A Step Toward Fixing a County's Economy

By Herb E. Smith

There is nothing so fixed about the future that it can't be un-fixed.

-Myles Horton, The Highlander Center

Although Letcher County, Kentucky, has faced economic hardship for 60 years, there have been major changes in the economy of the county during that time. The number of coal mining jobs dropped dramatically during the 1950's and 60's. After a brief coal industry recovery in the 1970's, employment in mining dropped from 2,596 in 1977 to 981 in 1996. While we do not know how much longer the remaining coal mining and mining-related jobs will last, we know we must shift away from our reliance on coal mining. I propose a county foundation based on the successful models of community foundations with one important additional power: the power to force those who own the unmined coal to sell. If the proposed foundation were given the ability to buy Letcher County's unmined coal at the values set for property tax, then county would have money to fund the shift away from coal.

While I knew that most of the coal and other "mineral rights" in Letcher County were sold years ago, I didn't know when. So I walked over to the County Clerk's office and skimmed through the early deed books. There in deed book "I" was my great-great-grandfather's name. The deed says on July 7, 1887, John Ison sold the mineral rights to his 1,000 acre farm on Kingdom Come Creek for $500. That's 50¢ per acre for land that contains some of the most valuable seams of coal in America. If the land averaged 5,000 tons of coal per acre, a conservative estimate, then he received 1/100 of one cent per ton. Of course, $500 was more valuable in 1887 than it is today, but 1/100 of a penny per ton is a joke. But the joke is not funny and the deed doesn't stop at coal. It includes "all the coal, salt water, oil, minerals, and gas lying in, under and upon our farm."

Why did my grandfather's grandfather do that? What was he thinking? At the bottom of the deed there was an "X" and the words "his mark." Does that mean John Ison couldn't sign his name?

Harry Caudill's 1963 book, *Night Comes to the Cumberlands*, describes a scene where such deeds were signed:

> When the highland couple sat down at the kitchen table to sign the deed their guest had brought to them they were at an astounding disadvantage. On the one side of the rude table sat an astute trader, more often than not a graduate of a fine college and a man experienced in the larger business world. He was thoroughly aware of the implications of the transaction and the immense wealth which he was in the process of acquiring. Across the table on a puncheon bench sat a man and a woman out of a different age. Still remarkably close to the frontier of a century before, neither of them possessed more than the rudiments of an education ... Unable to read the instrument or able to read it only with much uncertainty, the sellers relied upon the agent for an explanation of its contents - contents which were to prove deadly to the welfare of generations of the mountaineers descendants.

I'm struck by the words - "... deadly to the welfare of generations ..." While we know that there are a large number of people here who are barely surviving, were those old deeds the reason for the persistent poverty? Caudill's words can be interpreted to mean that by selling the wealth of the region for a pittance, our ancestors destined us to a bad economy. I agree that the deeds were major mistakes, but think it isn't so simple. I will write about three other factors – the building of company towns throughout the coalfields; the lack of compensation for displaced workers when hundreds of thousands of the coal mining jobs were eliminated by a rolling series of new mining techniques and machines; and third, our own role in the economy of the region, including a kind of land reform/tax reform system.

This essay will focus on one coalfield county, mainly because it's the place I know best. The Appalachian Region is a large, diverse area with some common traits, but there's so much variation that it's hard to understand as a whole. Letcher County borders southwestern Virginia, and is near West Virginia, Tennessee, and North Carolina. I was born in the largest company town in the county, Jenkins, in 1952. For more than 40 years, I have been making films about the history and culture of the region.

Jenkins was designed and constructed by one of the largest coal companies in the United States, Consolidation Coal Company. In November, 1910, Consol acquired 100,000 acres of coal in the Jenkins area. Company officials studied maps of the Appalachian coalfields and it was their unanimous opinion that the Jenkins coalfield was the most valuable area of undeveloped coal in America. They built a complete town with one goal: to mine the highly prized seam of coal known as "Number 3 Elkhorn."

Neither John Ison nor his son Jasper worked in the coal mines. Jasper's son, my grandfather Marion Ison, worked in the mines for more than 30 years. Marion was in grade school in 1912 when the railroad was being constructed. He said when the railroad crew came by his school, the teacher stopped the lessons and allowed the students to go outside because none of the students had seen Black people.

Marion and I became close in the last years of his life, when my wife and I moved to an old log house on Kingdom Come Creek. He had a small "coal bank" where we dug the coal for heating our houses. We drilled holes into the coal with a breast auger and he loaded them with black powder and blasted the coal loose. He talked a lot about the "old-timers," the people of John's generation. He said they only used coal in their blacksmith shops, they preferred to heat with wood. When the railroad came, the whole place changed.

My mother, Marion's second child, was born in October 1929, 15 days before the stock market crashed. Marion and his wife, Sallie, raised their five children during the depth of the Great Depression. No running water, no electricity, no telephone, just living close to the land. Since they still had their own house, they were able to weather the Depression in better shape than the miners who lived in houses owned by the coal companies. In the late 1930's the economy of the coalfields began to improve as America's factories geared up for the war effort. During the fall and winter months, my grandfather would walk to Benham – one of the large company towns about 20 miles from his house – work in the coal mines during the week, then walk home for the weekends. In the spring and summer, he would stay home, plowing the land and raising food.

There were more than 30 company towns in Letcher County alone. The basic reality in a company town was that the company owned and controlled everything. They even had their own currency, called scrip, which could only be spent at the company store. Company towns were basically un-American, the opposite of the America envisioned by Jefferson. The towns were clearly not open to democratic discussion nor were the company officials open to any dissent. The miners were supposed to trust and obey. Company towns were designed and operated in the style of Stalin. Distant entities made all the decisions.

Now let's move to the next big step in this sequence. Conditions improved in mining towns during World War II, but shortly after the war the coalfields were back on the ropes. The "continuous miner," an electric-powered machine that ripped the coal from the seam, and a system of beltways that carried the coal out of the mines transformed underground coal mining. Thousands of underground mining jobs were eliminated. At the same time, large earth-moving machines were used to mine coal seams close to the surface. Surface mines destroyed the mountains and the streams, but required even less labor than the newly mechanized underground mines. The number of coal miners in the U.S. dropped from 507,333 in 1948 to 134,467 in 1968. More than 370,000 coal mining jobs disappeared in 20 years. What happened to all of those families? Most of my dad's family and all of my mom's brothers and sisters joined the stream of economic refugees who left the county. My dad worked in a Letcher county coal mine owned by Bethlehem Steel Corporation, one of the nation's largest steel producers, so we stayed.

My father's job turned out to be relatively stable, but most coal mining jobs were not. Census data shows our county lost more than 40% of its population between 1950 (39,522) and 1970 (23,165). My high school class was an example. Whitesburg High enrolled 300 freshmen for the 1965-66 school year. During the four years, several of my classmates dropped out; others moved away with their families. So by graduation day in May 1970, there were 185 graduates. By the end of June, I would estimate that 150 of those graduates had left the county, most with no hope of living in the coalfields again.

Were the mineral deeds, company towns, and mechanization the reasons for the wide-spread poverty that has existed in the Appalachian coalfields for 60 years? The massive unemployment could have been managed much better than it was. There were some efforts to feed the hungry, but Letcher County was a very stark place. Bad houses, bad roads, bad schools, bad healthcare presented a set of difficult problems. We should note that the poverty of Letcher County, and much of Appalachia, is not that of an isolated "poverty pocket." Poverty in mining towns was not a lack of modernization, but the result of the way that modernization occurred.

The history of disenfranchisement gives several solid reasons for the economic problems, but those reasons are not sufficient. That history leaves out the potential of mountain people to become players in shaping their economic destinies, our abilities to un-fix a few things.

In 1986, a statewide citizens group, KFTC (initially Kentucky Fair Tax Coalition, then Kentuckians For the Commonwealth) challenged the property taxes of the mineral holding – read coal leasing – companies. In Letcher County, we faced Kentucky River Coal Corporation. They had "fee simple" deeds to more than 20,000 acres, meaning they owned the surface and minerals. In addition, they claimed 40,000-50,000 acres of mineral rights where others owned the surface. We figured they were bringing in more than $10 million per year by leasing their Letcher County coal rights. Kentucky River Coal paid $22 in property tax on that coal. That is not a typo, 22 dollars.

The problem was two-fold. The big one was that the Kentucky General Assembly set the tax rate on unmined coal at 1/10 of one cent per hundred dollars of assessed value. The residents of Letcher County paid about $1 per $100, a thousand times the tax rate the coal companies were paying. The second problem was the assessment. The assessment was and to this day remains ridiculously low. While it is hard to value unmined coal, it is possible. Although KFTC with the help of the Southern Poverty Law Center won a court case that successfully did away with the crazy rate on unmined coal, the assessments are still being done in the state's Capitol by The Kentucky Department of Revenue, safely removed from the coalfields.

Letcher County deed books show that Kentucky River Coal Company is still buying land. They are buying land in order to receive the coal, oil, and natural gas royalties. For example in April 2008, they purchased 280 acres for $325,000 ($1,160 per acre). If we say there are 180,000 acres that have similar valuable minerals out of the 217,000 total acres in the county, then the value would be 180,000 times $1,160, for a total assessment of $208 million. In 1997, the total assessment for unmined minerals in Letcher County was $65.9 million. That's $142 million less that it should be by that method of calculating the value. Let me quickly say that the above assumptions have serious flaws. I only present these estimates to show the scale of the underassessment.

So, here's an idea for getting out of the endless arguments about those old deeds and fair assessments. We need a county-wide community foundation. The foundation could receive state and federal money and solicit private money. All of the income from the corpus would be used for community needs, like scholarships for high school graduates to go to college. If Kentucky's General Assembly were to force Kentucky River Coal and others who own Letcher County coal to sell their mineral rights to the community foundation at the assessed value, then we would either get better assessments or the rights to our coal.

One way for the proposed community foundation to build its corpus would be for it to request a Program Related Investment (PRI) from a private foundation. Foundations like the Ford Foundation use PRI's for just such situations, where strategically investing the assets can have an impact on a target area. The community foundation, as the new owner of the coal, oil, and natural gas, would receive royalties. The key is to purchase the undervalued mineral rights as soon as possible, while coal production in the county is in the 8-10 million tons range. By seizing the mineral rights while the production levels are high, we could use the royalty income to pay back the PRI and to help the county make the transition to the time when production levels fall. No one really knows that date, partly because there are a number of variables, partly because it is difficult to get accurate information about the mineral leases.

Why buy the mineral rights now, when there are demands to mine less and burn less coal? Because during the time the country is making a shift from fossil fuels, it will continue to need fossil fuels. The proposal is to use the income from remaining years of fossil fuels to finance the transition away from them. If the community foundation had a corpus of $100 million it could count on $5 million per year income. What if each graduating high school student was to receive a $10,000 scholarship? That would cost about $2.5 million per year. Maybe we could reverse the low education levels of our people. We have a huge amount of work to do if we are going to improve our economy. By buying the mineral rights and using the income for the people who live here, we say to each other, "We have the ability to undo some of those old mistakes and build a better economy."

My brother, his children, and grandchildren live on some of the land that John Ison owned along the waters of Kingdom Come Creek. The grandchildren will almost certainly see the day when the last train of coal leaves Letcher County. Maybe their school will stop the lessons and allow the students to see it leave. The strange economic bubble that coal mining created will have burst and they will have to leave the county or create new jobs. Creating jobs is a creative process. Those grandchildren will need all of the education they can get to invent a new economy. As Werner Sombart wrote in 1913:

> Again, however, *from destruction a new spirit of creation arises;* the scarcity of wood and the needs of everyday life... forced the discovery or invention of substitutes for wood, forced the use of coal for heating, forced the invention of coke for the production of iron.

The process of creative destruction will continue. Just as our family, like thousands of others were here before large scale coal mining, some of us will remain.