Economic Policy and Competitiveness
Years 1 and 2: A Blueprint for Shared Prosperity

The D.C. Policy Center has developed a research agenda to examine the factors that have contributed to the city’s growth, risks that threaten the city’s future economic success, and policies that help create a thriving local economy that can maximize opportunities for all residents, workers, and businesses in the District of Columbia to prosper.

Vision and Goals

D.C. Policy Center’s Economic Policy and Competitiveness work will be shaped by the following three foundational tenets:

1. Economic growth is crucial for increasing opportunity for all residents in the city;
2. The District of Columbia must remain competitive in the region and nation to achieve economic growth and increased opportunity; and
3. Thoughtful economic policies, when supported with economic growth, can create the fastest path to shared prosperity.

We will put these tenets at the center of four key activities:

1. We will produce original research using publicly available and proprietary data to inform elected officials, policy leaders, advocacy and research organizations, and the public about the city and the region’s economic trends and performance, and the potential economic, fiscal, and social implications.
2. We will communicate our findings in easily understandable formats to ensure that our message is shared broadly and resonates with as many different groups as possible. Marrying strong and serious research with briefs that are easy to read and understand is the D.C. Policy Center’s strong suit, and what sets us apart from other research or advocacy organizations.
3. We will systematically engage employers, business leaders, and entrepreneurs in the city and across the region to understand how they make their business decisions, and what regional and jurisdictional policies and factors they consider in making these decisions. Given the administratively and politically fragmented nature of the region, much of public policy debate—from housing to workforce development to transit—takes place in political silos, and a comprehensive understanding of existing challenges and a unified vision of opportunities have been difficult to achieve. For D.C. to be successful, its policies must reflect a broad understanding of the region, which can only be achieved through such systematic engagement.
4. We will develop and test innovative and practical policy solutions—and, where possible, create coalitions to advance these solutions—to maximize economic growth and create a shared prosperity.

This research initiative will be the first in-depth look and objective assessment of the District’s competitiveness position. Our work will explore both the strengths and weaknesses of the District prior to the pandemic, and the risks and opportunities that can shape the city in the post-pandemic era. Our goals are (i) to provide tools for policymakers so they can weigh the different factors that make the city attractive and (ii) create a blueprint for growth and shared opportunities at a time of great uncertainty.

Why is this work important and urgent?

Why cities have grown and how they have succeeded has been extensively studied. Generally, urban success stems from high local wages, robust real estate prices, and growth in the number of residents, workers, and businesses within an area. When a place is doing well, employers typically are willing to pay more for workers in that area and people are willing to pay more for access to that place. This, in return, creates high revenues for the government and a demand for robust government services, which further attracts residents, workers, and businesses.

The District of Columbia, in many ways, has been a textbook example of urban success, but there are three reasons why understanding the elements of the city’s competitiveness in the context of the larger and fragmented metropolitan area is extremely important, even urgent. These reasons are existing weaknesses in the District’s economy, increased risks from the pandemic, and weakening economic ties across the metropolitan Washington region that will require dramatically different approaches to policy.

First, in recent years, the city’s competitive edge had started to weaken. For the District of Columbia, sustained economic growth has been the norm over the last two decades. This economic growth, driven by demand for urban living especially from young and affluent residents, has partially concealed how competitive pressures from surrounding jurisdictions have begun to erode the District’s economic edge, to wit:

- **D.C. has been a net exporter of jobs in the region.** While the city has served as the landing spot for many who move into the region and a significant incubator of new business establishments and jobs, it has remained, even during its strongest years, a net exporter of jobs. Surprising to many, for every job that comes with a business establishment that relocates into the city from a neighboring jurisdiction, 2.4 jobs are lost when a business establishment moves out to somewhere else in the region.2

- **D.C. has become less attractive to relocating adults.** The District’s population growth had already slowed before the pandemic, with most of the growth coming from babies and international in-migration. Domestic in-migration turned negative in 2019 and has remained so during the pandemic.3 For example, since 2014, for every new resident who has moved to the District from neighboring jurisdictions, two have moved out.4 Household
formation—an important driver of income tax base growth—has slowed. And, in recent years, income tax base growth has been primarily driven by the increasing incomes of current taxpayers, and not the addition of new taxpayers.\textsuperscript{5}

- \textbf{In recent years, D.C. has not attracted a single large headquarters that moved to the region from elsewhere in the country.} Of the last 120 headquarters with 50 or more employees that have moved to the metropolitan Washington area from elsewhere in the country, only sixteen located in the District since 2000, and none since 2016.\textsuperscript{6}

As a result, even before the pandemic, the city had seen decelerating population growth, increasing office vacancy rates, and a shrinking footprint in the regional employment picture.\textsuperscript{7}

\textbf{Second, the District is particularly vulnerable to negative impacts from post-pandemic economic trends.} The city’s workforce characteristics, the make-up of its industries, and its proximity to high-amenity suburban communities increase post-pandemic risks to future economic growth.

- \textbf{The District’s workforce is particularly susceptible to a prolonged and potentially permanent shift to telework.} Prior to the pandemic, commuters from all parts of the region made up about two thirds of the District’s workforce, supporting economic activity not just in office building occupancies, but also businesses around these buildings.\textsuperscript{8} But with an estimated 62 percent of the jobs in the metropolitan Washington region classified as “teleworkable,”\textsuperscript{9} many workers immediately shifted to telework,\textsuperscript{10} and their return to in-office work remains in limbo.\textsuperscript{11}

- \textbf{Property and sales tax bases in the District are particularly vulnerable to a loss of commuter activity.} The disappearing commuter activity is impacting all aspects of the downtown economy from building values to public transportation ridership\textsuperscript{12} to retail sales. Office vacancy rates are at historic highs, pushing 20 percent in the downtown areas. And for the first time since the Revitalization Act, office rents have begun to decline. This has resulted in a nearly 9 percent decline in assessed values of large commercial office buildings, costing the city over $150 million in annual tax revenue.\textsuperscript{13} Given the current amount of vacant and soon-to-be vacant space across the District’s office market, if this trend continues, office vacancy rates may go up as high as 23 percent,\textsuperscript{14} further lowering rents, operating incomes, and tax revenue.\textsuperscript{15}

- \textbf{The declining importance of commute is threatening the District’s population growth and resident income tax base.} There are also signs that many residents are attaching less importance to commute times\textsuperscript{16} and choosing to live in suburban and exurban areas of the metropolitan Washington area to reduce their housing costs. While District single family homes have appreciated in value since the beginning of the pandemic, home values grew even faster in surrounding jurisdictions in the metropolitan Washington area, suggesting that the demand for housing is growing faster elsewhere in the region.\textsuperscript{17} Finally, address change data suggest that since the summer of 2020, there has been an alarming exodus out of the District, with 17,000 more people moving out than in the year before.\textsuperscript{18}
As a result, the COVID-19 pandemic has exacerbated the negative trends, with even higher office vacancy, stagnant economic activity in downtown areas, signs of residents moving to the suburbs or exurbs with the rise of telework, deepening economic and racial divides, and rising crime rates. And as the pandemic continues, the imprints of these negative trends on the District are becoming deeper and, unfortunately, more permanent.

Third, understanding how local policy operates in the post-pandemic era—in the context of a large and competitive metropolitan area will be key to the District of Columbia’s future economic success. While the entire Washington metropolitan area, in some ways, operates as a single economic unit, now, with the pandemic, the economic activity is becoming more dispersed, making the central city less important.

- The District is particularly impacted by inter-jurisdictional economic interdependencies and competition as it is a relatively small, open economy, drawing from the strength of an administratively fragmented region. The region is a relatively cohesive economy but is comprised of fragmented and increasingly competitive jurisdictions, with significant sprawl and economic segregation. As such, each jurisdiction’s policies, investments, and actions reverberate across the metro region, pushing out or pulling in businesses, workers, and residents. For residents, workers, and employers, the relevant unit of analysis when deciding where to live, work, and set up shop, is the entire metropolitan Washington region. And while each jurisdiction is administratively separate, when it comes to jobs and people, we are deeply connected as a single broader economic unit.

- The District is not well-prepared to operate in an economic environment that quickly punishes uncompetitive policies. Weaker economic ties across Washington metro jurisdictions can increase the potential gains to be achieved through policies that exploit weaknesses in neighboring jurisdictions. This can be done, for example by (i) adopting tax policies or regulatory policies that are attractive to residents and businesses, (ii) offering robust public services at lower prices that can “compete” with high-cost urban centers, or (iii) providing economic incentives and a welcoming environment to establishments which can locate anywhere in the metro area and still benefit from the entire metropolitan workforce.

As many scholars point out, cities generally bounce back after experiencing pandemics, fires, and other catastrophic events. But there is always real cost to residents, workers, and businesses throughout the recovery period that comes in the form of erosion of human capital and economic opportunities, which—if not properly countered—can put the city on a permanently lower growth trajectory.

One needs to look no further than the District’s own history to observe the transformative nature of economic growth. After decades of decline, the District experienced an economic renaissance, initially set in motion by the Revitalization Act, and further bolstered by an improving quality of life and stronger government services supported by a robust revenue base and a more responsible local government. From the Revitalization Act in 1997 through 2020—the beginning
of the pandemic—the District’s population grew by 53 percent, private sector jobs grew by 45 percent, and the number of business establishments grew by 23 percent. This growth has been the basis of the District’s tremendous fiscal strength and robust revenue. From 1997 to the beginning of the pandemic, the District’s revenue more than doubled in real terms, tracking closely the growth in incomes earned in the city, the volume of sales, and the value of property. This has enabled the city to invest in infrastructure, quality of life, schools, affordable housing, and services—especially services for its most vulnerable residents—contributing to the city’s economic growth, vibrancy, and attractiveness.

**A robust understanding of regional economic dynamics coupled with timely analyses that respond to current events and thoughtful policy proposals that can lift the District's economic trajectory are desperately needed.** Learning from our own past and cities around the nation, and always informed by data and rigorous analyses, the Rivlin Initiative will focus on developing and promoting policies that can help shape a prosperous and inclusive economic future for the District of Columbia. In so doing, the Rivlin Initiative will (i) increase our current understanding of regional economic dynamics and inter-jurisdictional economic competition, (ii) inform what the path of recovery from the COVID-19 pandemic’s economic impacts might look like for the District of Columbia, and (iii) inform how public policy can increase shared prosperity and opportunities in this central city of a large metropolitan area.

**Work agenda and research areas for 2021-22**

The goals of the Alice M. Rivlin Initiative for Economic Policy and Competitiveness is to help build a data-driven strategic vision that will support a strong, growing, and competitive local economy for the benefit of all District residents.

To this end, and in its first two years, the Initiative will focus on regional economic dynamics, especially the impact of the COVID-19 pandemic on the District and region’s immediate future. We will produce four major research papers focusing on regional economic dynamics. We will also produce smaller publications tracking the District’s economy, fiscal position, and economic recovery.

The complexity of competitiveness has been emphasized by economists over the past several years. A 2014 survey of 150 founders of fast-growing companies revealed that while business conditions are considered, location-decisions place the most emphasis on the ability to attract talent, access to transportation networks, and proximity to amenities. Similarly, economist Joe Cortright, has written extensively on the various complex factors that lead to economic success in cities including young talent, potential for innovation, accessibility, economic integration, and quality of life. As such, the Initiative’s research will examine these issues and identify linkages between government policy including policy that shape the business environment and the cost of doing businesses such as the regulatory and tax climate and public infrastructure, labor market
conditions, and external factors such as demand shifts and national economic conditions, and local economic outcomes.

The following summarizes the research projects planned for the first two years:

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<th>Topic, Goals, and Planned Delivery</th>
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| **Regional Survey of Businesses, Part I**  
**Goal:** To uncover location considerations in the region and decipher what really prompts businesses to choose one jurisdiction over another. The baseline knowledge uncovered by the survey will then help advance additional research topics, enabling the D.C. Policy Center to dig deeper into the results. | The D.C. Policy Center will create a survey that will be sent to businesses that have left the District, those that have recently chosen to relocate to the District, and those that have chosen to stay. The D.C. Policy Center will follow up with in-house focus groups with selected business leaders to provide richer context for understanding how businesses and employers make locational decisions. Potential questions include factors related to the labor market, regulatory and tax environment, proximality to clients, proximity to similar businesses, public infrastructure, venture capital, among others. |
| **Regional Survey of Businesses, Part II**  
**Goal:** To identify business establishments’ location considerations in the region through different phases of their lives; investigate the impact of local policy and other economic, demographic, and external considerations that shape location decisions. The research will identify conditions businesses of various types find most favorable. It will also examine what prompts a business to move in or out of the District of Columbia, and what location considerations are important for businesses. | The D.C. Policy Center will collaborate with a public opinion and survey research firm in collecting data from regional businesses that were once located in the District of Columbia but have since then moved all or some of their operations or employees to somewhere else in the metropolitan Washington region. The survey sample will be selected using the NETS database which provides name, trademark, address, and move histories for business establishments across the region. The participants will be selected to create a representative sample of establishments that have migrated out of the city. |
| **Report on Regional Business Migration and Growth Trends**  
**Goal:** To uncover which jurisdictions have been attracting or creating more businesses, why, and what this means for the District of Columbia. The research will examine if business creation and migration trends have changed over time, and paired with the Report on Regional Workforce Dynamics and the Regional Survey of Businesses, this will provide a comprehensive analysis and regression analysis to understand how businesses have made their location decisions, and whether certain business characteristics can explain these decisions. | This research will include both descriptive analysis and regression analysis to understand how businesses have made their location decisions, and whether certain business characteristics can explain these decisions. |
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<td>whether these trends vary by industry, establishment type, size, or revenue.</td>
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**Report on Regional Workforce Dynamics**  
**Goal:** To understand where the region’s workforce lives, and why. This research will examine labor force participation and migration trends across the region, why and where workers are relocating, and how this contributes to regional and interjurisdictional competitiveness trends, and what the trends mean for the future of the District of Columbia.

The report will use data from the US Census and the Bureau of Labor Statistics to establish a baseline on regional workforce dynamics and how these dynamics relate to inter-jurisdictional differences in economic outcomes. It will also track where workforce diversity is greatest in the region and what factors contribute to the current spatial distribution of the region’s workforce.

We will also produce shorter, periodic analyses of economic and fiscal outcomes in the District, with a specific focus on the pace of recovery. These analyses will offer a timely response to current events or policy discussions that are top of mind for policymakers, business owners, and District residents. Potential topics include:

1. **Labor market outcomes and recovery:** Periodically track jobs data by sector, wage, and location within the region, largely relying on BLS data. These metrics will indicate outcomes in economic growth and competitiveness.

2. **Fiscal outcomes:** Periodically track other indicators of competitiveness and economic growth include tax collections, tax bases, and shifts across bases largely relying on cash and revenue data from the District of Columbia.

3. **Access to opportunity:** To be truly competitive, the benefits of economic growth and new opportunities should be accessible to all residents, uplifting all communities. Where are new businesses being created and where are current job hubs compared to where the workers live?

4. **Job growth and resources:** While one primary indicator of competitiveness and economic growth is the addition of jobs and new opportunities for District residents, access to housing is a key factor in being able to retain those jobs and attract workers to fill those positions. Are housing units in the District of Columbia keeping up with the growth in jobs? For all incomes? Are there groups of workers not being adequately accommodated?

5. **Commercial real estate and zoning:** The COVID-19 pandemic has changed demand in the commercial real estate market in the near-term and long-term impacts remain uncertain. However, even prior to the pandemic, there were conversations surrounding office vacancies, how the height limit in the District impacts development, and the potential value of conversions. Potential Research questions include: How much space is left for growth in each ward? Are there opportunities to uniquely use vacant office space
to increase competitiveness? How does the COVID-19 pandemic impact the demand for commercial space and amenities?

6. **How has the tax base shifted?** Since the beginning of the pandemic, the District’s coffers are increasingly reliant on income taxes. What does this mean for the future of tax policy in the District? How did the makeup of the District’s personal income tax base shifted over time? What are the risks associated with this tax base?

7. **What is happening to the incomes of federal workers?** High federal wages have been a primary source of attracting talent to the District and the metropolitan region. However, in the last 30 years, the number of federal workers has declined, and their earnings have not grown as fast as private sector workers in the region. What does this mean for the future of the District and the region?

8. **The fiscal cliff:** The District received $2.4 billion in fiscal aid from the federal government through the American Rescue Plan Act and has already planned for the use of these funds in fiscal years 2022 through 2024. This federal funding is the equivalent of about 9 percent of local tax revenue the city is projected to collect through these three years. What happens when the federal fiscal aid disappears?

9. **Economic diversification:** To date, the District's economy has been dominated by a few key Industries, such as the federal government and professional services. If anything, the pandemic reduced economic diversification, making the city even more reliant on these two industries. As part of this Initiative, we will assess the existing industry mix and identify emerging trends that can lead to bold, innovative ideas for diversifying the city's economy.

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**Endnotes**

6. NETS database
7. In 1990, the District accounted for 38 percent of all non-farm employment and 31 percent of private sector employment in the metropolitan Washington area; in 2019, just before the pandemic, these shares had declined to 29 percent and 26 percent.

8 D.C. Office of Revenue Analysis, Economic and Revenue Trends.


10 In July of 2021, 48 percent of residents aged 18 or older reported that at least one adult in their household worked remotely; and this share was 70 percent among those with a household income of $100,000 or more. U.S. Census Bureau, Household Pulse Survey, Telecommuting Patterns, Week 33.

11 This is not just a D.C.-specific problem: a recent survey of over 2,000 leaders in key office markets found that by the summer of 2021, nearly half the companies in such markets were planning to reduce their office footprints. The survey was conducted by Gensler, and the report is available here, and coverage available here.

12 Data from WMATA show that in June of 2021, average daily ridership for Metro was one fifth of what it was in June of 2019. WMATA, Rail Ridership Data Viewer, accessed on September 1, 2021.

13 Based on revenue estimates published by the Office of the Chief Financial Officer.

14 This is an estimate based on what is available for lease or will be available soon based on data from 502 large office buildings with a total inventory of 115 million sq. ft. At present, there are about 20 million sq. ft vacant in D.C. (data from Avison Young).

15 Based on data from 502 large office buildings with a total inventory of 115 million sq. ft.


17 From March to June of 2021, single family homes in the District appreciated by 8 percent in value. In suburban and exurban locations, home values appreciated in double digits, sometimes by as much as 20 percent through the same period. For details, see Sayin Taylor, Yesim (2021). “The Declining Importance of Commute Times.” D.C. Policy Center, Washington D.C.

18 Moored, Ginger (2021). “D.C. Lost at Least 17,000 More People During the Pandemic Than in the Prior Year, According to USPS Data on Net Moves. At Least 9,000 of the Loss Appears to be Permanent.” Districtmeasured.org, D.C. Office of Revenue Analysis, Washington D.C.


22 From the lowest point in 1999, the city added 273,000 new residents. U.S. Census Bureau, Resident Population in the District of Columbia [DCPOP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DCPOP, July 1, 2021.


28 Joe Cortright (2011), City Vitals, CEOs for Cities.