# Imposed Economic Diversity is Imposed Economic Death

Government "solutions" to West Virginia's ailing economy come in a lot of forms and have a range of detrimental effects. Increasing business taxes and expanding regulation drives businesses to reduce the scope of the activities. Providing PROMISE scholarships without fostering a healthier business climate encourages our high school students to acquire a college degree at the expense of the tax-paying West Virginia public—and then use this education to secure gainful employment elsewhere. The stories play like a broken record; what at the surface appear to be good intentions become swamped by the economic realities of unintended consequences, knowledge limitations and the political process. However, a new government "solution" to propel West Virginia forward has recently emerged among pro-economic stagnation groups with the state, and the idea deserves a closer look.

What is today's popular charge to the powers that be? "Diversify the economy." Build tourism. Expand the services sector. Support traditional industry. What does this have in common with the other "solutions" mentioned above? They all sound promising, yet they all will be harmful, not helpful, to the West Virginia economy.

Each diversity plan differs in details, but the overall concepts are generally similar. Funds are to be earmarked towards determining which industries will provide the "best" economic diversity, whatever that term may mean, and also towards emerging businesses in these identified economic areas. In addition, fostering a greater degree of communication between industry and public officials is usually considered vital. (Of course, in order to handle the increased scope of the state government in finding and supporting these ventures, the state government is to add staff—but what good economic development plan doesn't add sucklers to the public teat, right?)

The problem with identifying which industries will be important for the future is that nobody can aggregate the necessary information to consistently make these determinations accurately. Think about all of the factors that must comprise such a decision. One must know the future consumption preferences of every individual who will interact with the state economy, the future cost structures of each industry and business, the development of competing economies and their respective industries, interest and exchange rate fluctuations, inflation, political changes across the world…the aspects are effectively endless. No one person, nor group of people, can successfully plan and execute economic development in this fashion. It didn't work in the Soviet Union. It won't work in West Virginia.

Does the problem rest in electing officials that are not in tune with economic and industry specifics? By no means; even those seemingly in position to determine the exact path of an industry's trajectory can not do so with perfect foresight. A top official at IBM is well known for stating that he could not envision the need for more than a dozen computers. FedEx's business plan, developed by its founder while attending an Ivy League business school, received a failing grade due to its infeasibility—from a professor who, one would suspect, would be an expert in separating the good business plans from the bad. The issue, like all issues concerning the government's role in the economy, is not one of electing the right people; it is a structural problem with government itself.

Equally as important as recognizing the shortcomings of the public sector in planning the economy is the confusion concerning diversification from the plans' proponents. Diversification is a common in financial term; it's the process of spreading risk among many investments. But it is crucial not to mistake the difference in diversifying assets—stock, bonds and the like—with diversifying productive activities, as prescribed by the plans outlined above.

At the heart of a productive, trade-based economy is the idea of comparative advantage, or that goods should be supplied by economies in which their production has the lowest opportunity cost. While most economies generally have the ability to produce a wide range of goods, they should only produce those goods in which they have comparative advantage and trade for the rest.

Consider your own personal economy. We have the ability to do quite a wide range of activities; most of us could raise food and animals, if need be. In a pinch, we could fashion clothes for ourselves. We could educate our children. We could do home repairs or, even further, craft shelter from scratch. The list goes on. However, instead of producing for yourself every good and service you desire, you choose to specialize in just a few areas—most importantly, your job—and trade for everything else with the fruits of your production, your salary. We, as individuals, as a society and as an economy, are better off through specialization and trade.

Bringing the issue back to the state of West Virginia, our economy should not try to be all things to all people. We should, as a state, allow our economy through competition to develop the productive processes in which they hold a comparative advantage, not prevent specialization by encouraging "economic diversity."

In sum, our economy should not be centrally organized, yet even if it were to be, we would not want to design the type of economy that would be devoid of specialization. Do every West Virginian a favor and keep imposed diversity out of our economy.

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