Collapse of West Virginia coal industry spurs growing inequality

By Naomi Spencer
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With coal tax revenue "in free fall," Governor Earl Ray Tomblin abruptly enacted $100 million in budget cuts by executive order October 5.

The cut, amounting to an across-the-board four percent reduction, adds to years of "belt-tightening" for state agencies. Some programs have been cut by 20 percent since 2011. In authorizing the cut, Tomblin, a Democrat, cited the precipitous decline in the coal industry.

The state has lost $1 million per day in revenue over the past month that would come in the form of coal "severance taxes." The severance tax is paid by companies that extract resources such as coal and natural gas, and state and county governments depend on the money to fund school districts, emergency services and other vital social programs.

From April to July, coal severance tax revenue plummeted by 31 percent, and by another 36 percent in the first two months of the new fiscal year. While the natural gas industry has expanded in the northern part of the state, low commodities prices have pushed gas prices down and, with them, gas severance tax revenue.

With the budget reduction as the occasion for an attack on social provision, West Virginia public employees—the lowest paid state workers in the country—are the first in the crosshairs. On October 15, the Public Employees Insurance Agency (PEIA) finance board announced cuts of $120 million in benefits for employees and retirees.

PEIA executive director Ted Cheatham said state workers and public school employees would face sharply higher deductibles and out-of-pocket expenses. "These are fairly draconian cuts to the plan that need to be made," he said. "We can't tweak $2 here or there to get where we need to be." Workers will see deductibles increase by $500 for individuals and $1,000 for family coverage, while co-pays for families will rise to a staggering $9,000 per year. "It's going to be very difficult for some people on this plan if they get sick," Cheatham commented.

Tomblin made an appearance on MetroNews' Talkline program October 6, where he warned that the reductions would not improve the state's revenue situation by next year, and that more cuts are on the horizon. "It [next year's budget] will be an austere budget," he said. "No one was able to see the sudden drop in the price of natural gas and not being able for the coal market to recover."

Tomblin's feigned shock over plummeting revenue falls flat. Since 2006, among other significant tax changes, the state's business franchise tax has been completely eliminated and the corporate net income tax has been greatly reduced. These changes were initiated under Democratic Governor Joe Manchin, now a US Senator, and touted as an economic stimulus. Manchin oversaw the creation of one of the largest "rainy day funds" in the country, almost entirely a product of refusing to adequately fund state social programs.

The West Virginia Center on Budget and Policy (WVCBP), in its "State of Working West Virginia 2014," estimated that the cuts cost the state $360 million in 2014 and $425 million in 2015.

Concurrently with corporate handouts, state funding for higher education has come under ruthless attack. In 2014, the state spent 21.6 percent less per college student than in 2008 (an $1,800 difference), according to the Center on Budget and Policy Priorities. The cuts have predictably translated into a 26.3 percent rise in average annual tuition at West Virginia public four-year schools since 2008.

As in America as a whole, behind the deepening social crisis is an attack on the working class, a process that can be seen in the widening inequality in the state. Since the official "recovery" period beginning in 2010, the vast majority of West Virginia job growth has been in the low-wage fast food and retail sectors. These jobs average $258 per week, or $13,416 a year—little more than the state's $12,000 annual unemployment compensation benefit for those out of work.

Wages declined for the bottom 80 percent of the population between 2010 and 2013, the WVCBP reported. Today, average income in the state stands at $36,600, and one in six residents lives in poverty. In fact, wages for the majority of West Virginia workers are little different in inflation-adjusted terms than they were in 1979.

Yet between 2010 and 2013, West Virginia ranked third highest among all 50 states for growth in gross domestic product. This growth has been fueled largely by the boom in natural gas extraction.

"One potential explanation for why West Virginia's economy has grown without adding many jobs is increasing worker productivity," explains the WVCBP. Economic output per worker increased by 5.8 percent from 2012 to 2013, but pay has declined and fewer are employed. In fact, since 1979, West Virginia worker productivity has soared by more than 50 percent.

Where have the gains gone? Between 1979 and 2011, *all* of the state's 3.9 percent average real income growth has gone to the richest one percent of West Virginians. This tiny sliver of the population saw a 71 percent growth in average real income.