

PUBLIC POLICY FOR PRIVATE SECTOR SERVICES

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The services sector of the economy is defined as all those firms and employers whose major output is reckoned as some intangible commodity. Within the private sector, producer (or intermediate or inter-industry) services are primarily inputs to the productive system; those which flow directly into final demand are classified mainly as consumer services. Services sector output may or may not be marketed. In economies like Ireland, the bulk of that part of services sector output emanating from the public sector (eg., public administration and defence) is non-marketed, while that originating in the private sector is mainly marketed. Public sector services output and the non-marketed services sector are therefore referred to in a more or less interchangeable manner, as are private sector services and marketed services.

Services sector outputs should be distinguished from service functions. Not all services are provided by the services sectors. The notion service function pertains to the purpose of output. Thus, the service function of a television is entertainment, while that of a washing machine is cleaning. In developed countries, households have increasingly replaced marketed services by the service functions of tangible goods. There is some confusion in the literature in regard to services exports: they are not the same as invisibles receipts in the current account of the balance of international payments. Invisibles receipts consist of (a) transfer income from abroad, (b) receipts for factor services, ie., interest, profits and dividends from investments abroad plus workers' remittances and (c) receipts from the export of non-factor services, ie., the products of the domestic services sector.

In Ireland private sector services account for almost 30% of all employment¹ and, as in other countries, that share has been increasing over time. It is often assumed that such relative growth is mainly due to the emergence of "the post-industrial society", involving relative shifts away from the production and consumption of physical goods towards the production and consumption of leisure-related intangibles. But a central conclusion of this article is that in developed countries,

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much of the growth of output and employment in the marketed services sector has been due to faster growth in producer services than in consumer services; this tendency is also revealed for Ireland where, as shown later, over 50% of all marketed services usage appears to be intermediate rather than final demand.

Ireland has articulated policies for agriculture, manufacturing industry and the public sector, but it has had no clear and sustained policy for the marketed services sector.² That has been an anomaly, especially in view of the increased relative importance of marketed services and of producer services in particular. Perhaps it reflected the mistaken view that services sector outputs are mainly nontradeable internationally and hence — and this is the error — that the competitiveness of the economy is little dependent on the efficiency of the marketed services sector. Because marketed services do influence the competitiveness of the internationally tradeable goods sectors — indeed, increasingly so — it would seem desirable that Ireland articulate a clear and sustained policy for private sector services.

In this article the historical record of the services sector in the process of economic development is reviewed. Reasons for the relative growth of the sector are then addressed. International trade in services is considered briefly and the author also speculates on the probable future of services in developed economies. Finally, some questions for further research, and some of the principles which should guide policy towards private sector services, are outlined.

Services in the Domestic Economy: Historical Trends

Within national economies, the overwhelming evidence is that both the output and employment shares of the services sector increase with economic development. That is the case whether one focuses on total services or on private sector services. For example, in 1972 the services sector proportion of GDP was 64% in the USA and 38% in Portugal. The proportions excluding government services were 49% and 30% respectively.³ Services currently account for about 70% of all employment in the USA and about 55% in Ireland. There is little doubt that the services sector can be a major source of new jobs, though its precise role needs further investigation. There are conflicting views on the relationship between non-services and services sector growth in Ireland. Four of such views are as follows:

(a) In making full employment projections it has been widely assumed that the ratio of employment in manufacturing industry to nonagri-

cultural employment is constant. On the basis of our own experience and that of other countries – the services sector share of employment grows more rapidly than that of manufacturing and often continues to increase when employment in manufacturing is in absolute decline⁴ – it would appear that that assumption is mistaken. As a result, forecasts which have been made under that assumption overestimate the number of industrial jobs we need for full employment.

(b) O’Riordan (1981, b) suggests a relationship of the following form for Ireland:

$$S/W = 0.456 + 0.128P$$

where S denotes numbers employed in services, W denotes numbers employed in goods producing sectors and P is productivity (output/employment) in the goods producing sectors. O’Riordan claims that similar relationships hold for a sample of 5 other OECD countries randomly chosen.

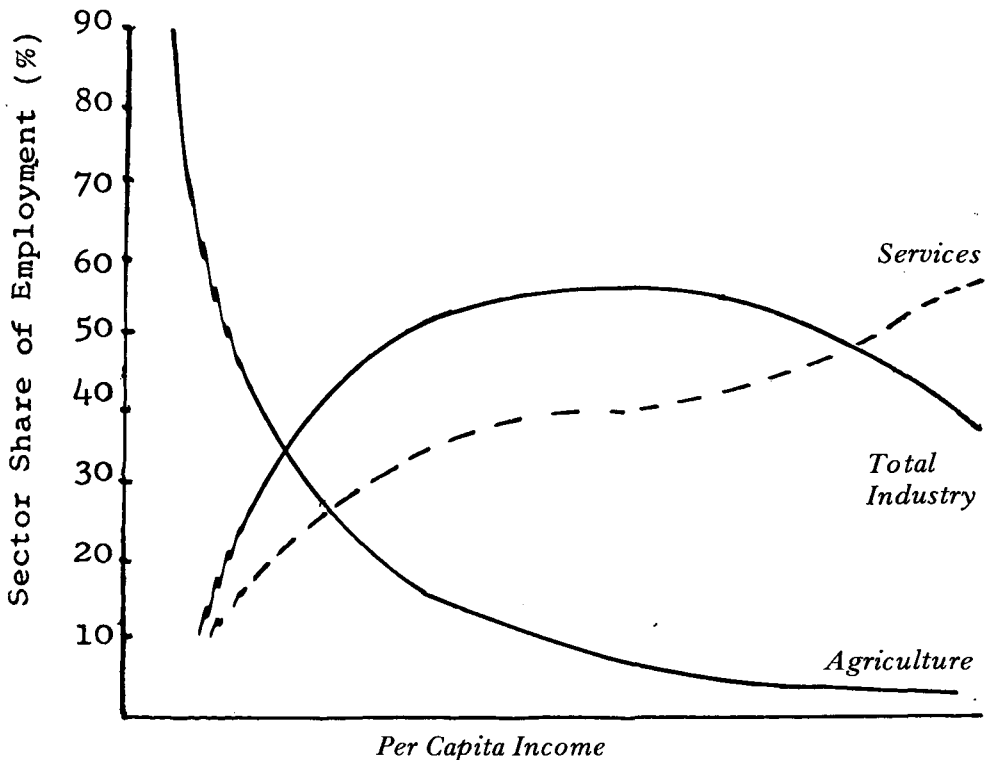
(c) Baker and Ross (1975) use a four-sector classification: agriculture which is autonomous (exogenous), commercial autonomous (manufacturing, mining, sea and air transport, hotels and restaurants plus miscellaneous), social autonomous (social professions, public authority construction, public administration and defence), and locally induced or endogenous (all trading and all other activities not included in the other three sectors). They argue that in Irish counties, other than Dublin, the share of the induced sector in total employment is directly related to the share of nonagricultural employment in the autonomous sector; however, according to Baker and Ross, there seems to be a tendency for the induced employment share to stabilize around 35% as a county becomes more developed.

(d) Cogan (1978) used the traditional agriculture, industry and services sectoral breakdown and introduced the concept of a “steady state” in the sectoral employment patterns towards which he believed economies tend. This was defined as a condition in which the percentage of the workforce employed in each of the three sectors remains constant as income per head rises. On the basis of data for the years 1956 to 1975 he projected the following percentage allocation of employment at the steady state toward which he believed the Irish economy tended: agriculture, 21%; industry, 33%; services, 46%. The fact that the services sector employment share had increased to 54% by 1983⁵ is in itself sufficient reason for rejecting those steady state estimates. Thus, we concur with O’Riordan’s (1981, a) conclusion, in his critique of Cogan,

that “the main source of employment in the future is very likely to be found in the services sector”.

In recent years there has been a good deal of comparative international research into the relationship between services sector employment growth and economic development. Gemmell (1982) argued that on grounds of economic theory, and on the basis of international empirical evidence for 30 developed and less developed countries in 1960 and 1970 (with roughly the same number of developed and less developed countries – he pooled the data), the relationship between employment in the services sector and the remainder of the economy was roughly as depicted in Figure 1.

Figure 1: Relationships between Sector Employment Shares and Per Capita Income



Gemmell's results provide some general observations on the role of the services sector: “the service sector share (of employment) begins to expand at the expense of the industrial (meaning manufacturing in Gemmell) sector at values of about 37 per cent and 34 per cent for the

two sector shares respectively.” He adds that the precise share values at the turning point inevitably vary between countries for different domestic reasons. Gemmell went on to consider the experience of 26 of the same (30) countries between 1970 and 1978. Comparing both developed and less developed countries (LDCs) he concluded that “the post-1970 evidence confirms that the agricultural share (of employment) falls most rapidly in the earlier stages of development; the service share increases sizeably in both groups of countries, but only in the developed countries is this associated with a declining manufacturing share. . . . Perhaps the most surprising result . . . is that both (public and private) service sector shares in LDC’s appear to be increasing much faster than manufacturing. It may be that this partly reflects the faltering pace of industrialisation in the 1970’s in many LDCs”.

Gemmell’s findings are consistent with those of other researchers. For example, Kenward (1983) noted the diminishing relative role of industry in each of the seven major industrial countries: for the USA and Canada the peaks in the share of industry in total employment occurred at roughly 33% around the middle of the 1960s, while the UK peaked in the 1950s when about 50% of those employed were in industry. Germany, Italy and Japan all peaked in the early 1970s, followed by subsequent relative decline.

Figure 1 summarised the international experience of relative sectoral growth and decline. However, Ireland seems to be an exception in that context: unlike the general international experience, industry never came close to offering as many jobs as services; also – at least since the Irish Free State was established – we have always had a large services sector, even when agriculture predominated; that too is unusual. Thus, despite the decline in agricultural employment, we seem to have largely skipped the industrialisation phase experienced by other countries. Tables 1 and 2 below give some support for that view.

Table 1: % *Employment by Sector, Ireland, 1926-1983*

Year	Ag.	Ind.	Serv.
1926	53	13	33
1947	45	20	35
1961	36	24	40
1968	29	29	42
1979	19	32	49
1980	18	32	50
1981	17	33	51
1982	17	31	52
1983	17	29	54

Table 2: % *Employment by Sector, Other EEC Countries*

	Ag.	Ind.	Serv.
Belg., 1900	27	43	30
Dmk., 1910	47	24	29
Fr., 1901	42	30	28
Germ., 1882	47	35	18
Neth., 1889	31	32	38
UK., 1901	9	51	40
It., 1901	59	24	17
Lux., 1907	43	38	18

Sources: Table 1 derived from D. Cogan (1978, Table A1), and National Economic and Social Council (1983, Table 1. 5). Table 2 drawn from Commission of the European Communities (1980a, Table 2. 1). The earliest years tabulated in the latter source have been entered in Table 2 above.

The figures for Ireland in the period 1926 to 1968 seem very much out of line with the international norm. Given similar agricultural shares (53% to 29%) present-day LDCs generally have smaller services sector shares.⁶ If we make the comparison with EEC countries, Tables 1 and 2 show that, given the size of the agricultural share, Ireland had an exceptionally large services sector share in the 1920s. Similarly, when each of the EEC countries tabulated in Table 2 had about 20% of its labour force in agriculture (Commission of the European Communities, 1980a, Table 2.1), those countries had smaller percentages in the services sector than Ireland had in the late 1970s (when Ireland had about 20% of its employment in agriculture). These considerations raise the question (not investigated here): Given that the industry employment share seems to have already peaked, why is it that Ireland seems to have largely skipped the industrialisation phase experienced by other EEC countries? And why, even in the 1920s, have we always had such a large services sector (consisting mainly of non-tradeables)? One hypothesis is that given productivity, real wages in Ireland, being linked to those in the UK, have always been too high, thereby impeding growth in industry (a large part of which consists of internationally tradeable goods). Undoubtedly there have been other factors at work, but the hypothesis just raised merits investigation.

In EEC countries between 1960 and the mid-1970s, employment in insurance, banking, financial and business services everywhere grew very fast; professional and public services such as education and health also grew very fast in most of those countries; employment in commerce and distribution and in transport and communications (except in Ireland) grew more slowly than employment in general (Commission of the European Communities, 1980s, Chap. 2). For

Ireland, Sexton (1981) estimates that employment in public sector services increased by 28% between 1961 and 1971, and by 43% between 1971 and 1979, while that in private sector services increased by 6% and 13% respectively over the two periods. Within the private sector, employment in insurance and finance increased by 72% from 1961 to 1971 and by 55% from 1971 to 1979.

The relationship between measured services sector share of GDP and economic development is less clear than in the case of the employment share: in 1977 it varied from 22% to 69% in a study involving 110 countries (Baer and Samuelson, 1982). In those same countries the services sector employment share varied from 5% to 66%. Thus the employment share shows a strong tendency to lag behind the output share. However, due to difficulties in measuring services sector output and to different practices being applied across countries, little meaning can be attached to international comparisons of services sector output. Even within countries there are major difficulties involved in measuring trends in services sector output share. Thus, in Ireland the measured share of services in GDP at factor cost, using current prices, increased from 44% in 1956 to 54% in 1981; at constant 1958 prices it actually fell from 44% to 41% between the two years (Cogan, 1978, Chap. 4, and *National Income and Expenditure*, various issues). However, measured growth in the current prices share probably overstates the real situation: it ignores the fact that price increases in services have outstripped price increases generally. Also, the constant price output share in 1981 is an underestimate due to national accounting conventions. Thus there exist several government and personal services, comprising over one third of services sector output, where changes in employment are a surrogate for changes in real output. This precludes the possibility of increased efficiency and technical change contributing to measured real output (in public administration and defence, health, education, and personal and professional services).

Services in the Domestic Economy: Analysis

There have been several attempts to explain why the share of services in employment and current value of output rises with economic development. One approach focuses on differential growth of productivity in the services and goods-producing sectors. Thus it is argued that if labour productivity growth is lower in services, then, in order for services to maintain even a constant real output share, employment in the services sector must rise. For Ireland, Cogan (1978, Chap. 5) estimates that labour productivity increased by 2.3% annually in services and by over 4% annually in the rest of the economy between 1956

and 1974. However, given that many service sector outputs are not marketed, the estimate of 2.3% for the services sector is very tentative.

A comparison of rates of increase in labour productivity in the industry and services sectors of OECD countries, 1970-1976, showed divergent trends: in some countries rates of increase in services sector labour productivity appeared to be higher than in industry; the reverse seemed to hold for other countries.⁷ Another study concluded that "service labour productivity, once allowance is made for known measurement biases, rises more or less as fast as secondary sector labour productivity" (Commission of the European Communities, 1980a, p. 129). The preceding discussion pertains to labour productivity, whereas a more meaningful concept of comparison for productivity behaviour is that of total factor productivity. In that context, a recent study by the US Department of Labour⁸ estimated that between 1967 and 1979, the total factor productivity of the US services sector grew twice as fast as that of the goods-producing sector. Presumably that partly reflects the revolution in microelectronics. Thus the notion that the relative growth of services sector employment is due mainly to differential growth in productivity is unconvincing.

The view that the income elasticity of demand for services exceeds unity has often been advanced to explain the continued relative growth of the services sector. The use of the term income elasticity of demand here pertains to consumer rather than producer services. There is mixed evidence on whether the income elasticity of demand for consumer services in general significantly exceeds unity. Using data for the period 1960-1980, recent research suggests that the expenditure elasticity of demand for marketed consumer services in Ireland is about unity — more or less the same as for marketed consumer goods in general.⁹ For the UK, Whiteman (1981) questions the notion of a high income elasticity of demand for marketed consumer services.

He shows that the share of such services in consumers' expenditure (at current prices) over the period 1952 to 1978 did not increase — it fell from 17.9% to 17.1% — and concludes that "the notion of a gradual move towards a post-industrial society dominated by final consumption of services is somewhat premature, if not erroneous."¹⁰ In a very wide-ranging study, Gershuny and Miles (1983) note that cross-sectional studies do indicate that greater national income levels are associated with higher services sector proportions, but add that it would be unwise to assume that cross-sectional relationships will be replicated over time. Even if the expenditure elasticity of demand for marketed consumer services exceeded unity, the share of such services

in total private consumption expenditure would not necessarily increase as income increased over time. That is because, if the price elasticities of demand were also high, and given that the prices of many services seem to have increased faster than prices generally, the demand for marketed consumer services would then be subject to two conflicting pressures – one tending to increase consumption, the other tending to reduce it. In recent years, as Gershuny and Miles have emphasised, consumers have increasingly substituted marketed services by the service functions of goods. Thus, household gadgets have replaced domestic services, private transport has replaced public transport, washing machines have replaced laundry services and domestic entertainment (TV's, video games, etc) has replaced marketed entertainment services. Such "substitution effects" may in part be in reaction to changes in relative prices unfavourable to marketed consumer services. We conclude that growth in marketed consumer services is not the dominant reason for growth in the share of marketed services internationally.

A few years ago, Stanback (1979) noted that in the US, producer services output, which then (from input-output tables) accounted for about 27% of all intermediate outputs, appeared to be growing more rapidly than real national income over the period 1950-1976. This was attributed mainly to firms contracting out to avail of scale economies and the need to tap the expertise of specialists; also, consolidation of small firms into larger units had made managements' tasks more complex and increased the demand for accounting, financial, consulting and legal services. Similar trends have been noted for the UK¹¹. And on the basis of data for 5 EEC countries Gershuny and Miles (1983) conclude that "around half of all demand for the marketed services is intermediate rather than final. Given that in most cases value added in marketed services is growing more rapidly than marketed consumption, we suggest that intermediate demand for marketed services is growing more rapidly than final demand."

Momigliano and Siniscalco (1982) used input-output data to analyse growth of marketed services in the Italian economy. They found the following growth pattern for employment in services, 1965-1975: total services, +24%; marketed services, +17% of which, services for the productive system,¹² +33%, final trade¹³, +15% and services for final demand, +4%. Thus the increased employment in marketed services was largely attributable to structural change corresponding to increased integration of services in the overall productive system. The study also finds that between 1965 and 1975, employment in services for industry increased by 47% – distinctly higher than that of total marketed ser-

vices or of services for the productive system. Thus services for industry were the most important component in the growth of employment in marketed services. The authors state that the relative growth of services for the productive system was caused by "the greater complexity of the management problems (taxation, finance, administration, communications, research, market study, information systems, etc.), by a smaller degree of vertical integration of firms and plants, and, at the same time, by the large industrial firms hiving off existing services in their business structure, with a view to improving efficiency and increasing specialization. These processes provide access on the part of other users to these services, and create a new demand on the part of small and medium sized firms which, because of economies of scale, could not produce the same services within their own organization." (p. 290) Defining subsystem *i* as a unit of investigation identified by all the activities used directly or indirectly to satisfy the final demand for commodity *i*, the study notes that the subsystems with the highest shares of services employment mainly corresponded to industries with low labour intensity — those generally regarded as "modern" or advanced; on the contrary, the subsystems with the lowest shares of services employment mainly corresponded to industries usually regarded as traditional or mature. Finally, the authors conclude that "the subsystems which correspond to branches [i.e., industries] which have not increased employment in the period in question are frequently those in which employment has grown markedly and vice versa." (p. 300)

The central conclusion from the immediately preceding paragraphs is that in developed countries, much of the growth of output and employment in the marketed services sector is due to faster growth in producer services than in consumer services. Has Ireland experienced the same trend? If so, important policy implications follow. The CSO's *Input-Output Tables for 1969* contains 33-sector tables for both 1964 and 1969 based on the same classifications and definitions.¹⁴ According to these, 33.6% of all intermediate inputs were non-government services in 1964; the figure for 1969 was 35.9%. In 1964, 41.4% of all non-government services output was interindustry (58.6% was into final demand); the corresponding percentage for 1969 was 44.1% (55.9% was into final demand). Finally, 1964 non-government services into final demand came to 29.8% of final demand for domestically produced goods and services; the corresponding figure for 1969 is 30.6%. What these figures for the 1960's indicate is (a) relative growth in the marketed services share and (b) more rapid growth in marketed producer services output than in marketed consumer services output. The *Input-Output Tables for 1975* contain comparable¹⁵ 39-sector tables for 1969 and 1975. According to these, and given the classifications used,

38% of all marketed services usage in 1969 was intermediate (62% was into final demand); the corresponding figure for 1975 was 51% (with 49% flowing into final demand). Thus, by 1975, the bulk of marketed services were for producers rather than consumers.

W.K. O’Riordan of UCD is currently using the 41-sector tables in the *Input-Output Tables for 1975*, along with labour force survey data, to estimate the amount and partial determinants of employment in the marketed services sector in 1975. Conclusions at this stage are only tentative. The main indication from the 1975 tables is that taking the direct and indirect (excluding second and subsequent round Keynesian multiplier) effects into consideration, about 30% of all employment in marketed services was traceable to final demand for industrial goods. O’Riordan has also used the 39-sector tables to study the amount of marketed services sector labour which was directly induced by final demand for industrial output. He finds that the percentage of marketed services sector employment directly induced increased from 20.7% in 1969 to 24.8% in 1975.¹⁶ These findings, along with those in the immediately preceding paragraph, suggest that what has been happening in Ireland is similar to the Italian experience reported above.

International Trade in Services

Excluding government transactions, invisibles trade is estimated to have hovered around 25% of total world trade between 1969 and 1980; over the same period, transport is estimated to have fallen from 29% to 26% of non-government trade; foreign travel’s share is also reckoned to have fallen, from 20% to 18%; investment income seems to have increased its share from 30% to 34%; other services are estimated to have maintained a constant share at 21% (Committee on Invisible Exports, 1982). The latter is the general category covering the areas under the new services sector responsibilities of CTT – C oras Tr ach-t ala, the Irish Export Board.¹⁷ However, statistics on recorded world trade in services must be handled with a great deal of caution: trade in services does not flow through customs in the same way as trade in goods. Thus, a 1983 UNCTAD publication noted that in 1967 developed market economies earned minus \$6 billion in net exports of services while developing countries earned a net minus \$14 billion in the same year; the figures for 1980 are plus \$27 billion and minus \$80 billion, respectively. In both years those figures seem to be inconsistent. The same study concludes that “there is believed to be substantial underreporting of credit items by all reporting countries”¹⁸ for trade in services. Another UNCTAD publication noted that “it is virtually certain that the existing data significantly understate the size

of non-factor services and hence their share in international trade, and possibly the growth thereof Those understatements are likely to be most significant in the case of shipping and other private services It is likely that the developed market-economy countries' surplus in other private services is larger than appears from the data" (UNCTAD, 1982).

Trade in factor services does not fit easily into the traditional framework of trade theory because, unlike the case of international trade in goods and services products, one cannot speak of comparative costs of production, only of differential rates of return on capital and labour, and a host of political and legal considerations. In regard to non-factor services, intermediate services like transport, insurance and banking, etc., are related to trade in goods. On the other hand, the new services (engineering and construction services, other consultancy services, communications, the sale of patent rights, etc.), and above all international tourism, are more directly income-related. The world demand for the non-factor services of any given country seems to be high in price elasticity (UNCTAD, 1982). There are many obstacles to free trade in services. They take the form of exchange controls, barriers to the establishment of foreign banks, restrictions on repatriation of earnings, personnel restrictions, discriminatory taxes, discriminatory government procurement procedures, discriminatory licensing regulations, etc. (*The Economist*, 1982).

Tourism is by far the largest of Ireland's services sector exports: export tourism brought in £308.3 million in 1981. However the relatively slow growth of such tourism over the past decade has led to a dilution of its contribution to economic growth. In addition, as real incomes increase, there exists an increasing tendency for Irish people to holiday abroad. In consequence, tourism in aggregate is now possibly adding to Ireland's current account deficit rather than stabilizing it: import tourism is estimated at £318.5 million in 1981 — and the position is more unfavourable when indirect imports are taken into account.¹⁹

It has been estimated²⁰ that in 1982 services exports from the sectors for which CTT has responsibilities were as follows: *Construction-related*: CTT gives a figure of £85 million for markets other than the UK. However, about £65 million was contracting. Most of the materials were bought abroad. There was also the hire of local labour. In consequence, only £6.5 million is thought to have come back to Ireland. Of the remaining £20 million, about £16.5 million was engineering consultancy while about £3.5 million was architectural. Thus true construction-related exports seem to have come to an upper bound estimate of

£25 million. CTT projects 35% growth in that sector, 1982-1985. *Computer-related*: £7 million in 1982. CTT's target is for these to double, 1982-1985. *Other services*: £5 million in 1982. CTT's target is for these to increase by 580%, to £34 million by 1985. It is projected that the main contributors in this group will be agricultural development and processing, medical services and general consultancy and training. An earlier estimate²¹ is that in 1978 private sector exports of business services, building services and health services came to £40 million. The bulk of this was earned by construction companies and Guinness Peat Aviation. "Spin-off" orders for supplies for such services exports were relatively small.

Generally speaking, knowledge of the magnitude of services exports from the private sector in Ireland is very poor. Apart from information on investment income (reflecting export of factor services) little seems to be known in that context other than that reported in the preceding two paragraphs – and much of that is tentative indeed.

The Future of Services in Developed Economies

It was seen in discussion above that employment in industry has declined in relative terms – and in many cases absolutely – in developed countries in recent years. That has been due to a variety of factors, including world recession, technical change – especially in microelectronics – and increased competition from developing countries. Until recently expansion of the services sectors – both public and private – tended to absorb much of the excess labour. However, taking developed countries as a group, there is no guarantee that the latter trend will continue; in fact it seems that most forecasts are pessimistic [Gershuny and Miles, 1983; Harris and Taylor, 1978, European Trade Union Institute, 1979]. Consumers are likely to continue to substitute the service functions of goods for marketed services; on that count there would be job losses. But such substitutions would also create jobs in new marketed service activities – those pertaining to repair, "servicing" and advice. But microelectronics has only begun to have its impact on the services sector. Studies (reported in Gershuny and Miles, p. 151) for West Germany, France and Great Britain estimate that up to 30% or 40% of office workers will be displaced in the 1980s. The technology already exists which makes feasible the operation of offices without the use of any paper whatsoever [Whiteman, 1981]. Letters could be received and transmitted and all information stored, in electronic form.²² A further development – direct speech input – would eliminate the need for typists, though this is not thought to be viable in the near future. Other service activities are likely to be affected by the new

technologies. Banking has already used some electronic technology, but its application could be extended to permit more self service, electronic transfer of funds and electronic cheque clearing. In the distribution trades a variety of applications – to customer checkouts and stock control – are under evaluation and could spread in the near future. Terminals for the laser scanning of bar-coded purchases are likely to be introduced in the larger stores.²³ Not only would these changes induce reductions in employment in retailing; they would also cause important changes in the nature of (in the kinds of skills required for) retailing employment. In summary, major employment opportunities are unlikely to be created in the traditional marketed services. However, employment in “servicing”, advice and in many producer services seems to have the potential to continue its expansion.

In the years immediately ahead, according to Gershuny and Miles (1983), we can expect significant growth in international trade in producer services, especially those involving scientific, technical and software activities; these, they expect, will be increasingly important as exchange for the manufactured products of newly industrialising countries. They add the important – for Ireland – observation that “given their rather limited emphasis on IT [information technology], however, countries falling into ‘stasis’ would experience gradually increasing comparative disadvantages in those areas of trade with respect to other industrial nations.” A labour organization makes a parallel point: “Given the importance of trade to countries within Western Europe it is clear that countries which are slower to innovate [in producer services and elsewhere] may well experience higher labour displacement due to reduced competitiveness and consequently a declining share of trade” (European Trade Union Institute, 1979). Similarly, an EEC study has warned that “the risk for the Community is that, if we do not innovate as quickly as our industrial competitors, we will lose jobs more rapidly than them” (Commission of the European Communities, 1980b, Annex, p. 1). The key point is that *countries which innovate most rapidly in producer services (and elsewhere) are likely to protect aggregate employment rather than lose it; those which permit defensive strategies in attempting to protect traditional employment patterns more than their competitors, are, in the long run, likely to lose jobs.* Finally, in the case of Ireland, we can expect more international competition in private services on the home market – partly due to the impact of liberalising EEC legislation on hitherto protected services such as insurance (*The Way Forward*, 1982).

Private Sector Services Policy: Recommendations and Research Priorities

Absence of a Policy

In Ireland private sector services account for almost 30% of all employment and, as in other countries, that share has been increasing. Our central conclusion was that in developed economies, much of the growth of output and employment in marketed services has been due to faster growth in producer services than in consumer services; that tendency was also revealed for Ireland where over 50% of marketed services usage appears to be intermediate rather than final demand. The faltering performance of Irish export tourism has been noted. It has also been suggested that international trade in producer services is likely to continue increasing in the years immediately ahead. Ireland has articulated policies for agriculture, manufacturing industry and the public sector, but, until very recently at least, it has had no clear and sustained policy for the marketed services sector. That has been an anomaly, especially in view of the increased relative importance of marketed services and of producer services in particular.

Heterogeneity of the Services Sector and Lack of Data

The *Third Programme* (p. 107) stated that “the heterogeneity of the sector makes it impossible to treat it as an entity for policy purposes”. That view is rejected here. If the distinctions between nonmarketed services, producer services, (marketed domestic) consumer services and services sector exports are borne sharply in mind, the wide range of activities would not militate against the presentation of recommendations with fairly general application to the services sectors.

We are in full agreement with the remark in the *Third Programme* (p. 107) that “it is becoming increasingly important that better knowledge should be available on service activities”. Details on the poor availability of data on private sector services were discussed at length by Cogan (1978); the situation has improved only marginally since then.²⁴ In Ireland there are still no official annual statistics on output volume or value for the individual service industries. It was noted that, internationally, there seems to be substantial underrecording of services sector exports; the very poor quality of information on Irish private services sector exports was also noted. The scope for tax avoidance/evasion would therefore seem to be high. There is probably also substantial underrecording of aggregate private services sector output for the domestic market in Ireland. This too gives rise to tax evasion. Thus it is desirable that improvements be made in Irish statistical data on private sector services for two main reasons: (a) to assist in the formulation of general policy for the sector and (b) to assist in the

raising of tax revenue. However, the present state of the data does not militate against the presentation of recommendations with general application to the private services sector.

Public Policy and Private Sector Services: General

Public policy towards the private services sector has been piece-meal rather than comprehensive. Thus certain subsectors — such as tourism and those under the aegis of CTT and the IDA — have been singled out as worthy of attention. Where Exchequer assistance has been available, it is not always clear what the net impact of policy has been. For example, although export tourism has been promoted in various ways, in other ways its growth has been impeded by policy. Consider for example the 45% CPT rate on hotels (as compared to a CPT rate of 10% for some service activities under the aegis of the IDA), VAT rates of around 20% on meals and bed nights, and taxes on fuel and travel. As a starting point it would be useful if an inventory were drawn up of (a) the manner in which public policy promotes individual service subsectors and (b) the manner in which it does the opposite for those same subsectors.

Private Services and the Competitiveness of Traded Goods

The increasing role of marketed services as inputs to the productive system has been emphasised. It follows that the international competitiveness of the tradeable goods sectors is becoming increasingly dependent on the cost of services inputs. This raises the questions: (a) Given that producer services are inputs to manufacturing industry, and given that it is an objective of policy to promote the growth of the latter, especially on the export market, should domestic producer services also be offered fiscal incentives? (b) What can be done to improve efficiency in producer services? Given that the immediate *direct* effect of rapid technical innovation in such services may be job displacement, should measures be taken to protect jobs from innovation?

We do not advocate any general policy of offering special fiscal incentives for domestic producer services inputs. Rather, insofar as State intervention in such markets is concerned, attention should be focused on the manner in which, taking the totality of policy and all alternatives into account, existing (tax or other) public policies affect the costs of internationally tradeable goods and services. A general policy of offering fiscal incentives for domestic producer services would (a) impose strains on the Exchequer (b) amount to subsidisation of consumption, since (from the input-output accounts) the producer services sub-

sectors also supply domestic consumption demand, and (c) probably cause such markets to move further away from the competitive ideal. There may be a few cases where domestic producer services (eg., those which are import substituting, research and development) merit some special favour from the Exchequer, but further thought should be given to such matters.

As the European Trade Union Institute (1979) has emphasised, the impact of technical change on employment is dependent on both the impact of labour productivity and on the level of output. Our output can be high only if we are competitive on international markets. That implies efficiency in the production of inputs to tradeable goods and services – in the present context, efficiency in the production of services inputs. In referring to the productivity of Irish services subsectors as “disturbing”, Cogan emphasises the absence of incentives to raise productivity.²⁵ On that count distribution as well as financial and professional services receive particular criticism from Cogan. We accordingly suggest that *the central feature of general policy towards private sector services should be emphasis on competition and the dismantling of restrictive practices and price maintenance*. That would not only benefit the Irish consumer directly; it would also increase the competitiveness of tradeable goods and hence, in the long run, it would promote job creation.

It would be folly for policy to put a brake on the pace of technical change in private sector services with a view to saving jobs in the short run. For reasons already discussed, in a world of rapid technical change it is precisely those countries which innovate fastest which are likely to increase their shares of world markets by most: in a sense, standing still would be moving backwards.

Private Sector Services Exports

Export tourism is by far the largest of Ireland's services sector exports. However, as was noted earlier, in 1981 expenditures on import tourism exceeded earnings from export tourism. It would seem desirable, therefore, that consideration be given to further policies to promote export tourism and to encourage domestic tourism by residents in substitution for holidays abroad. The poor performance of tourism is attributable to a number of factors; the erosion of Ireland's price competitiveness relative to other tourist destinations was almost certainly one of them [Conniffe and Kennedy, 1984]. Because tourists spend mainly on services [Henry, 1980], our recent experience again underlines the need for general emphasis on increasing the efficiency of private sector

services. We reject any proposal for higher taxes on foreign holidays in order to promote holidays at home: such measures would divert traffic away from domestic carriers in favour of those in Northern Ireland. Rather, greater promotion of home holidays might be appropriate. Also, recent measures, specific to the tourism sector generally, affect the supply of tourism facilities rather than the demand for them [Conniffe and Kennedy, op. cit.]. In the absence of general services sector competitiveness, there is no guarantee that such facilities will be fully availed of even in the face of intensive marketing campaigns. Consideration should be given to the question of whether tax rates on the principal goods and services affecting the competitiveness of tourism call for adjustment, in a downwards direction.

A year after the introduction of a pilot scheme in 1973, the IDA established a services industries programme in order to assist in the attraction of export services firms to Ireland and to encourage Irish firms in the export of services. This programme was substantially modified and extended in 1981. And in 1983 Córas Tráchtála was assigned responsibility for the promotion of specified private sector services exports. A detailed study on private sector services should obviously assess such policies. The importance of such services exports is emphasised by the fact that input-output tables indicate that their import content is low and their labour content seems to be fairly high; therefore the income and employment multipliers associated with such services exports are higher than in the case of exports of manufactures.²⁶ Earlier it was noted that spin-offs in terms of linked exports of manufactures is low. The question whether anything can be done in that regard should be considered. It would seem that the present policy of selectivity in services exports is the correct one. That is largely because of the small size of Irish services sector firms, noted in a recent Cooper and Lybrand report (no date), and economies of scale in services exports. The latter consideration also suggests that the present policy of selectivity in markets is also appropriate. A study of policy towards services exports should also investigate whether the present situation in regard to personal taxation of income earned abroad (for example, by export marketing executives) calls for change. Also, the small size of Irish firms, combined with consideration of scale economies, raises the question whether promotion of joint ventures needs special encouragement.

Technical Change: Further Observations

A policy for the services sector could deal with adaption to technical change. It is suggested that competition policy and educational policy

would be important here. The conversion of a technological potential into generally used technology involves a time lag, while the technology is accepted and while the engineering problems involved in its application are overcome. This time lag is falling. An historical study of sixteen major innovations has shown a fall in time between invention and commercial production over the last 150 years. The telephone took 56 years (1820-76), the radio took 35 years (1867-1902), the TV took 14 years (1922-36), and the transistor took 5 years (1948-53), to move from an idea into commercial production [European Trade Union Institute, 1979]. Both within and between countries time lags in technical development have continued to fall. Thus “there should be more concern with fostering people’s *ability to gain new skills* than their attachment to *particular skills*” [Gershuny and Miles, 1983]. Finally, it would be desirable to have some improvement in the statistics on employment and unemployment by occupation. Only when such data is available will it become possible to monitor closely the impact of technical change on employment.

NOTES

1. J. Sexton (1981, Table 1). Note that Sexton includes employment in commercial semi-State bodies along with the private sector.
2. See, however, the recent *White Paper on Industrial Policy* (1984), especially pp. 28, 29. When this paragraph was first composed, it was written entirely in the present tense.
3. S. Livingston (1982). Table 2 in that study contrasts services sector proportions of GDP for 19 OECD countries, including and excluding government services.
4. L. Kenward (1983) notes that in each of France, West Germany, Japan and the UK, fewer were employed in manufacturing in 1982 than in 1971. Nevertheless, services sector employment grew consistently, thereby dampening the overall cyclical impact. See also the comparison for EEC countries, 1970-80, in D. Conniffe and K. Kennedy, eds. (1984).
5. National Economic and Social Council (1983, p. 56). Note also that according to Cogan’s models, generalised inflation would cause the employment shares of industry and services to increase.
6. See the 30 countries tabulated in N. Gemmill (1982) and the 110 countries tabulated in W. Baer and L. Samuelson (1982).
7. M. Lenggellé (1980). Lenggellé considered civilian employment only.
8. Cited in UNCTAD (1982, p. 103).
9. C. Prendergast (1984). Because of an important reversal of sign, Prendergast’s estimates of price elasticity of demand are not considered here.
10. J. Whiteman (1981, Chap. 3). Note that the UK experience reported by Whiteman reflects consideration of both expenditure and price elasticities of demand.
11. Commission of the European Communities (1980a, p. 215); Gershuny and Miles (1983, p. 108); Whiteman (1981, p. 29).
12. These exclude non-marketed services which, even if required for production, are recorded as final demand.
13. Transactions are at ex-factory prices. So final trade presumably refers to transport to the consumer and retail margins.
14. Central Statistics Office (1978, Table E1 for 1964 and Table B1 for 1969). Sectors 20-31 plus 33 are here regarded as non-government services.
15. Central Statistics Office (1983, Table C1 for 1969 and Table B1 for 1975). I am grateful to Aiden Punch of CSO for pointing out that the heading above Table C1 – “Transactions

Table with all imports treated as Primary Inputs" — should read "Table of Intermediate Consumption at Producer Prices". The classifications used in these tables differ from those in the tables cited in note 14.

16. This 4.1% increase is surprising in view of the fact that Henry (1981) indicates that all new industries have relatively smaller input requirements from the services sectors than the long-established ones; there are also similar (but not so uniform) indications from the direct input coefficients in the 1968 and 1976 tables in Henry (1980).

17. In 1969 CTT was given statutory responsibility for the promotion of certain services exports, namely those of architects and engineers; its brief was extended to quantity surveyers in 1972. Legislation of 1983 enabled CTT to promote and assist such specified services sector activities as are specified by orders made from time to time by the Minister for Industry, Trade, Commerce and Tourism. Those covered by the Minister's initial (1983) orders are: agricultural development and processing services; medical services; training services; technical and general consulting services; international financial services; computer software and data processing services; media recording and publishing services.

18. UNCTAD (1983). In the case of the US, Brock (1982, p. 232) estimates that exports of services actually exceeded \$60 billion in 1980 as compared to \$35 billion in the official statistics.

19. These figures (from *National Income and Expenditure 1981, 1983*, p. 53) do not include the receipts of Irish international carriers. For indirect effects see D. Norton (1982).

20. These estimates are drawn from *Córas Tráchtála* (1983) and from oral communication with CTT. The targets do not take into account possible new companies entering the export market. The figures for 1982 and 1983 are CTT's estimates based on communications with firms on its files.

21. Coopers and Lybrand (no date — circa 1982). The estimate of £40 million was drawn by Coopers and Lybrand from Department of Finance (1979). This author does not know how building services were reckoned in the figure of £40 million, i.e., whether a deduction was made for purchase of materials and labour abroad.

22. In Ireland, the recently established An Post has already shown interest in this area.

23. It is understood that pilot schemes involving laser scanning have been introduced in Antrim and Cork; see F. Quinn (1983).

24. We have increased knowledge of the role of individual services industries from recent input-output tables; also, in recent years *National Income and Expenditure* has given details of expenditure of personal income on some services sector categories, both at current and at constant market prices.

25. Using physical measures of output, D. Cogan (1978, p. 148) estimated that in banking, growth in labour productivity was 1.4% per annum in 1956-66, but that it actually fell to 0.9% per annum, 1966-71. These findings are surprising indeed: the later 1960's was a period of amalgamation and rationalisation in banking, and one in which simple clerical tasks were computerised.

26. It has been estimated that the direct and indirect content of final demands in 1968 were as follows: exports of manufactures, 41%; export tourism, 25%, and other services exports, 26%, see Henry (1972). Cogan (1978) states that "for service activities . . . capital per worker is extremely low". It seems that the labour intensity of services sector activities is often exaggerated: Henry (1980, p. 41) estimated the (gross capital stock)/(man-years of employment) ratio in a 16-sector breakdown of the Irish economy (only 2 of which were services sectors) in 1976. He estimated the average economy-wide ratio as £10,651. However, that figure reflects the fact that the ratio was only £4,120 in agriculture (which employed 243,000 out of a total employment of 1,035,000). For Henry's two interindustry services sectors the estimates were: transport, £22,000 (employed 13,000) and trade margin and services, £11,000 (employed 487,000). In regard to tourism see Norton (1982).

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