Contribution of Services to American Competitiveness

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Services are a major engine of growth in the U.S. economy and play a substantial supporting and integrated role in U.S. manufacturing and agriculture. Service providers are the largest source of U.S. jobs, generate the greatest percentage of national output, provide the impetus for productivity growth and technological innovation, and generate a considerable trade surplus. Without competitive services, an area where we lead in the world, the U.S. would not be the economic powerhouse it is today. In order to make the American economy an even greater powerhouse, services must be an integral part of efforts to revitalize manufacturing, increase job creation, and expand competitiveness.

- **Services Support our Daily Lives and Contribute to Raising Our Standard of Living**

Services employ over 75 percent of the American workforce and contribute to 80 percent of U.S. gross domestic product (GDP). The jobs that have been lost in manufacturing over the past two decades (largely due to automation and other technological advances in manufacturing technologies) have been replaced by service sector jobs, including services jobs supporting or integrated into manufacturing, where technology has enormously increased demand for skills in the sectors of information technology, business services and other industries. And the demand for services workers continues to grow, as the U.S. economy continues to be transformed under the twin drivers of technological change and consumer taste.

Services permeate all facets of life and millions of consumers and producers use services daily. They range from infrastructure services essential to output (such as banking and insurance, telecommunications, transport, logistics, retail, information technology, marketing, branding, and numerous others such as professional services), to more social-oriented but equally vital services such as education, health, social media, tourism, recreational and the environment.

Not only do services permeate every aspect of our professional, productive and personal lives; they also raise our standard of living significantly. The widely-held perception that services jobs do not pay well is incorrect. Salaries are higher in many services professions than in other jobs. In fact, a study by the Peterson Institute for International Economics (2011) relying on data from the U.S. Economic Census reports that the business services sector, which employs twice as many workers as manufacturing, paid a significantly higher salary on average than did the manufacturing sector in 2007 (around $56,000 compared to around $46,000 a year). This puts average wages in business services at 20 percent more than average wages in manufacturing. Business services encompass a wide range of professions, including information technology, finance, insurance, real estate, professional services, scientific and technical services, and company management services. Other services such as utilities, construction and wholesale trade also pay more than manufacturing jobs on average.

The wage differential in favor of services is particularly wide for services jobs oriented toward exports. Tradable services account for 40 percent of U.S. services jobs. Many workers in these “tradable” services sectors have a higher level of education and therefore earn much more than those in manufacturing or non-tradable service sectors (PIIE study).

- **Services Promote Greater productivity in Manufacturing, Agriculture and Small and Medium Size Enterprises (SMEs)**

Services not only support most American jobs and create economic opportunities; they also enable other economic sectors to be successful. Services account for 25 percent of inputs into manufacturing activities in the U.S., stimulating production efficiency and generating competitiveness. This includes everything from research and development to retail, maintenance and repair, telecommunications and financial services. For manufacturers that work within the computer and electronics sector, services account for up to 47 percent of input. These services allow companies to harvest big data advances by inclusion of smart technologies.

Many services are incorporated into all manufacturing and agricultural products in the U.S. daily and allow our economy to function smoothly and be competitive. One of the reasons that the U.S. is the largest exporter of food products worldwide is because of efficient underlying services including transport systems, financial services, and information technology and data support systems, among others.

Services in the U.S. generate the greatest productivity gains as well. A study by the PECC shows that in advanced economies such as the United States, labor productivity in services outweighs labor productivity in manufacturing when compared as a contribution to GDP. Given the services content of manufactured and agricultural products, this means that services productivity growth can generate productivity gains across the entire economy.

Services are critical to small businesses in the U.S. While large firms account for most exports in dollar terms, small and medium-sized enterprises (SMEs) make up one-third of U.S. exports and account for nearly two-thirds of new jobs created in the private sector since 2002 (Brookings Institution). Importantly, most SMEs in the U.S. as elsewhere are service suppliers, with 68 percent of small businesses identifying themselves as a company within the services sector, as opposed to only 27 percent working within manufacturing and 5 percent within agriculture and mining (survey by the National Small Business Association).

- **Services Trade Supports American Jobs and Higher Wages**

The United States is the world's largest exporter of services and a leader in services trade, generating a $262 billion trade surplus in 2015. Services have consistently driven U.S. performance in world trade, both through direct exports and as intermediate exports incorporated into other products. The surplus generated by services has been a bright spot in U.S. trade performance and helped to dampen the impact of the global recession on the U.S. economy in 2009-2012. Services exports are the most dynamic component of U.S. trade, growing by 74 percent between 2006 and 2014.

Close to 5 million U.S. service sector jobs are directly supported by U.S. services exports and almost 700,000 U.S. jobs are supported by the activities of U.S. foreign affiliates. This does not include the millions of U.S. services jobs that are integrated into global supply chains and indirectly dependent on the flow of trade. Overall, services companies that export pay higher wages and report higher productivity than those companies that do not. For example, in 2016 the average hourly earnings in business and professional services was $30.72 per hour, compared to a manufacturing wage, which was $25.99 per hour. Engaging in trade helps to generate this wage difference.

Trade is vital for small and medium-sized firms as well. While the big multinational companies usually make the headlines, small firms actually account for 98 percent of all exporting companies. Most of these SMEs export services and depend upon foreign customers as part of their profit-generating base.

- **Trade Agreements are Critical to promoting U.S. Services Trade**

The potential of services industries to reach the 95 percent of customers that are outside of the United States remains largely untapped. Engagement in international trade, through open markets and negotiating trade agreements to eliminate barriers to services trade and create a level playing field for U.S. firms, is therefore critical to further unleash the strong potential of U.S. services. Given its competitive advantage in the services area, the U.S. should be pushing hard for services trade liberalization around the world. The Peterson Institute (2012) estimates that fully eliminating all foreign barriers to trade in services could increase U.S. services exports by as much as $860 billion to $1.4 trillion, creating as many as three million new U.S. jobs. The benefits from expanding services trade are widespread throughout the country; services firms from all 50 states export to foreign markets (see U.S. services exports by state and district at the CSI website). Not engaging in trade and pulling out of trade agreements would on the other hand generate job losses, stifle economic growth, and bring about a loss of competitiveness for U.S. services firms with negative consequences for workers, consumers and the entire economy. It would also result in less transparency, certainty, and predictability for U.S. services firms when they attempt to engage in foreign markets. (2016 ITC Annual Report on Recent Trends in U.S. Services Trade).

But much more services trade could be generated to produce more jobs and more income. Expanding U.S. services output through new opportunities abroad will also expand the higher-paid services jobs in the U.S. This should thus be a priority for U.S. trade policy, building upon the existing U.S. competitive advantage in these services activities. Europe is the most dynamic consumer of U.S. services exports at present. However, high demand for U.S. services is also present in regions with major emerging markets such as East Asia, South Asia, Latin America and Africa where the consumer base is growing rapidly.

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