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VIRGINIA BREEZES ALONG, BUT ARE THERE STORM CLOUDS ON THE HORIZON?

After climbing a great hill, one only finds that there are many more hills to climb. I have taken a moment here to rest, to steal a view of the glorious vista that surrounds me, to look back on the distance I have come. But I can only rest for a moment, for with freedom comes responsibilities, and I dare not linger, for my long walk is not ended. – Nelson Mandela

After a decade lagging behind the United States as a whole, with recovery from the Great Recession moving at a glacial pace, the Virginia economy appears to have finally found its groove.

Old Dominion University's fourth State of the Commonwealth Report, released Dec. 15, indicates that the Commonwealth economy has picked up its pace in 2018, growing as fast as the overall U.S. economy. The foundation is set for robust growth in 2019 although there are gathering storm clouds on the horizon.

"The good news is that the proverbial light at the end of the tunnel no longer seems to be a freight train," says the report, produced by the Dragas Center for Economic Analysis and Policy.

And it's not just an increase in federal spending, which has helped because it represents more than 30 percent of the Virginia economy. The ODU report suggested an improving job market, wage increases, tourism growth and a strong rebound in the housing sector are also responsible for Virginia's rebound.

The recent announcement of the Northern Virginia location of Amazon's HQ2 is also likely to improve future prospects for growth, although it may take several years for these effects to materialize.

The authors note that Virginia wisely crafted incentives to mitigate financial risk and that investments in infrastructure to support the new Amazon location will benefit Amazon and non-Amazon employees

alike. Investments in education and workforce development will also benefit employers throughout the Commonwealth and improve Virginia's reputation as a place to do business.

But in a refrain heard annually in this report, and in the companion State of the Region report for Hampton Roads, Virginia does need to be wary of economic cross-currents. Naturally a reduction in federal spending, particularly in the Department of Defense, would be a severe blow for Virginia.

In addition, as a Commonwealth, created more than two centuries ago with a mission of shared prosperity and sacrifice, Virginia is at risk of developing a severe case of the "haves" and "have nots," the report indicates.

Ten cities and counties – clustered in Northern Virginia, the capital of Richmond and the southeastern part of the state, comprised 48 percent of Virginia's population in 2017. At least 40 Virginia towns, cities and counties lost population between 2000 and 2017.

In fact, the geographic center of Virginia's population is marching northward on I-95 at a rate of about 20 miles per year. "If there is a lesson here, it is that population growth across Virginia has been very uneven in this decade. This, in turn, reflects the perceived presence or absence of economic opportunity," the report notes.

State of the Commonwealth Report authors are not suggesting the economic, cultural and racial diversity of Virginia be exchanged for uniformity. "The challenge is to craft efficient and effective policies that adapt to local conditions while promoting the welfare of the Commonwealth at large. Not an easy task."

Report authors suggest action to improve regional outcomes, including targeted investments in infrastructure necessary to promote economic development and attract new businesses. As well, improving the quality of education, including investments in physical infrastructure for crumbling schools, is necessary to produce a workforce that can compete in an increasingly globalized economy.

The authors add that Virginia's antiquated tax structure must be reformed to compete with neighboring states. "Regulatory relief, or at least regulatory clarity, is a necessary component of economic growth. Lastly, regional collaboration should not just be a slogan. Virginia should continue to promote regional collaborations through efforts like GO Virginia. These recommendations may not be new, but until Virginia acts, they bear repeating."

In addition to the annual economic snapshot the State of the Commonwealth Report annually includes topics that merit deeper examination. This year's State of the Commonwealth Report includes chapters on the Virginia expansion of Medicaid taking effect in 2019, an analysis of so-called alcohol "sin" taxes and an examination of the Kings Dominion Law, which mandates public schools in Virginia open after Labor Day weekend.

The full State of the Commonwealth Report is available at [ceapodu-2018SOC](#)

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The Dragas Center for Economic Analysis and Policy in the Strome College of Business at Old Dominion University undertakes a wide range of economic, demographic, transportation and defense-oriented studies. For eighteen years, the Center and its predecessors have produced the highly regarded State of the Region Report for Hampton Roads and economic forecasts for the region. If you would like more information about this topic, please contact Dr. Robert M. McNab at 757.683.3153 or email at rmcnab@odu.edu.