Research Summaries

Finance, insurance, and real estate: employment growth during 1982–87

THOMAS NARDONE

On October 19, 1987, the stock market had its largest 1-day loss in history. The crash on "Black Monday" raised questions about the future strength of the finance, insurance, and real estate industries. Between late 1982 and 1987, rising real estate and financial markets made this group—often referred to as "financial services"—the source of 1.3 million new jobs.

Job growth among the principal components of the group has been uneven, however.[1] Increased competition brought on by deregulation in some industries affected both the extent and composition of employment growth. Indeed, in some areas there was little change in employment.

In December 1987, employment in the financial services was 6.6 million, up 24 percent from the end of 1982.[2] Total nonfarm employment grew by 17 percent. Pronounced differences occurred within the major components of finance, insurance, and real estate. (See table 1.) Over the 5-year period, holding and investment companies, securities and commodities firms, nonbank credit agencies, insurance agencies, and real estate firms typically had much higher growth rates than insurance carriers and banks. (See table 2.) The last two industries, however, made up over half of the total employment in the finance, insurance, and real estate group in 1982.

The real estate and financial markets were the major forces behind the job gains in financial services. Falling interest rates and the start of the economic recovery in late 1982 led to sharp gains in housing sales and commercial real estate activity, directly boosting employment in real estate development and sales firms. Activity in real estate markets also raised employment in related industries, such as title insurance, savings and loan institutions, and mortgage banking. In addition, there was a massive refinancing of mortgages when interest rates fell in 1986. Reflecting these developments, employment in the relatively small mortgage banking industry more than doubled from late 1982 to 1987.

Table 1. Employment in finance, insurance, and real estate, December 1982 and 1987, not seasonally adjusted

[Numbers in thousands]

Industry	Employment 1982	Employment 1987	Percent change, 1982–87
Finance, insurance, and real estate	5,346	6,601	23.5
Finance	2,668	3,296	23.5
Banking	1,653	1,731	4.7
Commercial and stock savings	1,503	1,560	3.8
Mutual savings	72	85	18.1
Credit agencies, except banks	597	890	49.1
Savings and loans	274	399	45.6
Personal credit	196	241	23.0
Business credit	37	58	56.8
Mortgage bankers and brokers	68	167	145.6
Securities, commodity brokers, and services	284	465	63.7
Holding and investment companies	135	210	55.6
Insurance	1,715	2,047	19.4
Insurance carriers	1,233	1,435	16.4
Life insurance	546	590	8.1
Medical and health	143	200	39.9
Fire, marine, and casualty	474	542	14.3
Title	38	56	47.4
Insurance agents and brokers	481	612	27.2
Real estate and combined offices	963	1,258	30.6
Real estate	946	1,248	31.9
Real estate operators and lessors	471	536	13.8
Real estate agents and managers	345	534	54.8
Subdividers and developers	111	145	30.6

Over the 5-year period, the securities markets were buoyed by the economic recovery, lower interest rates, and a rash of corporate takeovers. Trading of stocks and bonds as well as of other financial instruments surged. Between September of 1982 and 1987, the value of stocks traded rose 221 percent.[3] The development of worldwide financial markets, made possible by advances in telecommunications, also contributed to heightened financial activity and employment growth in the securities and investment industries.

While events in the real estate and financial markets accounted for the bulk of the employment growth in financial services, other factors shaped employment trends in some industries. The above-average job growth in medical and health insurance firms, for example, reflected the continuing rise in demand for health care

Thomas Nardone is an economist in the Division of Labor Force Statistics, Bureau of Labor Statistics.

and for new means of financing rapidly advancing health costs.

Increased competition also affected employment growth. Since the 1930's, many financial services had been tightly regulated. Regulations limited the interest rates that banks and savings and loans could pay, the types of loans they could make, and the geographic areas they could serve. At the same time, regulation provided institutions with profitable niches in the financial services market. Banks had been the sole source of demand deposits and the main source of commercial loans; savings and loans handled most mortgage financing; and securities firms and investment banks sold and underwrote stocks and bonds. Competition among the major financial service industries and even within industries was limited. Interest rate volatility altered this characteristic of the financial service market.

Rising interest rates during the mid-1970's increased the competition for funds among the components of the financial services industry. As there was an increase in the opportunity costs of money kept at banks and savings and loans, with their regulated below-market interest rates, individuals and businesses sought alternative places for their deposits. In response, the securities industry introduced money market mutual funds that offered checking service and market interest rates.[4] This development and the expansions into other financial services, such as commercial lending, contributed to the employment gains in the securities industry. Not all securities firms prospered in this climate of increased competition, however. There were signs, even before the "Black Monday" crash, that the increased competition was leading some firms to halt or reverse employment growth. The crash has halted, at least temporarily, the sharp employment growth in the securities industry.[5]

Developments in computing and telecommunications equipment were also important catalysts to the expansion of competition in financial services. Many financial services traditionally provided by banks and insurance firms, such as checking and claims settlement, are costly tasks that require a large administrative work force. Advances in computers and telecommunications have enabled banks and insurance companies to keep up with the paperwork involved, while cutting their administrative support staff. However, the technology also allowed other financial institutions to economically offer services previously available only through banks and insurance companies. The technology even made feasible the opening of financial service centers in supermarkets and department stores.[6]

Services like the money market fund placed securities firms in direct competition with banks, thrifts, and insurance companies. In response, banks and thrifts sought and received the right to offer competitive financial instruments and new financial services.[7] Savings and loans received the right to make consumer loans and offer checking accounts, in addition to their traditional mortgage lending. Many thrifts added branches and increased employment to expand their customer base. Banks and insurance companies also experimented with new services and products; however, market conditions forced them to restrict employment growth to hold down costs. Banks, for example, faced huge losses from their loans to developing countries. Banks

Table 2. Annual growth rate of employment in finance, insurance, and real estate, 1982–1987, years ending in December

Industry	1982–83	1983–84	1984–85	1985–86	1986–87
Total nonagricultural industries	3.9	4.3	2.7	2.0	3.4
Finance, insurance, and real estate	4.0	4.1	5.3	5.3	2.9
Finance	4.9	3.5	5.1	5.6	2.5
Banking	0.7	1.3	1.9	1.1	-0.3
Credit agencies except banks	11.5	7.8	8.8	10.9	2.8
Securities and commodities firms	15.7	4.0	7.8	13.6	11.2
Holding and investment companies	4.5	7.9	17.9	9.7	7.2
Insurance	0.6	3.8	4.6	5.8	3.3
Insurance carriers	-0.5	2.7	5.1	5.2	3.1
Insurance agents and brokers	3.6	6.5	3.7	7.2	3.7
Real estate and combined offices	7.2	6.6	6.6	3.5	2.8
Real estate	7.5	6.8	6.8	3.8	3.7
Combined offices	-12.4	-6.1	-5.0	-17.4	-8.3

Table 3. Percent distribution of employed persons in finance, insurance, and real estate, annual averages 1983 and 1987

Occupation	Total		Finance		Insurance		Real estate	
	1983	1987	1983	1987	1983	1987	1983	1987
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Executive, administrative, and managerial	22.3	24.5	28.8	30.5	12.3	15.6	22.9	24.2
Sales	23.2	23.9	8.3	10.5	34.2	32.0	36.4	37.3
Administrative support	42.8	40.3	56.3	52.5	46.0	45.3	14.7	14.9
Other	11.8	11.2	6.7	6.4	7.5	7.0	26.0	23.6

Table 4. Changes in employment in finance, insurance, and real estate, by occupation, 1983–87

[Numbers in thousands]

Occupation	Number	Percent
Total	1,252	100.0
Managerial:		
Underwriters	161	12.9
Property and real estate managers	87	6.9
Financial managers	39	3.1
Accountants and auditors	50	4.0
Sales:		
Real estate sales	204	16.3
Securities and financial service sales	107	8.5
Insurance sales	-7	-0.6
Administrative support:		
Secretaries	2	0.2
Bank tellers	-13	-1.0
Bookkeepers, accounting and auditing clerks	2	0.2
Insurance adjusters, examiners, and investigators	58	4.6
Investigators and adjusters, except insurance	76	6.1
General office clerks	17	1.4
Computer equipment operators	61	4.9
Other occupations:		
Janitors and cleaners	14	1.1
Computer systems analysts and programmers	25	2.0
All other occupations	369	29.5

limited branching and both they and insurance firms used technology to control the size of their administrative work forces.

Employment by occupation

What types of jobs has the growth in financial services created? Are they the low-skilled administrative positions popularly associated with these industries? Or are the new jobs concentrated in other occupations?

Employment in financial services has been concentrated in three occupational groups: the executive, administrative, and managerial category; the administrative support group; and the sales group. In 1987, these occupations accounted for about 9 of 10 jobs in the finance and insurance industries and for about 3 of 4 in real estate. In the period 1983 to 1987,[8] the percent change in employment growth among these occupational groups was as follows:

	Total	*Finance*	*Insurance*	*Real estate*
Total	19.2	17.6	14.6	27.8
Executive, administrative, and managerial	31.1	24.9	45.5	35.4
Sales	23.2	50.0	7.1	31.0
Administrative	12.4	9.7	12.9	29.2
Other	14.0	13.4	8.2	16.0

The proportion of administrative support workers declined in most financial service industries, while the proportion of managers rose. (See table 3.) An exception was the savings and loan industry, in which the proportion of managers declined and that of administrative support workers rose. This may have occurred as a result of the expansion by savings and loan associations into such services as checking that require a large administrative staff.

Employment gains among salesworkers in finance were concentrated in the securities industry, which was handling a growing volume of transactions as well as expanding product lines. The insurance industry, in contrast, limited the growth of its sales force to compete with the other institutions entering the field. Using their computer technology, banks and other firms marketed insurance through mass mailings. This method of selling offered significant savings over the large system of agents traditionally used by insurance companies. To compete, insurance firms had to limit the growth of their sales forces.[9] The general shift in occupational employment away from administrative support to managerial and sales jobs is expected to continue through the year 2000.[10]

Much of the change in employment in financial services occurred in a small number of specific occupations. (See table 4.) Administrative occupations such as secretaries and bank tellers contributed very little to the employment growth in financial services. In contrast, five occupations—real estate salesworkers, underwriters, securities and financial service sales workers, property and real estate managers, and investigators and adjusters, except insurance—accounted for half of the employment gains.□

———*FOOTNOTES*———

[1]The finance, insurance, and real estate group comprises three major industries divided into eight two-digit Standard Industrial Classification industries as follows:

Finance
- Banking (SIC 60);
- Credit agencies, except banks (SIC 61);
- Security and commodity brokers and services (SIC 62);
- Holding and investment offices (SIC 67);

Insurance
- Insurance carriers (SIC 63);
- Insurance agents, brokers, and services (SIC 64);

Real estate
- Real estate (SIC 65);
- Combined real estate, insurance, and law offices (SIC 66).

[2]The data on employment in the finance, insurance, and real estate industries are from the Current Employment Statistics survey. The CES survey has a monthly sample of about 20,000 establishments in this group of industries nationwide. Information on occupational employment within the industries is from the Current Population Survey, a monthly sample survey of 55,800 households nationwide.

[3]Securities and Exchange Commission, *Monthly Statistical Review*, December 1982, Table M-110, and November 1987, Table M-120.

[4]Kerry Cooper and Donald R. Fraser, *Banking Deregulation and the New Competition in Financial Services* (Cambridge, MA, Ballinger Publishing Co., 1984), p. 190.