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Balanced Job-Recruitment Policy Urged WSU Economist Sees Perils In Neglecting Service Sector

Michael Murphey
Staff writer

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There's nothing wrong with Spokane's economy that a few more factories couldn't fix.

Right?

That's the conventional approach to economic development; the popular approach; the easiest approach in which to convince businessmen and politicians to invest.

But, according to Washington State University economist Dr. Gary W. Smith, it is not always the best approach.

"Communities which persist in their bias toward recruiting manufacturing jobs may be surrendering a portion of their future economic base to other regions," warns Smith in a recently published study, "Shifting Fortunes: A Closer Look at Per Capita Income Trends in Spokane County."

Smith sounds his warning just as Spokane is attempting to shape a five-year economic development strategy - The New Century Plan - based on a communitywide consensus.

And at least in the initial stages of the New Century Plan process, the manufacturing bias Smith warns about appears to be present.

In February, the New Century Plan Task Force established five benchmarks by which Spokane's progress is to be measured over the next five years. The benchmark that measures job growth uses only manufacturing as a standard by which to gauge Spokane's economic success.

New Century leaders, though, emphasize that judging the planning process on the basis of the five benchmarks is premature.

"The (manufacturing) benchmark is only one of five in a process that isn't complete," says Rich Hadley, president of the Spokane Area Chamber of Commerce. "The benchmarks can change, and the economic development portion of the process has not even occurred yet."

The problem with favoring manufacturing over other sectors of the economy, Smith and other economists say, is that segment of the U.S. economy creates fewer and fewer jobs each year.

“Everybody likes to stand up and cut ribbons in front of factories that are going to provide high-income jobs,” says John Mitchell, chief economist for U.S. Bank who focuses on the Northwest economy. “But those operations nowadays are few and far between. Lots of places are trying to attract them. (A pro-manufacturing bias) runs the risk of setting your sights too narrowly.”

Smith compares the manufacturing sector to two groups within the service classification of economic reporting - health services and business services - which match wages paid in the manufacturing sector. And, both of which already make up substantial portions of Spokane’s economy.

The federal Bureau of Economic Analysis, Smith says, projects employment in health services to more than double from 10 million to 21.2 million between 1993 and 2045. Business services employment is expected to grow from 8.9 million to 18.6 million during the same period.

During that time frame, though, manufacturing employment is projected to increase only from 18.7 million to 19.2 million.

“For each new job likely to originate from manufacturing,” Smith writes, “about 45 jobs are expected to emerge from health and business services.”

Smith emphasizes that the manufacturing bias is hardly unique to Spokane. And, he says, “I am definitely not saying that manufacturing is not an important segment of this or any economy.

“But I do see a lot of evidence that there’s a real tendency towards focusing on manufacturing as an avenue for economic development in Spokane, and I think it’s important that there be some debate on that issue.”

Income gap sparks debate

Smith’s research was sparked in part by the findings of The Pace Report, a 1995 analysis of Spokane’s relative economic competitiveness with other cities. The report was commissioned by the Spokane Area Economic Development Council.

Smith questioned some of the assumptions in the Pace Report. So last fall, he undertook research, “in pursuit of trying to provide information that would improve the economic development process here.”

The Pace report seized on the issue of “underemployment.” Citing indicators like per capita income levels, the report found that wages in Spokane are low.

Statistically, that much is clear. But Smith and other local economic observers were less comfortable with the Pace Report’s explanation of why Spokane’s per capita income has lagged national averages over the past 25 years.

The report echoed the common local belief that Spokane lost high-paying manufacturing jobs over that time and replaced them with lower-paying services jobs. But Smith’s findings are that Spokane’s per capita income woes were not caused by the shifting mix of industries here.

Spokane’s per capita income as a percentage of U.S. per capita income fell from 95.1 percent to 90.2 percent between 1969 and 1973. It closed to 96.2 percent of the national average by 1977. That trend began to change in 1980, and by 1988, the figure had receded to 85.4 percent.

But in 1988, the trend reversed again, and by 1993, Spokane’s per capita income had recovered to 90.1 percent.

If industry mix was a significant influence on those shifts, one would expect that manufacturing’s role in the local economy would have fluctuated to match the shifts.

But Smith’s analysis shows that didn’t happen. Rather, shifts in Spokane’s industry mix tended to mirror shifts that occurred nationally.

The experiences of Spokane’s two major manufacturing employers illustrate some of Smith’s reservations about manufacturing as an economic catalyst.

Kaiser Aluminum Corp. and Key Tronic Corp. both employ far fewer people in Spokane than they did in 1980. Yet the productivity of both companies has increased dramatically. Both companies, which struggled to survive during the ‘80s, have rebounded strongly. But they are doing so with drastically reduced work forces and with production line wage rates that have remained relatively static since the 1980s, taking inflation into account.

As have manufacturers everywhere, Kaiser and Key Tronic have made those adjustments because global competition has forced them to become far more productive in order to survive. Economists say that trend will continue.

What happened in Spokane during the periods of decline, Smith’s study shows, is that wages for jobs in all sectors of the economy, manufacturing included, declined relative to U.S. averages. Smith says those declines occurred because the former staples of the Inland Northwest’s economic base - aluminum, mining, timber and agriculture - all hit cyclical troughs at the same time.

They were "especially vulnerable to the cyclic downswing of the national economy, the drop in energy and commodity prices, and the upswing in the international value of the dollar," Smith writes.

The simultaneous decline of those industries led to layoffs, which meant less money to spend at other businesses in the community. As these other businesses were affected, they laid off workers or cut salaries as well, and many workers left, seeing better employment opportunities elsewhere.

When national and international conditions improved for these traditional components of Spokane's economic base, the decline slowed. It was reversed, Smith says, largely by an economic phenomenon called "cost equalization" in which capital, in the form of relocations and expansions of business operations, flows toward low-wage areas.

In other words, companies that relocated or expanded to Spokane did so largely because of the low wages they could pay here.

So the assumption that a manufacturing-poor industry mix created Spokane's wage problems is wrong, Smith says.

"And if policy-makers presumed from their diagnosis of Spokane's ills that a program focused on recruiting high-wage manufacturing jobs was an appropriate prescription," he writes, "should we question the prescription if the diagnosis was wrong?"

Manufacturing bias continues

Smith lists several theories as to why the manufacturing bias prevails in Spokane, and almost everywhere else.

One is that wage conditions in the late 1980s were right to make it successful. The low-wage structures were attractive to manufacturers, who responded to recruitment efforts as a result.

Another, he says, is that recruitment policies focusing on manufacturers are "the line of least resistance" in convincing business leaders and policy-makers to invest scarce economic recruitment funds. Conventional wisdom is a powerful influence. And it's harder to develop strategies that focus on less-traditional recruitment targets.

"A successful program that improves relative per capita income by increasing the quantity and quality of child day-care facilities - thereby increasing the labor participation rate among less affluent two-wage earner families -" would not be nearly as easy to sell to the investors and the community as a whole, Smith says.

And finally, there's the traditional image of the manufacturing sector as opposed to the service sector of the economy.

“Goods-producing industries are conventionally viewed as the basic source of most wealth, value-added and high paying jobs,” Smith writes.

Goods are exportable, bringing new money into the region.

“Services on the other hand are viewed as the dependent, non-basic component within the local economy, which merely recycle the incomes created from manufacturing and other goods-producing sectors.”

But, Smith and other area and regional economists point out, service jobs are not merely the low-wage, internally focused tasks they are popularly believed to be.

Service jobs offer advantages

As a regional center, Spokane is blessed with robust health-services and business-services sectors. These, Smith says, tend to be the highest-paying components of the broad group of economic activities defined as services. And they are also among the highest growth areas of the economy.

Business services are all those activities - accounting, legal services, marketing, etc. - that support business operations. They include architectural firms, public relations agencies, law firms, and financial institutions.

More and more often, recruitment of a manufacturer, Smith argues, means recruitment of the lowerpaying production line jobs while the higher paying administrative and support jobs are provided somewhere else.

And, Smith says, clearly both health services and business services are exports that bring wealth into Spokane from the region it serves. Further, as communications continue to allow companies greater and greater flexibility to locate in high quality-of-life settings, he expects the reach of Spokane’s service exports to expand.

Another point Smith argues is that manufacturing jobs historically are held by males, while the service sector is more willing to employ women.

“The earnings of women employed in services are very similar to the earnings of women employed in manufacturing,” Smith writes. “However, the barriers to the employment of women in services have been substantially less than in manufacturing.”

Smith emphasizes that a healthy manufacturing sector is an important part of any economy. But, he adds, communities that persist in focusing on the recruitment of manufacturers at the expense of “service producers” are making a mistake.

“They may relinquish the opportunity to capture their equitable share in the economic future of this country,” Smith concludes.

"Attracting and accommodating the expansion of services jobs is not a silver bullet … However, in the contemporary setting, it is one option that must be an essential part of a balanced approach toward local economic development."

, DataTimes ILLUSTRATION: Photo; Graphic: Lagging behind the nation

MEMO: This sidebar appeared with the story: HOW TO OBTAIN A COPY For single copies of "Shifting Fortunes: A Closer Look at Per Capita Income Trends in Spokane County," contact Dr. Gary W. Smith through E-mail at Washington State University. The E-mail address is SmithG@WSU.EDU.

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