In throes of recession, D.C. stands apart

Federal spending insulates region

By Patrice Hill

-

The Washington Times

7:41 p.m., Sunday, October 17, 2010

Throughout the recession, one major city stood out as an oasis for jobs and growth: Washington, D.C.

Supported by a gusher of federal borrowing and spending, the District of Columbia was the nation's only metropolitan area that never stopped growing. It stood as a beacon for the nation's millions of job hunters, from recent college graduates seeking careers in civil service to well-heeled lawyers cashing in on a bonanza of work stemming from health care and financial reform.

Being the center of government, Washington is used to being insulated from national economic trends. But the disconnect became particularly pronounced during the Great Recession — thanks to the federal government's own expansionary response.

A $700 billion bank bailout and $814 billion economic stimulus bill helped push the federal deficit to unprecedented levels of more than $1.3 trillion in the past two years, and a disproportionate share of that tidal wave of money washed up right back in Washington.

But the spectacle of Washington's free spending while virtually every other region has had to cut back — increasing prosperity in the capital in the midst of the worst recession since the Great Depression — has engendered public resentment and a pronounced anti-Washington sentiment that is now playing out in the midterm election cycle.

While the nation's work force took a body blow, losing 8.3 million jobs — 5.5 percent of the jobs available before the recession — Washington suffered no more than a surface wound. It reported a loss of about 35,000 jobs, or 1.1 percent of the jobs available — mostly in real estate and construction businesses hurt by the housing collapse.

"We are one of the lucky ones," said Alice Rivlin, a former Federal Reserve governor and director of Greater Washington research at the Brookings Institution. The only other cities that fared as well during the recession, she said, generally were centers of military activity or smaller state capitals, such as Austin, Texas — which also benefited from government spending.

"D.C. seems to have managed to grow right through the recession, although its growth rate did slow and unemployment doubled," said George Mason University's Stephen Fuller, a longtime researcher of the local economy. "D.C. and the entire metro area were substantially cushioned from the full effects of the recession."

Ms. Rivlin said that "the nature of our economy protects us," noting that with the exception of mortgage finance, Washington lacks the concentration of manufacturing and financial companies in other cities hit hard by the recession.

"The federal government is the engine that drives this economy, directly or indirectly, accounting for at least a third of economic activity," she said. "In response to the economic crisis, not to mention two wars, federal activity is actually expanding."

The resentment was playing out on the campaign trail last week.

In a debate Thursday evening, Sharron Angle, the Nevada Republican nominee for the U.S. Senate, used an image of high living in Washington. Her Democratic opponent, Senate Majority Leader Harry Reid, is facing a tough fight in his bid for a fifth term.

Saying she was "not a career politician," Mrs. Angle noted in her opening statement: "I live in a middle-class neighborhood in Reno, Nevada. Senator Reid lives in the Ritz-Carlton in Washington, D.C."

Mr. Reid countered that he made his money as a private lawyer before accepting a "fixed income" when elected to office.

Overall, thanks to federal largesse, the Washington region's growth never stopped throughout the Great Recession. In fact, growth in the Washington area's estimated $400 billion economy surged by 6.9 percent from the onset of the recession in December 2007 to the middle of this year, according to Brookings estimates. That compares with a bare recovery average of 1.1 percent in other major cities.

To be sure, Washington has other strengths besides the federal government — professional sports franchises, beautiful monuments, world-class museums and opera, and notable technology centers along the Interstate 270 and Dulles corridors, to name a few. But few doubt that the foundation of the city's success is the omnipresence of the feds.

A list of the top Fortune 500 companies based in Washington reveals the overwhelming draw of the government. It includes three defense and aerospace giants — Lockheed Martin, Northrop Grumman and General Dynamics — and mortgage giants Freddie Mac and Fannie Mae. Freddie and Fannie were prosperous private employers, but they are now fully owned by the government, which has spent $160 billion propping them up in the wake of the mortgage crisis.

While businesses in other cities have to contend with the vagaries of the global economy and survive for the most part by dint of their prowess, superior products and disciplined performance, getting by in Washington is relatively easy.

Once Washington spending programs are established — whether weapons systems or mortgage aid — they hardly ever get shut down, as long as companies find champions in Congress and invest in adroit campaign and lobbying strategies.

Because of the seemingly never-ending federal largesse, Washington's extensive contracting industry has thrived. Contract work was fed by the mammoth bank bailout and stimulus bills and the steady flow of appropriated funds, which totals more than $1 trillion each year.

The cornucopia of an estimated $84 billion a year in federal contracts has made high-paying professional and business services the biggest category of employment in Washington, typically constituting nearly 800,000 of the 3.5 million jobs in the area.

The federal government, by contrast, supplies about 372,000, or 11 percent, of the area's jobs, with state and local governments supplying another 372,000 or so, according to the Greater Washington Board of Trade.

The Washington economy also recovers from downturns more quickly.

A study by Delta Associates found that Washington outpaced every other major city in job growth in the past year, totaling 41,800 in the year ending in July.

That growth was more robust than before the recession and strong enough to put Washington on track to recoup the number of job losses by the middle of next year — years ahead of the rest of the country, the consulting firm estimated.

Of the nearly 42,000 jobs opened up in the past year, nearly half were with the federal government and about 13,500 were with government contractors.

"During this recession, the only place that was hiring was the government," said Jim Dinegar, president of the Greater Washington Board of Trade.

The wars in Iraq and Afghanistan fed continuous spending and hiring in Washington for a decade, and last year's stimulus bill added "an enormous shot in the arm" to the local economy, he said.

For those lucky enough to nab a federal job, the pay is also sweet. The Census Bureau reported that federal employee compensation and benefits last year averaged $123,049, twice as much as average private-sector compensation of $61,051.

Moreover, federal jobs come with sizable raises that were largely missing in the private sector during the recession. Even during the height of the recession last year, federal workers in Washington received average raises of 4.2 percent, according to the Society for Human Resource Management. That was twice the national average.

"This state of affairs is a thumb in the eye of the private sector, which continues to struggle with high unemployment," said Cato Institute budget analyst Ted DeHaven. "Many private-sector employees have been forced to take pay and benefit cuts."

The Washington housing market, however, was hit hard by the collapse of the housing bubble starting in 2006. The market normally thrives from the constant ebb and flow of people moving to the region and doing business with the government.

The loss of thousands of real estate and construction-related jobs helped lift Washington's unemployment rate to a high of 7 percent — twice its level during the boom years, but still far below the national high of 10.1 percent reached last fall.

"One of the downsides of being a relatively well-off economy with strong future growth prospects is that we had a bigger housing bubble than most places," said Ms. Rivlin. "When the bubble burst, a steeper decline and more foreclosures" followed.

Washington's overall prosperity during the recession also belies disparities within the region that generally fall along an east-west divide, Ms. Rivlin said. "Poverty has risen in the less-prosperous parts of the area, especially in the District, and child poverty is remarkably high," she said.

The District of Columbia has the Washington area's highest unemployment rate at 9.8 percent.

City residents not well-established in the job market appeared to be disproportionately hit by the collapse in homebuilding, as well as by the relatively small losses of blue-collar jobs in transportation, utilities and other basic industries.

"D.C. added 'good' jobs while it lost 'bad' jobs'" during the recession, said George Mason's Mr. Fuller, but "seems to have fared better than the suburbs in terms of overall performance."

Washington typically makes the list of top five places to live and find work in rankings compiled by Kiplinger and other magazines.

But Ms. Rivlin, a former director of the Congressional Budget Office, said such high levels of government spending and debt are not sustainable.

"Avoiding a future debt crisis will take heavy-duty budget action, both on the spending and revenue sides," she said. She predicted that most discretionary spending programs that fuel the Washington economy eventually will be frozen or reined in.