Hard Choices

"...new industrial development in West Virginia is sometimes hindered by the very geography that gives the region its comparative advantage in mining. While some migration has occurred, people are understandably reluctant to leave their homes."

It is sometimes tempting, although dangerously misleading, to believe that economics offers an easy, ready-made solution to any question concerning the economic well-being of individuals and communities. Unfortunately, while economics can help us identify the trade-offs, some economic decisions, both personal and social, are simply hard to make. This issue's discussion of the West Virginia coal mining industry illustrates how economics can clarify issues but cannot always provide easy answers.

West Virginia is particularly well suited to the extraction of coal from the earth. An economist would say that the state has a comparative advantage in coal production. This doesn't mean that the state is ill suited for other productive activities. It means simply that the opportunity costs of devoting resources to coal mining are lower in West Virginia than in many other areas.

The experience of the coal industry during the last several decades is a case study in what can happen to a region when the industry in which it has a comparative advantage goes through a major transformation. Perhaps the most striking change in West Virginia has been the decline in the number of miners. Here, as in similar cases, people may point to increased mechanization of the production process as the cause. The substitution of capital for labor, however, provides at best a partial explanation for the decline. Increased capital inputs generally make labor more productive. Other things equal, this should draw workers *into* an industry and away from other industries where they were less productive. So something else must be going on.

There have been many other changes in the worldwide market for coal. These changes, on both the demand and the supply sides of the market, have combined to drive down coal prices. On the supply side, reductions in costs have allowed coal from other sources to compete more directly with West Virginia coal in East Coast markets. On the demand side, changes in the choices facing electric power producers have weakened coal demand somewhat. The falling price of coal seems to be a more likely culprit for declining employment in the coal industry than the general trend toward mechanization. While the increased productivity that mechanization brings is *one* factor contributing to falling prices, it is far from the only factor.

How can a region respond to the falling price of a product for which it has a comparative advantage? The resulting decline in employment in that industry creates a pool of unemployed labor resources. Reemployment of that pool can occur in one of two ways: the departure of workers through out-migration or the arrival of new employers through new industrial development. As the articles in this issue suggest, new industrial development in West Virginia is sometimes hindered by the very geography that gives the region its comparative advantage in mining. While some migration has occurred, people are understandably reluctant to leave their homes. Hence, workers and businesses in some rural communities face hard choices. Can we afford to take the challenging and costly steps necessary to attract new business? Can declining employment in the coal industry be stemmed by, for instance, easing restrictions on mountaintop mining?

These are difficult questions, and in many cases the answers are as much personal and political as economic. Economics can help, by clarifying the nature and the cause of the situation. It also can provide a way to assess the costs and benefits of some of the options for dealing with the problems. But in the end, there's no escaping the need to make hard choices.

Al Broaddus
President,
Federal Reserve Bank of Richmond