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Examining Recent Trends in the Wisconsin Economy
and the Implications for Local Development Strategies

by

Martin Shields

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Examining Recent Trends in the Wisconsin Economy and the Implications for Local Development Strategies

Martin Shields¹

The relative decline in the economic importance of the goods sector² vis a vis the service sector is legendary. To begin, consider the recent history of the "two-sector" economy for the United States. During the period 1977-1990 the share of gross domestic product³ (GDP) accounted for by goods production had fallen from slightly more than 31 percent to less than 27 percent--an erosion of more than 13 percent of the original level.

Movement toward a service-based economy has fostered anxiety about the economic livelihood of American families. Specifically, there is concern that US workers in an ever-increasingly service-oriented job market are limited to low-paying, low-benefit employment--often part-time, often on a temporary basis, and often with no opportunity for advancement. To many, this trend is the disturbing result of a loss of high paying manufacturing jobs to foreign competitors, who enjoy wages and regulatory costs significantly lower than those borne by domestic producers.

I am not suggesting that service sector jobs are necessarily "bad." Consulting, software development and health services are just a few examples of growing service industries consistent with the notion of economic development. However, many "good" service industries are highly specialized, necessitating a local population large enough to create a market. Therein lies the problem for small communities: dispersed population patterns that typify much of rural America are not fertile grounds for developing and supporting high-wage service firms that are driven by local demand (Miller and Bluestone, 1987).

Although national trends are well documented, little attention has been given to the extent of the transformation in Wisconsin. A casual inspection of the data suggests the restructuring of the state economy is not as dramatic. Goods production in 1977 accounted for 38 percent of gross state product (GSP). After bottoming-out near 35 percent of GSP in 1982, its share has recently leveled at about 37 percent. These figures, however, disguise some significant changes at a less aggregate level--particularly in the manufacturing and service industries.⁴

¹ Graduate student in the Department of Agricultural Economics, University of Wisconsin-Madison.

² The goods sector, broadly defined, consists of manufacturing, construction, mining, and agriculture. The service sector is composed of transportation and public utilities, wholesale and retail trade, the service industry, and government.

³ Gross Domestic Product (GDP) is the sum of all domestic industries' "value added." Value added, in turn, is equal to an industry's gross output (sales and other operating income, plus inventory change) minus the value of its intermediate inputs (consumption of goods and services purchased from other industries or imported). Gross State Product (GSP) is the state-level counterpart to GDP.

⁴ The service industry consists of: hotels and lodging, personal services, private households, auto repair etc., amusement and recreation, motion pictures, health services, legal services, educational services, social services, museums and zoos, membership organizations, engineering and management services and miscellaneous services.

Recent trends in manufacturing's shares of GSP, employment and earnings are shown in Figure 1. While manufacturing's contribution to GSP has hovered around 28 percent, the proportions of generated earnings and employment have steadily declined. The upshot is that while output per worker has steadily increased--about 4 percent annually--total worker compensation (wages and benefits) has stagnated.

Figure 2 depicts recent economic trends in the State service industry. Like manufacturing, the contribution of this industry to GSP has been fairly constant. Yet striking differences emerge with respect to employment and earnings, both having increased steadily over time as a proportion of state totals. This indicates the increasing importance of the service industry to the state economy.

In sum, the recent experience of the Wisconsin economy is both similar and dissimilar to recent national trends. The notable difference is that while goods production as a share of total product has steadily declined nationally, in Wisconsin its share has remained fairly stable. However, this aggregate measure masks an important underlying structural transformation. When considering employment and earnings, a state-wide shift from manufacturing to service industries becomes apparent--mirroring US trends.

How does this transformation affect small Wisconsin communities? Since many "good" service industries are highly specialized, rural towns and villages may be unable to provide the necessary markets. This is especially true if the service is produced for local consumption rather than export. This places rural areas at a disadvantage relative to population centers in that service-based growth must result from export opportunities, effectively narrowing the number of growth opportunities. Thus, concerns that rural areas will potentially be "left behind" by restructuring are real. In pursuing specialized growth opportunities, entrepreneurial ingenuity is paramount.

The development implications are significant. Specifically, how are communities best able to address this transformation? Should development policies concentrate on shoring-up declining industries? Or should practitioners accept the transformation as an outcome of "economic evolution," concentrating on positioning the community more competitively as a service provider? The challenge facing each community lies ultimately in developing a set of economic growth strategies that match community desires and resources with legitimate market opportunities.

References

Miller, J. and H. Bluestone (1987). "Prospects for Service Sector Employment Growth in Nonmetro America," in *Rural Economic Development in the 1980s*. Washington, D.C.: Economic Research Service, U.S. Department of Agriculture.

Ron E. Shaffer
Community Development Economist

Contribution of Manufacturing to WI
GSP, Employment and Earnings, 1977-90

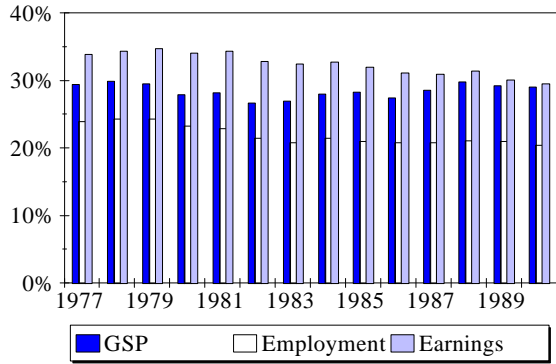


Figure 1

Contribution of Service Industry to WI
GSP, Employment and Earnings, 1977-90

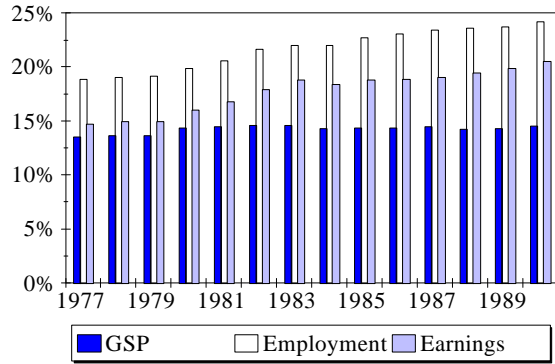


Figure 2