

TOWARDS AN ECONOMIC POLICY FOR THE IRISH SERVICES SECTOR

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The Programme for National Development, 1978–81, published in January 1979 is the most recent and also the most comprehensive in a series of government planning documents all of which have been produced within a relatively short period of time. A Green Paper in the Autumn of 1976 was followed by a White Paper in January 1978 and a further Green Paper in June 1978. It is appropriate and opportune therefore to ask what is the official policy towards the services sector and what changes have occurred since the sixties, a period also characterised by several planning documents. The primary concern of this paper, however, is to suggest a possible direction for service sector policy in the future.

The 1979 Programme for National Development disappointingly confines itself to aggregate output and employment projections for the services sector. In this respect it is no advance on the earlier plans referred to and cannot be regarded as serious treatment for a sector which contributes about half of total output and a comparable share of national employment. Closer analysis, however, reveals that the latest plan is a considerable improvement on what preceded it in so far as it considers some strategies for service sector development and puts forward (albeit without any attempted justification) one particular basis for differentiating services.

Official policy is now moving towards a dichotomy between 'public' and 'private' services.¹ Public services are sub-divided into infrastructural (transport, communications and housing) and social (health and education). There are inevitable difficulties with a simple division, such as this. For example, tourism stimulates demand in both private and public services and indeed in agriculture and in manufacturing industry also. However, tourism is not a discrete economic activity in national accounts: its economic contribution is measured through its impact on a number of public and private services.²

Two main questions concern us here: first, what is the rationale for classifying services as public and private? And secondly, how does the present statistical data base reconcile with such classification? It is proposed to address the second question first.

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ANALYSIS OF SERVICE SECTOR STATISTICS

The main statistical variables for economic analysis are employment, output, and capital investment. Because reliable data on capital formation are particularly elusive for service industries the present analysis concentrates on the quantity and quality of employment and output data.

(a) **Employment**

The quinquennial Census of Population is the authoritative source of employment data. The most recent census relates to 1971 but sample labour force surveys, giving information analogous to that collected in Censuses of Population, were carried out in 1975 and 1977.³ Table 1 gives the *nine* service 'industry groups' that are available from these surveys.

The table also shows the main components of each of the nine industry groups. This more detailed information is taken from the Census of Population classifications. It is necessary to emphasise, however, that data are not available for the more detailed categories outside census years.

The feasibility of differentiating between private and public services, using the labour force survey will now be examined. It is obvious from the planning documents referred to earlier, that public services are broadly defined. They include public sector trading companies (e.g., communications and public transport), non-trading state agencies (e.g., Bord Fáilte and the Industrial Development Authority),⁴ social services and the public sector proper. By this definition most of the industry groups in the labour force survey include both private and public services.

Retail and Wholesale Distribution are exclusively private services and Public Administration is restricted to public services. All the other industry groups fail to differentiate between public and private activities. The residual group (Other Industries) and Personal Services both include state agencies: Radio Telefís Éireann is in the former, and the latter includes Bord Fáilte and cultural institutions like the National Museum. Professional Services is a particularly heterogeneous group. It includes public and private health and education, most executive state agencies (e.g., Industrial Development Authority, AnCO), public sector research institutes (e.g., Institute for Industrial Research and Standards, An Foras Talúntais) and private sector professional services. Transport and Communication similarly include private and public sector employees.

Table One: Industry Groups for Services, Labour Force Survey

Industry Group	Main Components
Wholesale Distribution	
Retail Distribution (Food)	
Other Retail Distribution	
Insurance, Finance, Business	Insurance Banking Financial Services Business Services
Transport, Communication and Storage	
Public Administration	Garda Siochana Defence Other Government Departments Local Authorities
Professional Services	Religion Education Health Professions State-Sponsored (some)
Personal Services	Domestic Hotels and Catering Social Welfare Other Personal
Other Industries	Recreational Cultural Diplomatic Industry not stated

The Census of Population, although comprising *eighty one* service categories, also frequently fails to distinguish between private and public sector activities.⁵ Hence reliable employment figures on public and private services, by industry group, or even in aggregate, are not available although this could be remedied if separate data were collected and disseminated for all the ninety or more organisations which constitute the public sector.

(b) **Output**

We now consider output statistics to see if they facilitate analysis by public and private service. Output data on the economy are

contained in National Income and Expenditure (NIE), compiled by the Central Statistics Office and published annually, eighteen months in arrears. While this information is augmented by annual surveys in the case of industry and agriculture NIE remains the main data source for the services sector. Unfortunately, the NIE treatment of services is limited to the *three* categories which are shown in Table 2.

The table also shows the principal sub-sectors subsumed in each of three services categories. Data are not published for the more disaggregated headings. In any case such data would not enable output to be categorised as public or private for reasons analogous to those described above under employment. In fact output data is much less satisfactory than employment data.

Two other points are evident when an attempt is made to reconcile employment and output statistics for the services sector.

1. Procedures for compiling the two sets of data are very different. Consequently, even at the aggregated level employment and output cannot be accurately matched.

Table Two: Industry Groups for Services, National Income and Expenditure	
Industry Group	Main Components
Distribution, Transport and Communications	Distribution (total only) Transport Communications
Public Administration and Defence	Garda Defence Other Government Departments Local Authorities
Other Domestic	Insurance Banking Other Financial Business Professional Health Education Hotels and Catering Recreational and Cultural Private Domestic Other Personal and Welfare State Sponsored Bodies (some) Industry not stated

2. Serious definitional problems arise with respect to relatively homogenous categories. For example, distribution excludes motor vehicle repairs, retail butchers etc. in National Income and Expenditure but includes them in the Census of Population. The two sources also differ in their treatment of production workers (repair and construction operatives) in transport, communications, etc.⁶

(c) Summary

Current statistical information does not facilitate differentiation between public and private services on the basis of employment or output. It is critical that these data should be available if the dichotomy between public and private services is to be used in employment creation plans and in government programmes generally. However, if a radical review of current procedures for collecting service sector statistics is to be undertaken, it is prudent to ask if a different, and perhaps better, classification system might serve us better.

A CONCEPTUAL FRAMEWORK FOR SERVICES

It is interesting to speculate on the process by which services came to be categorised as public and private. This innovation clearly was not prompted — or indeed hindered — by any statistical consideration. It can probably be traced to the high priority given to employment expansion by the present government on assuming office in 1977. The immediate target for job creation, understandably, was that sector which is under direct political control, namely public services. This is exemplified by the commitment to create 11,000 new jobs, out of a total job target of 25,000 for 1979, in the public sector. The creation of jobs in the civil service — or in any of the ninety or so state-sponsored enterprises — does not present any practical difficulty. However, monitoring the impact of these jobs on output, productivity and other economic variables, requires extensive changes in the way statistics are now collected and presented. Before contemplating such changes alternative classification systems must be examined.

Pre-Paradigm State

The economics of services is still at the pre-paradigm stage. When a discipline or a field of interest reaches maturity its practitioners tend to work within an agreed conceptual framework: a body of theory, a classification system, or a paradigm, is shared by those who work in the area. This received tradition, this common body of belief, enhances the effectiveness of all who attempt to advance knowledge and understanding in the subject. The view put forward here is that the economics of services has yet to reach the paradigm state. It is still necessary to develop and agree a classification to guide economic analysis and political decision making in services.

But first, a brief reference to some of the existing alternatives to the public/private classification. Several economists⁷ categorise services as 'induced' and 'autonomous'. Demand for induced services derives from the level of output in the goods sector: autonomous services include activities such as administration and social services which are related more to national standards and expectations than to economic factors. Another distinction is between 'tertiary' and 'quaternary' activities: the discriminating factor here is whether the service is commercial or non-commercial. Others have tried to categorise services as 'personal' and 'non-personal'⁸ while the Greater London Council have regard to 'growth' and 'non-growth' services. Katoutzian's⁹ categorisation of services into 'old' (e.g., domestic, household services) 'new' (e.g., health, education) and 'complementary' (e.g., transport, banking) is closest to the taxonomy proposed in the next section.

A Taxonomy for Services

Most proposals for service classification are amorphous groupings intended to meet a limited sociological, demographic or political objective. The difficulties in designing an integrative economic strategy for a residual grouping of disparate activities are well recognised. However, the task is of such critical importance in Ireland and elsewhere that we cannot contemplate abandoning it. Above all the commitment to service sector development in the recent Programme for National Development is a welcome precedent, calling for a positive response.

The following taxonomy of services is proposed as a conceptual basis for economic evaluation and political decision:

1. Induced:
Distribution, Transport, Communications, Financial, Professional, State-sponsored Services (some)
2. Infrastructural:
Health, Education, Central/Local Government, Tourism
3. Traditional:
Religion, Recreational, Cultural, Domestic, Personal

Induced

Induced services primarily supply intermediate demand. The production of industrial goods and agricultural products requires transport, communications and distribution. The organisation and functioning of a modern business requires a wide range of financial and professional services. State-administered financial, business and research services also fall into this category.

Nearly all induced services also have final consumer demand. This demand varies directly with income per head and indirectly with government transfers and subsidies. However, the outstanding characteristic of induced services is their direct coupling with the main economic flows. Both the multiplier between goods production and induced services and the income elasticity of final consumer demand are economic measures that can be used to predict the demand for services in this category.

Infrastructural

Infrastructural services are partly final consumption and partly economic investment. The demand for education, health and government services is determined much more by rising expectations in the community and by standards in the wealthier European Community countries than by the level of income per head in Ireland. The political and social pressures to expand these services are very great.

There is a new awareness of Ireland's opportunity and responsibility to assist in the expansion of infrastructural services in overseas countries. The recent National Development Programme drew attention to:

the export capacity of the public sector, including state-sponsored bodies, and the possibilities for increased foreign earnings and employment creation in areas such as the provision of health and education services.¹⁰

An important difference between infrastructural and induced services is that demand for the former has no theoretical limit; but demand for the latter is closely related to the level of economic output.

Traditional

Demand for traditional or personal services comes from final consumers who typically belong to the more advantaged section of the community. When economic standards rise, and income distribution becomes more equitable, many personal services decline. Jobs in traditional services are socially and economically unattractive whenever the alternative of industrial employment or emigration exist.

Traditional services are not essential economic output: they differ from other services in that demand increases with level of discretionary income but supply tends to decrease.

Implications for Policy

A number of policy implications flow from the theoretical construct outlined above.

First, induced services should operate, as far as possible, within the market system. Full interaction with the goods producing sectors would be enhanced by shared exposure to the rigours of the marketplace. There is a natural and universal tendency for business organisations to eschew the harsh winds of competition. In Ireland this is particularly manifest for induced services which are frequently sheltered by restraints on competition and by partial or total public sector control. In the short term a more powerful, and a more active Restrictive Prices Commission could do much to protect consumers from cartels, restrictions to entry and other unfair trading practices. In the longer term, consideration should be given to transferring communications, road freight transport and some other public sector trading companies to private enterprise, subject to agreement on social policies to minimise disruption.

Secondly, the organisation and management of health, education and the public service will have to adapt to the rising domestic demand and the enormous export potential. Because of resource limitations, expansion on the scale demanded will only be achieved by significant organisational reform and by technological advance. There are grounds for limited optimism with regard to both these expectations. Reform of the public service has taken an unconscionable time but organisational changes may be more acceptable during the current expansionary phase than during the preceding period of retrenchment. With the advent of micro-technology the technological possibilities are also encouraging. Micro-processors have enormous potential in areas such as the social services which have consumer interface.

Finally, traditional services do operate satisfactorily within the market system. Some public support, by subsidy or otherwise, must, however, be given to those cultural and recreational services that enhance the quality of life for the wider community.

CONCLUSION

The Programme for National Development 1978-81 covered the services sector in more detail than any previous economic plan but it introduced a distinction between public and private services which has short-term expediency but which, in the longer term, may delay a more fundamental understanding of the special problems of the sector. The appellation public/private has more to do with history and political ideology than with economics. In any case our present statistics do not differentiate service sector employment and output along the dimensions private and public. In this paper, a more conceptual framework

for service sector analysis and planning was proposed. Some strategic policy implications of a more fundamental approach to the economics of services were also suggested.

REFERENCES

1. *Development for Full Employment*, Dublin: Stationery Office 1978, p. 19 was the first recorded attempt to give separate figures for public and private service employment changes. No further quantification was given in *Programme for National Development 1978-81*, Dublin Stationery Office 1979, but the concept is expanded on pp. 63-65 of that document.
2. The impact of tourism is primarily registered in transport, communications, hotels/restaurants and recreation facilities.
3. A sample Labour Force Survey was first carried out in Ireland during the period May/June 1975 as part of a community-wide operation involving simultaneous participation by all member states of the EEC. A second survey was carried out during the period April/May 1977.
4. The various Irish state organisations referred to in this paper are given in their abbreviated forms or in their Irish language version as follows: Bord Fáilte - the Irish Tourist Board; IDA - the Industrial Development Authority; RTE - Radio Telefís Éireann - Irish Radio and Television; AnCO - Chomhairle Oiliúna - The Training Authority; IIRS - The Institute for Industrial Research and Standards; An Foras Talúntais - the Agricultural Institute.
5. There is no consistent policy with regard to the allocation of over ninety state-sponsored bodies.
6. Some service organisations (e.g., Córas Iompair Éireann and Department of Posts and Telegraphs) engage in a certain amount of manufacturing and construction work. This output is included with the appropriate industry sector in National Income and Expenditure but the Census of Population does not distinguish between production and service workers.
7. See, for example, T. J. Baker and M. Ross, *Employment Relations in Irish Counties*, ESRI Paper No. 81, 1975.
8. Personal services in this context are defined as services distributed in relation to population, e.g., grocers, chemists, clergymen, teachers.
9. M. A. Katouzian, "The Development of the Service Sector: A New Approach", in *Oxford Economic Papers*, November 1970, pp. 362 ff.
10. *Programme for National Development*, 1978-81, Dublin, Stationery Office, 1979, p. 65.