

# WEST VIRGINIA TAX "REFORM" FAILS TO CONFRONT ABSENTEE OWNERSHIP, POVERTY AND EXPLOITATION

**W**EST VIRGINIA is a "poor little rich state" in the heart of Appalachia whose people are far from free despite their state motto – *Montani Semper Liberi*, or Mountaineers Always Free.

- Poor*, because its poverty and unemployment rates are among the highest in the United States.
- Rich*, because it is endowed with a vast cornucopia of coal, timber, natural gas and other resources.
- Far from free*, because its gifts of nature have been the target of a long history of plunder that deprived the population of opportunities enjoyed by most Americans.

The exploitation of resources and people continues to this day under a chaotic tax system that favors absentee owners and keeps the state in an economic backwater.

A tax reform plan recently presented by the Governor's Commission on Fair Taxation failed to come to grips with these problems. Columnist Dan Radmacher of the state's leading newspaper, the *Charleston Gazette*, commented sarcastically, "Here's a big surprise: A tax reform proposal...that would benefit the wealthy while raising taxes on working families." Opponents of the plan insist that this land-rich state needs to tap revenue from its land and greatly reduce taxes that overburden wage earners, small businesses and consumers.

**T**HE ALLEGHENY range of Appalachia was a formidable barrier to settlement by early Virginia colonists. Eventually hunters, farmers and Revolutionary War veterans who had been paid off with land grants there penetrated the primeval forests and carved out pioneer homesteads. When Virginia led pro-slavery forces in the Civil War, these mountain folk (whose rugged landscape did not lend itself to a plantation-slave economy) broke away and formed the pro-Union state of West Virginia in 1863.

That war saw a big spurt in lumbering, mining, quarrying, and manufacturing of glass, clay products, iron and steel, which hastened the growth of cities. Yet some settlements remained so remote that, as late as the 1940s, scholars could research the pure forms of Elizabethan language and ballads that were still preserved there.

Despite petty feuds and arduous frontier conditions, a peaceable society prevailed among independent farmers and merchants with strong affection for family and place. Rapidly, however, much of the population became demoralized and dispossessed. Author Denise Giardina wrote: "The West Virginia I grew up and live in...has more in common with the Third World than it does with the other 49 states." What caused this tragedy?

Agents of American and British financial interests invaded, tricking settlers into signing away for pennies their timber, gas and coal rights. First lumber companies swept through, clearing whole counties of almost every tree an axe could reach, leaving desecration before moving on.

As hunger for coal-fired furnaces and steam locomotives grew, small coalmines were bought out by bigger ones which, in turn, were bought by huge out-of-state combines. Miners were housed in company-owned shanties and held in constant debt to company stores. Oppressive policies and unsafe mines spawned militant unions. For generations management and labour battled. By World War II,

however, strikes were often a screen for conspiracies by monopoly capital and monopoly labour to raise both hourly wages and per ton prices. This severely cut miners' working hours and hiked everyone's fuel prices.

Acid run-off from mines poisoned wells and streams. Smoldering slag piles polluted the air. Then came strip mining, a new environmental insult. This cheaper way of extraction involved cutting deep trenches that left ugly scars in the sides of mountains.

In the past year or so, companies, with Governor Cecil H. Underwood's approval, introduced a more disastrous technique – mountaintop removal. Up to 500 feet of mountaintops are sheered off with explosives and 20-storey-high shovels. Rock and mud are thrown "overboard," destroying forests, streams and homesteads below. Already some 80 square miles of pristine land have been turned into wasteland.

Absentee owners despoiled the political landscape as well. Many governors and key legislators in resource owners' pockets passed laws favourable to big coal, big gas and big timber. Tom Miller of the Huntington *Herald Dispatch* found that over half of the state's mineral rights, up to 90% in some counties, were held by absentees. He identified the most prominent nonresident conglomerates:

- Coal landlords – Continental Oil's Consolidated Coal subsidiary, Bethlehem Steel, and Pittston (through which large coal haulers, CSX and Norfolk & Western Railway, hold indirect title).
- Gas landlords – Cabot, Columbia Gas System, Eastern Gas and Fuel Associates.
- Timber landlords – Georgia-Pacific and Westvaco.

And yet, despite the economic minefields through which they must tiptoe, West Virginians have created cities and towns that boast colleges, theaters and festivals celebrating the arts, crafts, foods, and music of their rich ethnic heritage. They initiated the nation's conservation movement. Such things generate a civic pride that, if properly channeled, might overturn their state's Third World status.

**T**HE commission's major recommendations, slated to be considered at a late 1999 special legislative session, are a general excise tax of 6% designed to produce 36% of the state's revenue; a personal income tax to produce 23%; and a business tax to produce 11%.

The commission's first draft in 1998 urged the elimination of the state property tax. Critics protested that West Virginia already had one of the lowest property taxes in the nation. In its final draft, the commission not only restored this tax but called for increasing its yield from \$2.9 million to \$51.8 million a year. Credit for this goes to Lowell Harriss, economics professor emeritus, Columbia University; Ted Gwartzney, executive director, Robert Schalkenbach Foundation; William Batt, executive director of the Central Research Group, Inc.; Carl Shaw of Common Ground, and Dr. Arthur Rybeck, head of Mountaineers United for Sane Taxation! All testified in favor of taxing land values rather than labour and capital.

Some commission proposals have merit, such as:  
 Revamping the entire tax system (although the commission lost its way in saying how to achieve this).

Eliminating the personal property tax. This "tax on honesty" deserves burial. Inventory and equipment



**Walt Rybeck**  
reports from  
Washington





Lunar landscape: decapitated mountain in West Virginia

Photo: Lawrence Pierce, The Charleston Gazette

are easily hidden so only the most scrupulous pay what they owe.

- Taking property tax rates out of the state constitution and letting cities and counties set rates.
- Reducing special incentives to attract industry. West Virginia has been doling out costly tax favours, both above board and behind the counter, with little to show for it.

**W**EST VIRGINIA in some ways is an ideal candidate for genuine tax reform, as the effect of a land value tax on coal illustrates. Its inventory of coal is sufficient to serve world-wide needs for centuries. Yet vast quantities that could easily be mined currently (and less destructively) are held in cold storage. This is mainly due to low assessments and reliance on severance taxes.

A U.S. Supreme Court case is instructive. Allegheny Pittsburgh Coal complained that Webster County assessed a tract it had bought at \$30 million – its purchase price 10 years earlier – which was 35 times higher per acre than assessments on nearby coal properties. The county said it had been making upward adjustments on those other lands. Chief Justice Rehnquist wrote that at the rate it was doing so it “would have required more than 500 years to equalize assessments.” The court agreed that the company’s tax was not uniform or equitable.

Did West Virginia back up the county assessor’s reliance on market value (as the constitution prescribed) and correct under-valuations of “old” coal lands? No. It brought valuations of recently purchased coal holdings down to the ridiculously low levels of surrounding tracts! How low? Tax officials and coal companies do a good job of concealing figures, but in the 1980s it was found that the net value of West Virginia coal produced in one year exceeded the appraised value of all state coal holdings in the state.

The other coal tax, which the commission wants to retain, is a severance tax. It is imposed on the amount of coal extracted. If there is no production, there is no tax. Could anyone devise a greater incentive to hold coal in reserve?

When a production manager of Hanna Coal in neighbouring Ohio

asked his state to raise assessments on coal lands, we questioned his reasons for this most surprising action. Here is a condensation of his explanation:

Very low assessments mean it costs corporations virtually nothing to hold idle coal lands. Since the ‘black gold’ tends to keep rising in value, and since multi-faceted firms can live off other sources of profit, finance officers prefer to hold the coal in reserve for generations. But a production chief who wants to mine recognizes that higher property taxes would put pressure on a firm to extract more coal in order to pay the taxes. Then, increased production will lower the price of coal, making it more competitive with other fuels. More miners will have jobs. Society will benefit from lower energy costs. Communities in coal areas, instead of being impoverished, will have enough revenue to provide decent roads, schools and other public facilities and services. Everybody wins.

**T**oo few of his fellow coal executives share those keen insights. Reliance on land value taxation would similarly thwart speculative activity with respect to other resources and to surface land in rural and urban areas. It would enable West Virginia to reduce onerous taxes. The tax system itself would attract wholesome growth, replacing the present practice of almost bribing selected businesses to locate in the state. This would halt the outflow of workers and young people. It would give new life to cities and towns that are being sapped by urban sprawl.

To persuade West Virginia to take this route, the corps of land taxers in the state will publicize reform success stories, such as those of Alaska and Pennsylvania, as alternatives to approaches that have served the state so poorly. The task will not be easy. The powerful landholding interests have never been hesitant to spend whatever it takes to protect their license to exploit.

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