

Montgomery County and Fairfax County: Economic Performance and Federal Dependence

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There has been concern in Suburban Maryland that it is being outperformed economically by Northern Virginia ([here](#)). Given that Suburban Maryland and Northern Virginia are both suburbs of the Washington, DC metro area, economic differences are usually declared to result from public policy differences such as tax structure. This report examines the performance of the two largest jurisdictions in these sub-regions and suggests an alternative driver of economic differences. The two jurisdictions examined are Montgomery County, Maryland, and Fairfax County, Virginia.¹

Recent economic trends in Fairfax County, VA have been mixed (Table 1). While employment and wages increased year-over-year in 2017 and 2018, the number of establishments declined modestly year-over-year in 2017 and increased only slightly in 2018.

Table 1. Fairfax County Economy

		2016	2017	2018
Level	Employees	595,313	601,868	612,537
	Establishments	37,312	37,195	37,276
	Wages (Thousands)	48,498,252	50,624,616	52,916,489
% Change	Employees		1.1%	1.8%
	Establishments		-0.3%	0.2%
	Wages		4.4%	4.5%

Source: Quarterly Census of Employment and Wages, Total Covered.

The economic trends in Montgomery County, MD were similar over the same period (Table 2). While employment and wages also increased year-over-year in 2017 and 2018, the number of establishments increased slightly year-over-year in 2017 and declined by 3 establishments from 2017 to 2018.

Table 2. Montgomery County Economy

		2016	2017	2018
Level	Employees	463,967	469,311	470,884
	Establishments	32,962	33,044	33,041
	Wages (Thousands)	33,268,426	34,426,023	35,622,172
% Change	Employees		1.2%	0.3%
	Establishments		0.2%	0.0%
	Wages		3.5%	3.5%

Source: Quarterly Census of Employment and Wages, Total Covered.

¹ Data from the QCEW from 2016 to 2018 is used to avoid major data revisions.

While the trends were broadly similar, there are some notable differences between the two economies. Specifically, employment and wage growth were lower in Montgomery County than in Fairfax County from 2017 to 2018. Employment increased 1.8 percent in Fairfax County and just 0.3 percent in Montgomery County from 2017 to 2018. Wages increased 4.5 percent in Fairfax County and only 3.5 percent in Montgomery County over the same period. It is frequently suggested that the slower growth in Montgomery County is a result of its tax rate.

Another likely source prompting economic differences between the sub-regions is federal procurement spending. In fact, federal procurement spending increased in Fairfax County and decreased in Montgomery County from 2016 to 2018 (Table 3).² Federal procurement spending in Fairfax County increased 0.6 percent from \$24.06 billion in 2016 to \$24.20 billion in 2017. Federal procurement spending then increased dramatically in Fairfax County, increasing 10.0 percent from \$24.20 billion in 2017 to \$26.62 billion in 2018. In contrast, federal procurement spending in Montgomery County decreased substantially over the same period. Federal procurement spending in Montgomery County declined 8.2 percent from \$9.73 billion in 2016 to \$8.93 billion in 2017. While federal procurement spending increased a modest 1.2 percent from \$8.93 billion in 2017 to \$9.04 billion in 2018, the amount of federal procurement spending in 2018 was lower than in 2016. Lower federal procurement spending in Montgomery County as compared with Fairfax County is a more likely cause of the slower growth than minor policy differences.

Table 3. Federal Procurement Spending

		2016	2017	2018
Fairfax County	Federal Spending (Billions)	24.06	24.20	26.63
	% Change		0.6%	10.0%
Montgomery County	Federal Spending (Billions)	9.73	8.93	9.04
	% Change		-8.2%	1.2%

Source: USAspending.gov. Federal Fiscal Years.

In contrast to worry among local leaders, Montgomery County is developing in a positive direction by reducing its reliance on the federal government. To coarsely measure federal dependence, federal procurement spending is taken as a share of total covered wages. While the time periods don't match exactly, the federal fiscal year runs from October 1st to September 30th, aligning the time periods is unlikely to change the result. This measure reveals that federal procurement spending accounted for only about a quarter of wages in Montgomery County in 2018 compared with over 50 percent in Fairfax County in 2018 (Table 4). Furthermore, the share of wages that federal procurement spending accounted for decreased in Montgomery County from 29.2 percent in 2016 to 25.4 percent in 2018. In contrast, the share of wages that federal procurement spending accounted for increased in Fairfax County from 49.6 percent in 2016 to 50.3 percent in 2018. Finally, it is highly unlikely that firms are choosing to open in Fairfax County due to lower taxes or general business friendliness of Northern Virginia, thus driving the increase in employment, as the number of establishments *declined* from 2016 to 2017 in Fairfax County and increased only modestly from 2017 to 2018 (Table 1).

² Federal procurement spending includes prime contracts by place of performance.

Table 4. Federal Dependence (Federal Spending as a % of Wages)

	2016	2017	2018
Fairfax County	49.6%	47.8%	50.3%
Montgomery County	29.2%	25.9%	25.4%

Source: Quarterly Census of Employment and Wages, Total Covered; USAspending.gov

Despite concerns that Montgomery County is being outperformed by its southern neighbor, it appears likely that they are simply developing in different directions. Montgomery County is becoming less reliant on the federal government while Fairfax County is becoming more federally dependent. While employment and wage growth has been modestly lower in Montgomery County than in Fairfax County in recent years, developing into a truly private-sector economy is perhaps worth the slightly slower growth.