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Volume Title: The Growing Importance of the Service Industries

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Volume Publisher: UMI

Volume ISBN: 0-87014-410-3

Volume URL: <http://www.nber.org/books/fuch65-1>

Publication Date: 1965

Chapter Title: LABOR

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Chapter URL: <http://www.nber.org/chapters/c1698>

Chapter pages in book: (p. 14 - 17)

same direction, was minimum-wage legislation. Large portions of the service sector (particularly retail trade and services) were exempt from this legislation (prior to 1961) and therefore did not experience the same statutory increases for the price of unskilled labor as did the goods industries. That the service sector has increased its share of unskilled employment more than its share of total employment is evident in data on demographic characteristics such as age, sex, color, and education.

#### WILL THE SHIFT TO SERVICES CONTINUE?

If we had firm answers to the many questions discussed in the preceding pages, we would be in a better position to forecast whether the shift of employment to services will continue. The analysis of the period since 1929 does not suggest any inevitable trend. Sector differences in income elasticity appear to have been relatively small and, if we exclude agriculture, possibly non-existent. The difference in trends in output per man has been substantial, but it is probably attributable only in part to technological change and in large part to differential changes in hours, quality of labor, and capital intensity—changes that can be explained by circumstances peculiar to the post-1929 period. Research on income elasticities of demand and elasticities of substitution of factors, as well as detailed studies of individual service industries, should help to provide a firmer base for predicting the future. My present estimate, which is only an informed guess, is that the shift will continue. I suspect that some of our “basic” manufacturing industries will begin to resemble agriculture—i.e., they will experience rapid gains in output per man while facing demand curves that are relatively inelastic with respect to both income and

price. New additions to the labor force may be absorbed, in part, by employment in new manufacturing industries and in construction, but most of the growth will probably require increased employment in services, or result in unemployment.

#### IMPLICATIONS FOR THE ECONOMY

The shift from primary to secondary production has had profound consequences for every industrial nation; in most the adjustment process is still going on. Similarly, the shift to the service sector probably carries with it significant implications for our economy.

To be sure, such an attempt to look into the future is subject to important qualifications. A shift in the relative importance of different industries is only one of many changes that are occurring simultaneously in the economy, and these other changes may tend to offset the effects of interindustry shifts. Also, these shifts themselves may set in motion changes with implications different from those discussed here. Nevertheless, given the rapid growth of the service industries, it is useful to consider differences between them and the rest of the economy with respect to labor, industrial organization, the demand for capital goods, and cyclical fluctuations.

#### LABOR

Several important sector differences in labor force characteristics are summarized in Table 8. Probably the most significant difference is that many occupations in the service sector do not make special demands for physical strength. This means that women can compete on more nearly equal terms with men; we find women holding down almost one-half of all service jobs compared with only one-fifth of those in the goods sec-

tor. We also find proportionately more older workers in services despite the fact that the more rapidly growing sector would tend to have a younger work force.

An additional reason women and older workers are attracted to the service sector is that it provides greater opportunities for part-time employment. Sector

TABLE 8

LABOR FORCE CHARACTERISTICS, GOODS AND SERVICE SECTORS, 1960<sup>a</sup>

| Row                                       | PERCENTAGE OF U.S. TOTAL IN |         | AS PERCENTAGE OF SECTOR EMPLOYMENT |         |
|---|-----------------------------|---------|------------------------------------|---------|
|   | Goods                       | Service | Goods                              | Service |
| 1. All employed <sup>b</sup> . . .        | 50                          | 50      | 100                                | 100     |
| 2. Females . . . . .                      | 29                          | 71      | 19                                 | 46      |
| 3. Over 65 . . . . .                      | 41                          | 59      | 4                                  | 5       |
| 4. Part-timers . . . . .                  | 41                          | 59      | 19                                 | 27      |
| 5. Self-employed . . . . .                | 50                          | 50      | 13                                 | 13      |
| 6. Union members . . . . .                | 85                          | 15      | 48                                 | 7       |
| 7. More than 12 years of school . . . . . | 32                          | 68      | 13                                 | 30      |
| 8. Fewer than 9 years of school . . . . . | 63                          | 37      | 38                                 | 22      |

<sup>a</sup> For sector definitions, see nn. a and b to Table 1.

<sup>b</sup> Data in this table for civilian employment only; unpaid family workers are included.

Source: Rows 1-5, *U.S. Census of Population, 1960*; row 6, H. G. Lewis, *Unionism and Relative Wages in the United States*, Chicago, 1963, p. 251; rows 7-8, NBER tabulations of the 1960 *U.S. Census of Population one-in-a-thousand sample*.

differences in the role of part-timers and the changes between 1948 and 1963 are presented in greater detail in Table 9. We see that trade and services, in particular, have employed large numbers of part-timers and that the number has grown appreciably in the postwar period. If data were available on those working fewer than thirty-five hours per week *voluntarily*, the difference between the sectors would probably be even greater than that shown in Table 9.

The situation with respect to self-employment is complex. According to the 1960 Census of Population, the two sec-

tors have approximately equal numbers of self-employed. Agriculture accounts for the lion's share (63 per cent) of the goods sector, while self-employment opportunities in services are widespread throughout the sector, with the exception of government and non-profit institutions. The Census of Population undoubtedly understates the number of self-employed in services relative to goods, because corporate employees are classified as wage and salary workers, regardless of the size of the corporation.

TABLE 9

PERCENTAGE OF WAGE AND SALARY WORKERS WORKING FEWER THAN 35 HOURS BY INDUSTRY, 1948 AND 1963<sup>a</sup>

|   | May 1948 | May 1963 | Change, 1948-63 |
|---|----------|----------|-----------------|
| Goods (excluding agriculture) . . . . .       | 9.6      | 10.6     | +1.0            |
| Service . . . . .                             | 16.3     | 23.8     | +7.5            |
| Mining, forestry, and fisheries . . . . .     | 11.3     | 7.9      | -3.4            |
| Construction . . . . .                        | 16.2     | 16.9     | +0.7            |
| Manufacturing . . . . .                       | 9.1      | 9.4      | +0.3            |
| Transportation and public utilities . . . . . | 6.3      | 9.7      | +3.4            |
| Wholesale and retail trade . . . . .          | 14.7     | 24.1     | +9.4            |
| Finance, insurance, and real estate . . . . . | 7.8      | 12.5     | +4.7            |
| Service industries . . . . .                  | 23.7     | 30.7     | +7.0            |
| Public administration . . . . .               | 5.3      | 8.7      | +3.4            |

<sup>a</sup> For sector definitions, see nn. a and b to Table 1.

Source: *Hours of Work*, Hearings before the Select Subcommittee on Labor, first session, on HR 355, HR 3102, and HR 3320, Washington, D.C., 1963, Part I, p. 78.

The officers of small, owner-managed corporations are, for analytical purposes, similar to partners or individual proprietors. About three-quarters of such corporations are in the service industries.

It has been widely believed that opportunities for self-employment are diminishing in the United States; but, if one excludes the decline of agriculture,

this is no longer true. In recent years, due largely to the growth of services, the self-employed have grown absolutely and have been a constant fraction of total nonagricultural employment.<sup>16</sup>

The role of self-employment in the future will be determined by several conflicting trends. A continued shift to service industry employment will tend to favor self-employment, but this may be offset by the influx of young workers and women into the labor force, since these groups are predominantly wage and salary workers. There may also be some tendency toward larger firms within each individual industry, but there is little reason to think that the door to self-employment will be closed as long as services continue to grow.

Given the importance of females, part-time employment, and self-employment in the service sector, it is not surprising to find a vast difference in the importance of unions in the two sectors. The service industries thus far have not responded very enthusiastically to organizing efforts, and the continued growth of this sector may mean a decline in union influence in the United States. On the other hand, if unions are successful in organizing the service sector to the same extent as the goods sector, we may see a significant change in the nature of the union movement.

The last two rows of Table 8 reveal interesting sector differences in education. The service industries make much greater use of workers with higher education and relatively less use of those with only limited schooling. This is not true for all service industries, of course, but it is true for the sector on average.<sup>17</sup>

There is another implication concern-

<sup>16</sup> See John E. Bregger, "Self-Employment in the United States, 1948-62" (Special Labor Force Report No. 27), *Monthly Labor Review*, January, 1963.

ing labor which is not readily apparent in the statistics but which is potentially of considerable importance. For many decades we have been hearing that industrialization has alienated the worker from his work, that the individual has no contact with the final fruit of his labor, and that the transfer from a craft society to one of mass production has resulted in depersonalization and the loss of ancient skills and virtues.

Whatever validity such statements may have had in the past, a question arises whether they now accord with reality. The advent of a service economy may imply a reversal of these trends. Employees in many service industries are closely related to their work and often render a highly personalized service that offers ample scope for the development and exercise of personal skills.<sup>18</sup>

This is true of some goods-producing occupations as well, but there is little doubt that direct confrontation of consumer and worker occurs more frequently in services. To be sure, within many service industries there is some tendency for work to become less personalized (e.g., teaching machines in education, self-service counters in retailing, and laboratory tests in medicine); but with more and more people becoming engaged in service occupations, the net effect for the labor force as a whole may be in the direction of the *personalization* of work.

It should be stressed that the possibility of deriving satisfaction from a job well done and of taking pride in one's work are only possibilities—not certainties. Teachers can ignore their pupils;

<sup>17</sup> The higher *level* of education of service industry employees should not be confused with the fact that *changes* in the level of education have been greater in the goods sector.

<sup>18</sup> E.g., health, education, entertainment, personal services, repair services.

doctors can think more of their bank balances than of their patients. The salesman who must go through life with an artificial smile on his face while caring little for his customers and less for what he sells is often held in low regard. But at their best many service occupations are extremely rewarding and the line between "work" and "leisure" activity is often difficult to draw.

Some service occupations, notably those involving personal service, are not well regarded in this country. A study of why so many Americans consider personal services to be degrading would be very useful. It may be a cultural lag, rooted in the level of income and the distribution of income that prevailed in this country and abroad in the eighteenth and nineteenth centuries.

When the average level of per capita income in a country is low, the amount of personal services rendered is probably a function of the distribution of income. It is probably also related to social immobility and inequality of opportunity. In Europe, where there was more inequality and more immobility, there was probably proportionately a much greater consumption of personal services. These services were rendered by the low-born and the poor to the privileged classes and the wealthy. Americans probably tended to associate personal services with this inequality and noticed that there was much less of it in the more democratic United States.

It can be argued, however, that there is nothing inherently degrading in personal services. In a country with a high average level of income, one should expect that a large amount of personal service will be consumed and that a large number of people will find employment in that way. This would be true even if the income distribution were completely

egalitarian. High per capita income implies high average output per man. This is likely to mean *very* high output per man in some industries (where capital can be substituted for labor, and technological change is rapid). Employment, therefore, will probably be primarily in those industries, such as personal services, where output per man advances slowly. Our attitudes toward personal services are not immutable laws of nature; they can be changed. Such a change would, I suspect, reduce unemployment and increase consumer satisfaction.

#### INDUSTRIAL ORGANIZATION

The shift of employment to the service sector carries with it important implications for industrial organization in the United States because the size of the "firm" and the nature of ownership and control are typically different in the two sectors.

In goods, with some notable exceptions, such as agriculture and construction, most of the output is accounted for by large profit-seeking corporations. Ownership is frequently separate from management, and significant market power held by a few firms in each industry is not uncommon.

In the service sector, on the other hand, and again with some exceptions, firms are typically small, usually owner-managed and often noncorporate. Furthermore, nonprofit operations both public and private account for one-third of the sector's employment.

Table 10 summarizes some of the available information concerning the distribution of employment in different service industries by size of employer. The size distribution in manufacturing is included for comparison. In wholesale trade, retail trade, and selected services, accounting for more than 50 per cent of