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Hampton Roads' strengths are also its weaknesses

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If there is a theme that stands out in this year's State of the Region report, it is the duality of dependency and vulnerability.

Hampton Roads is a region that depends on defense spending for about 45 percent of its economic activity. In the 10th annual report produced by a team of economics professors from Old Dominion University and the ODU Economic Forecasting Project, the region is portrayed as equally vulnerable to the slightest changes in national defense budgets.

Hampton Roads is a region that depends on its maritime-rich geography, including all the blessings that come with it, such as the commerce derived at its ports, the tourism and real estate drawn to its beaches, and the waters that allow it to be one of the most concentrated naval strongholds on the planet.

Those same geographic attributes, however, bring with them interconnected vulnerabilities that, if not managed and planned for properly, have the potential to overpower the positive.

"Our advantages are also our deficiencies," said James Koch, ODU's Board of Visitors Professor of Economics and the school's president emeritus, last week in an interview just prior to releasing this year's State of the Region. "We have to find ways to minimize the deficiency part of that."

Federal defense spending has been good to this region and it has continued to keep an umbrella of steady revenue and lower-than-average unemployment over Hampton Roads despite the national recession. The report predicts negative growth in the gross regional product in 2009 of -0.3 percent, a far cry from the past years of steady growth but not nearly as bad as other parts of the country are now experiencing.

There are now threats to that buffer, threats made more dangerous because of the region's dependency on defense-related commerce.

"Rather than diversifying our economy we've gone from defense spending being 28 percent of the economy 20 years ago to 45 percent now," Koch said. "We are increasingly vulnerable to changes in defense spending."

The threats include the potential loss of an aircraft carrier group, which translates to a potential $900 million negative economic impact, according to the report.

The changing face of warfare also threatens the region's economy. Increased reliance on "boots on the ground" over naval ships and naval aviation is a shift that may take defense dollars elsewhere, according to the report.

"If that's true then we're going to sell fewer cars and pizzas and everything else in this region," Koch said. "Defense spending has been very good for us now but it could come back to bite us in the future."

A naval town isn't a naval town without water.

And the geography that provides so many opportunities is vulnerable to the power of the tides and the increasing phenomenon of climate change. Warming of the planet will likely cause a rise in sea level. Think about the ocean and bay-front real estate that fuels the region someday being underwater. Research shows that could one day be a reality, according to the report.

"If the current trend continues we're going to see ocean levels rise 3.7 inches between now and 2100," around Hampton Roads, Koch said.

On top of those rising waters, Hampton Roads is also sinking, a little-known fact, Koch said.

"The thing people don't know about is that Hampton Roads has been sinking for quite a few years," he said. "Just in this previous century the area sank on average more than 8 inches."

If rising sea level and land sinking continue simultaneously, "roughly everything east of Route 17 would be covered up with water unless we build dikes or levies," Koch said.

Granted, such a scenario is far in the future. But Koch emphasized its importance. "This is maybe the issue of the 21st century for this region. I'm not denigrating transportation at all, but if you're covered up with water or if the tunnels fill with water it doesn't make any difference how many lanes you have."

And that leads to the ever-present nail in the region's tire – transportation.

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The region's unique geography forces it to be reliant on bridges and tunnels to move its people and products, a transportation infrastructure that brings with it traffic issues that trickle all the way back through the region's economic chain.

Asked if there is a way to quantify congestion, Koch the economist gladly obliged.

Putting a dollar amount on sitting in traffic can be done, Koch said, by taking the region's per capita hourly income, about $20 an hour, and multiplying it by all the time people stand still in a jam. That doesn't take into account other variables such as additional gasoline costs and pollution.

The region's peak congestion index, according to the report, shows it takes 32 percent longer to get from one place to another during peak hours.

"Apply that 32 percent to everybody on the road and multiply that by $20 an hour," Koch said.

Solving our dependency problems also hinges on solving our traffic problems, Koch said.

One of the ways to move away from defense dependency is to attract new business to the region with the lure of various assets.

"We're kidding ourselves in the long-term if we think firms are going to locate here if they can't move their product in and out of the region," Koch said.

The region's best hope for combating that dependency, ironically, is the area's defense-related competencies that can be utilized in other areas.

"We have to find ways to get spinoffs from those," Koch said.

For instance, the rising economic engine of the modeling and simulation industry is a spinoff of technological capabilities that were largely developed for the defense realm.

"Here's something that no other region, save one or two, can replicate," Koch said.

Other examples of such attributes include technologies developed at local universities and federal labs such as Jefferson Lab and NASA Langley.

"Those are distinctive advantages," Koch said. "We don't try to reinvent the wheel."

Improving commerce derived from the port is also a distinctive asset of the region, one that also relies on transportation infrastructure.

Rail will likely play a big role in solving such traffic issues, including passenger and cargo rail.

"We have to make it easier for people to move product in and out of the port," he said.

He suggested new types of relationships might have to be built with rail companies, such as Norfolk Southern.

"In some ways their prosperity is tied to the prosperity of the region," he said.

The Peninsula and Southside, separated by water and other issues, would have to come to some sort of agreement how best to utilize a true rail system. Koch suggests a line down Route 460 as the best option.

"Right now that's a less expensive way to go."

Koch hinted that one of next year's State of the Region sections will likely include a cost/benefit analysis of light rail, comparing what the region has planned to existing systems in other areas of the country.

The State of the Region report, among many other topics, also looked at the local hotel industry (See Page 10), which is being injured by the slowdown in tourism; the "Silver Tsunami," which analyzes data on local senior care in the face of an aging population; gas prices and carbon emissions; and the state of the Chrysler Museum.