

# The Economic and Fiscal Impact of Foreign Missions on the Nation's Capital



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*Prepared for the National Capital Planning Commission*

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## **Executive Summary**

International business is one of the District of Columbia's three primary core industries. The combination of these three core industries—the federal government, the hospitality industry and international business—provides the foundation for the District's economy. These core industries are the principal sources of externally generated money that is subsequently re-spent within the city's economy generating jobs and personal earnings in its supporting businesses. The District's comparative advantage for international business reflects the interdependencies among the federal government, international organizations and foreign missions in combination with the hospitality industry. These core industries largely determine the economy's performance and will shape its future vitality.

International business, with direct spending totaling an estimated \$10.4 billion in the District of Columbia, is the District's second most important source of economic activity following the \$28.25 billion in annual federal spending within the city. While the economic impacts of the federal government are easily identified and measured, the economic impacts of international business reflect a diverse range of related activities including international organizations and associations, international tourism, internationally owned businesses, international students, business and professional services having international clients, and the embassies and related services provided by foreign governments.

The presence of foreign missions within the city, besides fulfilling their individual diplomatic functions, serves as a catalytic force within the international business industry. Foreign Missions generate country-to-country business opportunities as well as attract visitors seeking individual or multiple-country contacts. In aggregate, foreign missions represent a market opportunity for a wide range of business and other professional services, services that also serve international organizations and federal agencies. Even though foreign missions by themselves are not major employers or sources of commercial activities, they represent a critical component of the international business industry. That 169 foreign missions are clustered within the District of Columbia, representing the world's major countries and with few exceptions constituting its largest chancery, makes them an economic force far exceeding their measurable benefits.

The economic and fiscal impact study presented herein has identified specific measurable sources of spending and their fiscal impacts on the District but does not capture all economic impacts. While these measurable impacts support jobs and generate income in the District economy, the unreported benefits may be more important to achieving a diversified and expanding economy built on the city's inherent comparative advantages and a future economy that reflects the city's unique advantages relative to the Washington suburbs and other competing metropolitan centers.

The principal findings of this economic and fiscal impact analysis are as follows:

- Foreign missions employ a total of 9,681 workers in the District of Columbia with an annual payroll, inclusive of housing allowances, estimated to total \$292.5 million; 20.5 percent of this payroll or \$59.976 million is received by foreign mission workers residing in the city.
- Consumer spending by foreign mission employees in the District of Columbia is calculated to total \$32.4 million with this spending, adjusted for its indirect effects, representing a contribution to the city's gross state product totaling \$41.6 million.
- The consumer spending by foreign mission employees in the city supports 148.6 full-time equivalent year-round jobs in retail and other businesses generating annual personal earnings of \$3.8 million.
- Non-payroll spending by foreign missions is estimated to total \$257.7 million with 36.5 percent of these outlays captured by District-based businesses.
- Non-payroll spending by foreign missions in the District of Columbia for leasing of office space, the operations of owned properties, utilities, entertainment, office supplies, and professional and other contract services is estimated to total \$93.97 million; the total contribution of this spending to the city's gross state product, including its indirect effects, is \$127.5 million and supports 376 jobs with \$12.6 million in personal earnings.
- Foreign missions attract a large volume of day visitors and business visitors staying overnight; these visitors whose stay in the District is directly linked to services of foreign missions represent almost 900,000 hotel-room nights annually and spending totaling \$183.4 million in the city for lodging, food, retail purchases and other services.
- This visitor spending contributes a total of \$241.9 million to the city's gross state product and supports 1,126.5 full-time equivalent year-round jobs generating a total of \$27.7 million in personal earnings.
- Even though foreign mission properties are exempt from local taxes and their operating outlays and some salaries also are tax exempt, some direct foreign mission spending and spending by many of their employees as well as spending by visitors attracted to the District by the presence of foreign missions is subject to local taxes. It is estimated that the District will realize a total of \$23.9 million annually from taxes generated by non-exempt spending exclusive of property tax revenues generated by the 400,000 square feet of leased space occupied by foreign missions and the rental housing units occupied by the almost 2,000 foreign mission employees residing in the city.

- Decentralization of foreign missions to suburban locations would reduce the economic benefits currently being realized by the District of Columbia; spending by the employees of foreign missions would decrease from \$32.4 million to \$8.5 million while non-payroll spending would decrease from \$94.0 million to \$38.6 million while the District's benefits from foreign mission-generated visitor spending is largely independent of embassy location and would not decrease substantially.

Foreign missions have been shown to enrich the District of Columbia in many non-economic ways that are linked to their location within the city. Their presence and interdependence with other international and domestic organizations clustered within the city reinforce its national capital functions and position as a world capital. The benefits gained by the city from the location of foreign missions have been shown to be positive in both economic and fiscal terms and there is no firm evidence that the space occupied by foreign missions displaces other more productive economic uses. To the contrary, the continued growth and vitality of the city's international business industry is closely tied to maintaining its dominant position as the power center among world capitals. This dominant position would be substantially weakened if foreign missions were not located within the District of Columbia.

# **The Economic and Fiscal Impact of Foreign Missions on the Nation's Capital**

## **Introduction**

The District of Columbia economy has become more narrowly specialized during the past decade while the suburban economies have become more diversified. This shift in the metropolitan economy to the suburbs is seen in the decline of the District's residential and employment bases. Still, the District of Columbia has continued to play an important role in the growth and vitality of the metropolitan economy accounting for 25 percent of its gross regional product—the value of goods and services produced—in 2000. Previous research has documented the District's economic importance to the health of the suburban economy as the headquarters location for the area's core industries—the federal government, international business, and the hospitality industry. The strength of the regional economy is derived from the economic interdependencies between the District and suburban economies with each part benefiting from growth in the other.

The District of Columbia's gross state product (GSP) totaled an estimated \$57.2 billion with \$28.25 billion of this comprised of direct spending by the federal government within the city for payroll, procurement, retirement benefits, and grants and transfer payments. With federal spending accounting for almost half of GRP, the importance of the federal government to the city's economic health is clearly established. The hospitality industry has long been recognized as a major economic force within the city and remains important to its vitality. Although its contribution to GSP, estimated at \$4.0 billion or 7 percent, is much smaller than the federal government, as the nation's capital the city possesses a unique position as a tourist destination and location for business meetings and conventions.

As a world capital, the District also has a unique advantage for international business. While international business has only recently achieved its full recognition as a major source of jobs and income in the area's economy, the District has a long history of hosting international organizations, embassies, and associations having worldwide membership, and the business and professional services that support these activities. The Greater Washington Initiative sponsored a study in 1998 that for the first time documented the importance of international business in the area economy. This study was updated in 2001 and found that international business accounted for 10 percent of the metropolitan economy. These international business activities are centered in the District of Columbia, and, while an exact breakdown in their distribution across the metropolitan region was not made, a conservative estimate would assign half of these benefits to the District's economy. At that level, international business would account for \$10.4 billion or about 18 percent of the District's GSP.

These core industries—the federal government, international business and the hospitality industry—are the District of Columbia's principal sources of external funds attracted into the local economy to support jobs and generate income that is recycled within the

economy supporting retail trade, services, and other related jobs. The fact that the District's core industries are closely linked, that the activities of one core industry generates business for the others, distinguishes the city's economy from others as well as provides growth opportunities and protection from national business cycles. The importance of any one major component of the international business industry in its growth and vitality as a core industry will be larger than its direct spending due to these interdependencies.

The city's international business base is built on the interdependencies among international governmental and non-governmental organizations and the federal government with the hospitality industry and a broad range of local professional and other supporting services being the primary beneficiaries of the jobs and income this industry generates. The concentration of the international business industry in the District of Columbia, with its supporting activities and beneficiaries, represents one of the city's primary economic advantages that distinguishes its economy from the economies developing in the suburbs.

Foreign missions comprise one component of the international business industry. Their direct economic impacts are generated by the spending associated with the operations of the missions and the business activities within the local economy that their presence generates and supports. The measurement of these impacts on the District of Columbia involves identifying the sources of the various types of spending generated by foreign missions and their related visitors and where this spending occurs. While these identifiable spending flows are important sources of jobs and income in the city's economy, they are not the only economic impacts flowing from the presence of foreign missions. In fact, the economic impacts of non-quantifiable benefits may be more important than the benefits that can be measured. The presence of foreign missions also helps to establish the unique or comparative advantage that makes the city attractive to a wide range of related economic activities.

The District of Columbia economy is large and complex. In a \$57 billion economy, the economic impacts of one foreign mission will not be significant. The combined impacts of 169 foreign missions may also appear small in the context of the total economy. Still, as a catalyst for one of the District's three principal core industries, foreign missions appear to represent a complex of economic activities far more important than the sum of their direct and indirect spending would indicate. The measurable and non-quantifiable economic dimensions of foreign missions and their fiscal impacts on the District of Columbia are presented in the following pages.

### **Spending By Foreign Missions**

The spending by foreign missions in the Washington metropolitan area constitutes a primary source of their economic impact. This spending reflects two major categories: payroll and operations. From an economic perspective, foreign missions operate like other businesses. They hire and pay a work force to conduct and support their functions and they operate the facilities where this work force is housed. The work force and the

work in which they are engaged may be different in some respects from other businesses located in the District, but in other respects these workers and the operational outlays of foreign missions are quite similar. Embassy employees spend their payroll in much the same way as any other employees: for housing, utilities, transportation, health services, food and clothing, and other personal consumption, savings, and taxes. The operations of foreign missions require outlays similar in many respects to other businesses. They include payments for rent, building operations and management, utilities, transportation, office equipment and supplies, entertainment, and professional and other services. The magnitude and geographic distribution of this spending determines its economic impacts and beneficiaries.

### **Data Sources and Methods**

The calculation of these direct outlays of foreign missions involved collection of budget and spending information. This was accomplished by a combination of three surveys: a mail survey to all foreign missions; a telephone survey to a sample of foreign missions reflecting selected countries based on country population groupings; and in-person interviews at selected missions based on geographic representativeness and also including major trading partners. The results of these surveys were tabulated and averaged on a per-employee basis. These averages provide the basis for extrapolating sample survey data to all 169 foreign missions located in the District.

The calculation of foreign mission employee spending patterns is based on average consumer spending profiles developed by the U.S. Department of Commerce. While consumer spending varies by household income, ethnic group and other demographic factors, as well as place of residence, using the average pattern provides the best profile across all countries. The non-payroll operational spending of foreign missions was developed from information provided from the surveys supplemented by industry standards for selected spending categories (e.g., utilities, building management and maintenance).

Spending patterns by location of retail outlet or service vendor reflect information on the distribution of consumer spending relative to place of residence and information provided from in-person interviews at foreign missions. Applying these spending patterns across the diverse size and functions of 169 foreign missions and their almost 9,700 employees will not produce an accurate to-the-dollar accounting of the direct spending flowing from these foreign missions to the local economy. However, it will provide a valid estimate of the magnitude and geographic distribution of this spending comparable to other information available.

The total output value of this payroll and operations spending was estimated by applying sectorally specific multipliers that measure the indirect and induced economic effects of the initial spending outlays. These multipliers were developed by the Bureau of Economic Analysis of the U.S. Department of Commerce in 2000 (RIMS II) for the District of Columbia and provide the basis for calculating the total contribution of the spending by foreign missions to the city's gross state product (GSP) as well as the jobs

this spending supports in the District and the personal earnings these jobs generate. These jobs and earnings are associated with the vendors and other businesses patronized by the foreign missions and their employees in the District of Columbia.

### **Spending by the Workforce of Foreign Missions**

The 169 foreign missions represent a work force estimated to total 9,681. This work force includes diplomatic personnel and support staff as well as military attaches and other supporting personnel associated with the foreign mission. The nationalities of this workforce are varied, especially among the larger missions that employ resident nationals and other residents of different national origin as well as U.S. citizens. The combined direct budget outlays of these 169 foreign missions in 2001 is estimated to total \$509.9 million, with \$243.0 million in payroll outlays or 47.8 percent and \$266.8 million in operating expenses. The estimated outlays for each foreign mission, based on their number of employees and average salary and payroll information developed from the survey data described previously, are presented in Appendix I.

A comparison of payroll spending estimates developed by applying averages across all foreign missions and the actual payroll spending information supplied by selective countries revealed an underestimate of 16.4 percent. This underestimate resulted from the mix of countries responding to the various surveys being slightly skewed downward by smaller countries. To adjust the total spending data by this underestimate, the aggregate values were increased by 16.4 percent. As a result, the total payroll value was increased to \$282.9 million. Based on the survey results, 20.5 percent of this payroll or \$58.0 million was received by foreign mission workers residing in the District of Columbia.

A further adjustment to the payroll data was made to reflect housing benefits that are not considered payroll outlays but are spent by their recipients as disposable income. These housing allowances were initially reported as non-payroll expenditures, but for this economic impact analysis, these have been moved to the payroll and consumer spending totals. Including the housing allowances, foreign mission employees residing in the District of Columbia receive an estimated \$59.976 million in payroll benefits while foreign mission employees residing in Northern Virginia and Suburban Maryland had payroll benefits totaling \$232.587 million.

To calculate the economic impact of these payroll outlays requires adjustments for the share of total income spent on personal consumption and for the District of Columbia's capture rate of personal consumption expenditures by its residents and the residents living in the suburbs. With total disposable income estimated to equal 70 percent of total personal earnings and with an adjustment of 2.1 percent for savings, a total of \$41.111 million in personal consumption expenditures remains available to be spent by foreign mission employees residing in the District. With these same adjustments, total personal consumption expenditures of foreign mission employees residing in the suburbs are estimated to total \$159.392 million. The distribution of these personal consumption expenditures across the types of spending is presented in Table 1.



Table 1

**Spending By Employees of Foreign Missions  
by Place of Residence, 2001  
(dollars in millions)**

Type of Spending	District of Columbia	Washington Suburbs	Total
Totals	\$41.111	\$159.392	\$200.49
Housing*	7.398	28.691	36.09
Housing Operations			
Utilities	2.836	10.998	13.83
Furnishings	1.767	6.854	8.62
Other Expenses	1.192	4.622	5.81
Medical	2.178	8.448	10.63
Personal Business	.616	2.391	3.01
Transportation	7.604	29.488	37.09
Recreation	2.137	8.288	10.42
Education	.863	3.347	4.21
Charitable/Religious	1.192	4.622	5.81
Clothing & Other Retail	2.055	7.970	10.03
Food			
Groceries	3.411	13.230	16.64
Restaurants	2.262	8.766	11.03
Tobacco & Alcohol	.668	2.550	3.21
Insurance/Financial	1.028	3.985	5.01
Taxes**	3.904	15.142	19.05

\*excludes Ambassadors' residences. \*\*these represent various types of local sales and use taxes that reduce the total dollar value of spending on personal consumption; this spending is excluded from the "direct expenditures" shown in Table 2.

After adjustments for shopping patterns for foreign mission employees residing in the District and the suburbs, the direct spending for consumption goods and services that will be captured by retail and other businesses located in the District of Columbia can be calculated. These direct spending flows in the District of Columbia, resulting from personal consumption spending by employees of foreign missions, are estimated to total \$32.362 million. This total reflects spending of \$25.882 million by foreign mission employees in the city accounting for 63 percent of their total personal consumption spending with the remainder of their retail spending taking place in the suburbs. Additionally, spending in the city by foreign mission employees residing in the suburbs is

estimated at \$6.48 million accounting for 4 percent of their total personal consumption spending potential.

This direct personal consumption spending in the District will generate a total contribution to the city's GSP of \$41.58 million and support 148.6 full-time equivalent year-round jobs in the city with total annual personal earnings of \$3.834 million. The distribution of these personal consumption outlays are presented in Table 2.

Table 2

**Economic Impacts of Foreign Mission Employee Spending  
in the Nation's Capital, 2001  
(dollars in millions)**

Type	Direct Expenditures	<u>Economic Impacts</u>		
		Total Output Value	New Jobs	Personal Income
Housing	\$7.398	\$8.68	6.4	\$0.223
Housing Operations				
Utilities	3.102	3.78	3.3	.155
Furnishings	.785	1.04	5.6	.115
Other Expenses	.596	.91	2.7	.086
Medical	2.479	3.29	10.2	.403
Personal Business	.824	1.18	10.0	.178
Transportation	3.983	4.89	14.1	.531
Recreation	2.859	3.98	15.1	.459
Education	.599	.84	3.5	.087
Charitable/Religious	1.404	1.97	19.5	.431
Clothing/Other Retail	.913	1.21	6.6	.133
Food				
Groceries	2.285	3.02	16.4	.334
Restaurants	3.026	3.87	26.7	.441
Tobacco/Alcohol	.786	1.04	5.6	.115
Insurance/Financial	1.323	1.88	2.9	.143
<b>Total Impacts</b>	<b>\$32.362</b>	<b>\$41.58</b>	<b>148.6</b>	<b>\$3.834</b>

The estimated payroll generated by the 168 foreign missions located in the District of Columbia in 2001 will total \$282.9 million with foreign mission employees residing in the city accounting for 20.5 percent or \$59.0 million. Adding in an adjustment for housing allowances, the District of Columbia benefits from a direct payroll spending by its foreign missions of \$59.976 million. These earnings and the earnings of foreign

mission employees residing in the suburbs represent the housing, retail and personal services market potentials that will benefit city-based and suburban merchants. It is estimated that the District's share of this disposable income spending for personal consumption will total \$32.362 million. With a combined multiplier of 1.285, these outlays will contribute a total of \$41.6 million to the District's GSP and support 148.6 jobs in the District with annual personal earnings of \$3.8 million.

### **Non-Payroll Spending by Foreign Missions**

Of every dollar spent by foreign missions, 52.2 percent is spent for non-payroll operations. These expenditures include leasing costs for buildings not owned by foreign governments and outlays for building operations and management, utilities, entertainment including catering, transportation including leasing of vehicles, office equipment purchases and rentals and office supplies, professional services, and for other retail and service expenditures. These non-payroll outlays are estimated to total \$257.17 in 2001. Based on the foreign missions survey, District-based businesses will capture 36.5 percent of these outlays or a total of \$93.97 million. The distribution of these non-payroll outlays between the District and the suburbs and among major spending categories is shown in Table 3.

Outlays for leased buildings were estimated based on data provided by the Department of State that showed a total of 60 leased locations and a second listing that identified 47 leased building locations with the number of employees identified out of a total of 305 locations. These 47 locations housed 781 workers or 8 percent of the foreign mission workforce. Based on the foreign mission survey, the average building square foot per worker in chancery buildings was 500 and in annexes was 423. The total volume of building space leased by foreign missions was estimated by applying these utilization levels to the mix of leased space. The 47 leased building locations in the District represent approximately 400,000 square feet. As most of the office space leased by foreign missions is not considered A-Class space and generally is not in the high-cost sub-markets, a rate of \$22 per foot was used to calculate the estimated lease cost for this space.

The economic impacts of these non-payroll outlays by foreign missions in the District are presented in Table 4. The direct expenditure of \$93.97 million by foreign missions in the District will contribute a total of \$127.51 million to GSP, reflecting an aggregate multiplier of 1.36. This local spending will support a total of 376 full-time equivalent jobs in the city with annual personal earnings of \$12.596 million. Combined with payroll spending, foreign missions account for \$169.1 million of the District's economy and support 524.6 jobs with annual total personal earnings of \$16.43 million.

Table 3

**Non-Payroll Spending by Foreign Missions  
in the Washington Metropolitan Area, 2001**  
(dollars in millions)

Spending Category	District of Columbia	Suburbs	Total
Totals*	\$93.97	\$163.20	\$257.17
Leasing	8.80		8.80
Building Operations	12.54	38.89	51.43
Utilities	12.92	6.37	19.29
Catering & Entertainment	32.79	10.93	43.72
Transportation	3.86	34.71	38.57
Office Equipment & Supplies	1.93	10.93	12.86
Professional Services	13.89	32.40	46.29
Other Expenditures	7.24	28.97	36.21

\*excludes employee housing allowances and off-budget outlays

Table 4

**Economic Impacts of Non-Payroll Spending  
by Foreign Missions in the Nation's Capital, 2001**  
(dollars in millions)

Spending Category	Direct Outlay	Total Output	New Jobs	Personal Earnings
Leasing	\$8.80	\$11.02	16.0	\$.468
Building Operations	12.54	17.25	38.5	1.846
Utilities	12.92	16.15	12.4	.646
Catering & Entertainment	32.79	45.62	173.1	5.269
Transportation	3.86	4.76	34.8	.534
Office Equipment & Supplies	1.93	2.56	13.9	.281
Professional Services	13.89	19.09	54.7	2.504
Other expenditures	7.24	11.06	32.6	1.048
Totals*	\$93.97	\$127.51	376.0	\$12.596

\*excludes employee housing allowances and off-budget outlays;

## **Visitor Spending**

Foreign missions attract a large number of visitors to the District of Columbia each year. Four distinct groupings were identified each having different economic impact potentials: area residents seeking services on a walk-in basis; country nationals visiting the Washington area in need of services from their respective embassies; domestic and international business travelers; and official or hosted delegations.

Area residents seeking a variety of travel and other services are seen as foot traffic entering a foreign mission. These visitors may include U.S. citizens seeking visa or travel-related services or emigrants in need of home-country services. It is estimated that there are more than 168,000 of these types of visitors annually coming into the city to visit a foreign mission. These visitors generally do not engage in incidental spending before or after these embassy visits although some may incur transportation and parking costs and some may stay in town for a meal or conduct some other business on the same trip. Attracting this type of visitor will have some economic benefit for the District of Columbia but its magnitude cannot be calculated here.

Country nationals traveling in the United States and visiting Washington, DC may also require travel or passport services and visit their embassy as part of their stay in the Washington area. The average length of visits by international travelers to Washington is 5.6 days. If foreign visitors include visits to their embassy in their itinerary, this could prolong the visit. With an estimated 122,860 of these types of visits to foreign missions, extending the length of stay by one extra day would add \$20.3 million dollars in spending to the economy.

Business development and trade are major activities of foreign missions. These activities include servicing domestic business visitors as well as business visitors from other countries including the home country. These visits generally have the purpose of developing business contracts and securing information on exports and imports. These trips involve an estimated 109,316 visitors annually and include a multiple-day visit to the Washington area. This type of general business visitor may combine other business or tourist activities with this trip. On average this visit would include two overnight stays in a local hotel.

Foreign missions host, organize and sponsor official delegations covering a range of trip purposes. The foreign mission survey data showed that an estimated 21,283 delegations were expected to be hosted in 2001 with an average of five members each staying locally on average for 5 days. It is common that trade or government delegations are larger than this average but those are much less frequent than the normal business delegation. These delegations would require an estimated 530,000 hotel room nights on an annual basis.

Visitor spending patterns were developed in a study of the hospitality industry prepared in 1995 for the Washington, DC Convention and Visitors Association by the Greater Washington Research Center. From that research it was established that 93 percent of all business visitors stay in hotels and that those staying in hotels located in the District buy

almost all of their food and beverages and approximately half of their retail purchases in the city. Where transportation outlays occur depends on the type of visitors. International visitors are less likely to use public transportation or rent cars than domestic visitors but rely to a greater extent on taxis for moving around the city.

Based on this broad-based survey and specific information spending describing international visitors, a spending profile of the various visitor groups attracted to the District of Columbia to conduct business at a foreign mission or to participate in meetings or conferences sponsored, hosted, or in some direct way related to a foreign mission are shown in Table 5 along with the associated economic impacts. While a large majority of this type of visitor spending remains in the District of Columbia economy, the capture rate for retail purchases and transportation outlays is less. For purposes of this analysis, it is assumed that 50 percent of retail and transportation spending is captured in the District while the other 50 percent benefits merchants located in the close-in suburbs. Of the total \$200.4 million in annual spending in the Washington area by visitors to foreign missions, it is estimated that \$183.4 million or 91.5 percent takes place in the District. This direct spending will contribute a total of \$241.9 million to the city's GSP and support 1,126.5 full-time equivalent year-round jobs with annual personal earnings of \$27.7 million.

Table 5

**The Economic Impacts of Foreign Mission Visitors  
on the Nation's Capital, 2001  
(dollars in millions)**

Types of Spending	Direct Outlays	Economic Impacts		
		Total Output	Jobs	Personal Earnings
Hotel	\$116.7	\$155.4	571.5	\$17.849
Food & Beverages	43.7	56.0	390.0	6.394
Retail Sales	11.7	15.5	85.4	1.709
Transportation	5.2	6.5	47.3	.731
Miscellaneous Expenses	6.1	8.5	32.3	.983
<b>Totals</b>	<b>\$183.4</b>	<b>\$241.9</b>	<b>1,126.5</b>	<b>\$27.666</b>

## **Fiscal Impacts**

While the foreign mission facilities that are owned by their respective counties are not subject to property taxes and the salaries of diplomatic personnel are also generally exempt, much of the spending of foreign missions and the spending of visitors to foreign missions is subject to all local taxes. Additionally, all office space leased by foreign missions in the District of Columbia, estimated to total at least 400,000 square feet, is subject to real property taxes as long as these properties are not owned by any other foreign government. Similarly, with the exception of several countries that provide housing for their staff (e.g., China), almost all housing occupied by employees of foreign missions is rental housing in the private sector and subject to real property taxes.

Besides real property, the principal sources of District tax revenue include personal income, retail sales, meals, hotels and utilities. Other taxes not calculated here but also providing revenues for the District include parking, gasoline, corporate income and personal property. The estimated tax revenues generated annually by foreign missions in the District of Columbia are shown in Table 6.

Excluding real property taxes associated with leased office space and rental housing occupied by foreign mission staff, the locally taxable spending associated with foreign mission spending and spending by visitors attracted to the District of Columbia to do business with or seek services from foreign missions, generated an estimated \$23.9 million in tax revenues for the District. While 91.8 percent of these tax revenues are generated by visitors, the jobs supported by the spending of foreign missions and their personnel and visitors, account for \$1.05 million or 4.4 percent, with the remainder coming from taxable spending by employees of foreign missions residing within the city.

## **Other Benefits**

Foreign missions contribute to the District of Columbia's economy in other important ways. With a few minor exceptions, each country's embassy in Washington is its largest embassy worldwide. The presence of these "largest" foreign missions clustered within convenient proximity to federal and congressional offices, other major international organizations such as the International Monetary Fund and World Bank, and high quality supporting services and visitor amenities, makes the District an increasingly attractive center for international business. This locational advantage is important to the District's economic future health as international business has emerged in recent years as the District's second most important core industry following the federal government.

Table 6

**Fiscal Impacts of Spending by or Related to  
Foreign Missions in the Nation's Capital, 2001**

Revenue Sources	Tax Revenues	
<b>Personal Income*</b>		
Foreign Mission Staff		
U.S. citizens	\$86,230	
Non-citizen residents	676,911	
District Jobs Supported (1)	846,643	
Subtotal		\$1,609,784
<b>Retail Sales**</b>		
Foreign Mission Staff	\$42,853	
Visitors to Foreign Missions	672,750	
District Jobs Supported (1)	45,640	
Subtotal		\$761,243
<b>Restaurant Sales***</b>		
Foreign Mission Staff	\$69,328	
Visitors to Foreign Missions	4,370,000	
District Jobs Supported (1)	66,144	
Subtotal		\$4,505,472
Hotel		\$16,926,865
<b>Utilities</b>		
Foreign Mission Staff	\$21,714	
District Jobs Supported	92,206	
Subtotal		\$113,920
<b>Total Tax Revenues</b>		<b>\$23,917,284</b>

\*assumes 80% of gross income is taxable at an average of 8%;

\*\*based on 21.5% of gross income spent on retail sales subject to tax with 25% of retail spending by residents captured by city vendors;

\*\*\*spending for meals outside of the home weekdays and weekends;

(1) DC jobs supported by foreign mission and related spending in the District; 30 percent of these jobs are held by DC residents.



The growth of the international business industry has supported the growth of the city's private sector, especially its business and management services that have been largely responsible for the city's job growth since the mid-nineties. The business development and visitor opportunities that this agglomeration of foreign missions and other related governmental and international organizations represents endow the city with a unique economic development advantage over other metropolitan centers and over its own suburban neighbors. Being able to meet with multiple country representatives of missions with a full range of trade and business-related services, as well as federal agencies, all in one central location makes the District of Columbia an investor's and exporter's dream. No other capital city is as well positioned to serve the global economy as is Washington, DC. This economic development potential is far from being fully realized within the city and continues to offer the District significant growth opportunities on which to build its future economic vitality.

Foreign missions contribute to the District's quality of life in other important ways. A full enumeration is impossible but a few examples will illustrate this range of outreach activities that may also have favorable direct or indirect economic impacts cutting across other sectors. Many countries operate cultural centers that are open to the general public in which they display arts and crafts, their customs, and history. These centers are popular stops for school trips and for local residents as well as tourists visiting the city. Many countries celebrate their national day with public events that along with their cultural activities help to educate Washington area residents to the world's cultural diversity.

Outreach activities of foreign missions have extended into the District school system including adopt-a-school programs and support for geography and other topical studies. Foreign missions regularly arrange for performers and other cultural programs to come to the District. For example, the Canadian Embassy operates a program that brings Canadian theatrical performances to the District; \$60,000 of the Cultural Affairs' \$80,000 annual operations budget goes directly to support DC theaters assisting them to stage Canadian plays. Some foreign missions have meeting spaces within their buildings and general-purpose spaces in which various programs are open to the public while other programs are targeted to narrower audiences. These activities contribute to the city's cultural and educational resource base making it a more attractive place to live.

Due to the clustering and convenient proximity of the foreign missions in the District, interaction between countries and among nations reflecting similar regional interests has become common. African and Asian nations, respectively, have organized associations that can facilitate exchanges among member countries as well as offer some smaller or poorer nations opportunities that they may not have had individually.

Foreign missions have provided essential services to the emigrant population that has become so important to the growth of the area economy. Besides helping emigrants make the transition to the region, their embassies also help them with communications and issues back in their home countries. As emigration has been so important to the region's and city's economic growth during the past decade, fueling local entrepreneurship and

enriching the area's cultural base, the link between this emigration to the Washington area and the presence of their respective embassies should not be discounted. Without this influx of foreign workers, attracted to the Washington area because of its national capital status and with its full complement of foreign government services, the area's economy would not have been able to sustain its recent strong growth pattern in future years.

### **Costs of Relocation**

The relocation of foreign missions from the District of Columbia to suburban jurisdictions would have two levels of economic impact on the city. The first would involve the loss of a portion of the current economic benefits that accrue to the District economy from the employee and operational spending associated with the foreign missions. If there were no foreign missions located in the District, it is estimated that employee and non-payroll spending would decrease by \$79.3 million from current levels. This decrease in spending within the District economy would result in the loss of 331 jobs and personal earnings totaling \$10.25 million. The fiscal impact of this decreased spending would equal \$1.4 million.

The relocation of foreign missions from the city would also impact visitor spending in the city. While some retail sales, transportation, food and beverage sales and hotel room nights would shift to the suburbs with the foreign missions, the District would continue to retain the majority of its current market share of this visitor spending and its fiscal benefits. These impacts are summarized in Table 7.

The second level of economic impact involves the loss of the catalytic benefits that are the foundation of the District's international business industry. With the loss of its locational monopoly on foreign missions, the District's other international and supporting professional services would have fewer reasons to remain in the city. There are many parallel cases that illustrate the sequence of city to suburban migration of economic activities. It is reported that there are 2,500 associations headquartered in the Washington area and another 1,000 associations with offices in the region; it is estimated that only half of these are located in the District. As associations have become more dispersed through out the region, supporting hotels, conference facilities and retail services have developed in the suburbs to serve these associations. At one time, all the major telecommunications firms were located in the District. As these moved to the suburbs, they become part of an information and telecommunications industry that has become the source of significant economic growth in the suburbs, growth that the District has not shared. Similarly, the retail sector, once centralized in the city with multiple department stores, has shifted to the suburbs to follow market opportunities.

Table 7

**Potential Economic Costs of Foreign Mission Relocation  
from the Nation’s Capital to the Suburbs  
(dollars in millions)**

Source of Impact	Loss of Spending In the District	Job Loss In the District	Loss of Earnings	Fiscal Impact
Employee Spending*	\$23.9	109.7	\$2.83	\$1.38
Non-Payroll Spending**	\$55.4	221.6	\$7.42	\$0.00
Visitor Spending***	\$45.8	281.6	\$6.92	\$5.54
Totals	\$125.1	612.9	\$17.17	\$6.92

\*assumes employee spending patterns reflect suburban patterns

\*\*assumes foreign missions contract for services in proximity to their location and that all non-payroll spending by foreign missions is tax exempt although contractors are subject to all local taxes.

\*\*\*assumes visitors shift a portion of their District spending to locations convenient to location of the host or client foreign missions.

The District’s economy has become more narrowly structured as a result of suburban competition. Presently, its economy is built on its three primary core industries, industries for which it continues to hold a competitive advantage over alternative suburban locations. The federal functions housed in the District have steadily shifted to the suburbs and only its headquarter functions remain as a major economic force in the city’s economy. The hospitality industry remains strongly centered in the District but it is also seeing tourist spending shift to the suburbs which have almost double the number of hotel rooms than in the city and a growing list of attractions. Business travelers are increasingly staying in suburban hotels as the businesses they are visiting are now located in the suburbs. The international business industry remains anchored in the District because of its interdependencies with federal and international governmental organizations. While the federal functions will remain centered in the city, if any of the international organizations relocated to the suburbs, the economic and psychological linkages that have created favorable agglomeration economies would be broken and the District’s locational advantages would erode and undermine its core industry having the greatest growth potential.

While such a wholesale relocation of foreign missions from the District of Columbia is a purely hypothetical construct, its economic costs should be recognized as they also underscore the District’s benefits by hosting these foreign missions. Off-setting these benefits are a range of opportunity costs. However, these opportunity costs may be more mythical than real. The presence of foreign missions in the city has not displaced any other business. This could only be argued if the District was 100 percent built out.

The loss of property tax revenue is often cited as a cost of hosting foreign missions. This loss of tax revenues only becomes real if the facilities owned by foreign missions could be sold to private owners if and when these buildings became available for sale. There is little evidence that once a property becomes tax exempt due to a change in ownership status that it ever returns to private ownership. Very few buildings owned by foreign missions have been resold to any buyer following the construction of a new chancery. Rather, most of these have been retained as annexes for cultural purposes or for visa and other travel-related services. Some of those that have been sold, such as buildings owned by the Canadian government, were sold to another country (in the Canadian case to Korea) and retain their tax-exempt status.

While there are cases of tax-exempt properties returning to the tax rolls, the majority has not. Extrapolating from this history to the hypothetical relocation of all foreign missions to the suburbs would yield only a partial return of these properties to private sector use. A more likely scenario would be that the foreign mission would retain some presence in the District for business and diplomatic activities in parallel with locating a portion of their administrative functions to a suburban site. In fact, no foreign mission representative expressed any interest in relocating out of the District of Columbia during in-person interviews.

### **Summary of Economic and Fiscal Impacts**

International business is one of the District of Columbia's major core industries accounting for a growing share of its gross state product. The District's comparative advantage for international business reflects the presence of the federal government, international organizations, and foreign missions. The interdependences between the federal government and international business are reinforced by the District's third core industry—the hospitality industry. Historically, these core industries have driven the District's economic growth and will provide the District its unique locational advantages that will shape its economic future.

Foreign missions have been found to be an integral component of the international business industry, serving a catalytic function resulting in the attraction of large numbers of visitors to the District where they can accomplish multiple tasks due to the clustering of these embassies, their broad range of services, the presence of other key international organizations and complementary federal agencies combined with a full-service hospitality industry and high quality cultural attractions. While the foreign missions have measurable economic benefits to the city and Washington area region, as summarized in Table 8, the induced benefits they generate by their presence, interaction and complementarity within the broad structure of the city's economy will be more important to its economic vitality and competitive advantages. These advantages are attractive to private investment and support high-value added jobs and businesses serving a global marketplace.

The total contribution of spending associated with foreign missions to the District of Columbia economy in 2001 is estimated at \$411 million. This spending will support 1,651 jobs in the city and generate \$44.1 million in personal earnings. In the context of the District's total economy projected at \$58.5 billion in 2001, the total output generated by foreign missions accounts for less than one percent of GSP. Also, the jobs its spending supports (excluding the 1,983 DC residents employed at the foreign missions) represents less than one percent of the city's employment base. In isolation, foreign missions as a whole are not major generators of economic activity. However, as a catalyst for the international business industry within the District, foreign missions support and facilitate a significant and growing sector within the District economy.

Table 8

**Summary of Economic and Fiscal Impacts  
of Foreign Missions on the Nation's Capital  
(dollars in millions)**

Source of Impact	Total Output	Jobs	Personal Earnings
Spending by Foreign Mission Employees	\$41.58	148.6	\$3.834
Non-Payroll Spending by Foreign Missions	127.51	376.0	12.596
Spending by Foreign Mission Visitors	241.90	1,126.5	27.666
Total Economic Impacts	410.99	1,651.1	44.096
Total Tax Revenues*			23.917

\*exclude real property tax revenues collected by properties and residences leased or rented by foreign missions or employees of foreign missions in the District of Columbia.

For the District to achieve its full potential as an international center, it must retain its complement of international activities that will support growth in the private sector and build on the city's comparative locational advantages to attract and strengthen its emerging business base. This base will continue to grow in the Washington region because of its importance as a world capital. If these activities are not captured within the District they will locate in the suburbs, although a more dispersed locational pattern would not enjoy the same agglomeration economies currently achieved in the District. The concentration of international organizations and foreign missions within the District, complemented by high quality visitor services, has contributed to its economic revival and helped the city to maintain its dominant regional role as a center for international business.