

Do We Suffer From Brain Drain In Hampton Roads?



DO WE SUFFER FROM BRAIN DRAIN IN HAMPTON ROADS?

Brain drain, also known as human capital flight, can occur on several levels.
– investopedia.com

The term “brain drain” was first used to describe the loss of English scientists and other experts who moved from the United Kingdom to the United States and Canada more than 50 years ago. When most Americans think of brain drain, they usually focus on international migrants coming from other countries to the U.S. The United States has been a magnet destination for skilled workers from around the world and a significant portion of our economic growth is owed to talented international migrants who, among other things, are much more likely to start a new company than Americans who grew up here.¹

But brain drain also takes place within countries and even within states. Do we suffer from a brain drain of talented people who leave our region for what they perceive to be better prospects? Last year’s State of the Region report noted a conundrum related to this question. On one hand, Hampton Roads has been laggard in terms of job creation, which would spur people to leave. On the other hand, the unemployment rate has continued to decline in our region, and this would seem to indicate a tightening labor market and attractive job prospects.

Let’s sort out what has been going on. Graph 1 reveals that Hampton Roads has yet to regain all the jobs we lost during the Great Recession; at the end of 2016, we remained 0.5 percent below our prerecession high in 2007. Meanwhile, metropolitan regions such as Charlotte grew 12.4 percent and Raleigh 15.2 percent. In the realm of employment, the U.S. Bureau of Labor Statistics tells us that the April 2017 unemployment rate in our region was only 4 percent, down from 4.3 percent in April 2016, and well below the 8.1 percent peak rate we experienced in January 2010 during the Great Recession (see Graph 2).

How is it possible to have our regional rate of unemployment fall six years in a row even though the total number of jobs in our region has declined slightly? There are two primary reasons.

First, to be counted in the labor force, one either must have a job, or be actively seeking a job. Unfortunately, labor force participation rates have been declining for men ages 26-64 for decades. Graph 3 demonstrates that for whatever set of reasons, large proportions of men of conventional working age no longer can be counted as being in the labor force. Since 1945, the labor force participation rate of men ages 25-64 has fallen more than 11 percent, and fell approximately 4 percent in the past decade.²

The declining labor force participation of men has been partially, but not completely compensated for by the increasing labor force participation of women. Further, since the turn of the century, the labor force participation rates of more mature individuals, those 65 and older, has increased noticeably.

The second reason why we have experienced declining unemployment rates even while we have not been creating many new jobs is that we have experienced net out-migration of individuals from our region. We will provide evidence in this regard in the next section. We should note, however, that there is a bit of recent evidence suggesting that this trend might be reversing. Regardless, the combination of declining employment to population ratios and out-migration turned out to be an economically draining combination over the past decade.

¹ Sari Pekkala Kerr and Stephen R. Kerr, “Immigrants Play a Disproportionate Role in American Entrepreneurship,” *Harvard Business Review* (Oct. 3, 2016).

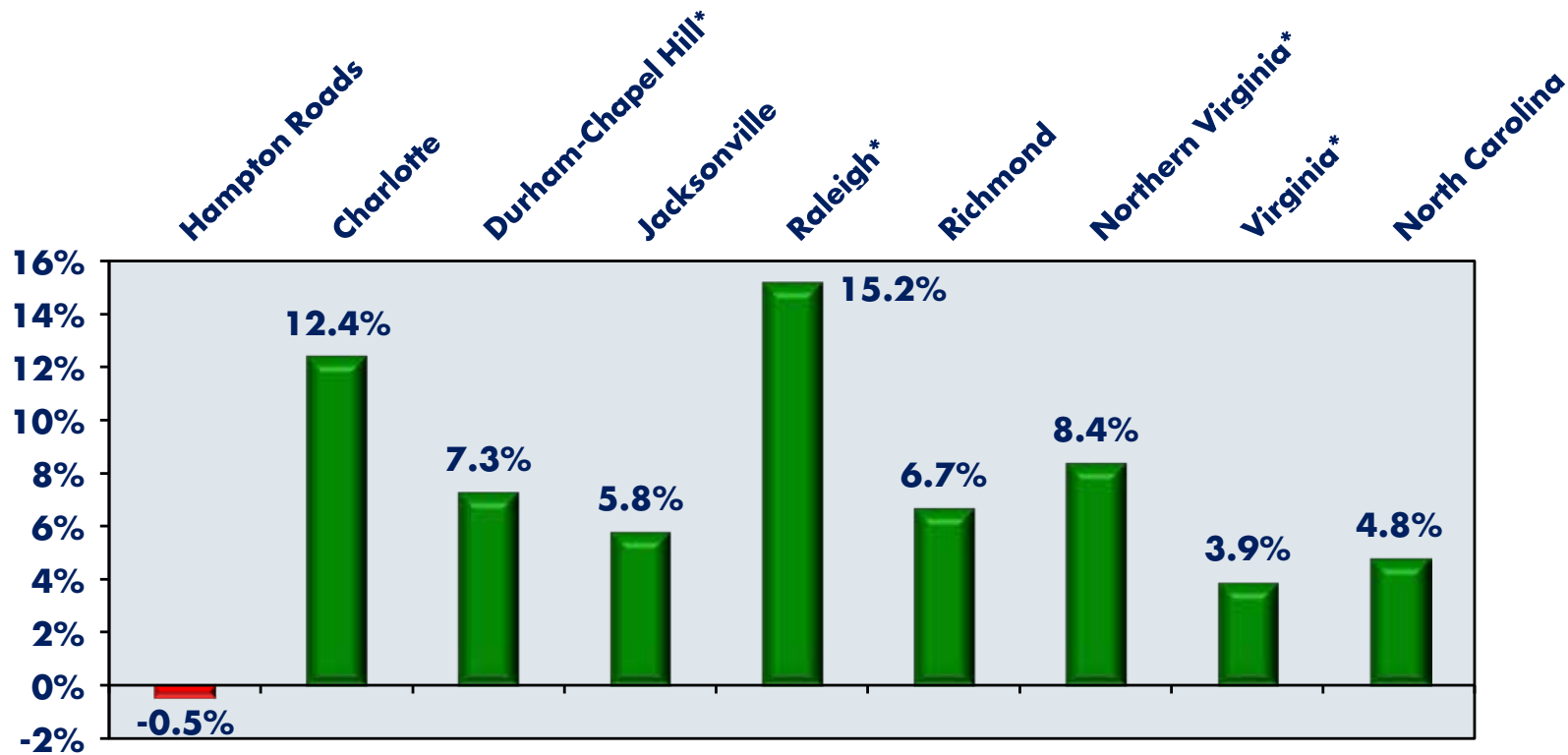
² The Bureau of Labor Statistics does not publish labor force participation rates for regions such as Hampton Roads.



Complicating our region's stagnant growth scenario are the complaints of some employers that they cannot find the workers they wish to hire. This is evidence of "structural unemployment" – round pegs (workers) that don't fit into square holes (jobs available) because the available workers are not qualified to fill the jobs that are open. Apparent occupational examples include welders, machinists and certain health care practitioners, such as occupational therapists.

GRAPH 1

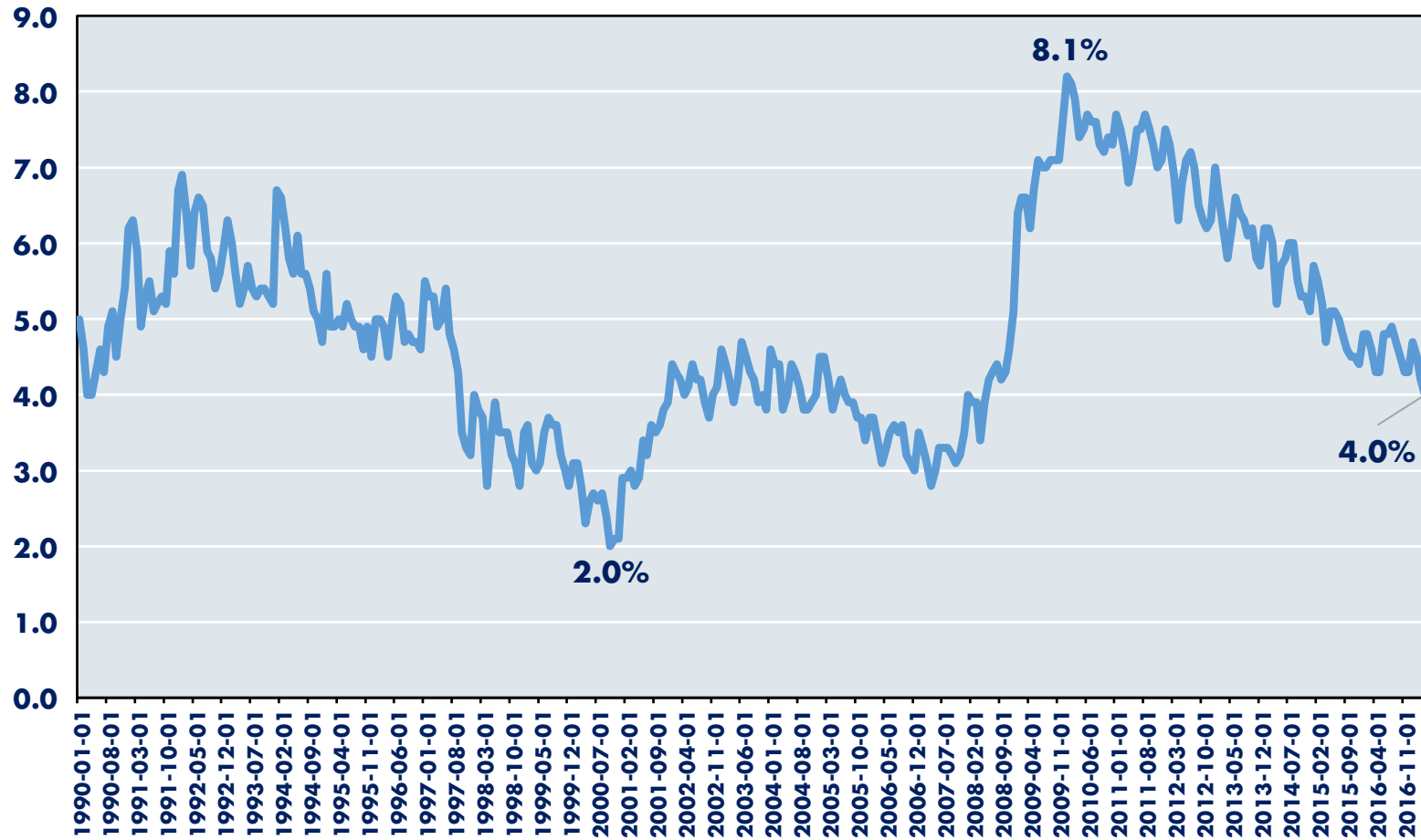
PERCENT NET NEW CIVILIAN JOBS GAINED/LOST IN SELECTED MSAs, VIRGINIA, NORTH CAROLINA, FROM 2007/2008 – 2016



Sources: U.S. Department of Labor CES seasonally unadjusted data and the Old Dominion University Economic Forecasting Project. *Note that peak employment in Raleigh, Durham, Northern Virginia and Virginia occurred in 2008. Change for these areas is shown for 2008 through 2016.

GRAPH 2

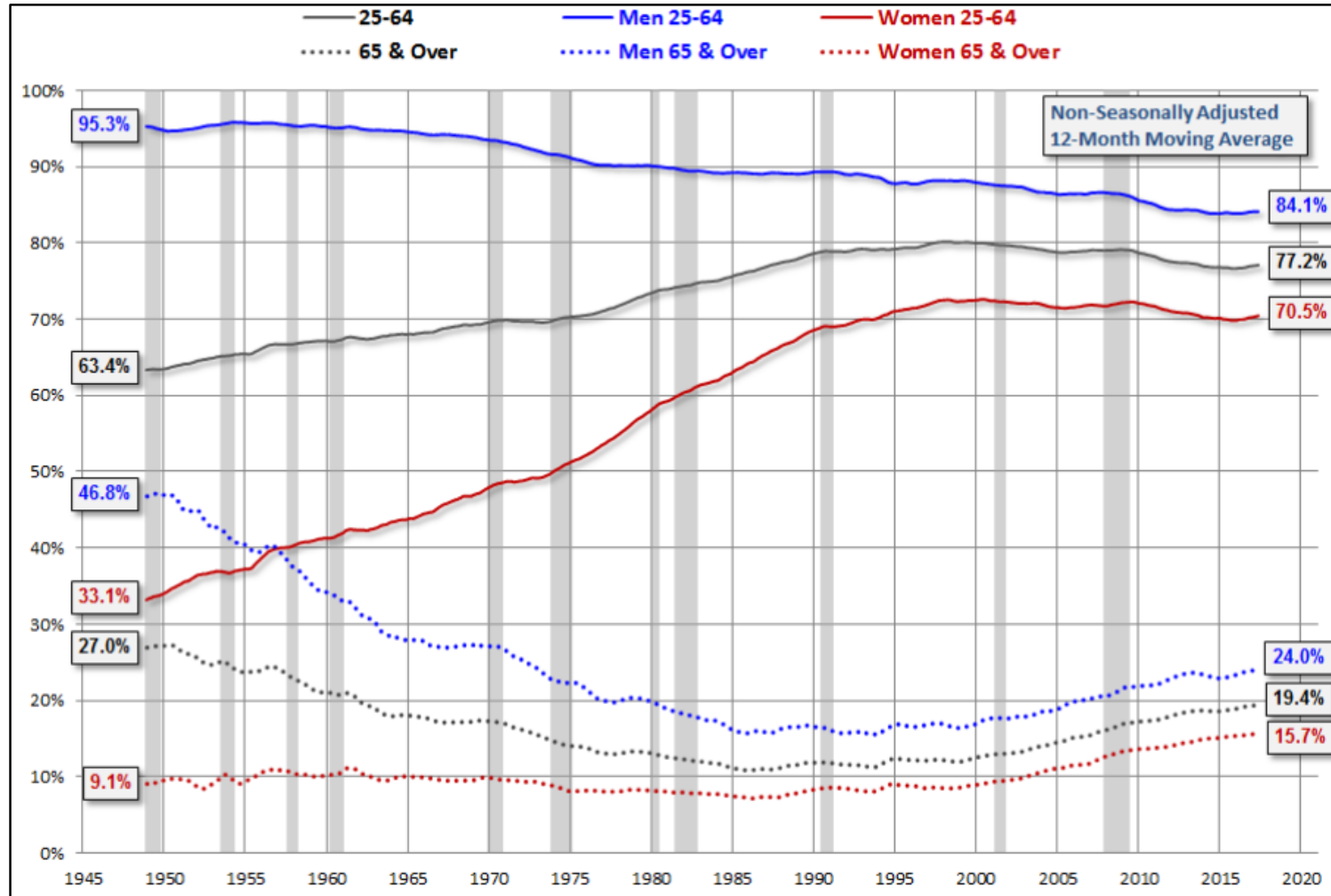
UNEMPLOYMENT RATE IN HAMPTON ROADS, JANUARY 1990-APRIL 2017



Source: FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/VIRG251URN>

GRAPH 3

CIVILIAN LABOR FORCE PARTICIPATION RATES BY AGE AND GENDER: UNITED STATES, 1945-2017



Source: Advisor Perspectives, www.dshort.com (June 13, 2017)

Out-Migration From Hampton Roads

Out-migration from Hampton Roads? People leaving? How can this be when the population of our region has been rising – from 1,676,624 in 2010 to 1,725,777 in 2015?³ The answer is that we have had more births than deaths and this has caused our overall population to increase, even while more people have been leaving the region than arriving here.

As Graph 4 indicates, between 2010 and 2016, there was a net flow of 41,540 domestic individuals out of Hampton Roads. Indeed, Forbes magazine recently ranked Hampton Roads ninth among the 10 metropolitan areas with the largest domestic migrant outflows between 2010 and 2014.⁴

A raft of empirical studies informs us that working-age individuals (and their families) are the primary people who have left our area. Easily the major reason they do so is that they perceive job prospects elsewhere are superior to those in Hampton Roads (see, for example, James V. Koch, “Why Do People Move from One Metropolitan Area to Another?” in R.J. Cebula et al., eds., “Economic Behavior, Economic Freedom and Entrepreneurship,” Edward Elgar, 2015).

To what destinations have Hampton Roads migrants headed? Table 1 discloses that between 2010 and 2014, the Richmond metropolitan area accounted for the largest net outflow of people from Hampton Roads, followed by the Blacksburg metropolitan area centered around Virginia Tech and then the Atlanta metropolitan region. Note, however, that more than 12,000 people left Hampton Roads for nonmetropolitan areas, including energy-rich rural sites in North Dakota, Texas and Montana.

Table 2 reverses the analysis and records the metropolitan regions with which Hampton Roads had the largest net positive inflows. These locations are dominated by blue states with declining industrial bases (for example, the

New York City metropolitan area) and those that have encountered declining defense expenditures and exhibit high living costs (San Diego and Honolulu).

Taking an overall view, however, it remains true that the net flow of migrants in and out of Hampton Roads has been negative.

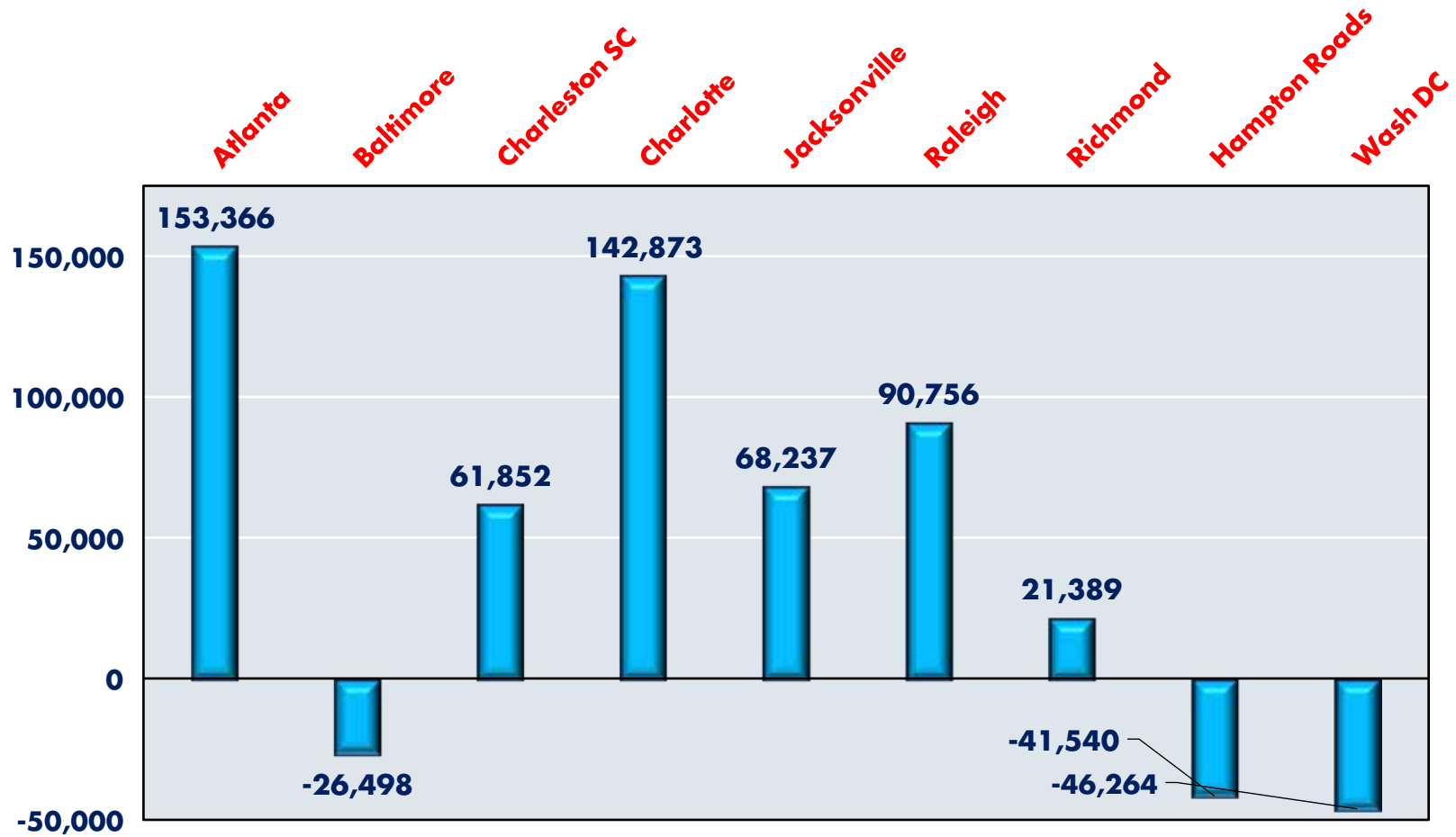


³ Hampton Roads Planning District Commission, www.hrpdcva.gov/news/article/february/09/2016/2015-population-estimates-show-increase-in-hampton-roads-population.

⁴ www.forbes.com/pictures/56129f0fe4b0ffa7afe573fb/no-9-virginia-beach-norfo/#6bbb3c72121c.

GRAPH 4

2010-2016 DOMESTIC MIGRATION: HAMPTON ROADS AND OTHER METROPOLITAN REGIONS



Source: Estimates of the Components of Resident Population Change: April 1, 2010, to July 1, 2016, U.S. Census Bureau, Population Division (March 2017)

TABLE 1

VIRGINIA BEACH/NORFOLK MSA: TOP 20 MSA MIGRATION LOSSES, 2010-2014

MSA	Residents to VB/ NORFOLK MSA	Residents Out of VB/ NORFOLK MSA	Net Migration
Richmond, VA Metro Area	5,481	7,202	-1,721
Blacksburg-Christiansburg-Radford, VA Metro Area	490	1,570	-1,080
Atlanta-Sandy Springs-Roswell, GA Metro Area	1,108	1,788	-680
Outside of a MSA within U.S. or Puerto Rico	12,133	12,662	-529
Jacksonville, FL Metro Area	1,713	2,142	-429
Boston-Cambridge-Newton, MA-NH Metro Area	389	813	-424
Lynchburg, VA Metro Area	694	1,118	-424
Charlotte-Concord-Gastonia, NC-SC Metro Area	736	1,124	-388
San Juan-Carolina-Caguas, PR Metro Area	139	466	-327
Houston-The Woodlands-Sugar Land, TX Metro	373	697	-324
Greenville-Anderson-Mauldin, SC Metro Area	44	367	-323
Denver-Aurora-Lakewood, CO Metro Area	236	558	-322
Greensboro-High Point, NC Metro Area	36	350	-314
Harrisonburg, VA Metro Area	607	920	-313
Orlando-Kissimmee-Sanford, FL Metro Area	583	889	-306
California-Lexington Park, MD Metro Area	74	358	-284
Kansas City, MO-KS Metro Area	136	386	-250
Greenville, NC Metro Area	215	464	-249
Montgomery, AL Metro Area	127	365	-238
Little Rock-North Little Rock-Conway, AR	44	278	-234

Source: 2010-2014 American Community Survey, www.census.gov/data/tables/2014/demo/geographic-mobility/metro-to-metro-migration.html

TABLE 2

VIRGINIA BEACH/NORFOLK MSA: TOP 20 MSA MIGRATION GAINS, 2010-2014

MSA	Residents Moving from NORFOLK/VB MSA	Residents Moving to NORFOLK/VB MSA	Net Migration
Charleston-North Charleston, SC Metro Area	593	+1,686	-1,093
New York-Newark-Jersey City, NY-NJ-PA Metro Area	2,378	+3,318	-940
Anchorage, AK Metro Area	56	+952	-896
Urban Honolulu, HI Metro Area	773	+1,539	-766
Pensacola-Ferry Pass-Brent, FL Metro Area	494	+965	-471
Pittsburgh, PA Metro Area	282	+729	-447
San Diego-Carlsbad, CA Metro Area	1,519	+1,930	-411
Riverside-San Bernardino-Ontario, CA Metro Area	327	+733	-406
Chicago-Naperville-Elgin, IL-IN-WI Metro Area	1,727	+2,089	-362
Toledo, OH Metro Area	10	+362	-352
Norwich-New London, CT Metro Area	363	+708	-345
Corpus Christi, TX Metro Area	78	+396	-318
Worcester, MA-CT Metro Area	47	+345	-298
Gulfport-Biloxi-Pascagoula, MS Metro Area	154	+437	-283
Daphne-Fairhope-Foley, AL Metro Area	6	+275	-269
Detroit-Warren-Dearborn, MI Metro Area	312	+572	-260
Tampa-St. Petersburg-Clearwater, FL Metro Area	714	+961	-247
Dallas-Fort Worth-Arlington, TX Metro Area	438	+683	-245
Watertown-Fort Drum, NY Metro Area	50	+295	-245
Salisbury, MD-DE Metro Area	73	+301	-228

Source: 2010-2014 American Community Survey, www.census.gov/data/tables/2014/demo/geographic-mobility/metro-to-metro-migration.html

Our Region's Working-Age Population

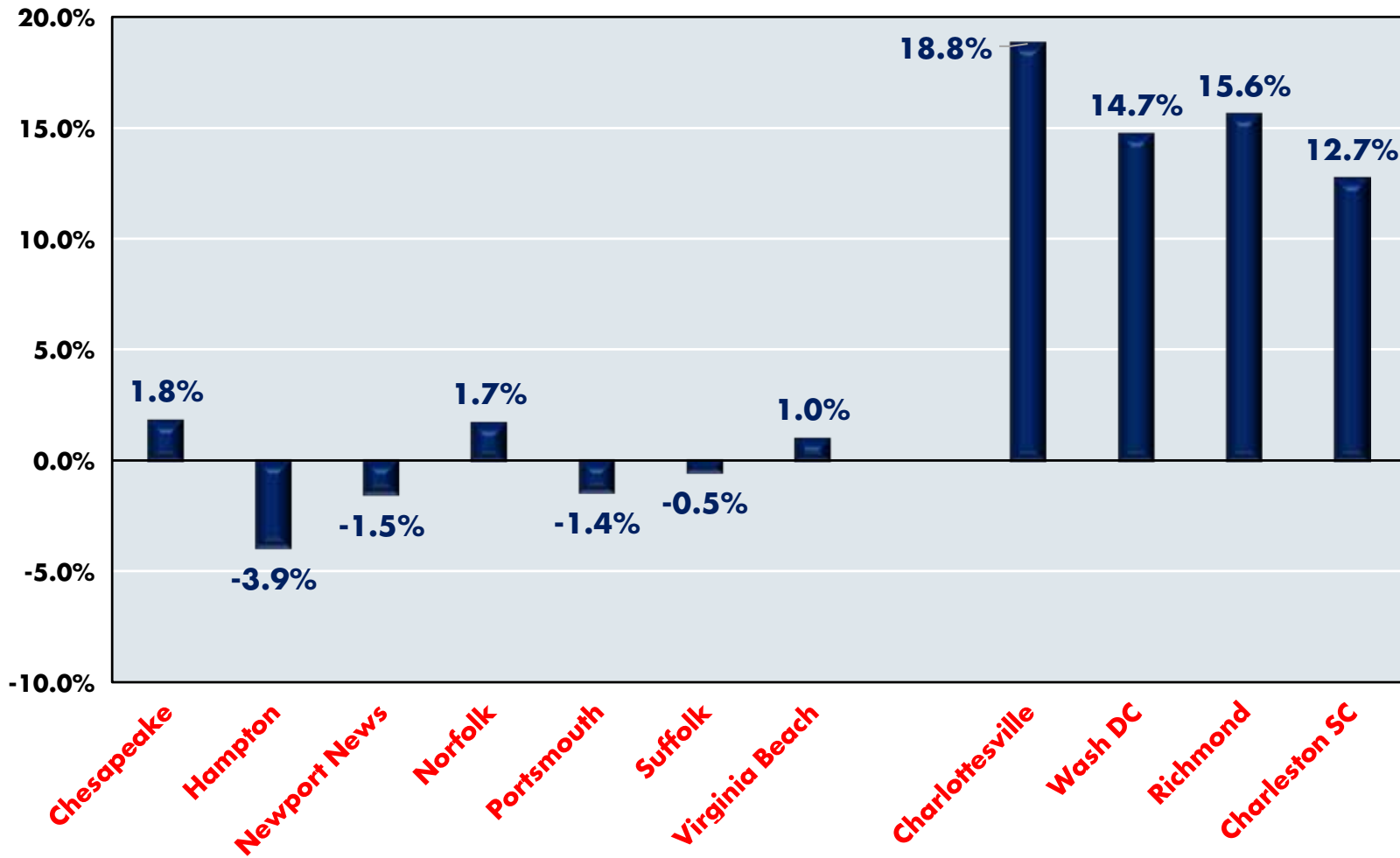
An alternate way to examine the population dynamics associated with a potential outflow of residents from our region is to focus on the number of individuals of prime working age (25-54) who live in Hampton Roads. The presumption is that if this population clearly is growing, then we do not have a brain drain problem. On the other hand, if this population is declining, it signals a probable brain drain.

One can see in Graph 5 that the working-age populations of the seven largest cities in Hampton Roads essentially remained static in size between 2010 and 2015, even while other regions were doing much better. While by themselves these data do not confirm brain drain, one is forced to say that this is an unimpressive, problematic performance that suggests some individuals may be leaving our region for superior prospects elsewhere.



GRAPH 5

PERCENT CHANGE IN POPULATION AGES 25-54: SELECTED CITIES, 2010-2015



Source: U.S. Census Bureau

Thinking About Domestic Migratory Flows Of People

Considerable research has been devoted to understanding domestic migration patterns and why households move. A Pew Research study informs us that in 2010, 37 percent of Americans had never lived outside their hometown, and 57 percent had never lived outside their home state (excluding time spent in the military or college).⁵ Those who stay cite the importance of family and connections, and those who move highlight economic opportunities.

According to the U.S. Census' "Current Population Survey," two-thirds of long-distance moves made between 2014 and 2015 occurred because of jobs and/or more affordable housing. Family reasons, such as getting married, accounted for most of the remainder of the moves.

One might conclude that net migration is a strong indicator of the economic health of a region. However, whether a region or state is "sticky" and retains a high percentage of those born there is not a clear indicator of economic prosperity. Indeed, the relative absence of migration can be a sign of stagnation. For many years the state of Mississippi featured little movement in or out and this was indicative of very slow economic growth and the lowest per capita income in the country. Simply put, too little of economic consequence was going on in Mississippi to attract outsiders. Those already living there did not possess either the education or assets to change this situation. The lesson is that even if migratory flows are positive, if they are small, this probably is not a good economic sign.

Thus, net positive migration is not a clear indicator of economic prosperity. Innovative, growing regional and state economies exhibit flows of people in and out of those jurisdictions. If there is a point to be made about migration flows, then it is that the outward flows should not be greater than the inward flows for an extended period. Continued annual migration deficits such as those experienced by Hampton Roads are problematic because they tell us that we are not generating sufficient jobs to retain enough individuals.

⁵ American Mobility Who Moves? Who Stays Put? Where's Home? Pew Research Center www.pewsocialtrends.org/files/2010/10/Movers-and-Stayers.pdf.

Hampton Roads emerged a loser in terms of domestic migration between 2010 and 2016. However, this is not a new pattern. There has been net domestic out-migration from Hampton Roads every year since 2005, and Gloucester County, Hampton, Newport News, Norfolk, Virginia Beach and York County all have experienced net domestic out-migration losses for a half-decade or more. This is despite the fact that the region's unemployment rate typically has been below that of the United States.

The consensus is that regions able to retain their young people and attract those from other regions have the brightest economic prospects. Young adults start new businesses and purchase homes, automobiles and numerous other goods and services. They usually are among the most mobile in society.⁶ Alas, we do not have detailed data describing the migration of specific age groups in and out of Hampton Roads. Nonetheless, since our overall migration rate is negative and young adults are the most mobile, it is reasonable to assume that we have experienced net out-migration among young adults.

Nevertheless, some recent data produced by the Urban Land Institute (ULI) might mean that Hampton Roads has turned the corner in terms of its ability to attract and retain young adults. Based in some fashion on ULI's data, Time magazine ranked our region (which it referred to as "Virginia Beach") first in the nation in terms of the percentage increase in its population of 25- to 34-year-old residents between 2010 and 2015.⁷ If true, then this is great news.

There are several reasons to be cautious about these data, however. First, the Time analysis hopped back and forth in its discussion about "cities" and "regions." The ULI data appear to refer to regions, but the Time description of these data referred to cities. Second, a month earlier, Time published a similar article by the same author on the same topic that reported very different data.⁸ Further, in the earlier article, the author referred to "suburbs" rather than cities or regions, and the entity he referred to as Virginia Beach was ranked fourth.

A third caveat is that Time's analysis directly assumes that an increase in the percentage of people ages 25 to 34 means that individuals in that age range

⁶ Megan Benetsky, Charlynn Burd and Melanie Rapino, *Young Adult Migration: 2007-2009 to 2010-2012*. American Community Survey. United States Census, March 2015.

⁷ These data are described in David Johnson, "The 25 Cities Where Millennials Are Moving," *Time* (June 2, 2017), <http://time.com/4797956/cities-millennials-moving>.

⁸ David Johnson, "The 25 Suburbs Where Millennials Are Moving," *Time* (May 3, 2017), <http://time.com/4748763/suburbs-millennials-moving-cities>.

have been moving into the area in question. If true, then such an increase could have occurred for a variety of reasons, including declining numbers of individuals in other age groups.

A fourth reason for caution is that one of the most significant drivers of positive net migration into metropolitan regions in recent years has been international migration. The Miami metropolitan area, for example, registered a 28.1 migration rate per 1,000 residents between 2010 and 2013, with many of these individuals coming from Latin America. Since we have observed a much more modest increase in international migration into our region (a 10.1 rate), and our domestic migration rate has been negative, it would not be easy to explain how Hampton Roads could have experienced the increase in 25- to 34-year-olds reported by Time.⁹

Finally, the Time data are discordant with the 2010 to 2015 data already presented in Graph 4. If both sources are correct, then a stupendous reversal in our regional migration patterns must have occurred in 2014 and 2015.

The Influence Of Income, Education And Amenities

The migration of people from one site to another is a complex phenomenon that usually is influenced by many different factors, not all of which are economic. Three of the most important determinants are differentials in income that can be earned, highest level of completed education and amenities (quality of life). We will examine each.

INCOME DIFFERENTIALS

Income differentials may not be the only factor that individuals consider when deciding where to live and work, but they are very important. Hence, we should pay attention to the Bureau of Labor Statistics, which in May 2015

⁹ In the area's largest city, Virginia Beach, international migration between 2010 and 2013 was +5,703, while net domestic migration was -6,248, meaning overall net migration was -545. www.governing.com/news/headlines/international-migration-immigration-driving-population-growth-for-metro-areas.html. Once again, it is difficult to see how this could translate into a dramatic increase in 25- to 34-year-old individuals between 2010 and 2015.

reported that the average hourly wage of an American worker was \$23.86, but only \$22.34 in Hampton Roads – 6.4 percent lower. The reported wage gaps between the nation and our region were especially large in legal occupations (-27 percent); the arts, media and entertainment (-17 percent); and construction (-12 percent). Wages in Hampton Roads trailed national wages in 20 of 22 major occupational categories delineated by the Bureau of Labor Statistics.¹⁰

Thus, if one's desire is to get rich, our region currently appears to offer mediocre prospects to the average person. Graph 6 compares the average hourly wage rate paid employees in a selection of mid-Atlantic and Southern metropolitan areas; Hampton Roads finishes eighth among the 10 areas being compared. Even when we adjust these hourly wage rates for differences in regional living costs (which Graph 7 does), Hampton Roads again finishes eighth.

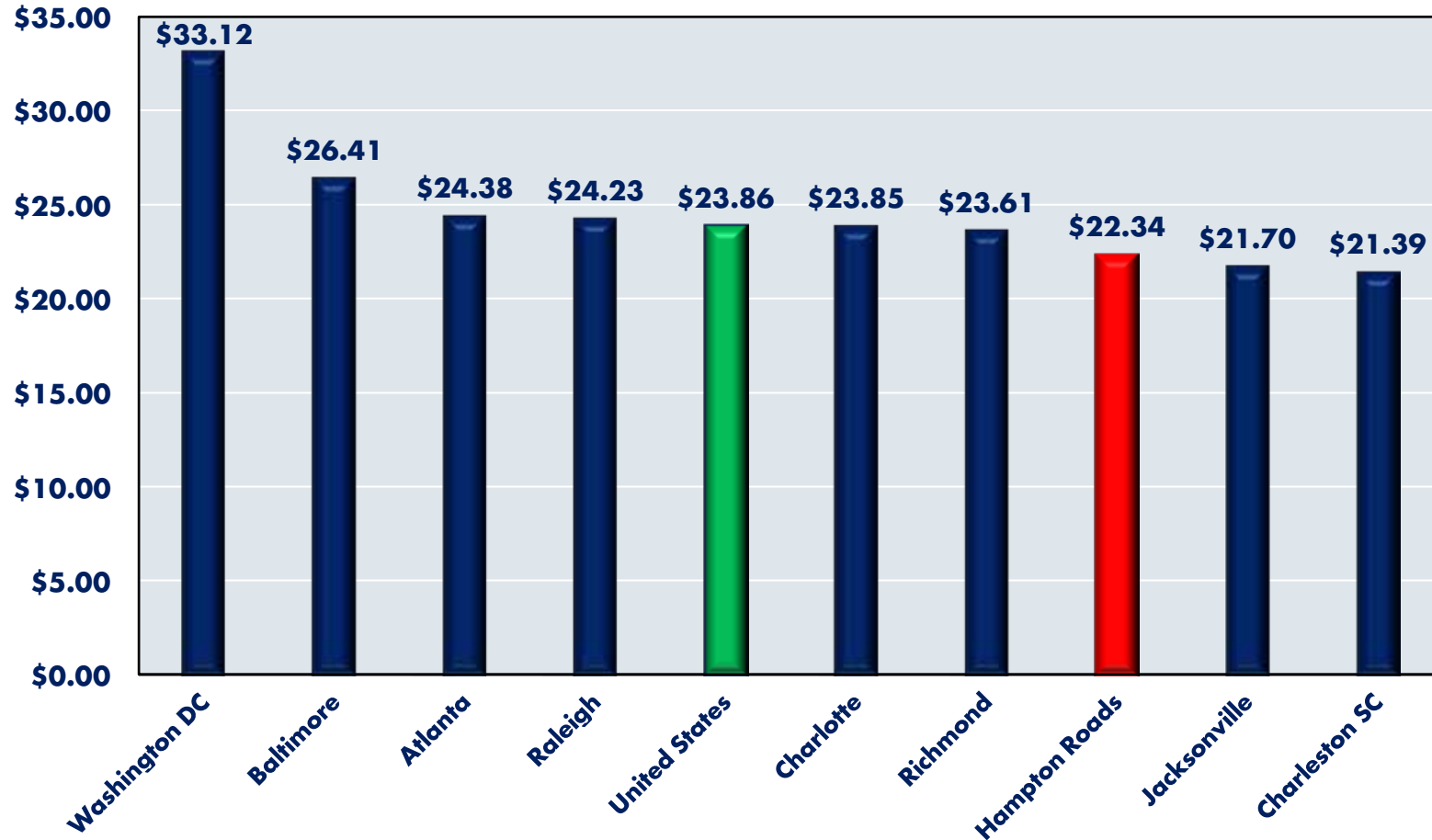
Understand that average wage rates can disguise significant differences in specific occupations and therefore considerable incentive might exist for individuals to move to Hampton Roads (or stay here) in specific occupations and work for certain employers. Even so, the overall message is that for the typical person, Hampton Roads does not offer wages and salaries as attractive as most of its competitor regions.

Hampton Roads is one of several metropolitan regions nationally that is especially dependent upon federal spending. Much of this spending comes in the form of employee salaries and fringe benefits from the federal government to local employees. As Table 3 discloses, the total compensation package (wages plus fringe benefits) offered federal employees (both active-duty military and civilian) in our region is attractive. The problem is not the level of this compensation (which is enticing to employees), but rather that federal budget sequestration has reduced the number of these jobs available. In 2001, Hampton Roads hosted 154,688 active-duty and federal civilian personnel; however, by 2015, this number had declined to 142,372 (-8 percent).

¹⁰ www.bls.gov/regions/mid-atlantic/news-release/occupationalemploymentandwages_virginiabeach.htm.

GRAPH 6

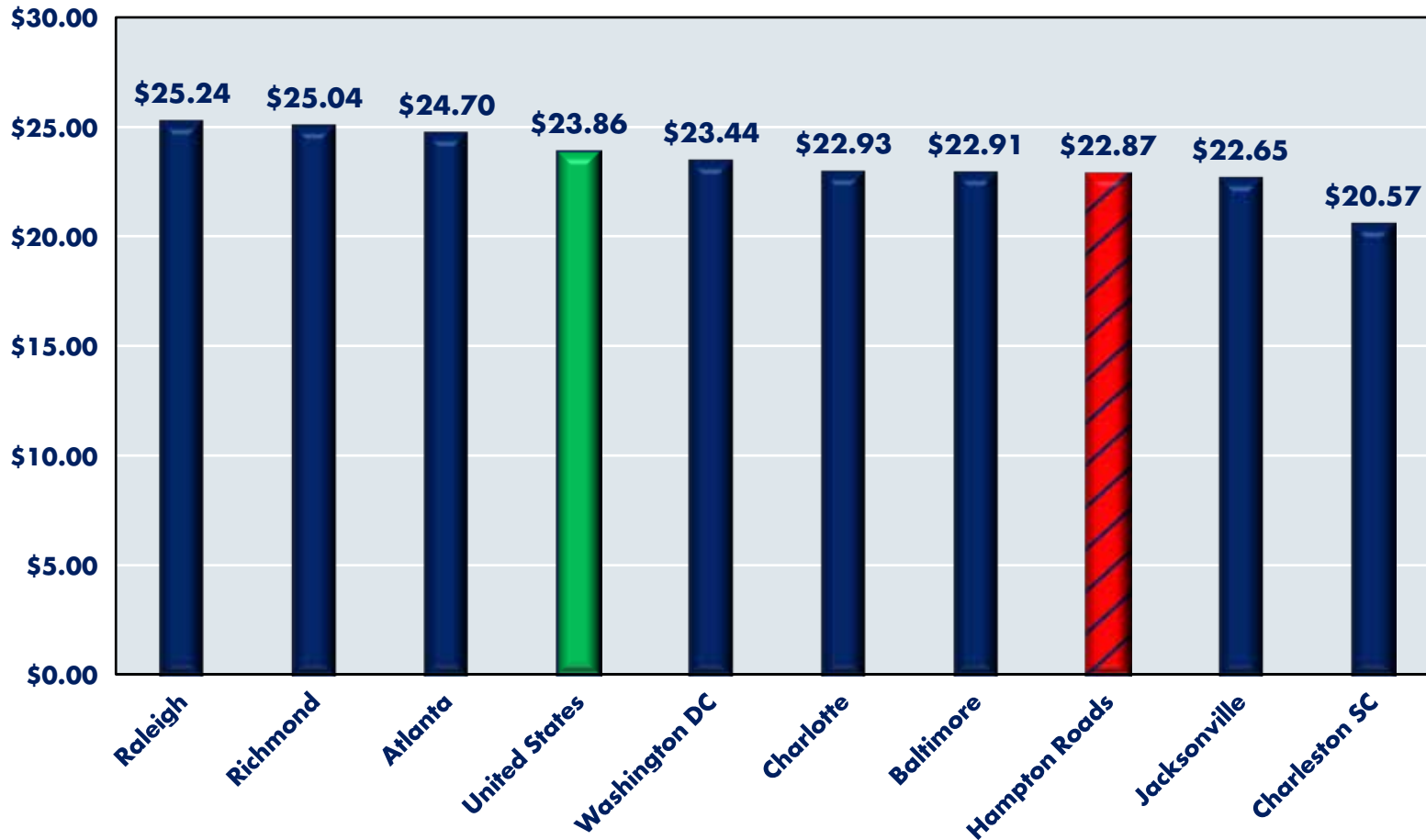
AVERAGE HOURLY WAGE RATES, ALL OCCUPATIONS AGGREGATED: SELECTED METROPOLITAN AREAS, MAY 2016



Source: www.bls.gov/regions/mid-atlantic/news-release/occupationalemploymentandwages_virginiabeach.htm

GRAPH 7

AVERAGE HOURLY WAGE RATES, ADJUSTED FOR COST OF LIVING, ALL OCCUPATIONS AGGREGATED,
SELECTED METROPOLITAN AREAS, MAY 2016



Source: Bureau of Labor Statistics

Another message of Table 3 is that the typical private-sector job in Hampton Roads has hardly been a gold mine. In 2015, private, nonfarm employee compensation was less than 40 percent of federal civilian employee compensation in Hampton Roads.

Taken in tandem, the wage and employment numbers presented in Table 3 and Graphs 6 and 7 fail to provide any obvious financial incentive for a typical individual to move to Hampton Roads, or for that matter, to remain here.

TABLE 3	
COMPARING TOTAL COMPENSATION OF EMPLOYEES: HAMPTON ROADS, 2015	
Federal Government Civilians	\$107,521
Full-Time Active Duty	\$ 91,283
State and Local Government	\$ 60,088
Private Nonfarm	\$ 42,185

Sources: Bureau of Economic Analysis and the Old Dominion University Economic Forecasting Project. BEA refers to compensation as earnings.

EDUCATION

The more education individuals have attained, the more mobile they generally are. One reason for this is that additional education increases the pool of jobs for which an educated person is eligible and perhaps as well changes that person's tastes so that he or she does not regard geographic moves as unacceptable. A recent Pew Research Center report found that 77 percent of college graduates have changed their residential community at least once and have lived in multiple states, compared with 56 percent of those with a high school diploma or less.¹¹

Educational attainment presents a two-edged sword insofar as migration is concerned. Mobility of individuals and families is positively correlated with educational attainment: more highly educated people move more often. This can be good or bad for a region, depending primarily on its job prospects and the quality of its amenities. The highly educated move away from regions

that do not offer a combination of good job prospects, competitive wages and attractive amenities, and move into those that do.

Table 4 reveals that women in Hampton Roads ages 18-44 are better educated than the typical Virginian, but regional men are not. The older a resident in our region is, the more likely he or she is to be better educated than the typical Virginian. This is not good because it suggests that the well educated among our younger citizens are leaving Hampton Roads. This has a spiraling negative impact upon our regional economy because it is younger people who most often innovate and start new businesses. Their departure also puts a damper on regional housing, automobile and appliance markets.

¹¹ America. Mobility Who Moves? Who Stays Put? Where's Home? Pew Research Center www.pewsocialtrends.org/files/2010/10/Movers-and-Stayers.pdf.

TABLE 4

EDUCATIONAL ATTAINMENT: UNITED STATES, VIRGINIA AND HAMPTON ROADS

	Virginia	Hampton Roads Males	Hampton Roads Females
18 to 24 Years			
Less Than High School Diploma	9.4%	10.1%	8.6%
High School Graduate	32.8%	37.3%	27.7%
Some College	49.6%	46.7%	53.1%
Bachelor's Degree or Higher	8.1%	5.9%	10.7%
25 to 34 Years			
Less Than High School Diploma	9.8%	10.0%	9.6%
High School Graduate	25.7%	27.0%	24.5%
Some College	35.1%	34.1%	36.0%
Bachelor's Degree or Higher	29.5%	28.9%	30.1%
35 to 44 Years			
High School Graduate or Higher	93.2%	91.6%	94.7%
Bachelor's Degree or Higher	33.1%	29.2%	36.8%
45 to 64 Years			
High School Graduate or Higher	90.9%	90.3%	91.4%
Bachelor's Degree or Higher	30.1%	30.3%	29.9%
65 Years and Older			
High School Graduate or Higher	82.9%	84.4%	81.7%
Bachelor's Degree or Higher	26.4%	32.8%	21.7%

Source: 2011-2015 American Community Survey 5-Year Estimates

AMENITIES

An old adage advises us that the only truly poor people in life are those who have only money, nothing more. Quality of life is important and is a reason why people choose to move (or not move). Our historic region enjoys 28 miles of superb public beaches and 79 miles of scenic waterways, in addition to exceptional cultural amenities, such as the Chrysler Museum, and several outstanding performance venues, including the Ferguson Center.

"Sperling's Best Places" for 2017 rated Hampton Roads eighth among the 50 largest metro areas in its "Most Playful" category – literally, where one can have the most fun. Table 5 reports these "a fun place to live" rankings.

WalletHub is an organization that provides ubiquitous rankings of cities and regions in addition to credit scores and other financial information. Its "Best and Worst Cities for Families" rankings for 2016 included four cities in Hampton Roads. Virginia Beach and Chesapeake scored especially well, as one can see in Table 6.

Especially attractive amenities can overcome economic negatives. Witness people gravitating to Hawaii even though real, inflation-adjusted incomes in the islands are surprisingly low. Individuals and families literally are willing to pay for cultural and recreational amenities, excellent schools and perceived safety. Even so, **there is strong evidence that economic motives and jobs usually reign supreme when individuals weigh moving to a different metropolitan area. This helps explain why our region has experienced out-migration even though we boast some very attractive amenities.**

TABLE 5

SPERLING'S MOST PLAYFUL CITIES

Rank	Metro Area
1	Minneapolis-St. Paul-Bloomington, MN-WI
2	San Diego-Carlsbad-San Marcos, CA
8	Virginia Beach-Norfolk-Newport News, VA-NC
9	Washington-Arlington-Alexandria, DC-VA-MD-WV
12	Baltimore-Towson, MD
17	Atlanta-Sandy Springs-Marietta, GA
23	Richmond, VA
35	Jacksonville, FL
38	Charlotte-Gastonia-Concord, NC-SC

Source: www.bestplaces.net/docs/studies/most_playful_cities.aspx



TABLE 6

WALLETHUB'S BEST AND WORST CITIES FOR FAMILIES, 2016

RANK	CITY	TOTAL SCORE	FAMILY FUN RANK	HEALTH & SAFETY RANK	EDUCATION & CHILD CARE RANK
1	Overland Park, KS	77.16	60	7	24
5	Virginia Beach, VA	68.82	83	3	19
11	Chesapeake, VA	65.06	140	9	19
26	Raleigh, NC	60.27	81	52	29
40	Charlotte, NC	57.72	135	55	38
41	Newport News, VA	57.48	97	35	19
42	Durham, NC	57.19	137	68	26
64	Greensboro, NC	53.76	104	60	30
65	Port St. Lucie, FL	53.74	149	12	95
66	Norfolk, VA	53.47	88	20	19
72	Richmond, VA	52.59	87	74	15

Source: <https://wallethub.com/edu/best-cities-for-families/4435/>

One Area Where The Rubber Meets The Road: The Founding Of New Firms

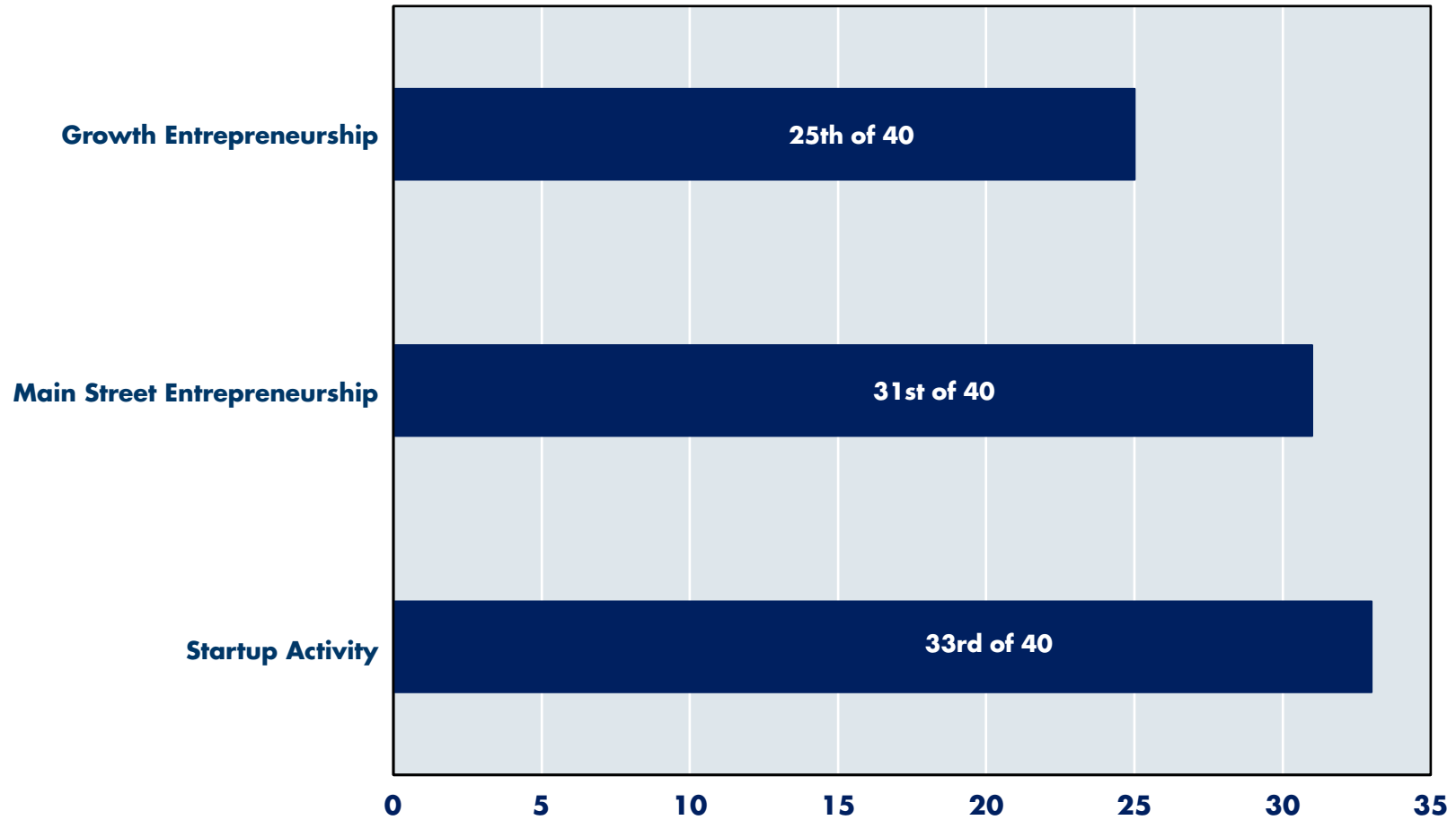
When a new firm is founded, this represents a signal of the confidence of its owners and investors in the future. It is indicative of economic and social vitality because it provides a reason for existing residents to stay and build, even as it beckons to the residents of other regions to come and test their mettle. If Hampton Roads suffers from a brain drain, then one place we should see evidence of this is in unimpressive new-firm formation statistics. Unfortunately, the available evidence points in this direction.

Our region's record in the realm of founding new businesses is mixed. The Kauffman Foundation, the foremost source in the nation for data concerning entrepreneurship, annually ranks states and regions in terms of their entrepreneurial and business startup activity. One can see in Graph 8 that Hampton Roads ranks in the bottom half of the distribution when the sample consists of the 40 largest metropolitan regions in the country. These data are consistent with the analysis of "America's Top-Rated Cities," which ranked our region only 154th among 183 metropolitan regions in terms of the best location to start a business.¹²

¹² 2016 America's Top-Rated Cities, www.nerdwallet.com/blog/small-business/best-places-to-start-business-2015.

GRAPH 8

**ENTREPRENEURSHIP AND BUSINESS STARTUP RANKINGS OF HAMPTON ROADS
AMONG THE 40 LARGEST METROPOLITAN AREAS IN THE UNITED STATES, 2016**



Source: <http://www.kauffman.org/kauffman-index/about/about>

Final Words

Our region has experienced some brain drain in recent years. While there is no universally accepted measure of brain drain, in the case of Hampton Roads, all the usual indicators are present – stagnant economic growth, below-average incomes and wage rates, modestly lower levels of educational achievement, and a sluggish rate of new business formation. When combined, these factors have resulted in a net outflow of domestic residents from our region. Reverse causation also is present here. The net outflow of domestic residents has dampened economic growth, reduced wages and hindered new business formation.

The major villain in this scenario is torpid federal spending in our region, brought about by federal budget sequestration. The mental aspects of sequestration may be as important as the immediate economic consequences in Hampton Roads because we have become accustomed to measuring our economic prosperity and progress in terms of defense-related expenditures and activities. This state of mind exists despite an impressive list of assets – actual and potential – that our region can deploy.

The solution to our malaise, however, is not to be found in expensive, showpiece projects (even though some may improve our quality of life), but instead in:

- focusing on conscientious, patient, long-term economic development and recognizing that no silver bullet exists that suddenly will vault us forward and change everything for the better;
- enhancing the quality of our human capital (economic jargon for investing in education and training at many different levels);
- ensuring that our tax and regulatory environments remain competitive and attractive both to new and existing firms;
- investing in projects that promise to commercialize the basic research being conducted at facilities such as NASA Langley and the Jefferson Laboratory;

- finding ways to attract, retain and capitalize on the individuals who leave the military;
- improving our transportation infrastructure;
- redirecting some of the funds that now subsidize the large projects of politically connected entrepreneurs to supporting and providing temporary subsidies to startup firms;
- investing in critical regional growth engines such as the “ed-med” sectors that are the centerpieces of the economies of most of our competitor regions; and
- pursuing regional solutions to the provision of public services where economies of scale exist.

At the end of the day, however, we must realize that changing the economic atmosphere is a decades-long process. Witness the Research Triangle in North Carolina. It took many years before investments there began to yield the impressive returns we see today.

If we are strategic and patient, we can turn “brain drain” into “brain gain” for Hampton Roads.

This chapter in The State of the Region report represents a special collaboration between Old Dominion University’s Center for Economic Analysis and Policy and the LEAD Hampton Roads Class of 2017. Members of the class conducted labor market research and spoke to human resources professionals in the region to help produce this chapter.

