

THE SERVICES SECTOR REVISITED: AN ANALYSIS OF JOB CREATION POTENTIAL

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While Irish unemployment pushes inexorably towards one quarter of a million it is disquieting to observe that there are very few suggestions and fewer still concrete proposals for tackling the jobs crisis. It is generally agreed that direct employment in agriculture will continue to contract. After six successive years of decline manufacturing employment is now at its lowest level for two decades but the Industrial Policy White Paper (1984) saw little hope of any significant improvement in the 1980s and 90s. More recently, (December, 1986) the Managing Director of the Industrial Development Authority stated that the food processing sector would find it difficult to maintain its current level of employment over the next decade.

There is, however, an implicit belief that the services sector will somehow come to the rescue. In an era when information technology is expanding and transforming the nature of work and when advances in computing and telecommunications are impacting on every office, the Irish services sector will, it is hoped, be lifted on the rising world tide of expanding service employment. The White Paper (1984) was clearly influenced by this argument.

“In most of the major developed economies the services sector accounts for over 60 per cent of total employment. In Ireland it accounts for only 50 per cent . . . rapid expansion in tradeable international services is forecast to continue throughout the decade.”

In this paper, it is proposed to analyse the evidence for significant employment expansion in the Irish services sector. In order to do this a detailed twenty-seven category re-classification of Irish service activity was undertaken and a review carried out of recent international research on the characteristics of service employment growth.

High Hopes for Service Jobs

The traditional economist's view is that services are essentially a parasitic economic activity which may add quality and relish to living but can only

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be sustained by the vigour and health of the 'productive' sector. In some countries this was reflected in positive discrimination against employment in services such as the Selective Employment Tax in the United Kingdom in the early 1970s. In Ireland many services carry penal rates of value-added tax and are denied access to the generous financial support available to manufacturing industry. Only a very small proportion of the annual outlay on capital and other grants to industry (upwards of £400 million) is made available to establishments in the services sector. Service activities are also excluded for the most part from the generous tax relief which is worth hundreds of millions of pounds annually to Irish manufacturing industry.

It is ironic, therefore, that the Industrial Development Authority (IDA) in its Strategic Plan for 1982-1992, should place such high hopes in the job-creating capacity of the services sector. The IDA projections were substantially accepted in the government's preliminary draft of the White Paper (1984) as can be seen in Table 1.

Table 1: *Projected Employment Change in Industry and Services, 1982-1992*

	IDA Plan	Industry White Paper (Draft)
<i>IDA Direct Action</i>		
Manufacturing	10,000	10,000
International Services	25,000	25,000
<i>Spin Off</i>		
Private and Public Services and Other Industry	165,000	140,000

Source: *Unpublished IDA Strategic Plan (1982-1992) and preliminary draft of Industrial Policy White Paper (1984)*

The empirical or theoretical basis for these estimates has not been published. This raises a question about the size of the multiplier which was used to arrive at the figure for spin-off employment and the vagueness on where these jobs will be created. A major point, however, is that for the first time service jobs are incorporated into an industrial development plan and they are specifically legislated for in the Industrial Development Act (No. 2, 1981). Furthermore, the services sector appears to carry the main burden of employment creation over the coming decade.

Statistical Review of Irish Services Sector

The two statistics normally used to illustrate the performance of the services sector are employment share and output share within the money economy. The employment statistic is relatively straightforward and there has been a mythical significance attached by some economists to "having less than half the employed population involved in the production of tangible goods". (Fuchs, 1968). This is regarded as giving a country the formal qualifications necessary for entry into the category of "service economies". Employment in services in Ireland reached fifty per cent of the workforce about 1980.

The other measure of service sector performance is share of economic output. Output is a much more difficult variable to define, and hence to measure, than employment, because it is normally measured in money, a unit which is constantly changing in value. Current price and constant price measures of output give very different *shares* for service output for the economy because of varying levels of price inflation in the three main economic sectors (industry, agriculture and services). The choice of base year when converting from current to constant prices is therefore very critical.

Employment Share by Sector:

The trend in employment shares in the major economic sectors is given in Figure 1 for the period 1961-81. The figure shows how services took over from industry during the seventies as the main generator of new jobs. During the sixties the industry share grew at 2.3 per cent per annum while services added just over one per cent per annum. The roles were reversed during the 1970s when service sector share grew by 2.4 per cent per annum and industry growth was 1.3 per cent per annum. The employment share of agriculture declined throughout at a relatively constant rate (3.4 per cent per annum).

Output share by Sector:

The output shares of the main economic sectors for Ireland, covering the period 1960-80, are shown in Table 2. The service sector share of output, when measured in current prices, increased over the period and output share is consistently higher than employment share. But, because of the way output is measured in much of the services sector, this only means that factor incomes per capita are higher on average in services than in other economic sectors. The output share of services measured in volume terms (constant prices) shows a decline in a period when employment share increased by over ten percentage points. This brings up the contentious subject of labour productivity of services and the extent to which the apparent productivity lag can be attributed to output measurement difficulties.

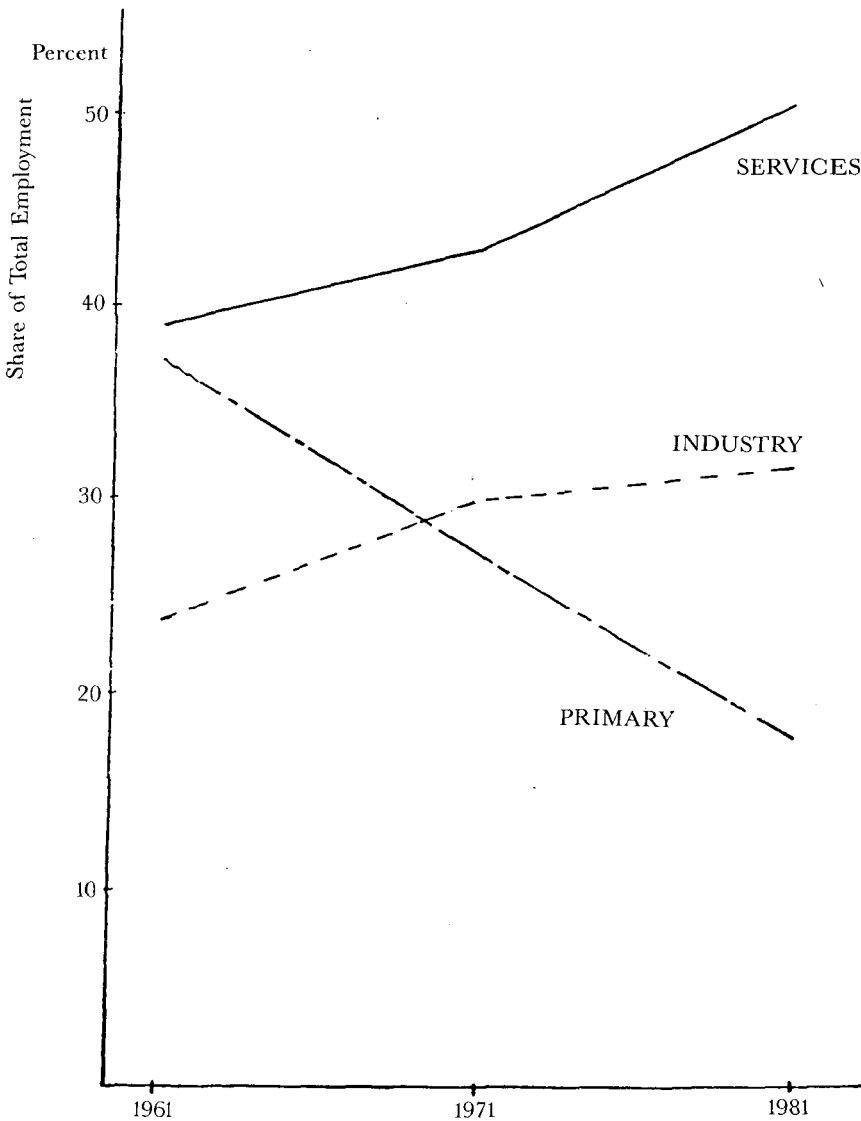


Figure 1: *Employment Trends in the Main Economic Sectors, 1961-81.*

It is reasonable to suggest that services have not matched the very high productivity in manufacturing industry (particularly the modern sector) during the seventies nor the high productivity in agriculture where share of employment has fallen from 37 per cent to 17 per cent over two decades marked by substantially increased output. Hence it is a matter of degree as to how far service sector employment share has moved ahead of output share. The productivity of Irish services is examined in detail in Cogan (1978).

Table 2: *Current and Constant Output: Share by Sector 1960-80 (per cent of G.D.P.)*

	1960	1970	1980
(a) Current Prices			
Primary	25.0	16.6	11.4
Industry	29.7	35.3	34.5
Services	45.3	48.0	54.1
(b) Constant (1975) Prices			
Primary	21.4	16.2	12.6
Industry	28.2	35.7	38.5
Services	50.5	48.1	48.9

Source: *National Income and Expenditure* (various years)

Service Sector Employment by Four Sub-Categories

The aggregate services sector which we have been discussing up to now is a residual economic grouping (activities which are neither industry nor agriculture). Many efforts have been made to develop sub-categories which achieve a more homogeneous grouping. For present purposes, a classification developed by Singlemann and Browning (1978) is considered to be the most satisfactory. This system breaks the sector down into four major categories: Distributive Services, Producer Services, Social Services and Personal Services.

The first two categories are oriented towards intermediate demand and the second two towards final demand. These classifications have many imperfections as will be seen when the main categories are broken into twenty-seven sub-categories. The method suggested for differentiating between Personal Services and Social Services is that the former is oriented towards the individual consumer and the latter towards collective demand. Under this taxonomy, Personal Services tends to be a residual, after allocations have been made to the three other categories.

Figure 2 illustrates that all the growth in service employment in Ireland in the 1960s and 1970s has come from Social Services and Producer Services. Distributive Services and Personal Services which together made up nearly two-thirds of service employment in 1960 represented only one half of the total in 1980. This trend is very much in line with international experience.

Service-Sector Employment by Twenty-Seven Sub-Categories

Recent work at the Science Policy Research Centre, U.C.D. (O'Brien,

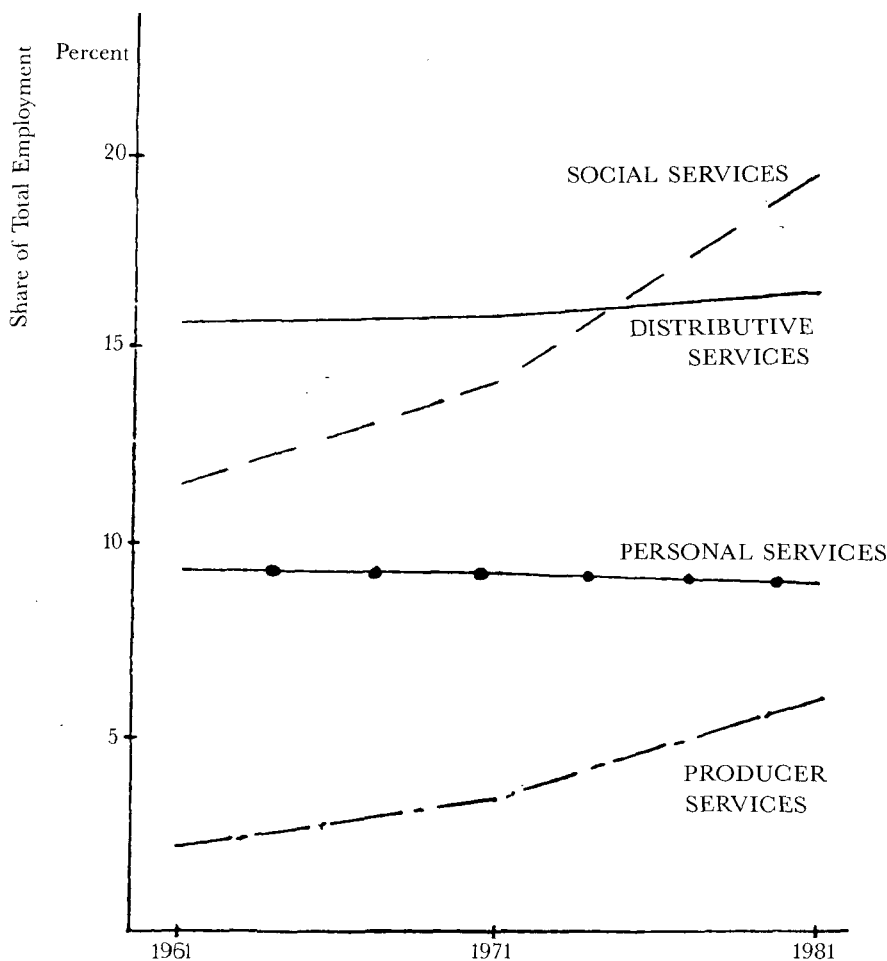


Figure 2: *Employment Trends in 4-Service Sub-Sectors, 1961-81.*

1984) on behalf of the Sectoral Development Committee has re-classified the Irish Census of Population (1961, 1971 and 1981) into Singlemann's twenty-seven sub-categories. Table 3 gives the employment in each of the categories for each year covered by the population census.

In Distributive Services transport employment has remained relatively static overall masking a decline in rail and a growth in road transport. Telecommunications employment increased very rapidly during the seventies but further employment growth may be limited because of the considerable potential for productivity improvements in this sector. An interesting feature of distribution is the differential growth rates in retail and wholesale distribution: retail employment declined but employment in wholesaling advanced strongly. The explanation here may be that the expansion in wholesaling was required as intermediate demand for industry and agriculture and not for final consumption.

Table 3: *Employment by Detailed Service Sub-Sector, Ireland 1961-1981*

	1961	1971	1981
Distributive Services	161,651	165,446	184,574
1. Transportation	37,827	40,357	41,654
2. Communications	6,250	9,185	16,104
3. Wholesale	53,777	36,856	49,028
4. Retail	83,797	79,048	77,788
Producer Services	25,457	37,306	66,525
5. Banking	7,551	11,466	22,293
6. Insurance	6,688	8,020	11,588
7. Real Estate	1,477	2,010	2,822
8. Engineering	1,426	2,827	5,385
9. Accounting	2,019	3,086	7,608
10. Misc. Business Services	2,173	5,456	9,687
11. Legal Services	4,123	4,441	7,142
Social Services	119,263	147,561	208,026
12. Medical Health	7,056	7,812	10,027
13. Hospitals	24,128	32,791	54,779
14. Education	29,584	39,424	57,861
15. Welfare Religious	16,454	15,836	12,783
16. Non-Profit Organisations	—	—	—
17. Postal Services	10,090	10,580	11,528
18. Government	31,951	41,118	61,056
19. Misc. Social	—	—	—
Personal Services	96,633	95,743	100,261
20. Domestic	32,096	15,721	6,082
21. Hotels	11,569	15,622	14,209
22. Eating, Drinking	16,184	19,837	27,771
23. Repair Services	-	-	-
24. Laundry, Cleaning	5,139	4,395	2,808
25. Barber, Beauty Shop	4,075	5,359	6,756
26. Entertainment	10,986	10,851	11,301
27. Misc. Personal	2,411	3,613	6,875
TOTAL SERVICES	405,543	449,428	569,250

Producer Services, where employment increased at an annual rate of five per cent since 1960, is the fastest growing category but it still constitutes less than twelve per cent of the Irish services sector. Banking and other financial services contributed most of the growth but nearly all business and professional services registered a high rate of expansion.

In Social Services it is no surprise to discover that employment in government, health and education all doubled between 1961 and 1981.

Employment growth in these three categories was in excess of four per cent per annum during the seventies. The inclusion of two large non-growth areas, (i.e. religious and postal services), as part of the social services category, masks the explosive growth in most public services.

Finally it may disappoint exponents of the post-industrial society to learn that employment in Personal Services has remained relatively static over the past two decades. Notwithstanding this, the share of service employment contributed by personal services in Ireland remains higher than in other western economies. A particular feature of Ireland's case is the strong growth in hotel and catering employment while domestic service, which was once the dominant personal service sub-category, has almost disappeared. It would be interesting to know what proportion of the hotel and catering expansion derives from tourism because this segment of the market does present potential for further growth.

Conclusions

In the context of the foregoing statistical review on the Irish situation and also mindful of trends in service sector growth internationally a number of conclusions emerge:

1. Ireland's share of total employment in the services sector was 51.6 per cent in 1982. Table 4 shows how this proportion compares with the service sector share in the developed market economies.

It is important to point out that Ireland has achieved a relatively large service sector share without going through a dominant industrialisation phase. This is contrary to the experience of the developed western economies, nearly all of whom had 40 per cent or more of total employ-

Table 4: *Services Sector Share of Civilian Employment in Selected Countries 1970 and 1982 (per cent)*

	1970	1982
USA	61.1	68.0
Netherlands	54.9	66.3
Sweden	53.5	64.1
Denmark	50.7	64.0
United Kingdom	52.6	62.6
France	46.4	57.2
Germany	42.9	51.8
Ireland	43.1	51.6
Spain	37.4	47.8

Source: OECD, *Employment Outlook*, September 1984.

ment in industry at an earlier phase of their economic development. The highest proportion of employment absorbed by the industry sector in Ireland was thirty per cent (of which manufacturing industry accounted for only twenty per cent).

2. The Social Services share of total service employment in Ireland is thirty seven per cent and was expanding very rapidly up to 1981. We must now look for an alternative source of new service sector jobs because of the constraint on social service expansion which the precarious state of government finances is likely to impose well into the nineties. The social services (health, education and government) are financed largely by taxation which has already reached an unacceptable level. *Building on Reality* (1984), projected an absolute decline in public service employment in the period 1984-87. Public services, as defined in that publication included employment in non goods-producing state-sponsored bodies, but excluded the religious sub-category; otherwise it is coterminous with the Social Services category as defined in this paper. Table 5 shows the dramatic reversal in the trend of public service employment which was postulated in the government's plan. It is proving easier to reduce public service jobs, however, than to achieve the growth promised in private services.

3. The main hope for employment growth was shown (Fig. 2) to rest on the Producer Services category. But there are limiting factors here also in the case of Ireland:

- (i) The absolute size of this category is small (only about one eighth of total service sector employment) and hence the base for expansion is narrow.

Table 5: *Irish Public and Private Services Employment 1961-1987*

	1961	1971	1981	1987
Public Services (per cent)	34.7	40.8	44.3	39.0
Private Services (per cent)	65.3	59.2	55.7	61.0
Total	100.0	100.0	100.0	100.0
Public Services	140,586	183,416	252,402	243,000
Private Services	264,957	266,012	316,848	380,000
Total	405,543	449,428	569,250	623,00

Source: 1961, 1971, 1981, O'Brien (1984) 1987, *Building on Reality* (1984)

- (ii) Producer Services may be sold as intermediate demand to industry, agriculture or other services but a study of input-output tables for 1975 shows that at least two-thirds of the intermediate demand for producer services comes from the industry sector. Hence the growth of these services must be linked with growth in industry.

All the output of the activity defined as Producer Services in Table 3 does not go to intermediate demand; a certain proportion goes direct to final consumption. On the other hand a significant proportion of wholesaling, transport and communications are intermediate inputs to the goods-producing sector and therefore should be included as producer services. Hence the range of service activities which benefits from industrial expansion is fairly large. Momigliano and Siniscalco (1982) showed that in Italy, the modern sector of industry (e.g. chemicals, industrial machinery, computers and instruments) induced higher levels of service employment than traditional industries such as food processing and textiles. O'Riordan (1984) did a similar analysis of Irish data and again those industry sectors (with the exception of tobacco products) which induced a higher than average service employment were based on modern technology. This, of course, has implications for industrial policy as well as for service sector policy.

4. The employment hopes for Personal Services are not bright. The proportion of service sector jobs contributed by this category has been in long-term decline in all the developed economies. Ireland with nearly twenty per cent of service jobs in personal services has a higher proportion than other western economies (the U.S.A. has fifteen per cent). It is disappointing to see the vision fading of a post-industrial society with its promise of enhanced personal services of all kinds even if one did not personally feel enthusiastic about some of its manifestations such as a society with more and more people selling hamburgers to one another. On the subject matter of this paper, however, it can be said that personal consumer services have contributed very little to service-sector employment growth in western economies over the last twenty years. Most of the jobs which it has contributed are low-paid unskilled jobs.

5. It was Colin Clark, nearly fifty years ago in "The Conditions for Economic Progress", who pioneered the relationship between structural change and economic progress. His analysis posited a logical development, driven by increased productivity and demand for goods and services, from an agricultural through an industrial to a service economy. Subsequent events proved that in addition to Clark's variables certain supply factors such as the pressure of labour from the primary sector and internal rural-urban migration also came into the equation particularly in the underdeveloped countries. It was found that a country may leap-frog

industrialisation to arrive at the status of a service economy but at the cost of economic progress because it acquires a large service sector made up of low grade residual activities. This has important lessons for Ireland: we must co-ordinate job creation policies for industry and services if we are to achieve the maximum job potential of the overall economy.

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