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VICTOR R. FUCHS

The City University of New York

Assisted by Irving F. Leveson



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*(Resolution adopted October 25, 1926 and revised February 6, 1933,
February 24, 1941, and April 20, 1968)*

To Nancy, Fred, Paula, and Kenneth

CONTENTS

Preface	xxiii
1. Summary of Findings	1
Service Employment	2
Reasons for Growth of Services	3
Productivity, Growth, and Wages	5
Sector Differences in Hourly Earnings	6
Sector Differences in Cyclical Fluctuations	8
Implications for Industrial Organization and Labor	9
Implications for Economic Analysis	12
Suggestions for Further Research	13
2. The Growing Importance of Service Employment	14
Sector Definitions	14
Sector Trends in U.S. Employment	17
Detailed Industries	22
Long-Term Trends	22
Sector Trends by State and in Foreign Countries	24
Occupational Trends	31
Trends in Output	35
Some Evidence on Intermediate Demand	39
Some Evidence on Income Elasticity	41
3. Productivity Trends by Sector and Major Industry Group	46
Measures of Input and Output	46
Output	46
Employment	47
Total Labor Input	48
Total Factor Input	49

Trends in Productivity	50
Sector Comparisons of Productivity Change	50
Productivity by Major Industry Group	54
Correlations Between Time Periods and Between Different Measures of Productivity	56
Quality of Labor	60
Additional Evidence on Labor Quality	66
Physical Capital and the "Residual"	71
Physical Capital Per Worker	71
Possible Biases in Measurement of Residual	73
Reexamination of the Shift to Service Employment	75
4. Productivity Differences Within the Service Sector: A Statistical Analysis	77
Scope, Definitions, and Sources	78
Real Output	78
Employment	80
Labor Input	82
Output Per Man and Per Unit of Labor Input	82
Output Per Unit of Total Input	82
Annual Percentage Rates of Change	83
Empirical Results	83
Rates of Change, 1939-63	83
Rates of Change, 1948-63	86
Relation Between Changes in Output Per Man and Other Variables	89
5. Productivity in Services: Three Case Studies	99
Retail Trade	99
Problems of Measuring Output	100
Some Empirical Estimates	104
Barber and Beauty Shops	107
Labor	108
Technology	108
Demand	112
Medical Care	115
Measures of Health	118
The Value of Changes in Health	120
The Contribution of Medical Care to Health	121
Summary	126

6. Interindustry and Intersector Differences in Hourly Earnings	128
Differentials in Earnings	129
The Estimation of Actual and "Expected" Hourly Earnings	129
Sector Differences in Earnings	131
Regression Analysis	135
Demographic Characteristics (X_1)	135
Unionization (X_2)	142
Other Independent Variables	147
Differences in Earnings for Three Groups of Industries	154
Summary	156
7. Cyclical Fluctuations	158
A Priori Considerations	158
Employment	161
Output	171
Output Per Man-Hour	173
Implications for Cyclical Stability	181
8. Some Implications of the Growth of a Service Economy	183
Implications for the Economy	184
Labor Force	184
Industrial Organization	190
Sector Differences and Rates of Growth	192
Implications for Economic Analysis	194
The Consumer as a Factor in Production	194
Labor-Embodied Technological Change	195
Changes in Demand and Productivity	197
The "Real" Gross National Product	198
Appendix A. Theoretical Discussion of Sector Shifts in Employment	201
Appendix B. Notation and Definitions, Chapter Three	204
Appendix C. Definitions and Sources of Measures of Output and Input	205
Appendix D. Estimates of Sector Differentials in the Growth of Capital Per Worker	216
Appendix E. Discussion of the 1/1,000 Sample of the <i>U.S.</i> <i>Census of Population and Housing</i>	219
Appendix F. Reliability of Hours Data in 1/1,000 Sample	225

Appendix G. Measures of Output and Input in Detailed Service Industries	229
Appendix H. Alternative Measures of Real Output in Some Service Industries	239
Appendix I. Detailed Industry Data and Sources	244
Appendix J. Cyclical Fluctuation Analysis: Sources and Methods	262
Index	267

TABLES

1. Persons Engaged, by Sector and Major Industry Group, Selected Years, 1929-65	18
2. Shares of Total Persons Engaged, by Sector and Major Industry Group, Selected Years, 1929-65	19
3. Frequency Distribution of Detailed Industries, by Rates of Growth of Employment, 1929-65	23
4. Distribution of Employment, by Sector, 1870-1930	24
5. Sector Shares of Labor Force, by State, 1930, 1950, 1960	26
6. Change in Service Sector's Share of Civilian Employment, Seven Western European Countries, 1950-62	29
7. Sector Distribution of Employment: Twenty OECD Countries, 1960, and United States, 1870-1960	30
8. Occupational Distribution of Labor Force, 1930 and 1960	34
9. Occupational Distribution of Labor Force, by Major Industry Group, 1950 and 1960	36
10. Sector Shares of Gross National Product in Constant and Current Dollars, Selected Years, 1929-65	37
11. Sector Shares of Gross Product, by Type of Final Output in Constant and Current Dollars, 1929 and 1965	38
12. Employment and Intermediate Demand, Five Service Industries, 1947 and 1958	40
13. Employment Growth, 1947-58, Five Service Industries and Service Sector	41
14. Demand Elasticities for Goods and Services	44

15. Rates of Change of Output, Employment, and Output Per Man, by Sector and Major Industry Group, 1929-65 and Selected Subperiods	51
16. Sector Rates of Change of Output and Other Variables Relative to the Total Economy, 1929-65 and Selected Subperiods	53
17. Rates of Change of Output, Input, and Productivity, Major Industry Groups Relative to Total Economy, 1929-65	55
18. Coefficients of Rank Correlation Between Rates of Change, 1929-47 and 1947-65, Across Ten Major Industry Groups	56
19. Coefficients of Rank Correlation Between Changes in Output, Input, and Productivity, 1929-65, Across Ten Major Industry Groups	57
20. Extent of Unionization, Industry and Service Sectors, 1929 and 1960	64
21. Professional and Managerial Workers as Percentage of All Occupations, by Sector and Major Industry Group, 1950 and 1960	67
22. Average Hourly Earnings in 1959, by Age and Sex, and Percentage Distribution in Industry and Service Sectors, 1950 and 1960	69
23. Average Hourly Earnings of White Males in 1959, by Years of Schooling, and Percentage Distribution in Industry and Service Sectors, 1950 and 1960	70
24. Sector Differentials in Rates of Growth of Output Per Unit of Labor and Capital, Under Alternative Assumptions, 1929-65	72
25. Level of Employment and Percentage of Total U.S. Employment in Eighteen Selected Service Industries, 1963	79
26. Number of Self-Employed as a Percentage of Total Employment in Eighteen Service Industries, Selected Years, 1939-63	81
27. Average Annual Percentage Rates of Change of Output Per Man and Related Variables, Eighteen Selected Service Industries, 1939-63 and 1948-63	84

Tables

xv

- | | |
|--|-----|
| 28. Average Annual Percentage Rates of Change of Output Per Man and Related Variables, Industry Groups and Total Economy, 1939-63 and 1948-63 | 85 |
| 29. Rankings of Seventeen Selected Service Industries, Average Annual Percentage Rates of Change of Output Per Man and Related Variables, 1939-63 | 87 |
| 30. Rankings of Seventeen Selected Service Industries, Average Annual Percentage Rates of Change of Output Per Man and Related Variables, 1948-63 | 88 |
| 31. Coefficients of Rank Correlation Between Average Annual Percentage Rates of Change of Output Per Man and Related Variables, Selected Service Industries, 1939-63 and 1948-63 | 89 |
| 32. Coefficients of Rank Correlation, Average Annual Percentage Rates of Change of Output Per Man and Related Variables, Across Selected Service Industries, 1939-63 | 90 |
| 33. Coefficients of Rank Correlation, Average Annual Percentage Rates of Change of Output Per Man and Related Variables, Across Selected Service Industries, 1948-63 | 91 |
| 34. Summary of Coefficients of Rank Correlation Between Rates of Change of Output Per Man and Output and Employment, Across Industries | 92 |
| 35. Annual Rates of Change of Employment: Comparison of Twenty Excluded Service Industries with Seventeen Selected Service Industries, 1939-63 | 96 |
| 36. Coefficients of Rank Correlation Between Change in Self-Employment as Percentage of Total Employment and Rate of Change of Output Per Man, Output, and Employment, 1939-63 | 97 |
| 37. Trends in Output and Productivity in Trade and Manufacturing, 1929-65 | 105 |
| 38. Some Alternative Estimates of Rates of Change of Output, Input, and Productivity in Retail Trade, 1929-63 | 106 |
| 39. Rates of Growth of Barber and Beauty Shops, Selected Variables, 1939-63 | 109 |

40. Percentage Distribution of Barbers and Beauticians, by Age, 1930-60	110
41. Percentage of Barbers and Beauticians Working Part-Time, 1940, 1950, 1960	111
42. Hourly Earnings of White Male Barbers, by Class of Worker and Nativity, Actual and Expected, 1959	114
43. Rates of Growth of Medical Care Industry, Selected Variables, 1929-65 and Subperiods	117
44. U.S. Death Rates, Selected Years, 1929-65	119
45. Average Hourly Earnings of Nonagricultural Employed Persons, by Demographic Characteristics, United States, 1959	130
46. Actual and Expected Hourly Earnings, by Sector and Major Industry Group, 1959	132
47. Actual and Expected Hourly Earnings in Industry and Service Sectors, by Sex, Color, Education, and Age, 1959	136
48. Absolute Differentials in Hourly Earnings in Industry and Service Sectors, by Sex, Color, Education, and Age, 1959	138
49. Results of Regression of Hourly Earnings on Demographic Characteristics Across All Industries	142
50. Results of Regression of Hourly Earnings on Demographic Characteristics and Unionization Across All Industries	143
51. Results of Regression of Hourly Earnings on Demographic Characteristics and Unionization, Across Industry Sector Only	146
52. Average Hourly Earnings of All Nonagricultural Employed Persons, by City Size and Region, Standardized for Demographic Characteristics, 1959	147
53. Average Hourly Earnings, by Location Within Standard Metropolitan Statistical Areas, 1959	148
54. Results of Regression of Hourly Earnings on All Independent Variables, Across All Industries and Industry Sector Only	150

55. Decomposition of Industry-Service Earnings Differential According to Regression Results	153
56. Results of Regression Analysis for Three Groups of Industries Classified by Percentage Male	155
57. Effect of Unionization on Hourly Earnings, Various Regressions	156
58. Average Rates of Change of Employment During Business Cycles, Nine Nonagricultural Major Industry Groups, 1947-65	166
59. Average Rates of Change of Employment During Business Cycles, Sector Aggregates, 1947-65	167
60. Mean Percentage Deviations from Trend of Employment, Major Industry Groups and Sectors, 1947-65	168
61. Average Rates of Change of Employment During Business Cycles, Selected Industries, 1947-65	169
62. Average Rates of Change of Output During Business Cycles, Selected Industries, 1947-65	173
63. Average Rates of Change of Output Per Man-Hour During Business Cycles, Selected Industries, 1947-65	177
64. Effect of Changing Distribution of Employment on Average Cyclical Volatility of Total Nonagricultural Employment, 1929-65	181
65. Effect of Changing Distribution of Output and Employment on Average Cyclical Volatility of Output Per Man, Non-agricultural Economy, 1929-65	182
66. Labor Force Characteristics, Industry and Service Sectors, 1960	185
67. Distribution of Industries and Man-Hours by Percentage of Female Employment, Industry and Service Sectors, 1960	185
68. Percentage of Wage and Salary Workers Working Fewer than 35 Hours, by Industry, 1948 and 1963	186
69. Distribution of Industries and Man-Hours, by Self-Employment Income as Percentage of Total Earnings, Industry and Service Sectors, 1960	187

70. Distribution of Industries and Man-Hours, by Percentage Unionized, Industry and Service Sectors, 1960	188
71. Percentage Distribution of Employment, by Size of Firm or Employer, Manufacturing and Selected Service Industries	190
72. Distribution of Industries and Man-Hours, by Percentage of Employment in Establishments With Over 250 Employees, Industry and Service Sectors, 1960	191
73. Industry Characteristics, by Sector and Rate of Growth of Employment, 1929-65	193
C-1. Persons Engaged, by Sector, 1929-65	207
C-2. Sector Shares of Persons Engaged, 1929-65	208
C-3. Selected Measures of Output and Input, by Sector and Major Industry Group, Selected Years	209
C-4. Annual Rates of Change of Output and Input Measures, by Sector and Major Industry Group, 1929-65 and Selected Subperiods	211
C-5. Average Weekly Hours of Full-Time Employed Persons, by Major Industry Groups, 1929 and 1965	213
C-6. Persons Engaged, by Detailed Industry, 1929 and 1965	213
D-1. Sector Differential Trend in Capital Per Worker Estimated From Book Values in Current Dollars, 1929-60	216
D-2. Sector Differential Trend in Capital Per Worker Estimated From Net Cumulative Investment in 1954 Dollars, 1947-60	217
E-1. Average Hourly Earnings of Nonagricultural Employed Persons, by Color, Age, Sex, and Education, 1959	221
E-2. Number of Nonagricultural Employed Persons, by Color, Age, Sex, and Education, 1959	223
F-1. Comparison of Means and Distribution of Hours in the 1/1,000 Sample and Current Population Survey, Nonagricultural Employed Persons, 1959 and April 1960	225
F-2. Average Weeks Worked in 1959, by Hours Worked Per Week in April 1960, for Color-Sex Groups, Employed Persons, 1960	227

*Tables**xix*

F-3. Comparison of Means and Distribution of Hours in the 1/1,000 Sample and Current Population Survey, by Sex and Color of Nonagricultural Employed Persons, 1959 and April 1960	228
G-1. Output and Input in Selected Service Industries, Sectors and Total Economy, Selected Years, 1939-63	232
I-1. Actual and Expected Hourly Earnings, by Detailed Industry, 1959	245
I-2. Industry Independent Variables, X_2 Through X_9	252
I-3. Zero Order Correlation Coefficients, Ten Industry Variables	260
J-1. Current Dollar Sales Deflators	263
J-2. Specific Cycle Turning Points	264
J-3. Average Rates of Change of Output During Business Cycles, Selected Industries, 1947-65	265
J-4. Average Rates of Change of Output Per Man-Hour During Business Cycles, Selected Industries, 1947-65	266

CHARTS

1. Persons Engaged, by Sector, 1929-40, 1946-65	20
2. Sector Employment as a Percentage of Total Employment, 1929-40, 1946-65	21
3. Relation Between Sector Shares of Employment and Real Per Capita Income: Twenty OECD Countries, 1960, and the United States, 1870-1960	32
4. Rates of Change of Output and Output Per Man, Ten Major Industry Groups Relative to the Total Economy, 1929-65	58
5. Rates of Change of Employment and Output Per Man, Ten Major Industry Groups Relative to the Total Economy, 1929-65	59
6. Rates of Change of Compensation Per Man and Output Per Man, Ten Major Industry Groups Relative to the Total Economy, 1929-65	61
7. Relation Between Average Annual Percentage Rates of Change of Real Output and Employment, Seventeen Selected Service Industries, 1939-63	94
8. Relation Between Average Annual Percentage Rates of Change of Real Output and Employment, Seventeen Selected Service Industries, 1948-63	95
9. Distribution of Industries, by Actual and Expected Hourly Earnings	139
10. Weighted Distribution of Industries, by Actual and Expected Hourly Earnings	140
11. Cumulative Frequency Distribution of Industries, by Ratio of Actual to Expected Earnings	141

12. Employment, Industry Groups, 1947-65	164
13. Employment, Selected Industries, 1947-65	170
14. Output, Industry Groups, 1947-65	172
15. Output, Selected Industries, 1947-65	174
16. Output Per Man-Hour, Industry Groups, 1947-65	175
17. Output Per Man-Hour, Selected Industries, 1947-65	176
18. Percentage Deviations From Trend, Output Per Man-Hour, Retail Trade and Manufacturing, 1947-65	178
19. Percentage Deviations From Trend, Manufacturing, Output, and Employment, 1947-65	179
20. Percentage Deviations From Trend, Retail Trade, Output and Employment, 1947-65	180

PREFACE

The Service sector, also known as the “tertiary” or “residual” sector, has long been the stepchild of economic research. This was unfortunate but tolerable during the 19th and early 20th centuries when the shift from agriculture to industry was in full swing and services were of lesser importance. Since the end of World War II, however, the Service sector has become the largest, and, in many respects, the most dynamic element in the U.S. economy. Furthermore, most of the industrialized nations of the world appear to be following, with some lag, the pattern set by the United States. Thus, the emergence of this country as the first “service economy” has created a new set of priorities for economic research.

In recent decades, pioneering studies at the National Bureau by Friedman and Kuznets, Fabricant, Barger, Stigler, and Kendrick,¹ have done much to meet Colin Clark’s challenge that “The economics of tertiary industry remains to be written.”² Nevertheless, the paucity of data on this large and rapidly growing sector of the economy left unanswered many questions concerning service output, employment, productivity, and wages.

This book describes the growth of service employment in the United States and quantifies the major reasons for this growth. It also examines intersector and intrasector differentials in productivity change, describes and analyzes industry patterns of hourly earnings, develops measures of sector differences in cyclical behavior, and explores the implications for society and for economic analysis of the growth of a service economy.

¹ See Milton Friedman and Simon Kuznets, *Income From Independent Professional Practice*, New York, NBER, 1945; Solomon Fabricant (Assisted by Robert E. Lipsey), *The Trend of Government Activity in the United States Since 1900*, New York, NBER, 1952; Harold Barger, *Distribution’s Place in the American Economy Since 1869*, Princeton University Press for NBER, 1955; George J. Stigler, *Trends in Employment in the Service Industries*, Princeton for NBER, 1956; *Employment and Compensation in Education*, New York, NBER, 1950; *Domestic Servants in the United States 1900–1940*, New York, NBER, 1946; John W. Kendrick, *Productivity Trends in the United States*, Princeton for NBER, 1961.

² Colin Clark, *The Conditions of Economic Progress*, London, 1940.

In carrying out this project, which was begun in 1963 with the financial assistance of the Ford Foundation, important new bodies of data were utilized, including the first official series on real gross product by major industry group, the *Censuses of Business* for 1963, the 1960 *Census of Population and Housing*, and the one-in-a-thousand sample of that Census. Utilizing these and other materials, such as input-output tables and the Bureau of Labor Statistics Survey of Consumer Expenditures, we have attempted to increase our understanding of the service industries, and of the ways they are related to and differ from the rest of the economy.

Several papers and articles reporting some of the results of the project have already been published.³ A number of other studies are in preparation.⁴

In this book, the growth of service employment is examined in detail in Chapter 2, following a first chapter which presents a summary of the major findings. Trends in recent decades receive primary attention, but longer-term trends are also considered. The growth of the Service sector's share of employment in individual states and in foreign countries is discussed. Greatest emphasis is given to the distribution of employment by industry and sector, but some occupational data are also presented.

The growth of service employment is found to be related primarily to differential trends in output per man. These are explored in Chapter 3. Comparisons between the Service and Industry sectors are made for output per man, output per unit of labor input, and output per unit of total

³ Victor R. Fuchs, *Productivity Trends in the Goods and Service Sectors, 1929-61: A Preliminary Survey*, New York, NBER, Occasional Paper 89, 1964; *The Growing Importance of the Service Industries*, New York, NBER, Occasional Paper 96, 1965; *Productivity Differences Within the Service Sector* (with Jean Alexander Wilburn), New York, NBER, OP 102, 1966; *Differentials in Hourly Earnings by Region and City Size, 1959*, New York, NBER, Occasional Paper 101, 1967; "The Growth of Service Industries in the United States: A Model for Other Countries?" *Manpower Problems in the Service Sector*, Supplement 1966-2, OECD, Paris, 1966; Irving F. Leveson, "Reductions in Hours of Work as a Source of Productivity Growth," *The Journal of Political Economy*, April 1967; David Schwartzman, "The Contribution of Education to the Quality of Labor, 1929-1963," *American Economic Review*, September 1968. In addition, a Conference on Production and Productivity in the Service Industries was held in Ottawa in 1967 under the sponsorship of the Conference on Research in Income and Wealth; the conference papers will be published by the National Bureau shortly.

⁴ David Schwartzman, "The Growth of Sales Per Man-Hour in Retail Trade, 1929-1963," in *Production and Productivity in the Service Industries*, V. R. Fuchs, ed., NBER, in press; Reuben Gronau, "The Value of Time: The Demand for Air Transportation"; David Schwartzman, "Retail Trade in the United States, 1929-1963; An Analysis of the Growth of Sales Per Worker"; Irving F. Leveson, "Non-farm Self-Employment in the U.S."; Richard Auster, Irving F. Leveson, and Deborah Sarachek, "The Production of Health, An Exploratory Study," NBER manuscripts.

factor input; and some interesting differences are noted. Trends for each major industry group are also examined and intergroup differences are analyzed.

Considerable emphasis is given to intersector comparisons, but this is not to posit some bland homogeneity for all the service industries, or to deny the existence of conflicting trends within the sector. Chapters 4 and 5 are devoted to analyses of productivity in detailed service industries. Chapter 4 uses correlation and regression techniques to analyze inter-industry differences in productivity change across seventeen selected retail trades and services. Chapter 5 presents case studies of three important service industries: barber and beauty shops, retail trade, and medical care. Considerable attention is given to the conceptual and statistical difficulties encountered in measuring and interpreting trends in output and productivity in these industries.

The trends in employment and the trends in productivity are, of course, related. The relation is not a simple one, however, but involves consideration of trends in capital formation, quality of labor, prices, wages, and other variables. Sector differences in the growth of the quality of labor prove to be of particular importance, as is the related question of differential trends in earnings in the Industry and Service sectors.

The availability of the one-in-a-thousand sample of the *1960 Census of Population* permits an intensive examination of interindustry and intersector differences in hourly earnings, presented in Chapter 6. This analysis, which includes consideration of demographic characteristics, location of industries, unionization, and other variables, contributes to an understanding of changes in earnings over time as well as in cross section.

Although this book deals primarily with long-term trends, the growing importance of the service industries also has important implications for short-term movements. These implications for cyclical fluctuation in employment, output, and productivity are examined in Chapter 7. Monthly data for 1947-65 are used to calculate measures of cyclical amplitude in various industries and sectors.

The final chapter considers some other aspects of the growth of a service economy. This growth is shown to have important implications for the labor force, the role of women, unions, education, and industrial organization. In addition, Chapter 8 discusses some problems and challenges to economic analysis that are implicit in the growing importance of the service industries.

With few exceptions, this study is concerned only with the U.S. economy. The shift to services has proceeded further in this country than

anywhere else. Too, the available data, though far from adequate, are richer and more reliable than those for other countries. Fortunately, a number of investigators in other countries have carried out studies along lines similar to those laid down in two preliminary NBER reports.⁵ Thus, readers of this book will find it possible to make comparisons between some aspects of the U.S. experience and that of Western Europe, the United Kingdom, Japan, Australia, and Canada.⁶ Studies of service industry employment are also available for Israel, the U.S.S.R., and Latin America.⁷

The time span covered in this book is, with some exceptions, 1929 through 1965. The earlier year marks the beginning of many of the most important time series, and the later year was the most recent with data available in time for inclusion in the analysis. Some of the analyses are limited to more recent periods because of the lack of available data.

The level of industrial detail is largely determined by the availability and reliability of the data. For some purposes, such as measurement of trends in physical capital, only broad sector comparisons are attempted. For others, such as the analysis of interindustry differences in earnings in 1959, it is possible to include over 100 detailed industries. Because data were taken from a variety of sources, different industry classifications are used in different parts of the study. Thus, the analysis of interindustry differences in earnings in 1959 utilizes the industry detail found in the *1960 Census of Population*, whereas the analysis of industry growth, 1929-65, uses the industry detail developed by the Office of Business Economics.

This study does not, for the most part, break new ground in the measurement of employment or output. The emphasis is on the analysis

⁵ Victor R. Fuchs, *Productivity Trends* (OP 89) and *Growing Importance* (OP 96).

⁶ Maurice Lengellé, *La Revolution Tertiaire*, Editions Genin, Paris, 1966, and *The Growing Importance of the Service Sector in Member Countries*, OECD, Paris, 1966; B. M. Deakin & K. D. George, "Productivity Trends in the Service Industries, 1948-63," *Economic Bulletin*, No. 53, London and Cambridge, March 1965; "The Growing Service Industries—Their Productivity and Price Formation," Japanese Economic Research Institute, Intermediate Report, May 1967; B. D. Haig, "The Measurement of Real Expenditure and Product of Goods and Services," pp. 520-535, and J. A. Dowie, "Productivity Growth in Goods and Services: Australia, U.S.A., U.K.," pp. 536-554, both in *The Economic Record*, December 1966; David A. Worton, "The Service Industries in Canada, 1946-66," in *Production and Productivity in the Service Industries*, V. R. Fuchs, ed., NBER, in press.

⁷ Gur Ofer, *Service Industries in a Developing Economy*, New York, 1967, and "The Service Industries in the U.S.S.R.," unpublished Ph.D. dissertation, Harvard University; J. R. Ramos, "The Labor Force in Post-War Latin America," unpublished Ph.D. dissertation, Columbia University.

of existing data, on the explanation of clearly perceived trends, and on the estimation of the magnitude of observed relationships. This emphasis is the result of personal research interests and aptitudes; it does not reflect a judgment that problems of measurement are inconsequential.

It has long been known that the measurement of real output in the service industries is in an unsatisfactory state. This book does not alter that basic situation, although the discussion of the direction and likely magnitude of biases may shed some new light on the problem. Also, alternative estimates have been presented where applicable, and some effort has been made to indicate the degree of confidence that can be placed in the various findings. Many of the conclusions presented in this book are not dependent upon the particular output measures used; they would be equally relevant if some different, and presumably superior, output measures become available.

The need for more and better quality data concerning the service industries is urgent. These industries now account for well over half of all U.S. employment, and their share has been increasing every year. The trends discussed in this book suggest that a substantial change in emphasis on the part of data gathering agencies is required in order to provide the information necessary to solve the problems raised by the growth of a service economy.

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The Service Economy

