

Buying Home: State Procurement Preferences and Economic Consequence

Manuel García-Santana, Miquel Lorente, Joshua Mascord, and Marta Santamaría

Abstract :

Governments are major buyers of goods and services, yet little is known about how procurement policies shape the geographic allocation of public spending. This paper studies buy-local preferences in public procurement and their implications for trade across regions. We construct a new dataset combining transaction-level procurement data from U.S. state governments with federal procurement records and detailed information on state procurement regulations. Comparing procurement decisions of state and federal agencies operating within the same state, we document a large home bias in state procurement: state agencies allocate significantly more spending to local establishments than federal agencies do. Using a gravity-style framework at the establishment–sector–destination level, we estimate the effect of buy-local preferences on procurement flows. We embed these estimates in a quantitative multi-region model with heterogeneous firms and government procurement to evaluate the aggregate effects of buy-local policies on trade and welfare.