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Jobs, Good-Paying Jobs, and Services

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What is the Issue?

For decades workers, labor leaders, and politicians decried the 'loss of good-paying manufacturing jobs' in the U.S. Phrases such as 'giant sucking sound' made an indelible impression on an anxious populace saturated with the message that the U.S. manufacturing 'core' was being devoured by outsiders, replaced by 'low-wage jobs in a service economy'.

Although intense policy debates on how to get the world economy back on track currently occupy center stage, the enduring question of the role of manufacturing versus services will surely reappear once the economy stabilizes. In this publication, we first consider the persistent perceptions of these two economic sectors and then challenge them with basic data about the composition and dynamics of modern economies.

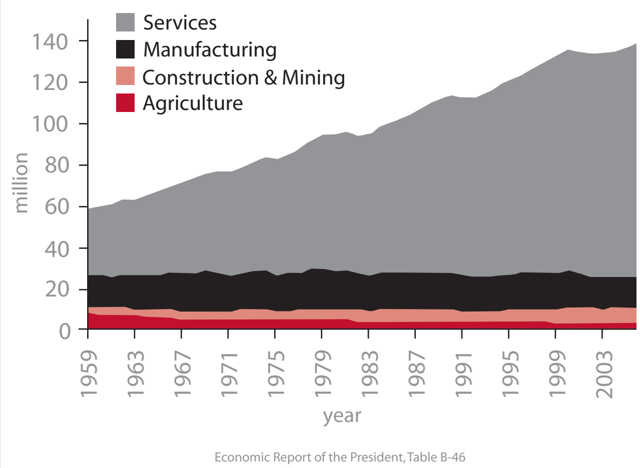
Manufacturing versus Services

Manufacturing has had an illustrious history, serving as the "holy grail" of economic development. Politicians from Margaret Thatcher on the right to Karl Marx on the left extolled its virtues for over 100 years. Today, few economic development professionals would dream of challenging the benefits of well-paid manufacturing jobs. Nor is it our purpose to do so here. However, students of history will recognize that contemporary concerns echo those that arose when manufacturing replaced agriculture as the primary sector of our economy during the first half of the 20th century.[1] At that time, many decried the decline of agriculture as a loss of our economic and cultural heritage. Today, few advocate returning to an economy dominated by agricultural production.

Our concern is simply that praise of manufacturing has too often been accompanied by indifference toward, or even diatribes against, the 'service' sector. Where manufacturing has been seen as a dynamic driver of growth, service sectors have long been characterized in popular as well as academic works as 'tertiary', 'residual', and even 'parasitic'. These perceptions are embedded in, and partly derived from, widely accepted theories of economic growth. Many Americans have grown to associate 'services' with low-wage jobs flipping hamburgers and cleaning toilets. Some pundits contend that if the U.S. economy continues on its current course, 'dead-end' service jobs are all that will be left. While hamburger flipping and janitorial jobs are part of the service sector, this association relies more on myth than math and is increasingly misleading and counterproductive.

In the last half century, job growth in the U.S. has come almost entirely in the service sector, with the total number of service jobs outstripping the number in other major sectors (Figure 1). In contrast, the actual number of manufacturing jobs has remained nearly constant, varying both down and up but in the relatively narrow range of 14 to 18 million. Manufacturing job losses that have occurred have been geographically concentrated. Between 2000 and 2005, for example, more than one-third of the nation's loss of manufacturing jobs occurred in just seven Great Lakes states: Illinois, Indiana, Michigan, New York, Ohio, Pennsylvania, and Wisconsin. In sum, the decline of manufacturing has been highly consequential, but the losses have been decidedly regional, and overall have been *proportional* rather than *absolute*. U.S job growth has been almost exclusively in the service sector.

Figure 1: U.S. Jobs, by Sector, 1959-2003



Source: Economic Report of the President, 2007.

Employment versus Output

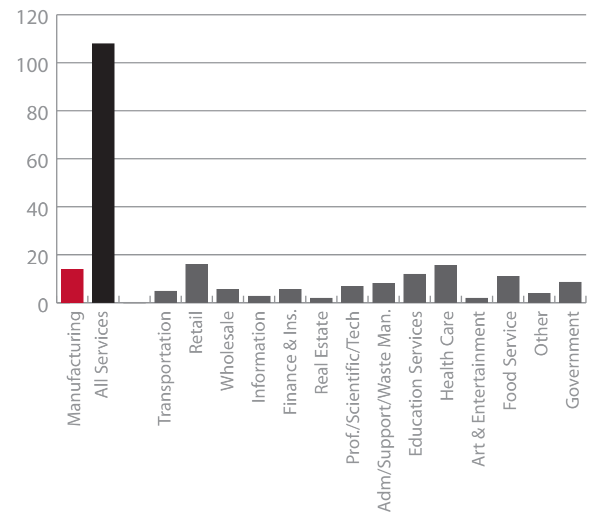
Figure 2 shows a breakdown of employment in various service categories for 2006. Several service sectors employ as many persons as the manufacturing sector. However, when using economic *output* rather than *jobs* as a measure, the performance of manufacturing appears to be one of dramatic success rather than decline. Indexed to 1959, goods output, i.e. manufacturing, in the U.S. actually *increased* nearly six-fold by 2006 even though the number employed in manufacturing remained essentially flat. In contrast, while service sector employment increased (3.3 times) over the time period, the sector's output increased by only 4.5 times. Thus, while the productivity of service sector employees has increased since 1959, the productivity of manufacturing workers has increased by a significantly greater extent.

"Good-paying" jobs

Considering recent average wage levels, Figure 3 shows the mean hourly wage rates for all manufacturing and all services as well as for major service categories in May, 2006. Several large service categories

[1] http://www.clevelandfed.org/research/trends/2007/0307/02ecoact.cfm

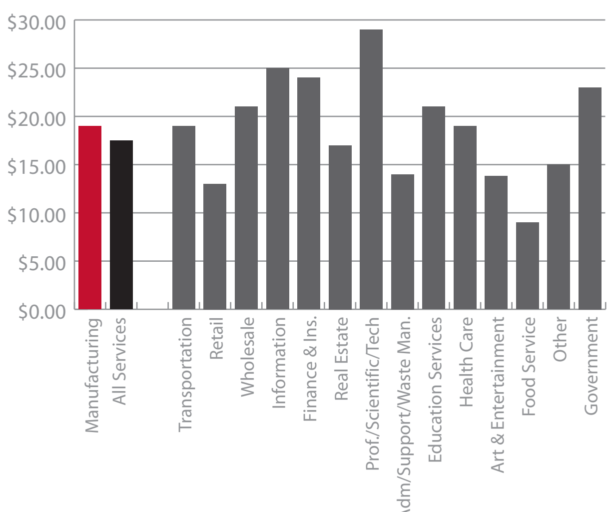
Figure 2: Number of U.S. Employees (million) by Sector and Service Category, 2006



Source: Economic Report of the President, 2007

show average wages above manufacturing, such as Education and Professional/Scientific/Technical. Other service industry categories generate average wages far below the average for manufacturing; Food Service, Arts and Entertainment, Waste, and Retail Trade are the most notable. However, there are enough workers in high wage service sectors that the average service wage is only 90 cents below the average manufacturing wage. While 90 cents is significant, it does not signal a fundamental national crisis.

Figure 3: Average Hourly Wages, by Employment Sector and Service Category, 2006



Source: U.S. Dept. of Labor, Bureau of Labor Statistics, May 2006 National Industry-Specific Occupational Employment and Wage Estimates

Although the precise nature of the relationship between productivity and wages is contested, common belief holds that wages do, or at least should, reflect productivity. This is no doubt one reason for the attention given 'good-paying' manufacturing jobs. And in fact, U.S. Bureau of Labor Statistics (BLS) data show that manufacturing wages have grown faster than service sector wages (7.4 fold vs. 6.1 fold increase between 1964 and 2008). However, detailed BLS wage data paints a more complex portrait of the landscape of pay. Both average wages and the rate of growth of wages of some service sector industries have exceeded that of many manufacturing sectors over both shorter (1990-2008) and longer (1964-2008) time spans. Education and health, professional and business, financial, information, and a variety of miscellaneous "other" services have been standouts in the rate of wage growth.

Better understanding services

In the wake of major changes stimulated by new technology, globalization, and outsourcing, services have begun to receive more sustained attention. With this attention has come the need to revisit fundamental questions having theoretical, practical, and policy importance: what are the essential, distinguishing characteristics of services? How should they be categorized? What makes them economically significant?

Most of us considering services "know one when we see it". For a more systematic consideration, however, this is hardly adequate. Economists have long used several criteria to define a service activity, but the criteria are being rethought. In 1997, the US and other North American governments extensively revised their system of "industrial classification" in no small part because it was recognized that the older system failed to "reflect the structure of the economy" that was now dominated by the nongoods producing sectors.

New criteria that have been proposed range widely. One—does it produce or modify a material good—is prefigured in Adam Smith's observation that "*The labour of the menial servant does not fix or realize itself in any particular… commodity. His services generally perish in the very instant of their performance, and seldom leave any trace or value behind them.*" Other criteria rely on detailed analyses of whether/how the activity is linked to businesses, households, or other intermediaries. Application of certain criteria has led some leading researchers to question the usefulness and even possibility of making the traditional distinction between manufacturing and services. They argue that a growing range of manufactured products —computers, iPods, even elevators—are increasingly "useless without embedded services".

Whatever the definition, and whether we like it or not, service sector employment dominance appears to be here to stay. Accepting this and making the most of it poses challenges for many economic development planners, researchers, politicians and the public. Policymakers, practitioners and others should cross check their assumptions and practices against 21st Century realities. Many jobs situated in the service sector pay well and are desirable goals of economic development policy. Many services are central to both individual well-being and economic sustainability. Policy that ignores the implications of these observations does so to the detriment of us all. ▲

For more on this topic, see our book review: James E. Pratt and David L. Kay. "The Handbook of Service Industries, edited by John R. Bryson and Peter W. Daniels", *Growth and Change*, 39(4):670-673, December 2008.

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