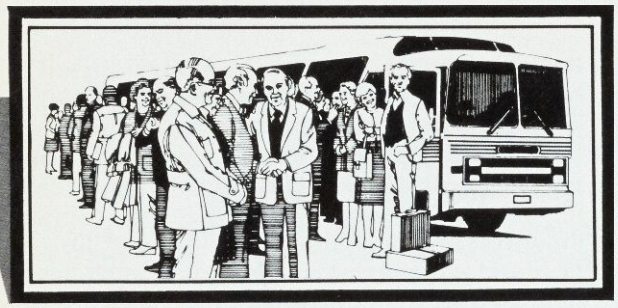
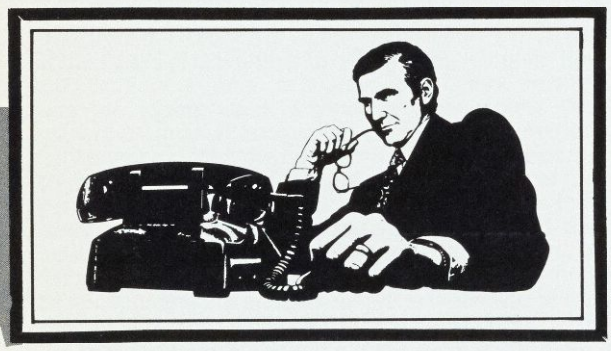
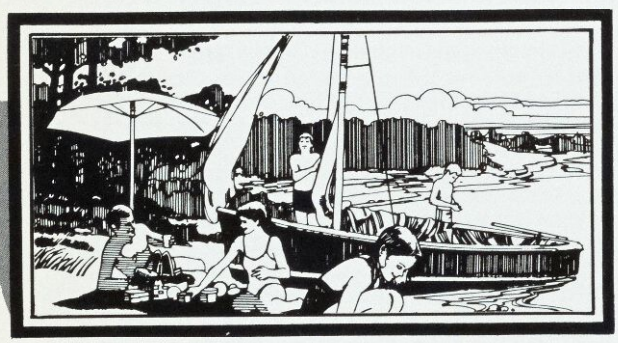


Services: Key to Current Stability and Future Growth



The Southeast's strong services industry should continue growing both in terms of jobs and profits, according to this analysis. Yet enthusiasts may be expecting too much in anticipating that the industry can take up the slack left by cutbacks in manufacturing.



During the recent recession the terms "Sunbelt" and "services" often appeared together to describe the comparatively moderate impact of the economic downturn in certain areas of the country, such as central Florida, Atlanta and parts of Texas. Yet such conditions weren't enjoyed equally throughout the Southeast, as clearly shown in a recent issue of this publication.[1] The Sunbelt is a popular abstraction with connotations of rapid growth, prosperity and new jobs. It bears little relevance to many rural and industrial areas in Mississippi, Alabama, Tennessee and parts of Georgia. Is the concept of a service-based southeastern economy equally diffuse? Is it similarly devoid of meaning except in certain pockets of prosperity in this region?

Services' Share of the Southeastern Economy

In terms of jobs the largest service industries (see box) are trade, miscellaneous services and government; the smallest are finance, insurance and real estate (hereafter termed finance) and transportation, communication and public utilities (subsequently termed transportation and utilities). Chart 1 illustrates the distribution of jobs among the major services in the Southeast and in the United States. The Southeast accounts for 12.7 percent of the nation's jobs but 12.8 percent of U. S. service employment. Although the Southeast's total share of service employment is slightly greater than the national average—73.8 versus 73.4 percent—the distribution of services differs in several important ways. For example, government accounts for a relatively greater share of employment in the Southeast than in the nation—18.8 percent versus 17.6 percent; finance and miscellaneous services account for proportionately smaller shares—5.7 and 19.5 percent, respectively, than in the nation, where they comprise 6 and 21.2 percent.

Moreover, these differences appear even more extreme if we exclude Florida, which skews the region's average because of its large population and unique economic characteristics. Florida boasts almost one-third of the nonfarm jobs in the Southeast, and its distribution of

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[1] "The Southeast in 1983, Special Issue," **Economic Review**, February 1983. Unless otherwise specified, the "Southeast" in this article refers to the six states all or partly within the Sixth Federal Reserve District: Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee.

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What Makes Up The Service Sector?

In economic terms, services are distinct from goods-producing activities, such as mining, farming, manufacturing, and construction, in that what is exchanged is usually intangible and often cannot be stored or reused. Transportation illustrates this distinction. A round-trip airline ticket entitles the bearer to be transported from Nashville to Mobile and back, and no more. A small jet enables its owner to fly many times and still retain a depreciated portion of the dollar amount originally paid. According to the U. S. government's standard industrial classification (or SIC), codes, as revised in 1972, the service sector includes high-asset, capital-intensive operations, such as airline, telephone and power companies, as well as personal and consumer services offered by individuals or households, such as "mom-and-pop" grocery stores.

The services sector includes five broad categories: (1) wholesale and retail trade; (2) transportation, communication, and public utilities; (3) finance, insurance and real estate; (4) miscellaneous services; and (5) government. The components of each category are fairly obvious, although it may not be readily apparent that transportation encompasses transportation of oil and natural gas through pipelines.

Miscellaneous services is the most heterogeneous category. It encompasses personal services, such as cleaning, gardening, and repairs; consumer services, such as recreation and health care, and business services, such as engineering, accounting, advertising, and law. This category also includes profit-based social services such as day-care centers and private, non-profit organizations.

Although government includes the majority of educational services, private education is classified under miscellaneous services. Certain states have slightly different taxonomic schemes. For example, in Tennessee local utilities tend to be public rather than privately owned and publicly regulated. Consequently, workers who in most states would be classified as transportation, communication and public utilities employees are counted as government workers in Tennessee. SIC codes also do not discriminate according to the type of work done by individual employees: accountants employed by steel producers are classified as manufacturing workers. The Tennessee Valley Authority's large construction work force is included under the rubric of government rather than construction employment.

Many scholars studying the apparent structural economic shift from goods to services modify this broad definition of services in order to understand better the dynamics of this change. Hudson Institute futurist Herman Kahn distinguishes two broad service categories: the tertiary—transportation, finance, trade, and miscellaneous business services closely tied to production and the quarternary—consumer, nonprofit, and government services; these are consumed for their own sake or to support other services. He believes that this quarternary sector is likely to command the largest portion of the labor market in the 1980s and may act as a drag on the primary and secondary sectors. Victor Fuchs omits transportation, communication and public utilities from his research on services because of the close relationship between this category and the goods sector.* By reorganizing the above SIC codes according to their final output, Thomas Stanback has developed a three-part classification—consumer, producer, and public services. He predicts that future services growth will be strongest in producer services.** Sociologist Joachim Singelmann,+ in his investigation of seven industrial economies since 1920, maintains that the sectoral shift also entails secular decline of distributive and personal services that have been waning in importance while social and producer services have been rising.++ Some futurists identify "information" as the fourth sector of advanced economies. This growing sector is distinct from other services, such as many governmental functions, personal, and even some consumer services, in which rapid growth may have already passed its peak.

*See, e. g. Victor R. Fuchs, "Economic Growth and the Rise of Service Employment," Working Paper No. 486, National Bureau of Economic Research, June 1980. Fuchs contends that the inclusion of this sector would have made only a slight difference in his findings.

Thomas M. Stanback, Jr., **Understanding the Service Economy: Employment, Productivity, and Location (Baltimore: Johns Hopkins University Press, 1979) and Stanback *et al*, **Services: The New Economy** (Totowa, N. J.: Allanheld, Osmun, and Co., 1981); in the latter Stanback and his colleagues also use a classification scheme similar to Singelmann's.

+Joachim Singelmann, **Agriculture to Services: The Transformation of Industrial Employment** (Beverly Hills, California: Sage Publications, 1978).

++See Herman Kahn and B. Bruce-Briggs, **Things to Come: Thinking about the 70s and 80s** (New York: Macmillan, 1972), pp. 26, 224-5.

in the region. For example, Florida's financial sector is larger than those of other southeastern states. Last year this industry accounted for 7.5 percent of Florida's jobs but only 5.3 percent of Georgia's employment and less than 5 percent in Alabama, Louisiana, Mississippi and Tennessee. Miscellaneous services provide almost one-fourth of Florida's jobs but only 15.4 percent of Mississippi's nonfarm employment and less than the national norm (about one-fifth) of employment in the other southeastern states. Conversely, Florida's relatively small government sector understates the importance of public employment in the region. Government provides only 16.7 percent of Florida's jobs but 22.1 percent of Alabama's, 19.8 percent of Georgia's, 19 percent of Louisiana's and 22.7 percent of Mississippi's.

Trade is relatively more important in the Southeast than in the United States but only in Florida and Georgia; in the remaining southeastern states it accounts for less than the national average of 22.9 percent of jobs. Transportation—the other category in which the Southeast outranks the United States in relative share—is distributed more evenly throughout the Southeast, yet it too is concentrated in three states—Florida, Georgia, and Louisiana. Atlanta's and Miami's importance as transportation hubs and Louisiana's pipelines account

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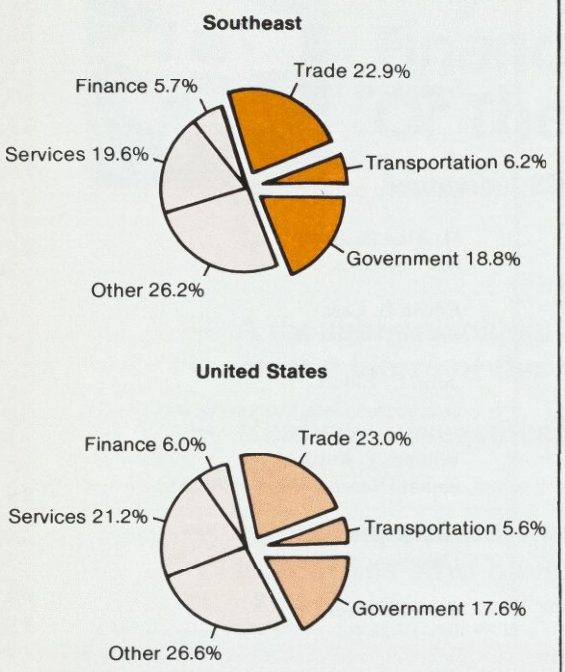
Chart 1. 1982 Distribution of Employment



for the relatively large percentage of transportation jobs in these states: 6.1 percent in Florida, 6.6 percent in Georgia, and 8 percent in Louisiana.

Concentration ratios measure the degree of geographic over- or underrepresentation. Simply stated, these ratios, also termed "location quotients," compare a region's share of some economic variable, such as service jobs, with the share of that variable in another, usually larger, area. Concentration ratios of less than one indicate underrepresentation; those of more than one, overrepresentation. For example, if Florida has 40.5 percent of the Southeast's miscellaneous service jobs but only one-third of its total nonfarm employment, we can determine its degree of dependence on this sector by dividing 40.5 by 32.6. The result, 1.24, indicates that Florida has about 24 percent more miscellaneous service jobs than one would expect if the Southeast were perfectly homogeneous in its employment composition. Table 1 illustrates the extent to which southeastern states except Florida are underrepresented in most service jobs except government and transportation.

By another measure—the number of large service companies' headquarters—this pattern of concentration in certain states is repeated. Of **Fortune** magazine's 500 largest service corporations, the Southeast in 1982 claimed 8 percent, up from 3.3 percent of the top 300 counted by **Fortune** 10 years earlier. The region's share of service companies is higher than its share of top manufacturing firms: only about 4 percent of the **Fortune** 500 are located in the Southeast. These large service corporations tend to concentrate in Florida and Georgia, which together had almost two-thirds of the regional total yet slightly more than half the employment.[2] The location of large corporation headquarters is important to the service sector because they tend to include many service functions and to attract independent service companies.

Service Jobs Remain Concentrated in Large Cities

Service jobs are distributed unevenly in another way: they tend to be clustered around cities. As Tables 2 and 3 demonstrate, the standard metropolitan statistical areas (SMSAs) of the Southeast claim a disproportionate share of service jobs relative to their respective shares of state employment. It should be no surprise that cities such as Tallahassee and Gainesville, Florida and Baton Rouge, Louisiana enjoy high levels of government employment since they are state capitols or seats of large state universities. Similarly, we would expect seaports and distribution centers such as Memphis, Mobile, Savannah and New Orleans to have relatively high concentration ratios in transportation and trade. However, as Table 3 indicates, urban concentration of service employment extends beyond the particular specialization of certain cities.

Traditionally, services have been marketed at the local level. A shoe manufacturer can ship his products across the nation and even around the world if demand is sufficient. But a bootblack is restricted to the market he can reach physically. Not only personal but also most business services, such as those offered by service industries differs from most other states

[2] Computed by the Federal Reserve Bank of Atlanta from data in **Fortune**, June 13, 1983, pp. 152-175; May 2, 1983; pp. 226-254; July 1973, pp. 120-135.

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Table 1. Employment Concentration Ratios by State and Major Service Sector

	Ala.	Fla.	Ga.	La.	Miss.	Tenn.
Trade	.86	1.33	.99	.97	.86	.92
Transportation	.86	1.01	1.98	1.32	.81	.77
Finance	.80	1.13	.95	.85	.72	.81
Service	.87	1.24	.88	.94	.82	.92
Government	1.16	.88	1.06	1.02	1.21	.94

Source: Calculated from data released by southeastern State Departments of Labor or Employment Security

lawyers, architects and merchants, historically have served a market defined primarily by the size of the surrounding community. Even the largest airlines concentrate their operations in hub cities: Delta in Atlanta, American in Dallas, United in Chicago. Each carrier schedules most of its origination, destination, or transfer flights along with ancillary facilities and staff, such as hangars and mechanics, at one major airport.

Export-base theory is the common economic explanation of the urban concentration of services. Simply stated, it holds that cities are not economically self-sufficient. They cannot raise enough food locally to support their populations, nor do most cities have the natural resources to sustain their local economies. Consequently, they must export to pay for the goods they cannot produce locally. Manufactured goods are one source of exports; services marketed to the surrounding region are another.[3]

A second explanation is designated by the term "agglomeration." Certain large cities, like New York, attract services because of their already high concentration of related economic activities. Stanback, for example, found a concentration ratio of 1.4 for producer services in 17 SMSAs with a population of two million or more. Daniels found a similar pattern in most cities of Europe and Great Britain.[4] This concept might explain why corporate headquarters, including research and development as well as finance, remain densely concentrated around New York City.[5] The high degree of linkage among certain services, particularly law, accounting, banking and insurance, accounts for the historical tendency of such services to cluster in central business districts and in central cities, such as London, New York and Paris.

Finance is the most heavily concentrated service sector in the Southeast (Table 2); its concentration ratio is 1.21. Transportation and miscellaneous services also are urbanized disproportionately. With a concentration ratio of 0.97, government is underrepresented in the region's SMSAs. The probable explanation for this pattern is both demographic and political. Much government employment is in public elementary and secondary education, and teachers are distributed on the basis of school age population, not overall employment. The population of many southeastern states, particularly Mississippi, is younger and more rural than the national norm.[6] Only one-fourth of Mississippi's residents live in cities of 50,000 or more; the share in other southeastern states ranges from 45.3 in Alabama to 52.3 in Louisiana.[7] This

[3] John M. L. Gruenstein and Sally Guerra, "Can Services Sustain a Regional Economy?", **Business Review** (Federal Reserve Bank of Philadelphia), July-August 1981, pp. 15-24. They argue that a service-based urban economy is congruent with export-base theory because some services, such as those provided by higher educational institutions of the Northeast, are exported.

[4] Peter Daniels, **Service Industries: Growth and Location** (Cambridge: Cambridge University Press, 1982), pp. 37-42.

[5] In 1981, the share of jobs in New York City accounted for by finance was 13.3 percent, nearly as large as the 15.5 percent share contributed by manufacturing. Computed from **Employment and Earnings**, U. S. Department of Labor, Bureau of Labor Statistics (May 1982), p. 112.

[6] "Population Estimates and Projections," Series P-25, No. 913, U. S. Department of Commerce, Bureau of the Census, (May 1982), p. 2.

[7] "Population Profile of the United States: 1981," Population Characteristics, Series P-20, No. 374, U. S. Department of Commerce, Bureau of the Census, September 1982, p. 12.

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Table 2. SMSA Employment Concentation Ratios by Major Service Industry

SMSAs	Transportation	Trade	Finance	Services	Government
Southeast	1.13	1.10	1.21	1.14	0.97
Alabama	1.18	1.11	1.23	1.19	0.97
Florida	1.03	1.01	1.01	1.02	0.97
Georgia	1.20	1.09	1.21	1.19	0.95
Louisiana	0.99	1.06	1.20	1.13	0.95
Mississippi	1.37	1.19	1.89	1.38	1.02
Tennessee	1.19	1.10	1.29	1.11	1.06

Source: Calculated from data in **Employment and Earnings,** U. S. Department of Labor, Bureau of Labor Statistics (May 1982), pp 106-117.

distribution creates a larger demand for teachers in rural areas and boosts the importance of government employment outside cities.

Second, the South plays host to a disproportionate share of military bases, most of which are located outside SMSAs. (After the Civil War and Reconstruction, the Republican Party garnered virtually no support in the South and the region became solidly Democratic. As a result, southern Senators and Congressmen experienced less interparty turnover than their northern counterparts. The seniority system made it easier for them to become chairmen of important congressional committees. As such, they were positioned to influence decisions regarding the location of military bases as well as public works projects. Furthermore, the executive branch since the 1930s supported policies designed to eliminate the dramatic income differences between the South and other sections of the country.)

Table 2 shows that Mississippi's metropolitan areas are most overrepresented in their share of service employment, while Florida's are most nearly proportional. More than three-quarters of all Floridians live in cities of 50,000 or more, whereas only 61.4 percent of Americans live in cities that size. Since Mississippi is one of the nation's most rural states and Florida is much more urban than its neighbors, one can speculate that, as the region develops economically and becomes more urbanized, southeastern cities' disproportionate share of service jobs will diminish.

Recent technological developments increase the probability of this sort of structural change because many service jobs now involve the exchange of information. Insurance companies no longer need to house records at a central location; computers and communications make it feasible to operate such facilities from remote locations away from high-rent central business districts. Although labor-intensive jobs still must be performed near population centers, suburbs and smaller cities near SMSAs have already drawn many service businesses as evidenced by the growth of commercial office space in the suburbs of Atlanta and other southeastern cities.[8]

The Growth Record of Services

Over the last decade, finance and transportation have constituted the fastest growing service industries; yet, because of their large bases, trade and miscellaneous services have

[8]Peter Daniels, *op. cit.*, maintains that in most western economies consumer services, particularly retail trade, follow population shifts to the suburbs; cost pressures and technological advances in communication stimulate producer services to move out of central business districts, but integration constrains the distance of relocation, particularly among law, accounting, insurance, and banks.

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Table 3. Concentration Ratios of Service Employment in Southeastern SMSAs

Alabama	1.10	Georgia	1.09
Birmingham	1.11	Albany	0.96
Huntsville	1.00	Atlanta	1.13
Mobile	1.08	Augusta	0.93
Montgomery	1.18	Columbus	0.96
Tuscaloosa	1.11	Macon	1.11
		Savannah	1.06
Florida	1.01	Louisiana	1.05
Bradenton	0.94	Alexandria	1.15
Daytona Beach	1.04	Baton Rouge	1.03
Fort Lauderdale	1.01	Lafayette	0.94
Fort Myers	1.03	Lake Charles	0.87
Gainesville	1.11	Monroe	1.06
Jacksonville	1.04	New Orleans	1.11
Lakeland	0.86	Shreveport	0.97
Melbourne	0.90		
Miami	1.02	Mississippi	
Orlando	1.01	Jackson	1.23
Panama City	1.04		
Pensacola	1.01	Tennessee	1.11
Sarasota	1.02	Chattanooga	1.01
Tallahassee	1.15	Knoxville	1.05
Tampa	0.99	Memphis	1.20
West Palm Beach	0.98	Nashville	1.10

Source: Calculated from data in **Employment and Earnings**, U.S. Department of Labor, Bureau of Labor Statistics (May 1982), pp. 106-117.

created more new jobs (Table 4). The southeastern job growth in most service industries is higher than the corresponding national rate. Moreover, with the exceptions of finance and social and professional services, this pattern prevails in all District states, not just Florida, Georgia or Louisiana. In the last few years, though, growth has slowed in most of the services (see Chart 2). In 1982 southeastern government employment declined slightly. Although services remain less vulnerable to economic downturns than manufacturing and construction, their rate of growth slows. Urquhart found that in the seven postwar recessions service employment slowed to an average 2.1 percent growth rate.[9]

Within this category, restaurants, food stores, health care, social services (including day-care centers) and various business services, including legal and other professional services, have enjoyed the highest and most consistent rates of job growth; personal services and general merchandise stores have had the poorest record (see Table 4). Health care and restaurants have created the most new jobs over the period. In terms of relative growth, miscellaneous services enjoyed the largest increase in share, from 16 to 19 percent in the Southeast (see Table 5).

Is Job Growth Matched by Other Measures of Economic Performance?

Although service industries have proven an important source of jobs during the last decade, their economic performance is less impressive when measured in terms of output and income. Services accounted for about two-thirds of gross national product (GNP) but almost three-quarters of jobs in 1982. Since service markets are more local, it may be appropriate to exclude output generated by international trade and consider only gross domestic product (GDP). However, services constitute only 68.5 percent of GDP. Counting construction but not transportation, communication and public utilities, the postwar growth record of services is less rapid in terms of GNP share than of employment: from 1948 to 1978 the service sector's share of GNP rose from 53.6 percent to 57.1 percent, whereas its share of employment rose from 48 percent to 62.7 percent.[10] Moreover, in terms

[9] Michael Urquhart, "The Services Industry: Is It Recession-Proof?" **Monthly Labor Review**, 104, 10 (October 1981), pp. 15.

[10] Lora S. Collins, "The Service Economy," **Across the Board**, November 1980, pp. 17-22.

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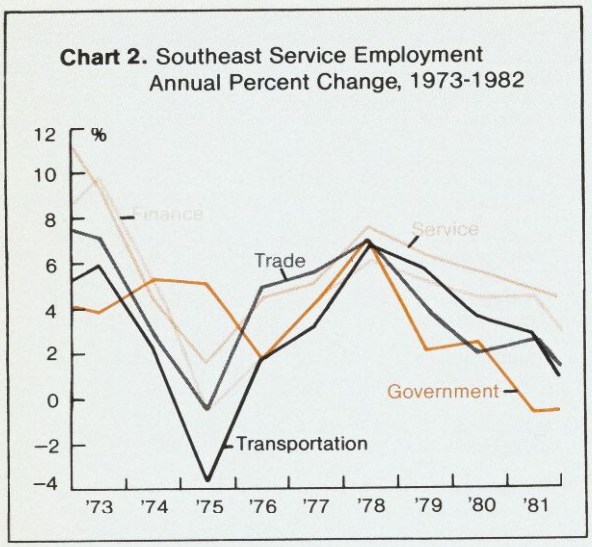

of Gross Domestic Product, there has been little change in the distribution of goods and services since 1950.[11] A similar disparity pertains to profits, national income and personal income (see Chart 3). In general, transportation and finance account for a much larger share of the nation's output, profits and income than of jobs; miscellaneous services, trade, and government contribute a noticeably smaller share (see Chart 3).

Most of these measures are unavailable at the state or regional level because of sampling problems. (It would be costly to collect data from samples large enough to be valid at the state level.) The economic census reports receipts by state every five years, but it does not cover all the service sectors under study here. Furthermore, the most recent data are from 1977; data for the 1982 census are only now being collected. State sales tax receipts are subject to similar problems of comparability. Even growth is difficult to trace.

Available comparable data on personal income computed from the shares of personal income contributed by each service sector to the southeastern economy make it apparent that the national pattern is equally applicable to the Southeast: miscellaneous services, government and trade contribute a larger share of jobs than of personal income, even when transfer payments and other non-wage forms of income are

Table 4. Average Annual Percent Change and Net Increase in Service Employment, 1973-80*

Industry	S E	U.S.	Net Gain in S E 1973-80
Total Nonfarm Employment	2.8	2.1	1,516,416
Transportation & Utilities	2.5	2.4	89,041
Communications	1.1	1.9	10,606
Electricity and Gas	1.1	3.1	10,939
Other (primarily trans.)	2.0	2.5	60,942
Wholesale Trade	2.3	2.6	90,768
Retail Trade	2.7	2.8	310,722
General Merchandise	−1.5	−0.3	−30,328
Food Stores	4.0	3.3	68,679
Apparel Stores	1.6	1.2	12,439
Restaurants	7.5	6.4	211,351
Total Trade	2.6	2.8	401,490
Finance, Insur., R. E.	4.0	3.8	137,649
Insurance Carriers	4.3	2.7	31,967
Insurance Agents	5.4	4.8	17,219
Real Estate	1.7	2.9	12,325
Other	5.6	4.8	89,078
Services	5.7	5.4	608,467
Hotels	4.3	2.9	31,649
Personal	−0.2	−0.1	−2,594
Business	6.0	6.4	102,570
Auto Repair	4.6	4.5	18,805
Misc. Repairs	5.9	5.3	14,645
Amusements	5.2	5.2	31,947
Health	3.9	6.0	257,251
Legal	7.5	7.4	22,800
Education	2.8	4.8	17,873
Social Services	9.0	10.1	43,924
Nonprofit Orgs.	5.0	3.4	35,895
Misc. Professional	6.9	7.8	31,844
Government	3.9	1.6	534,600

Source: Computed from data in annual editions of **County Business Patterns**, U.S. Department of Commerce, Bureau of Census, 1973-80; government employment is computed from releases of State and U.S. Labor Departments.

excluded (see Table 6). SMSA concentration ratios for service receipts follow a pattern much like that of service employment. Mississippi's metropolitan areas and Louisiana's are overrepresented more than other southeastern cities (see Table 7). Florida's (and Louisiana's) SMSAs are least overrepresented although not in educational and social services.

One partial measure can be made by comparing the Southeast's leading service companies with other **Fortune** 500 service companies. As illustrated in Table 8, large southeastern service companies tend to perform below the **Fortune** average for their respective industry. Two exceptions are transportation firms' operating revenues and diversified services' net income, which are above average. One reason sales and net income are less than

[11] Fuchs, *op. cit.*

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Table 5. Relative Change in Service-Employment, 1973-82 (percent)

	Southeast		Percent	United States		Percent
	1973	1982	Change	1973	1982	Change
Transportation	6.3	6.2	−0.1	6.1	5.6	(−0.5)
Trade	22.6	23.6	1.0	21.6	22.9	1.3
Finance	5.2	5.7	0.5	5.3	6.0	0.7
Services	16.2	19.6	3.4	16.7	21.2	4.5
Government	18.3	18.8	0.5	17.9	17.6	(−0.3)
Total Services	68.6	73.8	5.3	67.7	73.3	5.7

the **Fortune** mean is that a few giants skew the average. Southeastern companies' profit margin ranks above average except in transportation and utilities. Another positive sign is that the majority of southeastern firms ranked above the median in the ten year growth rate in earnings per share. Judging by these indicators, large service companies in the Southeast appear to be growing rapidly and providing a return (on revenues) that compares favorably with their counterparts elsewhere.

What Factors Underlie This Record of Performance?

Explanations for the growth of services industries come from a variety of disciplines and professions, ranging from economics and sociology to geography and journalism.[12] One early and straightforward economic explanation is based on Christian Engel's law of income elasticity: as household income increases, the proportionate amount spent on necessities such as food diminishes. In the 1930s and 1940s Colin Clark and Allen G. B. Fisher, working independently, applied this nineteenth century microeconomic principle to the economy in aggregate to explain the economic shift from agriculture and extraction (the primary sector) to manufacturing (the secondary sector). To some extent the more recent shift to services (the tertiary sector) is attributable to similar phenomena. As family income rises, a larger share of expenditures is allocated for services: not only personal services such as dry cleaning but a variety of consumer services—restaurants, travel, recreation, education, and health care.

This explanation can be applied as well to the increase in public services. Some social scientists maintain that rising and widespread affluence has effected a shift from material to nonmaterial values; we increasingly prefer higher education, a cleaner outdoor environment, a less hazardous work-place and safer products over increases in individual material wealth; we also want a more egalitarian distribution of material values for women, blacks and ethnic minorities. Thus, insurance and pension services grew in importance throughout the postwar period as employees sought benefits to increase their security in sickness and during retirement, and demand for recreational services grew in response to increased leisure time that workers sought as a supplement to wage increases. This value shift also engendered rapid growth in public services, including regulation to achieve a healthier work and outdoor environment,

[12] Sociologist Daniel Bell was one of the first to bring attention to this structural macroeconomic change. See Bell, **The Coming of Post-Industrial Society: A Venture in Social Forecasting** (New York: Basic Books, 1973), pp. 123-164. Social critic Alvin Toffler has extended public awareness of this economic change as well as related political, educational and social changes. See e. g., his excerpt in **Growth Industries in the 1980s; Proceedings of a Conference Sponsored by the Federal Reserve Bank of Atlanta** Westport, Connecticut: Greenwood Press, (forthcoming).

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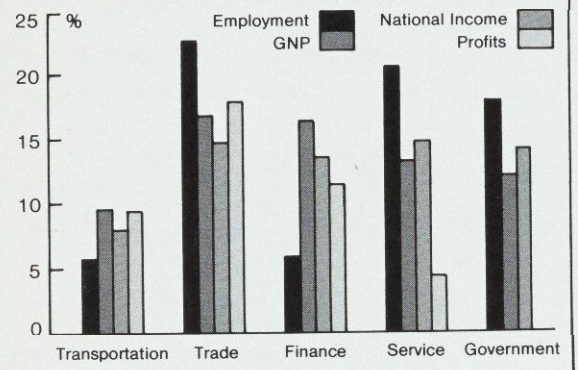
Chart 3. Services Industries' Share of GNP, National Income and Profits



Source: Computed from data in **Survey of Current Business,** U. S. Department of Commerce, Bureau of Economic Analysis (July 1982), pp. 78, 79,93.

Table 6. 1982 Services Share of Personal Income and Employment

Sector	Percent of Nonfarm Earnings		Percent of Jobs	
	S.E.	U.S.	S.E.	U. S.
Trade	18.1	16.6	23.6	22.9
Transportation	8.9	7.9	6.2	5.6
Finance	5.7	6.0	5.7	6.0
Services	17.8	18.5	19.5	21.2
Government	17.9	16.6	18.8	17.6
Total Services	68.4	65.6	73.8	73.4

Source: Computed from data released quarterly by Bureau of Economic Analysis, U. S. Department of Commerce and **Survey of Current Business,** (August 1982) pp. 62-71.

and in related business and professional services, such as health care and law.

However, other factors have also contributed to the growth of the service sector. Demographic patterns account for some of the rise in public sector employment, particularly education. The postwar "baby boom" created a bulge in the population distribution. As this age group passed through elementary and secondary school, the demand for teachers grew. Moreover, in the last two to three decades the marketplace for American products has grown from national to worldwide proportions. Increasing market size has rendered larger firms more practical. Economies of scale entail more specialization and division of labor but also more coordination. Consequently, accounting, finance, advertising, and other business services have grown rapidly both inside and outside companies.[13] In the goods sector the proportion of service jobs has risen from 19 percent in 1942 to 32 percent in 1982.[14]

Fuchs denies that the Clark-Fisher hypothesis accounts for the shift from manufacturing to services.[15] He argues that increases in the female participation rate may account for one-fourth of the annual rate of increase in services since 1950.[16] As more women work, activities such as laundry and food preparation that traditionally have been provided within the household are purchased in the marketplace. Using Bureau of Labor Statistics (BLS) data on consumer expenditures, Fuchs found that when wives work, the share of the household budget allotted to services rose by 10 percent and the share allotted to goods fell by 3-4 percent. Moreover, services represent a primary source of jobs for female entrants into the labor force. Women comprise a larger percentage of employees in almost all service industries except transportation and utilities.

Fuchs also addresses the apparent anomaly between the growth of services in terms of employment and in other measures such as output and income. More units of labor are required to produce an additional dollar's worth of services than of manufactured products or foodstuffs. Consequently, service industries add jobs faster than they add revenues, profits or wages. Several factors explain the productivity lag of services. Substituting capital for labor, the primary method of increasing productivity, is not feasible in many personal services. Eating at a restaurant cannot be automated beyond certain limits without undermining the very reasons consumers choose to dine out rather than cook a meal, or eat a ready-made one, at home. Many services, ranging from haircuts to concerts, require a fairly fixed period of time.

[13] Stanback, *et al*, 1981, pp. 12-13.
[14] Alfred Malabre, Jr., "Service Jobs Keep Expanding in Recession, Make Up Ever Larger Share of Work Force," **Wall Street Journal**, January 15, 1982, p. 44.
[15] Fuchs, *op. cit.*, p. 16.
[16] Ibid., pp. 20-25.

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Table 7. SMSA Receipts Concentration Ratios by State and Selected Services

State		Selected Services			
Alabama	1.19	Hotels	1.28	Dental	1.27
Florida	1.17	Personal Services	1.15	Business Services	1.32
Georgia	1.22	Auto Repairs	1.23	Legal	1.32
Louisiana	1.08	Miscellaneous Repairs	1.17	Engineering	1.38
Mississippi	2.53	Recreation	1.36	Education	1.28
Tennessee	1.26	Health	1.22	Social Services	1.09

Sources: Computed from receipts data in 1977 Census of Service Industries, Geographics Area Series, U. S. Department of Commerce, Bureau of Census and from SMSA employment in **Supplement to Employment and Earnings, States and Areas Data for 1977-81**, U. S. Department of Labor, Bureau of Labor Statistics, September 1982.

Some observers contest this view.[17] They maintain that eventually technological changes can be applied to services. Until fairly recently, for example, the demand for entertainment—theater and music—was satisfied through the services sector by attending plays and concerts. Since each play could reach only local audiences, aggregate demand for this type of recreation could support a relatively large force of actors and related workers. The advent of phonographs, movies and television satisfied demand for this type of entertainment through the manufacturing sector. By purchasing stereos, movie tickets and TVs the modern consumer satisfies his demand for entertainment; this demand supports an occupational mix more heavily weighted toward producers of equipment. Those actually providing the entertainment service constitute a relatively smaller portion of this segment of the labor force.

Another explanation for lagging productivity in services pertains to measurement. The BLS measures productivity for 16 service industries that account for about one-third of all service employment. These 16 are drawn from transportation, communication, public utilities, retail trade, lodgings and laundry. More specifically, these measures account for about three-fifths of transportation jobs, four-fifths of communication jobs, but only 13 percent of business and professional services. The BLS is developing measures for banking, insurance, and hospitals. However, the Bureau expects work on medical and educational services to proceed slowly because of conceptual problems. The intrinsic problem is exemplified most clearly in the case of government. Because most government services are not "sold," there is no independent measure of output against which to measure change in labor input.[18]

Among those service industries for which productivity measures exist, some exhibit high growth rates. Not surprisingly, two capital-intensive services, telephones and air transportation, boast the best records. From 1973-1980 their productivity increases averaged 7 percent and 4.3 percent respectively, well above average productivity changes in this period. The next highest was gasoline service stations, with an annual average growth rate of 3.1 percent. Computers may provide the basis for expanded productivity growth in other service industries, particularly business services. For example, in engineering and architecture, computer-aided design renders it economically feasible to create, test, and alter a much larger number of designs and plans because computers can perform such tasks as drawing and calculating stress

[17] E.g., Jonathan Gershuny, **After Industrial Society? The Emerging Self-Service Economy** (Atlantic Highlands, N. J.: Humanities Press, 1978).

[18] Jerome A. Mark, "Measuring Productivity in the Services," **Monthly Labor Review**, (June 1982), pp. 3-8.

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Table 8. Largest Southeastern Service Companies

Company	Sales $ mil.	Net Income $ mil.	Profit Margin Net Income/Sales %	Earnings Per Share Compound Annual Avg. Growth Rate 1972-82*
Diversified Services				
Hospital Corp. of America, Nashville	2,976.9	171.9	5.8	25.62
Malone & Hyde, Memphis	2,192.9	27.8	1.3	12.75
Ryder System, Miami	2,075.9	82.6	4.0	12.89
Genuine Parts, Atlanta	1,936.5	100.2	5.2	13.96
Holiday Inns, Memphis	1,755.3	76.0	4.3	3.46
Ocean Drilling & Exploration, New Orleans	979.6	191.9	19.6	27.38
Blount, Montgomery	769.3	12.4	1.6	14.22
Rollins, Atlanta	526.5	46.0	8.7	13.02
Southeastern Average	1,651.4	89.3	5.4	
Average of Top 100	1,905.4	61.5	3.2	
Retail Trade				
Winn-Dixie Stores, Jacksonville	6,764.5	103.5	1.5	10.87
Publix Super Markets, Lakeland	2,506.9	46.8	1.9	*
Jack Eckerd, Clearwater	2,080.2	70.7	3.4	10.04
Service Merchandise, Nashville	1,195.3	31.6	2.6	34.93
Southeastern Average	3,136.7	63.1	2.0	
Average of Top 50	4,923.2	88.7	1.8	
Transportation**				
Eastern Air Lines, Miami	3,769.2	(74.9)	—	*
Delta Air Lines, Atlanta	3,617.5	20.8	0.6	(7.22)
Federal Express, Memphis	803.9	78.4	9.8	*
Tidewater, New Orleans	466.3	71.5	15.3	21.87
Southeast Average	2,164.3		23.9	
Average of Top 50	1,556.8		46.0	
Utilities***				
Southern Company, Atlanta	12,301.2	472.3	13.5	2.39
Middle South Utilities, New Orleans	10,364.7	310.6	12.5	1.64
Florida Power & Light, Miami	6,850.6	301.1	13.6	7.39
Continental Telecom, Atlanta,	3,864.6	150.5	14.1	3.79
Sonat, Birmingham	3,139.5	204.6	18.0	15.65
Southeastern Average	7,304.1	287.8	3.9	
Average of Top 50	8,964.0	404.5	4.5	

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Company	Sales $ mil.	Net Income $ mil.	Profit Margin Net Income/Sales %	Earnings Per Share Compound Annual Avg. Growth Rate 1972-82*
Commercial Banking* **				
Southeast Banking Corp., Miami	7,274.3	52.6	12.2	5.76
Barnett Banks of Florida, Jacksonville	6,932.1	56.8	14.6	9.71
Citizens & Southern Georgia Corp., Atlanta	6,004.6	50.0	15.1	4.46
Sun Banks of Florida, Orlando	5,004.	34.2	11.2	5.90
Trust Company of Georgia, Atlanta	4,510.6	52.5	20.6	15.33
First Atlanta Corp., Atlanta	4,480.0	38.4	14.8	12.42
Florida National Banks of Florida, Jacksonville	3,498.5	21.3	7.9	5.78
First Tennessee National Corp., Memphis	3,392.1	26.8	12.9	7.25
AmSouth Bancorp., Birmingham	3,255.5	31.9	13.2	9.69
Southeastern Average	4,928.0	40.5	13.6	
Average of Top 100	13,558.9	74.6	12.0	
Diversified Finance* **				
Freedom Savings & Loan Association, Tampa	1,320.4	(7.4)	*	*
Citizens Savings Financial, Miami	1,302.7	1.6	5.6	*
American Family, Columbus	1,104.1	24.7	11.7	8.96
First City Federal Savings & Loan Association, Bradenton	795.3	(3.9)	*	*
Naples Federal Savings & Loan Association, Naples	783.7	1.7	3.4	*
Gulf United, Jacksonville	3,248.4	101.0	15.8	6.04
Torchmark, Birmingham	3,036.9	79.4	12.3	17.83
American Savings & Loan Association of Florida, Miami	2,305.6	(13.2)	*	*
Southeastern Average	1,737.1	23.0	10.8	
Average of Top 100	5,513.4	52.6	10.0	
Insurance* **				
National Life & Accident, Nashville	3,147.6	243.2	—	—
Liberty National, Birmingham	1,752.6	90.3	—	—
Southeast Average	2,450.1	166.7	—	—
Average of Top 50	8,736.9	600.0		

*Not computed if loss occurred in 1972 or 1982
**Ranked by operating revenues; margin measured by net income as percent of operating revenues.
***Ranked by assets, margin for utilities, banks, and diversified finance measured by net income as percent of equity

Source: **Fortune** (June 13, 1983), pp. 152-173.

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factors much more quickly than a staff of artists, draftsmen and clerks.

Application of scale economies and modern management techniques provides another potential source of productivity growth in the services sector. In health care, for instance, soaring costs have given rise to hospital management corporations, such as Hospital Corporation of America and Humana. These "for-profit" companies attempt to operate hospitals in a cost-efficient and hence more profitable manner. Although only 1,000 of the nation's 7,000 hospitals now operate for profit, investor-owned hospitals represent the fastest growing sector of the health care industry.[19] These are concentrated in the South. In the Northeast, attitudes toward health care are influenced by a tradition of philanthropy. In the South, population expansion and economic growth have combined with a popular attitude more favorable toward profit-based health care to foster rapid growth of such institutions.[20] Whatever the reason, this segment of the health care industry is growing rapidly.

What Are the Implications for the Southeast?

The services' relatively poor performance in regard to GNP and other output measures of the service sector augurs poorly for the future of areas dependent on these industries. Many service businesses generate too low a level of profits to finance their own future growth; even their borrowing capacity is constrained by low profitability. Because the Southeast traditionally has been considered a capital importer, it finds the problem of funding economic expansion of particular concern. However, the Southeast's edge in transportation and Florida's strength in finance are promising exceptions since both of these industries have strong records of profitability and income, notwithstanding current financial problems in the airline industry.

Second, the service sector is too concentrated in cities and in certain states to absorb, without some dislocation, the slack in labor markets occurring as a result of foreign competition in textiles and apparel. The mills closing permanently are often in rural counties of Tennessee, Georgia and Mississippi, not near service-oriented cities, like Atlanta, or urbanized states, like Florida.

The service industry least concentrated in urban areas is government, and job growth in the public sector is regarded widely as entering a period of secular decline. It is difficult to determine whether values have actually begun to reverse from the 1970s, but reducing the federal government's role has been a recurring presidential theme for almost a decade under both Republican and Democratic administrations. Furthermore, it is likely that rapid growth in government probably is over for the foreseeable future if for no other reason than saturation: both benefits and regulations have been implemented about as broadly as possible. The related level of government employment may not decline dramatically, but it is unlikely to increase substantially until another major change in political values occurs. Recent increases in federal defense spending have done little to alter personnel levels at military installations; their effect in the Southeast has been felt primarily in manufacturing, especially in high-technology electronics production.

Third, even if displaced workers relocate, the service industries they are most likely to enter are characterized by low-skilled, low-paying, part-time jobs—restaurants, hotels, grocery stores and other retail trade establishments. In 1982, hourly earnings averaged $6.22 in trade and $6.91 in services compared with $8.50 in manufacturing and $7.67 in the private sector generally. Because a relatively large portion of workers in textile and apparel mills are women, and since women are overrepresented in the many service industries, such a transition is more likely than one leading into more male-dominated service industries. Although figures are not available at the state level, nationally women are overrepresented in the service sector. Women held 43.5 percent of all jobs in 1982 but 50.5 percent of all retail trade jobs, 59.4 percent of service jobs and 47.9 percent of government jobs. The only exceptions to this pattern are in transportation and utilities, wholesale trade retail food stores, repairs, recreation, and business and professional services,

[19] U. S. Department of Commerce, Bureau of Industrial Economics, **1983 U. S. Industrial Outlook**, January 1983, p. 52-7.

[20] Thomas W. Mader "Health Service Markets," Research Report 647, SRI International, February 1981, p. 10.

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in which the proportion of women is less than or equal to their proportion of total employment. The faster growing, higher wage service industries, such as transportation, accounting, and engineering, require more advanced educational training and higher skill levels than textile and apparel production workers typically possess, and they have not absorbed women entrants to the labor force as quickly as other service industries. Such a structural change in the composition of southeastern employment will do little to narrow the gap in personal income between this region and the nation. Except in more prosperous Florida, per capita personal income in southeastern states ranges from 71 percent of the United States norm in Mississippi to 91 percent in Louisiana.[21]

Fourth, there is at least theoretical reason to believe services grow in tandem with expansion of goods production. Since most services cannot be exported, their prosperity cannot be sustained without strength in the local economy's goods sector.[22] Thus, areas with declining or weak industrial sectors cannot simply substitute service jobs for manufacturing jobs. Employment trends in Tennessee support this argument. The past two recessions have affected that highly industrial state severely because Tennessee's industries are oriented toward housing and autos and hence quite credit sensitive. In this economic environment trade employment has actually declined, while it has continued to grow or at least hold steady in other regions. A similar pattern obtains in Tennessee's finance industry, which elsewhere is a rapidly growing job sector.

Fortunately for the Southeast, some services can be exported. Miami has emerged as an important center of international finance and trade. Tourism provides not only as much as 17 percent of Florida's jobs but more than $18 billion in expenditures and almost $1 billion in tax revenues derived largely from nonresident visitors.[23] In Atlanta a modern airport and extensive meeting, exhibition and lodging facilities have created a convention industry that attracts a nationwide market and provides employment for an estimated 81,000 people.[24] One indication of its economic impact is that the five major downtown hotels and the two trade marts accounted for 14 percent of the total property tax collected in Atlanta in 1981.[25] Of course, tourism cannot be developed out of nothing, but other areas of the Southeast, such as Tennessee, have learned to market their natural attractions or to develop commercial attractions to benefit from the large volume of pass-through traffic destined for Florida. The state of Mississippi has appropriated $4 million to enable its tourist industry to take advantage of the 1984 World Exposition in neighboring Louisiana.[26]

Yet problems of excess supply threaten to dampen the area's convention growth. Many cities, such as Washington, D. C. and Knoxville, Tennessee, have enlarged their convention facilities or opened new ones. Established southeastern convention centers, such as Miami Beach, Atlanta and New Orleans, face increasing competition. The number of hotel rooms in Atlanta, Orlando and other cities has been growing rapidly and should nearly double in some markets in the next three years. The result is likely to be lower occupancy rates during the adjustment period despite improved economic conditions.

In the longer term, technological changes should increase the likelihood of greater dispersion of services, especially those based on exchange of information and thus amenable to computer applications. Still, the rapid growth of commercial office space along the perimeter of Atlanta and other large cities indicates that suburbs, not remote rural counties, are taking the lead in attracting such operations. Moreover, these same technological changes may accelerate the substitution of capital for labor and hence diminish employment growth in services.

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[21] Calculated from data in **Survey of Current Business**, (August 1982), pp. 55 and 57.

[22] Exponents of this view include: William H. Miernyk, "The Changing Structure of the Southern Economy," **The Economics of Southern Growth**, edited by E. Blaine Liner and Lawrence K. Lynch (Research Triangle, N. C.: Southern Growth Policies Board, 1977), pp. 35-63; Lawrence Falk and Adam Broner, "Specialization in Service Industry Employment as a State Policy," **Growth and Change**, 11, 4 (October 1980), pp. 18-23; and Stanback, *op. cit.*, 1979, pp. 88 ff. Falk and Broner contend that service employment in the South grew more rapidly than elswhere because of rapid growth in the working age population, especially through migration; consequently, if this growth reaches a plateau, growth in service jobs should also taper. Miernyk found a weakened relationship between personal income and employment composition between 1940 and 1975 and concluded that a saturation is occurring in the shift from primary to secondary and tertiary sectors.

[23] Figures calculated from Florida Visitor Studies, 1981, Florida Division of Tourism, Department of Commerce annual report.

[24] Atlanta Convention and Visitors Bureau.

[25] Research Atlanta, "The Convention Industry in Atlanta," September 16, 1982, p. 13.

[26] Telephone conversation with Mississippi Office of Tourism.

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Automated tellers may reduce the need for staff and for branch offices in banks, for instance. Electronic coding and advances in cable television and other forms of telecommunications may eliminate jobs in retail trade.

The Outlook for Southeastern Services

Which areas and sectors are likely to enjoy the most growth? In addition to transportation and tourism, discussed above, consumer services—particularly restaurants, food stores and health care—and producer services, including business and professional services and transportation, seem likely to grow the fastest.

Because of the large size of the trade sector, even a low employment growth rate will produce a comparatively large absolute increase in jobs. Demographics favor growth on the output side: the baby-boom generation is now in its mid-30s and at a peak period of spending for its own children, housing and entertainment. However, families are smaller, and the current disinflationary environment may encourage savings more than spending, at least for non-food items. The Commerce Department predicts only a 2 percent compound annual rate of growth in consumer sales versus a 2.3 percent yearly increase in real disposable income over the next five years. Southeastern states with high inmigration rates, such as Florida, should do better because population growth, especially migration-related growth, is closely tied to increasing retail sales. Certain types of retail outlets should also do better, though. For example in 1983, the Commerce Department expects a 9 percent increase in current dollar sales of eating and drinking establishments over 1982 levels. Since trade is "overrepresented" in the Southeast, this projection is of particular regional significance.[27]

Aside from retail trade, health care may provide the greatest number of new jobs. Future increases in health care appear less likely to come through extension of coverage of third-party and government-financed insurance than through aging of the population. This trend is significant to the Southeast for several reasons.

The region's attractiveness to retirees should give certain states, particularly Florida, a disproportionate share of this age group.[28] Second, the South's concentration of for-profit hospitals bodes well for the health care industry's future in the region. If health care costs continue to rise more rapidly than the rate of inflation, pressure to control costs should increase. Consequently, this sector is likely to enjoy relative growth even as public and non-profit health care facilities wane.[29] Such companies hold the potential for higher profits than most service businesses and hence for financing more economic growth. Of the nation's 50 leading diversified service companies, **Fortune** rated southern-based Humana—which ranked 32nd in terms of sales—the fastest-growing (44 percent annual average rate since 1971) in terms of earnings per share.[30]

Summing up, the outlook for services is tied closely to developments in high technology, particularly in changes relating to computers and communications. Although employment growth may slow, greater productivity that high technology promises to bring to many services should raise income and profits in this sector, which in turn should generate a higher level of growth. Moreover, growth of high technology in the Southeast will stimulate demand for business services to manage the fast growing revenues of such firms, consumer services which high-paid engineers and technicians will seek, and public services, particularly education to upgrade local labor force skills and transportation.

Despite arguments that services cannot prosper independently of growth in the goods sector, the outlook for services in the Southeast seems positive both in terms of jobs and profits. Enough economic growth should be generated by population expansion especially through migration, and by a number of stronger manufacturing and services industries to increase income at both the household and regional level and to foster continuing growth in services in most southeastern states.

—Bobbie H. McCrackin

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[27] U. S. Department of Commerce, Bureau of Industrial Economics, **1983 U. S. Industrial Outlook**, January 1983, pp. 48-3 and 48-9.

[28] According to Mader, *op. cit.*, p. 4, the oldest quartile of the population consumes almost half of the health care.

[29] Mader *op. cit.*, p. 6, projects a 16.6 percent annual average growth rate in demand for profit-based health services.

[30] Mary Greenebaum, "Winners Among the Service-Company Stocks," **Fortune**, July 12, 1982, pp. 149, 152.

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