



BROOKINGS GREATER WASHINGTON RESEARCH PROGRAM

WASHINGTON AREA TRENDS

Federal Spending Saves Region from Recession

By Stephen S. Fuller, Ph.D., George Mason University

Federal spending in the Washington metropolitan area rose to \$79.2 billion in the federal fiscal year 2001, up 6 percent from 2000. The above-average growth, which outpaced the region's 20-year annual average gain of 4 percent for federal outlays, kept the area's overall economic growth rate positive at an estimated 2.2 percent, despite the national recession and the impacts of the September 11th terrorist attack. The Washington and Houston metropolitan areas were the only two of the ten largest metropolitan areas that had a net average annual job growth in 2001. It also enjoyed the lowest unemployment rate. With the expected post-September 11th surge in federal spending, it seems certain that 2002 will continue to see above average growth in the Washington area. Altogether, federal spending ac-

counted directly for almost one-third of the Washington area's \$248.7 billion economy.

To be sure, the annual increase in federal spending in the Washington area is not a new story, it has been reported each year for almost two decades, as federal spending in the region increased from \$27.2 billion in 1983 to \$79.2 billion in 2001. However, there have been important changes in the nature of this spending. Federal spending can be classified into three broad categories that include payrolls and benefits, purchases of goods and services, and other expenditures (for grants, Social Security, and other transfer payments to individuals). Spending in all three categories has increased rapidly over the past two decades from 1983 to 2001, but federal spending for procurement has soared much faster than for payrolls (see Table 1).

"The Washington and Houston metropolitan areas were the only two of the ten largest metropolitan areas that had a net average annual job growth in 2001."

Table 1
Federal Spending in the Washington Area
By Major Type: 1983, 1988, 1993, 1998 and 2001
(in billions of current year \$s)

Year	Payroll	Procurement	Other	Total
1983	\$12.1	\$7.0	\$8.4	\$27.2
1988	15.3	10.6	10.8	36.7
1993	19.6	16.1	16.2	51.9
1998	20.7	24.4	19.2	64.6
2001	\$23.1	\$32.3	\$23.8	\$79.2
% Change				
1983-2001	90.9%	361.4%	183.3%	191.2%

Sources: U.S. Census Bureau, Consolidated Federal Funds Reports; GMU Center For Regional Analysis.



Procurement Leads Spending

Federal procurement, involving purchases of goods and services from vendors for their work done in the Washington area, has increased 361.4 percent or by \$25.3 billion over 18 years. Procurement grew much faster than payrolls, in part because the federal government was outsourcing many services formerly performed by federal employees. Procurement increased its share of total federal spending in the Washington area from 24.6 percent in 1983 to 40.8 percent in 2001 (see Appendix for all years). Payroll outlays have grown 90.9 percent or by \$11 billion over 18 years and even spending for direct payments to individuals and grants has grown by more than payroll (\$15.4 billion) over this period.

No other metropolitan area or state can match the increase in procurement spending since 1983, and its total value in the Washington area exceeds procurement spending in any other region. The State of California, for example, with federal procurement outlays totaling \$28.9 billion in 2001, has ranked second behind the Washington area since 1997. Among metropolitan areas, the Los Angeles metropolitan area ranks second behind the Washington area with federal procurement spending of \$10.5 billion (and total federal spending of \$49 billion).

Procurement Has Migrated Within the Region

Federal procurement spending has not spread uniformly across

Table 2
Federal Procurement by Sub-state Area
Washington Metropolitan Area: 1983, 1988, 1993, 1998 and 2001
 (percent of total; \$s in billions)

Sub-State Area	1983	1988	1993	1998	2001
District of Columbia	19.1%	26.0%	24.8%	21.3%	31.8%
Suburban Maryland	41.6	32.5	29.6	25.2	20.0
Northern Virginia	39.3%	41.5%	45.6%	53.5%	48.2%
Total Procurement	\$7.0	\$10.6	\$17.9	\$24.4	\$32.3

Sources: U.S. Census Bureau, Consolidated Federal Funds Reports; GMU Center For Regional Analysis.

the Washington area, however. As federal procurement spending increased in the Washington area between 1983 and 2001, the Maryland share shrank by almost half, while Virginia and the District have increased their shares. In 1983, Maryland had 42 percent of procurement spending compared to 39 percent in Virginia. By 2001, Virginia's share was 48 percent compared to 20 percent for Maryland. (See Table 2)

Purchases of Services Dominate Procurement

Increases in services procurement have been the main driver of federal spending gains in the Washington area. Spending growth for services has almost quadrupled the growth of research and development outlays, and outpaced that for supplies and equipment by 50 percent (see Table 3). In 1990, the purchase of services accounted for 62.9 percent of to-

Table 3
Federal Procurement By Type, 1990 and 2001¹
 (in billions of current \$s)

Procurement Type	1990	2001	Percent Change
Research & Development	\$2.114	\$3.144	48.7%
Services	7.888	22.677	187.5
Supplies & Equipment	2.534	5.581	120.2
Totals	\$12.536	\$31.403	150.5%

Sources: Federal Procurement Data Center; GMU Center for Regional Analysis

¹ federal procurement outlays excluding US Postal Service and federal agency purchases from other federal agencies.

tal federal procurement in the region, while by 2001 services accounted for 72.2 percent.

The federal executive branch workforce in the Washington area totaled 372,100 in 1990, peaked in

By contrast, procurement outlays to support federal programs increased \$17.3 billion, or 265 percent, between 1990 and 2001, accounting for almost 92 percent of the total increase in federal procurement spending in the Washington area

over that time. The jurisdictions where these firms do their work in support of federal programs have been the major beneficiaries of the federal government's substantial increase in procurement spending in the Washington area and its growing dependence on private firms to design, administer and evaluate federal program

operations. Technology-intensive procurement of services and equipment dominates this spending, and has helped to build the Washington area's technology base and protect it from the full force of the industry

shakeout that caused other technology-intensive economies to suffer rapid losses of employment.

Procurement Matters Hugely to the Local Economy

Federal procurement spending contributed \$57.1 billion to the area's gross regional product, reflecting an aggregate multiplier of 1.819, and accounted for 23 percent of the total value of all goods and services produced in the Washington area in 2001. Spending for program support had the largest output and income multipliers while facilities support outlays had the lowest. Overall, this contract spending and its re-spending within the area economy supported 703,131 jobs or 20 percent of all jobs in the Washington area. These jobs generated personal earnings totaling \$19.5 billion. It seems likely that federal procurement will continue to energize the Washington economy over the next several years.

July 1993 with 396,600 employees, and declined 66,700 from the peak to 329,900 by 2001. Still, federal procurement in support of its Washington-based workforce, for training, health services, local travel, childcare facilities, and other direct services, increased \$440 million or 40.7 percent over this period. The cost of maintaining and operating federal facilities in the Washington area, meanwhile, including the cost of utilities increased \$1.09 billion, or just 22 percent. This relatively slow rate of growth in procurement spending in support of the federal workforce and the buildings they occupied reflects the shift of federal policy towards the outsourcing of federal government work to private contractors.

Table 4
Federal Procurement by Type, 1990 and 2001¹
(in billions of current \$s)

Procurement type	1990	2001	Percent Change
Facilities Support	\$4.92	\$6.01	22.2%
Personnel Support	1.08	1.52	40.7
Program Support	6.54	23.87	265.0
Totals	\$12.54	\$31.40	150.4%

Sources: Federal procurement Data Center; GMU Center for Regional Analysis

¹federal procurement outlays excluding US Postal Service and federal agency purchases from other federal agencies.

Table 5
Employment and Income Impacts of Federal Procurement Spending in the Washington Area, FY 2001
(in billions of 2001 \$s)

Procurement Type	Outlays	Total Output ¹	Jobs ²	Earnings ³
Facilities Support	\$6.01	\$10.38	118,527	\$3.02
Personnel Support	1.52	2.70	43,221	0.92
Program Support	23.87	44.04	541,383	15.53
Totals	\$31.40	\$57.12	703,131	\$19.47

Sources: GMU Center for Regional Analysis; multipliers developed from the US Department of Commerce, Bureau of Economic Analysis RIMS II multipliers for the Washington metropolitan area (12/2000).

¹ total direct and indirect contribution to gross regional product; ²total induced and indirect jobs supported by federal procurement outlays—excludes federal jobs; ³personal earnings generated by the jobs created and supported by federal procurement outlays.

Appendix
Federal Spending in the
Washington Metropolitan Area*, 1980-2001
(in billions of current dollars)

Year	Total Federal \$s	Procurement \$s	% Total
1980	**	\$4.2	
1981	**	5.0	
1982	**	5.8	
1983	\$27.2	6.7	24.6
1984	29.8	7.7	25.8
1985	32.1	9.0	28.0
1986	34.5	10.7	31.0
1987	35.7	11.4	31.8
1988	37.6	11.5	30.6
1989	39.1	11.9	30.4
1990	42.6	12.6	29.6
1991	47.1	14.6	31.0
1992	49.6	15.6	31.4
1993	51.9	16.1	31.0
1994	56.8	17.9	31.9
1995	56.8	19.4	34.2
1996	59.4	20.8	35.0
1997	62.7	21.7	34.6
1998	64.6	24.8	38.4
1999	68.4	27.7	40.5
2000	74.7	29.2	39.1
2001	79.2	32.3	40.8

Sources: Consolidated Federal Funds reports, 1983-2001 (U.S. Census); GMU Center for Regional Analysis. Spending includes purchases by the US Postal Service. *Area is Washington MSA (1990 definition). **total federal spending not published until 1983.

For General Information:

Brookings Greater Washington Research Program
Phone: (202) 797-6292 • Fax: (202) 797-2963
Website: www.brookings.edu/washington