

BACON'S REBELLION

The Op/Ed Page for Virginia's New Economy

A Bug in the Ointment

The relocation of Volkswagen USA to Fairfax County is a P.R. bonanza for Virginia. But is the region, already buckling under growth, prepared to handle the influx of 400 more jobs?

By James A. Bacon

Last week the Kaine administration announced Virginia's biggest economic development coup of the year: the decision by Volkswagen USA to relocate its corporate headquarters from a Detroit suburb to Fairfax County. Volkswagen, manufacturer of the popular VW Beetle, will invest \$100 million to build a new H.Q. facility, which could generate up to \$900,000 a year in property taxes for the county and bring 400 high-paying jobs, averaging \$125,000 each.

Virginia basked in favorable publicity. The *Detroit Free Press* printed this encomium to Fairfax County and Virginia from CEO Stefan Jacoby: "We are a company of innovators and bold-thinking people who want to challenge the status quo and we know we will fit very well here."

The VW deal meets all the Economy 2.0 [\(1\)](#) measures of economic development success: jobs, high salaries and tax revenues. That's why the Kaine administration felt comfortable investing \$6 million in economic development incentives to cement the deal.

In a free market economy, the German company should be free to locate anywhere it chooses, and if it selects Northern Virginia to get closer to its customer base, enjoy access to Dulles In-

ternational Airport and participate in one of the nation's most vibrant economic centers, then Virginians should celebrate the fact that their state is held in such high regard. But is the VW relocation the kind of deal that the Commonwealth of Virginia should be *subsidizing*? What Return on Investment will Virginia generate on that \$6 million expenditure?



The underlying premise of the VW incentives is that job creation is good. But not all jobs are created equal. Job growth clearly *is* good in places like South-

side and Southwest Virginia where it creates opportunities for people who are unemployed or underemployed. But what is the point in creating jobs if labor markets, like those in Northern Virginia, are tight and jobs are already going unfilled? If job creation simply sucks more people into the region, pumps up the population and bloats demand for infrastructure and public services that municipalities are already hard-pressed to provide, is it really providing any public benefit?

Indeed, the VW deal raises even larger questions: What is the purpose of economic development anyway? Is the goal of public policy in Virginia to simply create more jobs and a bigger tax base -- regardless of the

cost in subsidies, congestion, housing prices and the obligation to provide public services? Or should the purpose of public policy be to increase incomes, raise living standards and create more livable regions for the people *who already live here*? If so, what metrics should we use to track well being?

Let's dig into the numbers behind the VW deal. Fairfax County is projected to increase the number of jobs by roughly 250,000, or 21.9 percent, between 2004 and 2014, according to data in the [Fairfax community profile](#) published by the Virginia Employment Commission.

At that pace of job growth, Fairfax County's technology-intensive economy has little employment slack. Over the past few years, unemployment has consistently stayed below 3.0 percent, bobbing above that level only briefly during the recession year of 2002. Today, unemployment is about 2.3 percent. Economists generally consider 4.0 percent to be full employment, allowing a little breathing room for people who are entering the workforce and switching jobs. What Fairfax County is experiencing today, and has experienced for years, is a *labor shortage*.

Ultimately, the only way those 400 Volkswagen headquarters jobs will be filled is by importing people from outside the region - most of them from outside the state. Many employees will probably transfer directly from the Michigan facility. Even if VW supplements the transferees with local hires, the companies where those employees previ-

ously worked will have to replace them with someone else, and they most likely will come from outside the region. If we factor in the multiplier effect -- the spin-off jobs in the service and retail sectors to support those 400 employees -- this deal could easily account for the immigration of additional 100 to 200 new residents to Northern Virginia. For the most part, these retail and service workers will not be making \$125,000 per year.

Where will those people live? Ironically, only a small portion will reside in Fairfax County. After a population spurt in the 1990s, Fairfax population growth is expected to slow this decade to around 6.5 percent, and then to about 6.0 percent between 2010 and 2020, according to the VEC profile. Although the county could accommodate more people if it wanted to, it doesn't want to. The county is mostly built out, and it is not expediting the redevelopment of old neighborhoods at higher densities fast enough to provide housing for any more than the 60,000 people per decade anticipated by the VEC.

If Fairfax County expects job growth of 250,000 and population growth of only 60,000, it's reasonable to assume that roughly three out of four VW employees will live somewhere other than Fairfax County -- most likely Prince William, Loudoun and Fauquier counties or points beyond. In other words, the Commonwealth of Virginia is subsidizing the growing imbalance of jobs and housing in Northern Virginia that makes housing inaccessible and strains the transportation system to the breaking point.

How much will it cost to accommodate the newcomers? The

expense of building county infrastructure (schools, libraries, public safety stations) amounts to between \$30,000 to \$50,000 per household, depending upon the locality in question and whose estimate is used. Those numbers do not include the cost of upgrading the desperately overcrowded transportation system. I have yet to see any definitive estimates of how much the state must spend per newcomer to build new roads and transit capacity but the figure is certain to run into the tens of thousands of dollars per driver.

Let's assume that the up-front capital costs for providing new infrastructure -- schools, roads, libraries, fire stations, public transit, etc. -- averages between \$75,000 and \$100,000 per household. That totals \$30 million to \$40 million for the 400 VW employees -- not counting the impact of jobs created through the multiplier effect. The VW employees are well paid, to be sure, but will they make so much money and pay so much in taxes that they will pay the operating costs of their public services *plus* all of those up-front capital costs? We just don't know.

Of course, Fairfax County will benefit from up to \$900,000 in annual property tax revenues on VW's new, \$100 million facility. Fairfax County will come out of the deal whole. But the municipalities where the other three quarters of VW employees settle will come up short.

Job creation and higher salaries have unquestionable economic benefits. But job creation also has costs when it occurs in New Urban Regions with zero unemployment and infrastructure stretched to the breaking point. I just don't see anyone acknowledging those costs when justifying the payment for \$6 million in

public subsidies.

When you're talking about average salaries of \$125,000 a year, roughly twice the county-wide average, the VW deal may well represent a net gain for Virginia and the region, despite all the issues raised here. But there is no way to know for sure. It's just as possible that governance structures and human settlement patterns are so dysfunctional across most of Northern Virginia that every newcomer settling outside the Beltway, no matter what income level, may represent a net tax loss to the citizens already here. For all we know, Northern Virginia is digging itself into a deeper fiscal hole every time it brings in a new job.

But the fact is, we just don't know. No one has developed a methodology for calculating the costs and benefits of job creation. Indeed, no one even acknowledges the need to make such a calculation. But our blindness to the problem does not make it any less real.

-- Sept. 17, 2007

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(1) For a definition of Economy 2.0 and other economic development paradigms, see the previous column in this series, "[Peak Performance in a Flat World](#)."