last relationship perhaps reflects the importance of sub-contracting operations where smaller plants are concerned. In this case the sub-contractor is likely to be located close to its potential market and thus finds the trucking tariff rates satisfactory and the flexibility of road transportation desirable.

Another factor has also been at work to cause a geographic fragmentation of functions of plants located in large metropolitan areas. The increasing urban land values and highway congestion within the core city have caused a geographic redistribution of functions of the firm, causing a corresponding shift in land use within and without the urban area.[20] This geographic differentiation of function within the firm is clear where a manufacturing firm also undertakes considerable administrative and warehousing activities. As Robert M. Haig has so clearly pointed out, the administrative function may remain in the urban area while the manufacturing and warehousing functions may be moved to the urban hinterland under the pressure of rising urban congestion and land values.[21] However, the various functional activities of the firm are likely to be close enough together to make the flexibility of highway transportation desirable.

The mountainous and rolling terrain of the state, coupled with the rather poor local highway system, has caused land use regulation to assume more importance in West Virginia than in other areas as economic development of the state proceeds. While zoning often has been thought of as a conservative form of regulation, having its main importance in the preservation of property values by prohibiting non-complementary land uses from being established in close proximity to one another, zoning regulations could have been a powerful tool of regional development.

Where flat land, suitable for modern industrial sites or for low-cost residential development, is scarce, properly executed urban and rural zoning ordinances can be a major factor in successful economic development.

[19] Walter F. Buhl, "Intercity Highway Transport Share Tends to Vary Inversely with Size of Plant," *Highway Research Record*, No. 175, Highway Research Board, pp. 9–14.

[20] Carl W. Hale, "The Mechanism of the Spread Effect in Regional Development," *Land Economics* 43 (November, 1967), pp. 438–39.

[21] Robert Murray Haig, *Major Economic Factors in Metropolitan Growth and Arrangement*, Regional Survey, Vol. 1 (New York: Regional Plan of New York and Its Environs, 1927), pp. 39–43.

Rural planning and zoning in Appalachia might be designed to do several things: to foster restoration and economic use of reclaimed mined areas, to facilitate the blocking up of forest areas, to guide summer home seekers to areas where public services can be economically provided, to protect existing and potential water-oriented and forest-oriented recreation areas, to prevent waste of tax money as a result of the construction of access roads, sewers, and water mains, and other service facilities, to guide suburban encroachment into rural areas, and to protect roadsides from distracting clutter.[22]

However, zoning in rural areas in Appalachia and West Virginia should constitute an attempt at more than simply protecting natural resources. It should also facilitate the economic use of a scarce resource—land—for commercial and industrial uses. Furthermore, open-country zoning must be on a multi-county level, as local government in rural areas is incapable of carrying out a rational zoning plan.[23] Severe land use problems will arise as the interstate network is completed in West Virginia and in other parts of Appalachia. Whether or not these problems will be resolved will depend on the creation of rational zoning ordinances, along with a well-staffed multi-county organization to implement the zoning ordinances.

In addition to multi-county zoning ordinances and organizations, additional local tax measures are necessary to encourage the development of land at its highest and best use. A new system of local property taxes based on the potential use of land rather than its actual (unimproved) use is required if land speculation is to be minimized. That is, local real estate taxes ought to constitute not only a source of local revenue, but should also serve as a tool of planning and development.[24] Land speculation in urban areas is a primary cause of urban sprawl—a feature obvious in most American cities. Urban sprawl is an integral characteristic of the institutional organization of our urban areas and is associated with various forms of social cost.[25] However, land speculation in areas such as West Virginia, where land suitable for commercial and industrial development is truly scarce, is flying in the face of rational development

[22] Erling D. Solberg, *Suggestions for Planning and Zoning in Appalachia,* Economic Research Service, U. S. Department of Agriculture, p. iv.

[23] For a discussion of the legislation and underlying planning necessary for the implementation of zoning ordinances in West Virginia see: Anthony H. Stocks and William Thompson, *Land-Use Regulation to Promote Highway Objectives in West Virginia: A Research Summary,* Research Report V, Project State Road Commission—10, West Virginia, (May, 1966), pp. 9–15.

[24] Marion Clawson, "Urban Sprawl and Speculation in Suburban Land," *Land Economics* 38 (May, 1962), p. 109.

[25] *Ibid.,* pp. 99–108.

policy. Rational development requires that scarce resources be rationally utilized, and in West Virginia (and in Appalachia in general) no natural resource is more scarce than land suitable for low-cost industrial, commercial, or residential developments.

## II

### Public Investment, Governmental Structure, and Regional Attitudes

IT SHOULD BE ACKNOWLEDGED that the slowness of West Virginia to implement the interstate highway program reflects certain weaknesses in the structure of the West Virginia government, along with heavy maintenance commitments to the existing, largely rural road system. The main source of funds for capital and maintenance expenditure are user taxes—state appropriations from general revenue and the total bond issues for highway purposes (excepting the West Virginia Turnpike) have been modest.

The fledgling interstate highway program in West Virginia has been continuously hampered by lack of funds. And although the interstate construction program is financed on a 90 per cent-10 per cent basis, West Virginia has been hard-pressed to come up with the necessary 10 per cent matching funds. This reflects West Virginia's inadequate fiscal capacity along with a heavy commitment to the rural road system of the state. Since the state is responsible for all county road construction and maintenance, the state has faced in recent years an annual outlay of over $18 million (new construction and maintenance) for the secondary road system.[26]

In fact, during Fiscal Years (FY's) 1963, 1964, and 1965, maintenance on the primary road system of the state suffered cutbacks as capital spending for the West Virginia interstate system increased from over $30 million to nearly $64 million per fiscal year. (See Table 1.) The development highway program, begun under the auspices of the Appalachian Regional Commission, is still in the planning stage in West Virginia. However, it is clear that it will face even worse funding problems—because matching grants are less liberal for developmental highways than for the interstate highway system.[27]

At any rate, the $18 million that the state has laid out annually for secondary roads could have been parlayed into about $180 million per year in interstate construction for most of the years since 1956, provided

[26] J. Howard Myers (compiler and ed.), *West Virginia Blue Book* (Charleston: Jarrett Printing Company, 1966).

[27] For an elaboration of this point see sec. 201 of Public Law 89-4 (Appalachian Redevelopment Act of 1965). Under this program the federal matching funds may vary from 50 to 70 per cent of the total cost of the project.

that matching federal funds had always been available for interstate highway construction in West Virginia. However, the heavy rural population in West Virginia, through democratic processes, along with some rural over-representation in the state legislature has tended to siphon off funds into the rural areas of West Virginia—funds that, if they had been spent on the interstate system, might have favorably affected West Virginia development during the last business expansion.

Cost studies of ten West Virginia counties over the last nine years show that maintenance costs per foot-mile on secondary roads have increased constantly.[28] This rising cost has and probably will continue to exercise real pressures on the funding base of the West Virginia highway and road system. In 1961, over 40 per cent of the user-tax revenues collected in the state went to roads generating only 25 per cent of the total state traffic.[29] It would appear from state highway department expenditures that the secondary road system of West Virginia was better maintained in 1962 than was the primary road system. It is likely that before the Highway Act of 1956 was passed, the secondary road systems of all the states received a much higher proportion of maintenance aid than the traffic generated on these roads would justify.[30] However, West Virginia's fiscal policy still reflects the state's rural attitudes. Thus, state highway officials have adopted the practice of allocating only enough funds for main highways to match federal aid for primary and interstate construction along with related maintenance expenditures.[31] Thus, when cut-backs were necessary because of the meager tax resources of the state, it was the interstate system and finally the primary road system that were most adversely affected.[32]

[28] Robert Gibson Corder, "West Virginia Secondary Road Maintenance Responsibility; A Preliminary Study," unpublished thesis, West Virginia University, 1966, p. 64.

[29] Bertram H. Lindman, *An Exploratory Investigation of Local Road Financing in West Virginia,* An Economic Report to the State Road Commission of West Virginia (July 1963, p. 28.

[30] Philip H. Burch, Jr., *Highway Revenue and Expenditure Policy in the United States* (New Brunswick: Rutgers University Press, 1962), pp. 161–63.

[31] Lindman, *op. cit.*, p. 30.

[32] Although West Virginia had an unobligated balance of interstate funds in December, 1967, of nearly $109 million (this total represents 30 per cent of apportioned funds for FY 1968 and all apportioned funds for FY 1969), the state has never allowed apportioned federal-aid interstate funds to lapse. A state can retain a claim on federal funds apportioned for a particular fiscal year for the remainder of that year plus two more fiscal years before the state must obligate the funds or else lose its claim on the apportioned funds. Since FY 1960 funds have been apportioned on the basis of construction costs, high-cost segments of the system, such as urban areas and mountainous regions, have received a larger share of apportioned funds. Because of the new formula, West Virginia's apportioned share of interstate funds has increased, putting pressure on the state government to revamp the state's tax structure so the state will be able to utilize the funds.

The historical development of the taxing and spending powers of the state and local governments of West Virginia has resulted in a highly centralized decision-making process governed by the necessity of catering to a largely rural population.[33] This pattern of decision-making has been coupled with a state tax structure which places heavy reliance on the retail sales tax. This dependence on a regressive general sales tax, along with heavy out-migration from the state, and with rather slow rates of growth of state personal income received, has resulted in a weak tax base for West Virginia.

Untapped sources of revenue exist for the state. However, the existing tax structure, based largely on personal income received rather than income produced, represents an institutional arrangement which prevents the taxing capacity of the state government from growing with advances in economic activity. Since the concept of capacity is somewhat ambiguous, it should be indicated that there are at least three measures of fiscal capacity that can be developed: income received, income produced, and a composite or average tax system based on the observed taxes and tax rates now in force in the various state and local units of government. It must be admitted that West Virginia's fiscal capacity is less than the national average for all three measures. But from the standpoint of income produced the state's fiscal capacity is relatively much stronger. (see Table 2). Furthermore, since the concept of fiscal capacity is relative, under no circumstance does a weak fiscal capacity mean that a state cannot undertake key public projects.

It should be noted that West Virginia's deficit of social investment represents a problem of resources as well as of values and governmental organization. The latter problem, it would appear, is the more important limitation on the economic development of the state. The overall capac-

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It has often been argued that high construction cost segments of the interstate system have been discriminated against by the federal legislative apportionment formula. However, such an argument is largely unfounded, as a large portion of the total cost of highway facilities represents land acquisition costs. Furthermore, since FY 1960 the apportionment formula has been based on construction cost; thus, a state like West Virginia is particularly favored—West Virginia land acquisition costs are low while construction costs are high relative to other open country segments of the interstate system. The argument that the mountainous states should receive more liberal matching funds because of higher construction costs is equally unfounded, for basically the same reasons. The land acquisition costs in developed areas are often much higher than construction costs. Since open country land values are low in West Virginia, acquisition costs are also low; thus, the total costs of land acquisition and construction are of the same magnitude as total costs elsewhere. It should be noted, however, that rural population in West Virginia is very densely settled along existing highways so that costly relocations may be involved when highways are rebuilt or widened.

[33] Claude J. Davis, *West Virginia State and Local Government* (Morgantown: Bureau for Government Research, West Virginia University, 1963), p. 174.

ity of the state to raise tax revenues necessary to implement any program of social overhead investments depends on some measure of income, since all taxes, as well as savings, must be drawn out of current income. A comparison of per capita income received and per capita income produced in West Virginia and in the other states in the U.S. shows that the state's per capita personal income received was only 76 per cent of that of the nation in 1959, but state per capita income produced was 81 per cent of the U.S. figure.[34] This differential between the two measures probably reflects absentee ownership of mines and other production facilities in the state. In fact, all mining regions register this same phenomenon.

The Advisory Commission on Intergovernmental Relations measures of per capita yield of representative state and local tax systems show West Virginia's per capita yield to be only 74 per cent of the nation's in 1960. This indicates very clearly that the "composite" state and local tax system (a system depending heavily on income received) faces capacity limitations in West Virginia, or in other states where the extractive industries are important. Therefore, West Virginia's solution to her fiscal problems should not be patterned after the "average" state and local tax system in operation in the U.S. It should be tailored to take advantage of the state's own resources—specifically the income produced in mining and in other important economic activities, such as the production of industrial chemicals. Although the tax effort expended by all the Appalachian states (except Maryland) is less than that of the nation, on average, for both income received and income produced, the lower levels of per capita income in the Appalachian region cause the severity of the tax burden to the region to be greater than the average for the nation. However, in the case of West Virginia, the tax severity, reflecting existing tax levels, is much less when a tax base of income produced is used (*vs.* a tax base of personal income received).

Although West Virginia's per capita capacity to generate tax revenues is at least 19 per cent below that of the nation, this does not mean that taxes could not be generated without additional tax severity. A severance tax that would have amounted to a mere 3.2 per cent of the value of only oil and gas produced in West Virginia (no severance tax is now collected in West Virginia or in any other important coal-producing state) would have yielded over $7 million in tax revenues to the state in 1960.[35] This would produce about $70 million in funds for the West Virginia highway

[34] Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort* (Washington: U. S. Government Printing Office, October, 1962), pp. 54–55.

[35] *Ibid.*, p. 39; pp. 148–49.

program, assuming the customary 90 per cent matching grants were forthcoming from the Federal Government. Assuming a total cost of facility of about $2 million per mile for the interstate system in West Virginia, the state could complete about 35 miles of construction per year.[36] Had this severance tax been enforced since 1956, West Virginia could have completed her sections of the interstate highway system on time.

West Virginia does have a gross receipts tax on natural gas sales. However, considerable difference exists between the value of marketed production and gross receipts of natural gas sales—this difference reflects field and inplant use of natural gas. The severance tax is customarily thought of as being applied to marketed production; this catches the industrial establishments' use of natural gas. For instance, in 1966 sales of natural gas constituted about 87 per cent of marketed production of natural gas in West Virginia.[37]

The application of a severance tax on oil and gas production in West Virginia would have little or no effect on crude oil and gas production in the state. In the first place, the 27.5 per cent depletion allowance constitutes a subsidy to producers of crude oil and gas.[38] Thus, a state severance tax tends only to reduce the level of federal subsidy to the producer. The application of the severance tax is, in effect, a rebate to the state of the federal subsidy to producers and property owners. The effective subsidy to the producer has been reduced but still stands at 16.45 per cent, which is enough to encourage investment in industry.[39]

[36] For a comparison of the relative costs of constructing the interstate highway system see: Joint Economic Committee, *State and Local Public Facility Needs and Financing*, Vol. 1, Public Facility Needs (December, 1966), pp. 242–43; Conference on the Application of Engineering Technology to The Problems of Appalachia, *Transportation*, Vol. 2, The West Virginia University, College of Engineering, p. 33.

[37] For a study of the West Virginia gross sales tax with regard to the taxing of minerals see: Vance Quentin Alvis, *The West Virginia Gross Sales Tax*, West Virginia University Business and Economic Studies, Vol. 7, No. 2 (June, 1960), pp. 1–18; p. 20. Detailed information on the marketed production and levels of consumption (sales) of minerals for the major producing states can be found in the *Mineral Industry Surveys*, published by the Bureau of Mines. The Bureau defines marketed production of natural gas as follows: gas sold or consumed by producers, including gas loss due to natural gas liquids recovery, losses in transmission, quantities added to storage, and increases of gas in pipelines.

[38] For a discussion of the nature of this "subsidy" see: Stephen L. McDonald, "Percentage Depletion and the Allocation of Resources: The Case of Oil and Gas," *National Tax Journal* 14 (December, 1961), pp. 323–36; Stephen L. McDonald, "Percentage Depletion and Tax Neutrality: A Reply to Messrs Musgrave and Eldridge," Vol. XV, *National Tax Journal* 15 (September, 1962), pp. 314–26; Stephen L. McDonald, "Percentage Depletion in Federal Taxation of Income From Oil and Gas Production," Proceedings of the Fifty-Fifth Annual Conference on Taxation sponsored by the National Tax Association, 1962, pp. 365–80.

[39] Since West Virginia has a gross margin sales tax of $7.85 per $100 of sales, the overall level of the subsidy is: $27.50 - (3.20 + 7.85) = 16.45$ per cent.

The institution of a severance tax of only 3.2 per cent of the value of production would probably not have adverse effects on drilling or production activity in the state. Unlike the major producing states, West Virginia has no system of production proration. Thus, West Virginia producers have not been forced to cut back output in order to support market prices. This task has been left to the major producing states—those who have the most to gain by maintaining price stability. Such flexibility gives the West Virginia producer an advantage over producers in states such as Louisiana and Texas, where the severance tax has been higher than the 3.2 per cent rate discussed here, and where there has been an upper limit with regard to production schedules.

In Louisiana, for example, the severance tax amounts to 2.3 cents per 1000 cubic feet of gas. The well-head price of gas in Louisiana averages 18.2 cents. Thus, the severance tax amounts to about 12 per cent of the value of marketed production. It should be noted that West Virginia has a natural advantage in the marketing of her natural gas in that the state is much closer to the national markets than are the major Southwestern producers. It is estimated that the costs of transmission of natural gas range from 1.5 to 2.0 cents per 1000 cubic feet per 100 miles.[40] This gives West Virginia a considerable pricing margin, as West Virginia gas can be sold at the same price as Louisiana gas in the Midwest and in the Eastern markets but costs much less to move to these markets.

The possibility of a severance tax on bituminous coal production has not been discussed, because the purpose of this argument has been to show only that a tax on income produced by a secondary industry in West Virginia would not have resulted in any appreciable increase in severity of the tax burden levied by the state, but would have generated sufficient funds to complete the interstate highway construction program on time. Moreover, a severance tax of 3.2 per cent of the gross value of West Virginia mine output probably would not have had serious market effects, but would have generated over $16 million in tax receipts for 1965. It should be remembered that John L. Lewis levied a much heavier "severance tax" on West Virginia and other bituminous coal-producing areas to support the United Mine Workers Welfare and Retirement Fund. The mines pay 40 cents per ton royalties to the United Mine Workers, currently over 8 per cent of the value of coal sales. Furthermore, it appears that no adverse market reverberations resulted from the collective bar-

[40] For a discussion of the transmission costs of moving natural gas see: Committee on Interior and Insular Affairs, *Report of National Fuels and Energy Study Group*, Senate Document 159, 87th Cong., 2nd sess. (Sept. 21, 1962), pp. 160–61; James W. McKie, "The Southern Fuel Economy, *Southern Economic Journal* 29 (April, 1963), p. 271, fn. 4.

gaining contracts made by the United Mine Workers.[41] It also appears that productivity increases in the bituminous coal industry since the 1950's have probably been sufficient to support new taxes in West Virginia without damaging the market position of the industry.[42] At present, West Virginia levies a tax of only 1.35 per cent of the gross receipts of the bituminous coal industry.

It is possible, however, that the unilateral imposition of a severance tax on bituminous coal produced in West Virginia could cause mining activity to shift out of the state. Thus, a practical solution to West Virginia's tax problem and to the revenue problems of Appalachian states in general would be a federal severance tax on all coal production—a federal tax which could be rebated to the states.[43] The severance tax could even be made palatable to mine operators by granting federal income tax credits to firms paying the severance tax. A federal severance tax on coal would go a long way toward providing the new tax revenues required if West Virginia is to provide public services that are complementary to private investment and necessary if the state is to develop.

Perhaps one of the most vulnerable links in West Virginia's institutional structure is the state's executive department. The very weak governor's office prevents the implementation of an effective development program. At present, the governor is limited to a four-year term and cannot succeed himself.[44] Historically, the budget-making authority of the state was not vested in the governor but was in the hands of a Board of Public Works of which the governor was a member. The seven-man board was composed of elected officials. Thus, there was no necessary agreement between the governor and the other members of the Board of Public Works on budgetary problems and on the fiscal steps needed to encourage the economic development of the state.[45] However, in 1968 a constitutional

[41] For a summary of major contract agreements in the bituminous coal industry see: *Technological Change and Productivity in the Bituminous Coal Industry 1920–60*, Bulletin 1305, USDL, Bureau of Labor Statistics (November, 1961), p. 131.

[42] *Ibid.*, pp. 119–120; also see: Edward E. Johnson, *Index Numbers for the Mineral Industries*, Bureau of Mines Information Circular 8275, USDI, Bureau of Mines (1965), pp. 76–82.

[43] Lee Metcalf, "A Federal Severance Tax," *Appalachian Review*, 2 (Summer 1968), pp. 3–6.

[44] Davis, *op. cit.*, p. 174. Also for a detailed discussion of West Virginia's Board of Public Works as a plural executive see: W. W. Kaempfer, *The Board of Public Works, West Virginia's Plural Executive*, Publication No. 18 (Morgantown: Bureau of Government Research, West Virginia University, 1957), pp. 1–6, 72–79.

[45] It should be noted that the West Virginia Board of Public Works is a lineal descendent of the Virginia Board of Public Works which developed the "Virginia System" of state transportation improvements. This system involved state ownership of and/or the subsidization of internal improvements within the state. In contrast with the Virginia Board of Public Works which aggressively pressed for internal improvements, the West Virginia Board of Public Works has not moved to implement schemes for internal improvements.

amendment gave West Virginia's governors the power to prepare the state budget and to veto budget items after legislative action.

A further limitation of the state's ability to eliminate local bottlenecks that impede state economic development is the state-local governmental relationship defined by the West Virginia Constitution. The state can make grants-in-aid only to the county school districts. No state grants-in-aid can be made to any other unit of local government.[46] This effectively prevents the state from aiding urban areas that may be potential growth points but which, because of their limited geographic jurisdictions, cannot collect funds for public projects necessary for their development. This limitation is in fact a negation of any state responsibility for the urban area—a restriction that is antiquated and that perhaps reflects the lingering rural character of the state.

The structure of state taxing and spending, to a major degree, reflects attitudes and political pressures within the state. Furthermore, it appears that West Virginia's failure to provide the necessary social overhead investment does not reflect inadequate resources, at least at the local level. West Virginia has a limitation on the long-term general obligation debt which counties, cities, and school districts can authorize. The limitation is 5 per cent of the assessed valuation of taxable property. All bond issues must be authorized by vote and must receive approval of at least 60 per cent of those voting.[47] From FY 1958 to 1966 this last requirement caused the failure of 11 school bond elections in West Virginia. During the same period 23 elections marshalled sufficient support to satisfy the 60 per cent voting requirement.[48] The other Appalachian states having some form of constitutional debt limitations are Pennsylvania, Kentucky, and Alabama. Although the voting requirement associated with the state property tax limitation amendment has had the effect of reducing social overhead investment in West Virginia, the tax limitation feature of the amendment has not had this effect. A comparison of data from FY's 1950 to 1965 shows that unused bonding capacity has exceeded outstanding bonded debt by at least 70 per cent for all classes of cities and for counties as well as for school districts (see Table 3).

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For a discussion of those two organizations see: Kaempfer, *op. cit.*, pp. ix–xii; and Carter Goodrich, "The Virginia System of Mixed Enterprise," *Political Science Quarterly*, 44 (July 1949), pp. 355–87.

[46] Davis, *op. cit.*, p. 105.

[47] Larry V. Starcher with Carl D. Ekstrom, *Trends in Financing Local Capital Improvements Through General Obligation Bonding in West Virginia Local Government Units* (Morgantown: Office of Research and Development, West Virginia University), State Development Plan, Report No. 18, Sec. 1–5 & 3, Phase 4, September, 1966, p. 102.

[48] Davis, *op. cit.*, p. 174.

In addition to the strictures placed on debt accumulation in West Virginia, there has been a property tax rate limitation applied to all taxable property in the state. The maximum property tax rate ranges from 0.5 to 2 per cent. However, this ceiling probably has not been an effective deterrent to the raising of local revenues. Although the local property tax rate maximums have been fixed by law, the local assessments were not. And, historically, the appraisals of all forms of property have varied between and within most West Virginia counties. Since 1960, county assessments for all property other than that of public utilities were to be at not less than 50 per cent of appraised value. This 50 per cent assessment was only a minimum (and in addition has not always been adhered to). Thus, a considerable leeway has been left for the county to raise assessments even though the structure of the property tax rates was fixed by law.[49]

It would appear that the local aversion to property taxation is the main impediment to the provision of local services, not the tax limitation restraint. This aversion to taxation reflects the rural nature and attitudes of West Virginians. Antiquated public facilities and inadequate social overhead investments will perhaps continue to hamper the economic development of the central Appalachian region. On the other hand, it is in this area that Area Redevelopment Administration, Economic Development Administration, and Accelerated Public Works spending have made a pronounced impact.[50]

However, the federal subsidies used to expand social overhead investments in West Virginia have not been of the type necessary to induce private investment flows that would alter the industrial structure of the state. The location factors sufficient for this task await the completion of the interstate highway system in the state. Thus, West Virginia remains tied to the bituminous coal mines. Historically, the state's comparative advantage has been in the extractive industries, with the state government being particularly solicitous of the bituminous coal mining interests. The state's tax stucture still reflects this attitude. But, a description of the economic inter-industry linkages of the state shows how misguided programs and policies reflecting that dependence can be, if the aim of the state's political leaders is economic development. That is,

[49] For a short discussion of the property tax system in West Virginia see: Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, Vol. 2 (Washington: Government Printing Office, June 1963), pp. 169–173.

[50] Albert O. Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958), chap. 6.

Table 3

PERCENTAGE OF UNUSED BONDING CAPACITY
OF WEST VIRGINIA POLITICAL SUBDIVISIONS[1]
For Selected Fiscal Years 1951–1966

| *Fiscal Year* | *County* | *County School Units* | *Cities Class I*[2] | *Cities Class II*[3] | *Cities Class III*[4] | *Cities Class IV*[5] |
|---|---|---|---|---|---|---|
| 1966 | 95.1 | * | * | * | * | * |
| 1965 | 97.2 | 75.1 | 82.3 | 89.6 | 89.7 | 95.5 |
| 1964 | 87.3 | * | * | * | * | * |
| 1963 | 97.1 | * | 78.1 | 84.6 | 90.3 | * |
| 1962 | 96.6 | 70.3 | * | * | * | * |
| 1961 | * | * | 74.0 | 87.9 | 89.0 | * |
| 1960 | 96.6 | 66.8 | * | * | * | * |
| 1959 | * | * | 77.2 | 87.2 | 92.8 | * |
| 1958 | * | 79.9 | * | * | * | * |
| 1957 | 95.0 | 74.4 | 66.6 | 90.4 | 92.4 | * |
| 1956 | * | * | * | * | * | * |
| 1955 | * | 73.9 | 66.6 | 98.5 | 92.0 | * |
| 1954 | * | * | * | * | * | * |
| 1953 | 93.9 | 85.7 | 81.7 | 90.6 | 90.9 | * |
| 1952 | * | * | * | * | * | * |
| 1951 | * | 91.5 | 77.1 | 88.9 | 97.9 | * |

* Gaps in data.

SOURCE: Larry V. Starcher with Carl D. Ekstrom, *Trends In Financing Local Capital Improvements Through General Obligation Bonding In West Virginia Local Governmental Units*, State Development Plan Report No. 18.

[1] The percentage of unused bonding capacity is a ratio of unused bonding capacity to maximum bonding capacity.

[2] Class I Cities have populations exceeding 50,000.

[3] Class II Cities have populations ranging from 10,000 to 50,000.

[4] Class III Cities have populations ranging from 2,001 to 10,000.

[5] Class IV Cities have populations of less than 2,000.

continued dependence on mining is not likely to result in induced investment flows into other West Virginia industries.

## III

### Industrial Structure of the State

SUMMARY MEASURES of the inter-industry transactions of the West Virginia economy can be based on the forward and backward inter-industry linkages of the state's production and distribution processes. The backward linkage of an industry is simply the ratio of its purchases from other industries (in the same region) to the total output of the industry. Forward linkage is the ratio of inter-industry sales of a particular industry to its total output. From a causal standpoint it can be argued that the backward linkages are the more important of the two relationships because these linkages induce investment and economic activity. Backward linkages reflect the "pressure of demand" and therefore are necessary before

forward linkages can "manifest themselves."[51] However, the backward and forward linkage measures, where regional input-output transactions are concerned, are less stable than their national counterparts.[52] This arises from the fact that the inter-regional trading patterns may shift over the business cycle as well as in the long-run. Thus, the regional input components of the input-output production function may fluctuate considerably between a recession and an expansionary period if strong inter-regional competitive effects exist for a particular industry.[53] The same situation can, of course, exist with regard to an industry's sales to other industries within the same region.

A comparison of the West Virginia industrial structure with that of other selected areas (where input-output tables have been developed) indicates the lack of industrial linkages of the internal structure of the West Virginia economy. Table 4 which compares West Virginia industrial linkages with four other areas and the U.S., shows the extent of this weakness. The industries for which backward and forward linkages were developed represent the most important manufacturing industries comprising the industrial structure of each area. (The industries selected for the U.S. are approximately the same as those representing West Virginia). Since the industrial structure for each area is different, the list of the 10 largest industries is not the same. However, this gives a better explanation of why the overall linkages for the areas are different. The overall geographic linkage shown for each geographic area is simply the sum of industry transactions divided by gross state product and, of the states and areas presented in this analysis, is lowest for West Virginia.

[51] The backward linkage of a particular industry may be defined as the ratio of state inter-industry purchases to the total value of gross product generated by that industry. Such a measure excludes the payments to households (wages and salaries, rents, royalties and profits) as well as taxes paid to the various levels of government. The concept of backward linkage can be broadened by simply developing a value-added—gross state product ratio (for the particular industry). The ratio also validly represents one aspect of backward linkage because it represents payment to the various factors of production. Similarly, backward linkages could be computed for other components of the inter-industry analysis such as saving. However, since saving in the West Virginia input-output model is treated as a residual, it is impossible to determine how much gross savings and property payments move out of the region. A second and related measure is that of forward linkage. Forward linkage is inter-industry sales divided by the gross state production generated in a particular industry. This measure shows to what extent an industry's sales are absorbed by other regional industries. It should be noted that unless the inverse matrix is used in these calculations, the forward (and backward) linkage measure will refer only to direct requirements.

[52] For discussion of the factors contributing to instability in regional trading patterns see: Leon N. Moses, "The Stability of Inter-regional Trading Patterns and Input-Output Analysis," *American Economic Review*, 45 (December, 1955), pp. 810–12.

West Virginia has the characteristics of a backward region in that the state's inter-industry relations are very weak—particularly with regard to backward linkage. From the standpoint of value added, the most important West Virginia manufacturing and mining industries are organic industrial chemicals, bituminous coal mining (underground), and primary metals. The backward linkage coefficients are 24.4, 9.9, and 9.7 for the three industries, respectively. Although the backward linkage for the chemical industry is fairly high, relative to the chemical industry in other areas, the forward linkages of all three industries are low relative to those registered in other geographic regions of the U.S. Furthermore, the chemical industry is rather weakly linked with the household sector—it is a capital-intensive industry characterized by high wages but also by a high capital-labor ratio. Thus, the payment to households is not high relative to other industries in West Virginia.

Despite the relatively high (for West Virginia) backward linkage of the chemical industry, the import linkage (ratio of inter-regional imports in the production function to gross state product generated by the industry) is 37.1. Thus, the production requirements of the West Virginia chemical industry ties it more closely to other parts of the national economy than to the West Virginia economy. However, a portion of the chemical industry in West Virginia is located along the Ohio River. Therefore, some of the linkages associated with the chemical industry are lost, because the input-output study is limited to the state and does not include the Ohio side of the river which also is heavily industrialized. It should also be noted that the very high forward linkages of crude petroleum and natural gas extraction and refined petroleum products reflect input requirements of the West Virginia organic chemicals industry.

The low backward and forward linkage of the primary metal industry in West Virginia reflects not only a lack of inter-industry attachments to the West Virginia economy, but also the geographic location of the industry within the state—the northern panhandle of the Ohio Valley. In fact, the Wheeling and Weirton areas are probably much more closely linked with Ohio and Pennsylvania than with West Virginia. In all likelihood, the concentration of much of West Virginia's manufacturing industry in the Ohio Valley, along with the poor transportation network within the state, largely precludes an extensive linkage of the Ohio Valley of West Virginia with the interior of the state and the interior of Appalachia.

The underground bituminous coal industry, which provides the largest

industrial payroll of any industry in West Virginia, has the lowest forward and backward linkage of any industry in the state. Although the industrial payroll is high for the underground mining industry, it is not very likely to increase appreciably over time because of continued mechanization of the mines. The resurgence of mining activity in West Virginia since 1960 may cause mining employment to decline less rapidly than in the past, and pay scales will undoubtedly rise in the industry in the future. However, the rapid increase in total gross production will be much greater than increases in wage and salaries.

It is often argued that the mining industry siphons profits out of the state. However, gross saving (a residual item) for the underground mining industry in West Virginia would seem to show that even if the 10 per cent depletion allowance were added to savings, the gross savings ratio was not large for the underground mining industry, relative to some of the other state industries. It would appear that perhaps coal companies were not exporting profit out of the state in 1965 to the same extent as some other industries within the state. For instance, the absolute level of gross savings in the chemical industry is roughly three times as high as in coal mining (about $159 million), according to the 1965 input-output transactions table. It would seem likely that the chemical industry is repatriating profits from the state to a greater extent than the coal industry.

## IV

## Conclusion

WEST VIRGINIA'S MAJOR PROBLEMS center around attitudes, not resources. A rural frame of reference has prevented the generation of public investment necessary to bring public facilities in the state up to the standard evident in other parts of the U.S. Until recently, these same attitudes have prevented the institution of constitutional reforms that would facilitate a rational approach toward the budgeting and spending of state funds. However, recently the state budget-making power of the Board of Public Works was abolished, with the Governor now having the authority to prepare the state budget. Thus, attitudes have both directly and indirectly prevented the development of a growth "psychology" within the state. Furthermore, these same attitudes have worked against a vigorous program of interstate highway construction.

West Virginia's procrastination with regard to the interstate highway program has resulted in a large "Appalachian Gap" in the highway system. Until the interstate facilities are completed, the whole Appalachian region

Table 4

LINKAGES DEVELOPED FROM INPUT-OUTPUT TRANSACTION TABLES OF THE U.S., WEST VIRGINIA AND SELECTED STATES, FOR LEADING INDUSTRIES IN EACH GEOGRAPHIC AREA ARRAYED IN ORDER OF THEIR ECONOMIC IMPORTANCE TO EACH AREA*

| Rank | Area and industry | *Backward* Linkage | *Import* Linkage | *Forward* Linkage |
|---|---|---|---|---|
| | UNITED STATES[1] | — | — | — |
| 1 | Chemicals | 61.4 | 2.6 | 84.7 |
| 2 | Coal | 41.7 | 0.1 | 77.0 |
| 3 | Primary metal products | 64.4 | 3.7 | 96.1 |
| 4 | Glass | 44.5 | 2.1 | 91.2 |
| 5 | Transportation equipment | 64.4 | 1.6 | 40.2 |
| 6 | Stone and clay products | 51.7 | 1.2 | 95.4 |
| 7 | Agriculture | 58.1 | 2.0 | 83.4 |
| 8 | Fabricated metal products | 59.7 | 0.6 | 89.1 |
| 9 | Electrical machinery | 54.9 | 0.5 | 53.4 |
| 10 | Machinery, except electrical | 55.6 | 1.1 | 47.0 |
| | WEST VIRGINIA[2] | 9.1 | 15.0 | 9.1 |
| 1 | Chemicals | 24.4 | 37.1 | 16.5 |
| 2 | Coal | 9.9 | 34.9 | 33.9 |
| 3 | Primary metal products | 9.7 | 56.9 | 6.8 |
| 4 | Glass | 18.7 | 22.7 | 4.4 |
| 5 | Transportation equipment | 13.0 | 48.7 | 1.5 |
| 6 | Stone and clay products | 24.7 | 26.4 | 28.8 |
| 7 | Agriculture | 25.4 | 28.8 | 33.9 |
| 8 | Fabricated metal products | 16.0 | 42.9 | 29.3 |
| 9 | Electrical machinery | 31.6 | 25.1 | 3.4 |
| 10 | Machinery, except electrical | 15.6 | 44.0 | 6.1 |
| | WASHINGTON[3] | 11.3 | 9.3 | 11.3 |
| 1 | Aerospace | 5.2 | 42.8 | 1.3 |
| 2 | Lumber and wood products | 47.5 | 8.5 | 45.3 |
| 3 | Paper and allied products | 31.8 | 19.4 | 19.5 |
| 4 | Chemicals and petroleum products | 10.4 | 40.4 | 24.7 |
| 5 | Nonferrous metals | 13.5 | 50.8 | 7.6 |
| 6 | Canning, preserving and beverages | 47.3 | 12.3 | 4.1 |
| 7 | Meat and dairy products | 64.3 | 15.0 | 10.4 |
| 8 | Transportation, other than aerospace | 20.4 | 30.9 | 1.5 |
| 9 | Grain mills | 41.2 | 24.8 | 24.3 |
| 10 | Field and seed crops | 18.9 | 27.2 | 26.0 |
| | UTAH[4] | 21.4 | 16.6 | 21.4 |
| 1 | Agriculture | 54.2 | 3.9 | 66.3 |
| 2 | Food products | 65.8 | 15.0 | 32.1 |
| 3 | Nonferrous metals | 82.3 | 8.5 | 1.2 |
| 4 | Copper mining | 13.9 | 10.7 | 100.0 |
| 5 | Iron and steel | 58.4 | 13.9 | 43.4 |
| 6 | Petroleum products | 21.2 | 56.4 | 53.0 |
| 7 | Coal mining | 8.4 | 13.8 | 54.2 |

| | | | | |
|---|---|---|---|---|
| 8 | Mining, other than lead and zinc | 19.1 | 17.6 | 59.0 |
| 9 | Lead and zinc mining | 15.3 | 14.3 | 55.3 |
| 10 | Printing and publishing | 15.1 | 27.4 | 64.2 |
| | MISSISSIPPI[5] | 21.2 | | 21.2 |
| 1 | Cotton | 36.3 | — | 15.6 |
| 2 | Apparel | 54.8 | — | 0.2 |
| 3 | Mining | 22.8 | — | 35.6 |
| 4 | Logging, saw mills & planing mills | 56.2 | — | 67.6 |
| 5 | Meat packing | 83.1 | — | 1.7 |
| 6 | Forests and other agriculture products | 41.6 | — | 84.9 |
| 7 | Electrical machinery | 5.2 | — | 50.9 |
| 8 | Transportation equipment | 5.5 | — | 15.1 |
| 9 | Dairy farms | 8.3 | — | 62.3 |
| 10 | Poultry processing | 8.1 | — | 2.2 |
| | ST. LOUIS[6] | 15.1 | 19.9 | 15.1 |
| 1 | Food and kindred products | 16.0 | 54.0 | 35.2 |
| 2 | Products of petroleum and coal | 13.6 | 71.6 | 26.8 |
| 3 | Motor vehicles | 31.3 | 47.7 | 57.9 |
| 4 | Chemicals | 16.0 | 50.7 | 15.0 |
| 5 | Miscellaneous manufacturing | 32.3 | 24.5 | 60.5 |
| 6 | Transportation equipment, other than motor | 9.2 | 52.6 | 3.3 |
| 7 | Iron and steel | 22.0 | 32.8 | 37.1 |
| 8 | Machinery, except electrical | 26.6 | 33.1 | 51.4 |
| 9 | Fabricated metal products | 20.4 | 39.3 | 63.7 |
| 10 | Electrical machinery | 21.2 | 32.0 | 17.7 |

* Only the manufacturing sector was considered in this analysis. The array of industries shown for the U. S. are those industries which were important in West Virginia.

[1] National Economics Division Staff, "The Transaction Table of the 1958 Input-Output Study and Revised Direct and Total Requirements Data," *Survey of Current Business*, U. S. Department of Commerce, (September 1965), Table 1, pp. 33–39. No aggregate linkages were computed for the Nation because of the desperate size of the "economic" area involved.

[2] John H. Chapman, Jr. and Kenneth L. Shellhammer, *The Structure of the West Virginia Economy, 1965: A Preliminary Report*, Regional Research Institute, West Virginia University, (November 1967), Table 1.

[3] Charles M. Tiebout, "An Empirical Regional Input-Output Projection Model," an unpublished paper presented at the *Proceedings of the Southern Economic Association*, November 1967). The transaction table was based on 1965 data.

[4] Frederick T. Moore and James W. Peterson, "Regional Analysis: An Interindustry Model of Utah," *Review of Economics and Statistics*, 37 (November 1955), Table 1. The transactions table was based on 1947 data, and also partially utilized national coefficients. The national coefficients were taken from D. Evans and M. Hoffenberg, "The Interindustry Relations Study for 1947," *Review of Economics and Statistics*, 34 (May 1952).

[5] John G. D. Carden and F. B. Whittington, Jr., *Studies in the Economic Structure of the State of Mississippi*, Vol. 1, Mississippi Industrial and Technological Research Commission, Table 1.

[6] John C. Bollens, *Exploring the Metropolitan Community* (Berkeley: University of California Press, 1961), Appendix F, Table F1. The data were for 1955.

will suffer from a lack of intra-connectivity and will not furnish the transportation requirements necessary for a healthy industrial structure in the region. Until this situation is improved, the regional spread effects associated with national growth will be slow to develop in Appalachia.

If economic development is to come to West Virginia and Appalachia, it is likely to be the result of external economic and political forces. The governmental and fiscal structure of the state—committed as it is to its rural constituents—is not likely to be altered as a result of existing internal forces. But the interstate highway program constitutes a major political and, when completed, technological force that will have developmental consequences for the state. Just as the secular meaning of investment has been productivity increases, which have been directly related to changes in the composition of final demand and in processes of distribution, the introduction of a new transportation system involves changing patterns of industrial location factors for the regions making up the national economy.

However, the eventual completion of the interstate system will result in increasing private investment flows into West Virginia and in the establishment of new manufacturing branch plants in the state. Extensive investment flows in the coal industry are already taking place. But these are in no way tied to the highway system. The net effect of this new investment will force the adoption of higher levels of spending for government services in the state and hopefully an improvement in the quality of those services—insofar as a large proportion of state and local spending (education, utilities, and public facilities) is complementary to private investment, this must occur. The state will be forced to provide more services just as the state was forced to tax itself in 1967 and 1968 in order that funds could be obligated for the interstate system so West Virginia's apportionment would not lapse.

The most unfortunate aspect of West Virginia's development since 1960 has been the failure of the state authorities to act promptly on the highway program—a situation that was partially reflective of a generous period of grace: the two years that states have after initial apportionment to obligate their share of the interstate highway funds. This failure to move forward with the West Virginia highway program has played a strong part in propagating the industrial weakness not only of West Virginia but of the whole Appalachian region.

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