

COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(78) 1526 final

Brussels, 14 April 1978

WORKING PAPER

on

THE ROLE OF THE TERTIARY (INCLUDING PUBLIC) SECTORS

IN THE ACHIEVEMENT OF

GROWTH, STABILITY AND FULL EMPLOYMENT

Meeting of the Standing Committee on Employment

(May 1978)

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THE ROLE OF THE TERTIARY (INCLUDING PUBLIC) SECTOR
IN THE ACHIEVEMENT OF
GROWTH, STABILITY AND FULL EMPLOYMENT

(Working paper)

1. Introduction

The future development of the tertiary sector is one of the four themes in the work programme established at the 1977 Tripartite Conference on Growth, Stability and Employment.

This subject derives its importance from the expanding role played by the tertiary sector in the past twenty years in the economic growth of Member countries, and from the employment and social potential it could represent in their future development.

In this context, examination of the prospects of the tertiary sector is difficult. The problem is being considered at Community level for the first time. Existing ideas are often vague; there are fewer statistics or comparative analyses than in other sectors. The term "tertiary sector" itself is variously defined and is interpreted subjectively.

The enclosed working paper aims to identify the main problems. This document summarizes its analysis and suggests a series of subjects for preliminary discussion in the Standing Committee on Employment.

2. The problem

The concept of a "tertiary sector" is useful to describe those economic activities whose purpose is neither to exploit natural resources nor to manufacture goods, but to provide services. This includes commerce, banks and insurance, other market services and non-market services (principally education, health, defence and administration). (*) Many tertiary jobs are carried out in the secondary sector, but these could not be included in the quantitative part of the analysis.

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(*) In national accounts, transport and communications are not included in the tertiary sector. They are not included in the data given in the attached documents. Nevertheless, these activities are closely related to the tertiary sector. Their potential in the creation of jobs should also be taken into account in future work.

Employment in this heterogeneous collection has grown considerably in the past twenty five years. The present situation raises the question of the sector's medium-term contribution to job creation.

In view of this, the Commission is concerned with three main elements :

- labour supply :
 - . the transition of the population of working age from a stationary to a growing phase (equivalent to about one million persons a year) that is likely to continue until about 1985. This is due to demographic factors such as the arrival on the labour market of larger new generations;
- labour demand in two parts :
 - . the continuing decline in primary sector employment;
 - . the very restricted scope for net job creation in the secondary sector - characterised by increasing efforts to raise productivity and by a weak increase of demand.

These problems are common to all the Member Countries. Will these trends continue? What are the prospects for the private sector? What role could the public tertiary sector hold in the return to full employment, in view of the extent of unfulfilled needs in the field of collective services?

This concerns the Community in two ways :

- a Community-level analysis will help each Member country to relate its problems to those of its partners, distinguishing common problems and more specifically national ones;
- a picture of future prospects in the tertiary sector is essential in order to direct the Community's own operations
 - particularly with regard to its financial instruments.

3. Analysis of the Tertiary Sector

The tertiary sector is difficult to analyse because of its heterogeneity and the lack of available statistics. As a result, far less is known about the tertiary sector than about the manufacturing sector.

The main trends are, however, very clear. Over the period 1960-1975, employment in services grew by some 3 % a year, as against the decline of 4 % a year in agriculture and mining, and the growth of industrial employment of less than 0.5 % a year. This growth of services can be explained, in part by the growth of services complementary to the increased ownership of physical goods and, in part by the growth of intermediate professional or business services to manufacturing companies.

Of all service activities, those concerned with health, education, business services, banking and government administration have shown the fastest growth of employment. Lowest employment growth in services has been in retail distribution - no more than 0.5 % a year.

Tertiary employment continues to grow. However, present economic problems could limit the absolute growth. In this respect, those areas of employment within the sector which seem more vulnerable over time probably include banking and commerce. Prospects are better in areas of employment related to tourism, leisure, environmental improvements; in areas where specialised household services develop as a form of division of labour to cater for fuller and more complex working lives and more non-working activities; and, similarly, in the provision of professional and business services to enterprises. Many such activities will first develop through small enterprises, or community groups.

Productivity statistics can be misleading, as many measures of service output are based only on wage costs and fail to take account of quality changes in the services provided. Nevertheless, productivity growth, measured as growth of value added per employee, is low in the services - 2.5 % a year over the period 1960 to 1970 as opposed to 4.3 % for the whole economy. Investment is not the explanation, since statistics on capital stock show that the service sector as a whole is no less capital intensive than the manufacturing sector and, in recent years, investment growth has been higher in services.

Public Sector employment has grown like other service employment, but needs to be seen in the wider context of public expenditure growth. Some Member States provide certain services directly e.g. health, whereas others set the legislative framework for health provision, make income transfers and leave it to the private sector to actually supply the service.

There has been a strong upward trend in total government expenditure from 1960 to 1973 with an acceleration since the recession. Public expenditure has thereby reached a level equivalent to 50 % of national output. Much of this expenditure represents

transfers of income that has already been produced. The public sector does, however, employ some 20 % of resources directly in the provision of goods and services, although this varies between Member States.

The structure of employment in the tertiary sector, private and public, differs from the rest of the economy in certain important respects - a greater concentration of women, more part-time work, and various forms of marginal employment and, in some sectors, a relatively high proportion of small businesses and self-employed people. This has implications in terms of labour market management and training, which in the Commission's view should be examined in greater depth as part of its subsequent work.

4. Commission Guidelines

The Commission believes that an improvement in the Community employment level could not take place without further development of the tertiary sector. Employment in the tertiary sector depends on the economic development of the primary and secondary sectors. Improvements in their competitiveness will contribute to employment creation in the tertiary sector. It is very important for tertiary sector employment to promote the development of the other two sectors, and to restructure them as far as is necessary. Study of past trends, comparison with other industrialised countries like the U.S.A., and preliminary reflections on future demand show considerable scope for job creation. Many of the latent needs in the Member States concern this sector's activities. The opportunities vary depending on the starting point, specific needs, and preferences of each country as to the balance between public and private sectors. Moreover, it should be noted that the position taken by the Standing Committee on Employment on work-sharing also has implications for the development of the tertiary.

However, the fulfillment of this potential, which assumes that the jobs created are economically viable, and respond to effective demand, is subject to two important conditions.

The first concerns the cost of these new activities. For firms in the private tertiary sector, this is a question of the conditions in which development takes place. In this respect, the opportunities for small and medium-sized firms are of primary importance, although they often face problems which could hinder their attempts at adaptation or innovation (financial burdens, access to the market or to credit). For the public tertiary sector, it concerns the level of taxation which can be tolerated and the means used to ensure a fair distribution of costs between beneficiaires and the Community.

. The second condition concerns the efficacy of such operations in the public or non-market sector. How can this sector be well managed, both from the point of view of the user and from that of the Community? As productivity (in the macro-economic sense) and profitability criteria do not apply, what instruments can be developed to assess the performance of the non-market tertiary sector, and to satisfy tax-payers about it?

Furthermore, the fulfillment of this potential for additional employment must, in the Commission's opinion, respond to the need for a more satisfactory territorial division of activity; it should also as far as possible take into account the needs of the different categories of workers available for employment, and avoid favouring marginal work.

On the basis of the above, the Commission believes that the Committee discussion should be concentrated on the following lines :

- understanding of the branches which constitute the tertiary sector;
 - the role of small and medium-sized firms;
 - the ways in which national policies can discriminate against services;
 - the role of community services;
 - possible ways of reconciling budgetary constraints with the aim of wider access to services;
 - new employment prospects in the public sector, and the obstacles which governments see to their development;
 - the evaluation of job-creation programmes;
 - the role of investment in creating and developing tertiary sector employment;
 - the improvement of statistics.
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COMMISSION
OF THE
EUROPEAN COMMUNITIES

Directorate-General
Employment and Social Affairs

V/290-1/78-EN

5.4.1978

The attached document (V/290-1/78) was prepared
for discussions with the Social Partners.

The results of which were taken into account
in the preparation of the document V/341-1/78.

- Document V/290-1/78 is attached for information -

COMMISSION
OF THE
EUROPEAN COMMUNITIES

Directorate-General
Employment and Social Affairs

V/B/2

V/290-1/78-EN

Orig.: EN

5.4.1978

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IN THE ACHIEVEMENT OF

GROWTH, STABILITY AND FULL EMPLOYMENT

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THE ROLE OF THE TERTIARY (INCLUDING PUBLIC) SECTOR
IN THE ACHIEVEMENT OF
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Introduction

The future development of the tertiary sector was one of the priority themes in the work programme which resulted from the Tripartite Conference of 1977. The importance of this theme is indicated by the growing place that the tertiary sector, including the public sector, has come to occupy in recent years in the economic activities of Member States. The present employment difficulties and uncertainties for economic growth have posed a whole range of important questions, from which we have selected the following as being the most fundamental.

1. The tertiary sector has been a major source of growth and the main source of job creation in the past 20 years. Can we rely in future on the growth of the tertiary sector, both private and public, to provide sufficient jobs to meet demands? Will it be a growth sector in terms of output? What conditions would most favour such growth?
2. Will private services form a part of any future growth as they have in the past, and in what areas will this be? To what extent will such services be independent of the growth of physical production of goods, related to such growth, or rather in the form of intermediate services to producers?
3. The recent rapid growth in public sector expenditure as a proportion of national output has been criticised as upsetting the long term structural balance of the economies and causing inflationary pressures. To what extent is this so?
4. While public sector expenditure has increased in response to social needs, its further growth would seem to pose financing problems, at least for some Member States. How can these conflicts be resolved or overcome?

5. Public sector employment is being expanded in the Member States by direct job creation. How useful is this, and how does it relate to long term public sector employment growth ?
6. Collective services, both public and private, related to rising living standards represent an important area of potential for growth and social development. What factors could help the development of such services ? What could be their impact in the re-establishment of a more dynamic economy ?
7. Service jobs, whether in the tertiary sector proper or in manufacturing, seem to enjoy a higher social prestige than in jobs directly related to manufacturing. What are the implications of this for the future pattern of demand for jobs ?

In raising these sorts of issues, the Tripartite Conference was not expecting to achieve operational conclusions immediately. However, these issues reflect the background against which national and Community policies have to operate. They correspond to hopes or concerns - at the junction of social and economic policies - that the parties to the Conference shared in seeking to resolve our present difficulties.

These issues are relevant to the Community in two main ways :

- firstly, these questions are raised in similar, although not necessarily identical, terms in most Member States. An analysis at Community level enables the experience of the Member States to be seen against a broader background. This can help the various parties to the Conference in developing a common approach;
- secondly, guidance as to the prospects for the tertiary sector is needed for the Community's own policy actions, both global and specific. The Community must ensure that its resources and policies are used to support the development of new job creating activities. It must assess whether the hopes and expectations vested in the tertiary sector in this respect are justified.

This is a background paper aimed at clarifying certain major issues. On the basis of further discussions based on this paper, the Commission expects to turn to more specific questions, and to identify areas where action could be justified, in particular with reference to the Community.

TERTIARY SECTOR

1.1. Preliminary Remarks and Definitions

The concept of the tertiary sector is a loose but useful one for describing those economic activities outside of the exploitation of natural resources or the production of physical goods. In services, there is no output of physical goods but there is, none the less, real economic activity, and a non-material product to the consumer.

The concept of tertiary, or service, activity can be used to describe either a particular occupation or profession, or the activities of a whole sector. Not all tertiary activities are carried out in the tertiary sector - for example, people performing legal or accountancy services may be employed in manufacturing i.e. secondary sector, companies, or in specialised companies in the tertiary sector. The extent of the overlap of tertiary jobs performed in non-tertiary enterprises is uncertain, but one estimate puts it at 20 %.

The paper can only treat in a quantitative way those tertiary activities carried out in enterprises classified as being in the tertiary sector. We should bear in mind, however, that it is in part the broader "tertiarisation" of economies, including the growth of administrative or overhead staff in secondary enterprises which has attracted attention.

In our definition, the tertiary sector covers commerce, banking and insurance, other services and public services, but excludes public utilities and transport and communications. (*)

The tertiary sector, thus defined, therefore covers a heterogeneous set of activities, which can take many forms. They can be individual (insurance) or collective (defence). They can be paid for through the market (laundries) or given freely (many state services). They can be services to households directly (repair services), services to industry (professional services) or services to both (hotels and restaurants). Moreover, private and public provision of the same or similar services can commonly exist side by side. Hence, the form in which different services are offered, the manner in which they are financed, and the way in which they reach their final customer, may vary widely.

(*) This follows the custom of national accounts. It is recognised that transport and communications have much in common with tertiary branches, particularly regarding the possibility of employment creation.

This variety of situations makes it difficult to generalise about the tertiary sector. It is, moreover, not always easy to relate available statistics to one's general observations on the growth of services. For example, some growing activities, such as tourism, are not directly identifiable. Tourism is not a sector in the nomenclature - rather it creates employment in sectors such as hotels and restaurants, transport including the repair of vehicles, energy and distribution, tourist agencies with their miscellaneous services, entertainment plus government supporting activities.

Also, apart from the lack of a physical product, it is difficult to identify specific economic characteristics of tertiary activities which distinguish them from other activities in the economy.

For example, it is not possible to describe all services as purely domestic. Some services are not tradeable internationally, but others are, for example in the field of banking and insurance. Conversely, industrial activities which produce physical goods do not necessarily produce internationally tradeable products. In construction, for example, only factory-built properties are immediately available for international exchange. Also, whilst certain services - particularly the traditional personal or domestic services - are highly labour intensive, the capital intensity of the tertiary sector as a whole is as high as that of the manufacturing sector.

It should be clear, therefore, that the tertiary sector is a subject on which instant reactions can be misleading. Moreover, partly as a result of the weakness of available data, and partly as a result of the complexity of the issues, little work has been done in this area at Community or International level. It is appropriate, therefore, to proceed cautiously, taking particular note of economic and social changes now facing the Community.

1.2. The Place of the Tertiary Sector in Economic Growth

The tertiary sector needs first to be seen in relation to the total economic system. It is necessary to note its size and structure, as illustrated by statistics on, for example, the growth of value added and employment within the sector, on the degree of capital intensity and on the rates of growth of labour productivity.

1.2.1. Tertiary sector's increased share of value added

Over the history of the Community, the tertiary sector has had a continuing growth relative to other sectors. In terms of its contribution to economic output, the tertiary sector now accounts for over half of the total. Between 1960 and 1975, the shares of value added of the services in total output increased according to the Member States from a level of 35 to 40 %, to 40 to 50 %.

In effect, over the period 1960-1975, growth in the service sectors accounted for around half of the overall economic growth that was achieved in the period. Table I sets out the share of value added in total national output in certain Member States in 1960 and 1975 including a breakdown between Market and Non-Market services. More detailed figures are set out in Annex 1.

Table I
Tertiary Sector Share of Value Added 1960/1975 (%)

| | France | | F.R. Germany | | Italy | | Neth. | | United Kingdom | |
|-----------------------|--------|------|--------------|------|-------|------|-------|------|----------------|------|
| | 60 | 75. | 60 | 75 | 60 | 75 | 60 | 75 | 60 | 75 |
| Market Services | 27.5 | 36.6 | 27.2 | 28.0 | 28.5 | 35.8 | 27.4 | 34.0 | 30.1 | 33.5 |
| Trade Services | 13.0 | 18.7 | 13.7 | - | 12.1 | 21.0 | - | 18.3 | 13.0 | - |
| Other Market Services | 14.5 | 17.9 | 13.5 | - | 16.4 | 14.8 | - | 15.7 | 17.1 | - |
| Non-Market Services | 9.1 | 12.7 | 7.5 | 13.0 | 10.5 | 10.8 | 10.7 | 14.1 | 11.3 | 16.4 |
| TOTAL SERVICES | 36.6 | 49.3 | 34.7 | 41.0 | 39.0 | 46.6 | 38.1 | 49.1 | 41.4 | 49.9 |

Source: Report of the Expert Group on Sectoral Analyses EEC 1978 (II/253-4/76)

1.2.2. Employment Growth in the Tertiary Sector

The growth of tertiary sector employment which resulted from the growing importance of service activity within total activity can be seen in Table II. This table sets out the average growth rates of employment by broad sectors over the period 1960-1975. The table illustrates the long run decline of agriculture and mining of around 4 % a year and the very modest growth of industrial employment of less than 0.5 % a year. This compares with the strong positive growth of employment in services of up to 3 % a year.

Table II
Average annual rates of growth of employment 1960-1975
for the Community

| | | |
|------------------|------------------------------|---------|
| <u>Primary</u> | Agriculture | - 3.9 % |
| | Mining | - 4.4 % |
| <u>Secondary</u> | Manufacturing | + 0.3 % |
| | Construction | + 0.4 % |
| | Public Utilities | - 1.3 % |
| | Transport and Communications | + 0.3 % |
| <u>Tertiary</u> | Commerce | + 0.6 % |
| | Banking and Insurance | + 3.7 % |
| | Other Services | + 2.1 % |
| | Public Services | + 3.4 % |

Source: Sectoral Employment in the European Communities;
Trends and Forecasts, EEC 1978. (V/878/77)

As a result of this growth, the service share of total employment in the Community rose from 30 % in 1960 to 45 % in 1975. In no Community country does the tertiary sector now account for less than 35 % of all employment, and in some it has reached 50 %.

1.2.3. Structure of Tertiary Employment

The structure of employment resulting from this growth is set out in Table III, covering the four areas of the tertiary sector in each Member State.

Table III
Structure of Tertiary Employment within Member States in 1975

| | Commerce | Banking Insurance | Other Services | Public Services | TOTAL TERTIARY (000) |
|-------------------|----------|----------------------|-------------------|--------------------|----------------------------|
| Belgium | 11.8 | 5.8 | 15.7 | 10.5 | 1.262 |
| Denmark | 16.1 | 6.3 | 25.3 | 6.5 | 942 |
| F.R. Germany | 14.5 | 5.4 | 11.8 | 10.2 | 8.873 |
| France | 14.4 | 7.0 | 17.5 | 8.8 | 8.136 |
| Ireland | 17.3 | 5.5 | 15.0 | 7.5 | 324 |
| Italy | 7.5 | 2.5 | 16.7 | 7.6 | 4.480 |
| Luxemburg | 16.0 | 7.2 | 11.9 | 10.6 | 53 |
| Netherlands | 15.0 | 7.4 | 19.7 | 7.3 | 1.906 |
| United Kingdom | 15.6 | 6.2 | 19.2 | 6.4 | 9.533 |
| COMMUNITY (000 s) | 10.993 | 4.516 | 13.285 | 6.715 | 35.509 |

Source: Labour Force Sample Survey, 1975 Eurostat.

1.2.4. Employment changes within the Tertiary Sector

The broad trends and developments within the tertiary sector are somewhat similar in the different Member States. For example, in no Member State did the growth in commerce which averaged 0.6 %, exceed 2 % in the period to 1973 nor did banking and insurance, which averaged 3.7 %, grow at less than 3 % in any Member State (see Annex 1). Prior to 1973, these upward trends in services have been little affected by fluctuations in economic activity and, even since the beginning of the recession, service employment has continued to rise, although at a slower rate.

More detailed information on the structure of employment within the tertiary sector is not regularly available for all Member States. However, it is possible to obtain some broad indications on the basis of the information from certain countries as set out in Table IV. It can be seen that, while there has been a steady overall growth of employment within the tertiary sector, this has varied both between the broad sectors and within them.

In Commerce, the relatively low rate of growth of employment is fairly widespread but is particularly attributable to retail distribution.

Within banking and insurance - the fastest growing of the tertiary sectors - it is banking and business services which has given the lead. Insurance employment has been static and in some countries has declined.

Within other services, the two large sectors - education, health - have shown strong increases together with business and other services and hotels and restaurants.

Government administration has also grown steadily - somewhat more than commerce - but less than other tertiary sectors.

1.2.5. Capital intensity

The services sector is commonly conceived as being relatively labour intensive. However, in total, it accounts for some 35-40 % of capital stock, much the same as in manufacturing. The rate of growth of new investment in services has, moreover, been greater than in manufacturing with the gap widening further in the most recent years. Given the well known imperfections

in capital stock figures, and the heterogeneity of the services sector, care must be taken in drawing detailed conclusions. Once again, information is limited, but the following Table IV shows, for certain Member States, how the growth of investments in market services have been high compared with total investment.

Table IV
Relative Rates of Growth of Investment
1965-70 and 1970-73

| | Belgium | | France | | F.R. Germany | | United Kingdom | |
|----------------------------------|---------|-------|--------|-------|-----------------|-------|-------------------|-------|
| | 65-70 | 70-73 | 65-70 | 70-73 | 65-70 | 70-73 | 65-70 | 70-73 |
| Total market services investment | 2.0 | 6.6 | 10.1 | 11.3 | 4.4 | 7.3 | 4.2 | 5.4 |
| Total investment | 4.5 | 3.5 | - | - | 4.3 | 2.7 | 3.5 | 2.4 |

1.2.6. Labour productivity

The average annual rate of growth of productivity (*) for the whole economy in the Community, over the period 1960 to 1970, was 4.3 %. During the same period, the increase in productivity in the service sector was little more than half, at 2.5 %. Only in the case of market-traded services was productivity growth significantly higher, but still some half a percent or so below total national productivity trends.

Over the same period, there appears to have been an inverse relationship between this rate of growth of productivity and the rate of growth of prices within the different sectors. Over the period 1960 to 1973 both market and non-market services were in the top ranking in terms of productivity increases. Even trade services showed fairly substantial price increases and relatively poor productivity increases. Indicative as such statistics are, however, they should be treated cautiously in view of the crude methods commonly employed in order to adjust for price increases in calculating service output.

(*) measured as value added per employee.

1.3. Past trends and future prospects

In order to assess the general prospects for employment in the tertiary sector, it is necessary to assess the future prospects for the various outputs of the tertiary sector, and to study the relationship between employment and output growth.

1.3.1. Causes of past growth of service output

Two major factors have brought about the growth of the private tertiary sector over the past twenty years. On the one hand, as incomes have risen and as food consumption approaches satiety, the share of household consumption on food and drink has declined from around 40 % of consumption expenditure in 1960 to around 25 % today.

Some 25-35 % of national production goes to households as direct consumption with an additional 15 % going indirectly, and the consumption of private and public services and durable goods has increased accordingly. Information on the percentage of service production consumed by household directly and indirectly is not very extensive but indicates that, for example, some 80 % of wholesale and retail services are consumed by households, around 70 % of credit and insurance and 90-95 % of hotel and restaurant services.

At the same time as this direct demand for certain services has grown, others have expanded as a complement to the demand for physical goods, reflecting new divisions of labour with certain activities branching off from manufacturing. Some have been direct, e.g. increased car ownership bringing an increased demand for garage services, others indirect with, for example, manufacturing growth calling for increased commercial, technical and financial services which can be provided more efficiently by specialised firms. In both cases, services have grown not as an alternative to products, but as a complement to the demand for physical goods.

This process of service growth due to increased specialisation can come full circle. If services take on a more and more standardised form, it can become possible to re-incorporate them in a manufacturing process. For example, much of the development of modern retailing has been made possible through technical progress which has enabled packaging work previously undertaken in retail premises to be undertaken at the manufacturing stage. This illustrates how part, at least, of the development of services is closely integrated in the overall development of the economy.

1.3.2. Low service productivity leading to fast employment growth ?

The effect of the growth in the demand for services on employment levels has been magnified by the slow overall growth of productivity within services compared with other sectors. It may even be that, as the retailing example just quoted suggests, some at least of the services may be condemned to a low rate of productivity growth. In effect, wherever technical progress enables high productivity growth to occur, the work is transferred to the secondary sector and not therefore counted to the service sector's credit.

Such generalisations must, however, be qualified :

- firstly, not all services have a low productivity. A distinction can be drawn between traditional low productivity and highly labour intensive services of the sort which characterise underdeveloped countries, but for which alternative, high productivity means of meeting the demand exist, and more sophisticated, capital intensive - modern services - on the other;
- secondly, output changes, and hence productivity improvements, are very difficult to measure in important sections of the service sector. In national statistics, much of service output is measured in terms of labour costs and only limited allowance is made for the all important changes in quality, whether these be improvements or deteriorations.

1.3.3. Prospects for the future growth of the tertiary sector

There are three main quantitative approaches to assessing the likely medium term growth of service output and employment. The first would be to project trends of output in the major service sectors along with projections of productivity changes in order to estimate employment. The second would be to make separate projections of the various components of demand, from the household, enterprises, government and foreign, and to translate these into sectoral demands. The third would be to estimate employment growth directly on the basis of past trends, taking into account the influence of output trends and other factors.

All these approaches present difficulties in view of the paucity of data and the uncertainty about overall economic prospects. For the moment, we are limited to extrapolation of past trends, plus some more casual empirical information about particular categories of services. Further work is, however,

being undertaken by the Commission services in conjunction with national experts in order to identify possible trends, and areas of growth, in greater detail.

Such information as we have suggests that past trends in the various services are so steady and well established that it is difficult to envisage dramatic changes in the immediate future. Hence, if the Community economic growth was of the order of 4 %, the demand for services would grow at least at that rate, and the share of tertiary employment in total employment would continue to grow.

Major changes in employment structures within the tertiary sector could, nevertheless, be envisaged as the structure of demand alters, or the exploitation of technical innovations offers possibilities for the further mechanisation of some major service activities. A switch in banking practice from branch banking to credit cards or, beyond that, moves towards the use of private home terminals, could produce sharp increases in output per employee, on a par with those achieved in the past in manufacturing. Even in Commerce, where employment growth has been limited anyway, an expanded use of scanning devices which not only add up sales, but adjust stock information and prepare new orders, could limit still further employment prospects in retail or wholesale distribution.

At the same time, newer growth areas are developing although, by their very nature, they are less easy to identify precisely, and, anyway, slower to emerge in periods of economic slack as at the present. However, areas of employment related to tourism, to sport, to leisure, to environmental improvement and to personnel and business services developing out of product innovations, newer forms of industrial organization and fuller and more complex working lives will undoubtedly be areas of future growth. At this early stage in our analysis, and bearing in mind the limited statistics available from Government sources, it is not possible to say much more without descending into speculation. However, the Commission services are studying such developments in order to see how far the trends can be identified with a view to developing better projections.

1.3.4. Actions to encourage tertiary developments

It is most likely that, left to its own devices, tertiary employment will continue to grow as a share of total employment in line with past trends. However, the question can be posed as to whether service employment could not be artificially encouraged during the present period of low economic activity.

Such a policy has apparent, short term, attractions at least in reducing visible unemployment and some public sector job creation schemes, discussed later, reflect this view. On the other hand, tertiary growth, particularly private tertiary growth, is closely inter-related with the overall development of demand, whether directly or indirectly, and an artificial encouragement of such work might simply reduce the productivity of services further and add little to real output.

A potential demand for more services does exist, but so does a potential demand for more goods. If we assume that there is now a balance of demand between goods and services, it is only with higher real living standards that consumers would normally chose to substitute more services for more goods.

In a period of low economic activity, there will anyway be a tendency for people to seek appointments in the more labour intensive services, in the absence of jobs in the strongly cyclical manufacturing sector. Such a tendency will be particularly marked in countries with only a small agricultural employment which has traditionally performed this cushioning role during recessionary periods. These additional service jobs are likely, however, to be relatively low paid in view of their low productivity.

To provide encouragement for such trends could prove counter-productive. It is unlikely to bring nearer a future structure of post-industrial employment, built around a growing service sector. It could, rather, unwittingly, push the developed economies of the Community back along the road towards under-developed economies which are characterised by such an excess of under-capitalised and low productivity service activities. This is not to say that some such actions could not be possible. However, as a general principle, it would seem difficult to stimulate services, certainly private services, in isolation from other economic activities.

PUBLIC SECTOR

Certain preliminary remarks are necessary in order to clarify the discussion of the public sector's place in tertiary sector developments.

In the mixed economies of the Community, with highly developed social systems, the State intervenes in a variety of ways.

These include :

- the management of the overall development of the economy through budgetary and monetary policies; the regulation of private sector activities through legislation or controls (e.g. through competition policy); and, in some countries, demand regulation to off-set cyclical fluctuations ;
- the provision of the "pure" public services - defence, justice and central administration; the provision of, or setting of minimum standards for, certain other services - notably education, health, public housing -; and the control or operation of certain monopolies (like many public corporations) or strategic or protected sectors (motor industry or steel) ;
- the redistribution of income and wealth in order to meet social objectives (e.g. pensions or family payments) or economic or employment objectives (e.g. subsidies for investment or job creation, regional policy).

The concept of the public tertiary sector as used in the paper specifically excludes publicly owned enterprises in the manufacturing sector, as well as public utilities, and public transport and communications undertakings. Thus, we will not be treating directly certain issues such as criteria of economic and social accountability for the management of public corporations, or questions concerning the regulation of private sector activities.

Our emphasis is more on the overall trends in public spending, and the present and future consequences that these have for employment and economic prospects. In doing this, two points should be born in mind.

Firstly, much of output is measured in terms of expenditure. The difficulties of output measurement in the tertiary sector have already been mentioned but they are at their worst in the case of the tertiary public sector where many services are provided free or at nominal cost.

Secondly, in studying public expenditure, an important distinction must be drawn between those public sector activities which use labour and capital resources from the economy, and those which involve only a redistribution of income already produced in the economy.

Total public expenditure includes both the use of resources - whether they are used for consumption or investment and the transfers of income. The two types of expenditure are of a very different size. Public expenditure in all Member States of the Community has reached a level equivalent to 50 % of national output. In terms of resources used in the provision of services and goods and in the administration of these transfers, however, it will be seen that the public sector accounts for under 20 % of total Community output.

2.1. Trends in Total Public Expenditure

There has been a strong upward trend in total government expenditure from 1960 until 1975, with an acceleration since the recession. Levels of expenditure vary between Member States - in part because of differences in institutional procedures for meeting their responsibilities for such matters as housing or hospitals. However, the trends are generally similar and Table V shows how Government expenditure as a percentage of national output rose from levels of 25-35 % in the Member States in 1960 to 40-50 % in 1973, exceeding 50 % in some Member States by 1975.

Table V

Public Expenditure as a Percentage of GDP

| | 1960 | 1965 | 1970 | 1973 | 1975 |
|----------------|------|------|------|------|------|
| Belgium | 30.3 | 32.3 | 36.5 | 39.5 | 46.6 |
| Denmark | 25.1 | 30.1 | 40.1 | 40.9 | 47.7 |
| France | 33.7 | 37.5 | 38.3 | 38.0 | 43.8 |
| F.R. Germany | 32.5 | 36.4 | 37.4 | 40.1 | 47.4 |
| Ireland | 27.6 | 32.7 | 38.0 | 40.7 | 52.1 |
| Italy | 30.4 | 35.0 | 35.3 | 41.5 | 42.0 |
| Luxemburg | 30.5 | 33.6 | 37.9 | 44.3 | 51.8 |
| Netherlands | 32.6 | 37.6 | 45.4 | 49.1 | 55.3 |
| United Kingdom | 32.2 | 36.3 | 39.7 | 41.9 | 46.4 |

Source: OECD National Accounts and Economic Budgets.

2.1.1. Consumption, investment and transfers

Increases in total expenditure have been much greater than the public sector's claims on resources through consumption and investment. Table VI shows that between 1960 and 1973, public consumption as a proportion of national output rose from around 10-16 % in the Member States in 1960 to 13-23 % in 1973. Public investment during the same period rose from 2-4 % to 3-8 %.

The big increase has come through transfers, paid out in the form of pensions, unemployment compensation and general social welfare support, which rose steadily between 1960 and 1973, generally much faster than output growth, particularly in Netherlands and Italy. Since 1973, transfer payments have increased considerably in all Member States, partly as result of reaction to the economic crisis and inflationary pressures.

In terms of employment - and wages and salaries account for some 70 % of public consumption in nearly all Member States - general government's share of total employment has risen from an average of around 11 % in 1960 to some 13 % in 1973.

Table VI
Public Sector Consumption, Investment and Transfers
as share of GDP (%)

| | Consumption | | Investment | | Transfers | | Other | |
|------------------|-------------|--------|------------|-------|-----------|--------|-------|-------|
| | 1960 | 1975 | 1960 | 1975 | 1960 | 1975 | 1960 | 1975 |
| Belgium | 12.8 | 16.2 | 1.9 | 3.3 | 12.7 | 21.0 | 2.9 | 3.7 |
| Denmark | 12.7 | (23.0) | 3.3 | (5.0) | 8.0 | (13.5) | 1.1 | (1.0) |
| France | 12.9 | 13.2 | 2.3 | 3.4 | 17.2 | 23.6 | 1.2 | 0.8 |
| F.R. Germany (1) | 9.9 | (14.0) | - | - | 18.7 | (24.0) | - | - |
| Ireland | 12.1 | 19.5 | 2.8 | 6.0 | 9.8 | 22.7 | 2.8 | 4.8 |
| Italy | 12.0 | 14.0 | 3.1 | 3.2 | 13.0 | 22.2 | 2.2 | 2.6 |
| Luxemburg | 10.1 | 15.1 | 4.9 | 7.9 | 14.3 | 27.7 | 1.2 | 1.0 |
| Netherlands | 13.6 | 18.4 | 4.0 | 4.0 | 12.3 | 30.2 | 2.7 | 2.7 |
| United Kingdom | 16.4 | 22.9 | 3.3 | 7.9 | 8.5 | 14.7 | 4.0 | 4.0 |

() : estimate

(1) : social benefits included in transfers.

2.1.2. Structure and Growth of Public Sector Consumption

Public sector consumption and public investment affect more fundamentally the structure of the economies of the Community since they use real labour and capital resources which cannot then be put to other uses in the economy. This consumption re-appears as the "free" goods and services to the public with investment in parallel - for example, investment in school buildings alongside consumption expenditure on staff, materials and other educational services.

It is doubly unfortunate, therefore, that detailed information is not publicly available in many Member States about the allocation of public sector consumption expenditure to different functional activities. Such structures can be expected to vary somewhat between Member States, depending on the institutional arrangements for meeting their obligations and depending, also, on different policy emphasis.

Table VII gives some approximate indications, however, of the order of magnitude of such consumption expenditures for some Member States where the information is available.

Table VII
Structure of Public Sector Consumption
 (percentage of total public consumption)

| | United Kingdom | | Belgium | | F.R. Germany | | Italy | |
|-------------------------------------|----------------|------|---------|------|--------------|------|-------|------|
| | 1970 | 1975 | 1970 | 1975 | 1970 | 1975 | 1970 | 1975 |
| General public services | 13 | 13 | 16 | 15 | 27 | 26 | 27 | 27 |
| Defence | 27 | 22 | 25 | 22 | 24 | 22 | 16 | 16 |
| Education | 20 | 24 | 38 | 42 | 24 | 27 | 30 | 33 |
| Health | 20 | 21 | 1 | 1 | 5 | 6 | 6 | 5 |
| Social security and welfare | 5 | 6 | 7 | 8 | 6 | 6 | 7 | 7 |
| Housing and Community amenities | 3 | 3 | - | - | 3 | 3 | 3 | 3 |
| Other Community and social services | 2 | 2 | 1 | 1 | 3 | 3 | 1 | 1 |
| Economic services | 7 | 6 | 9 | 8 | 8 | 7 | 9 | 8 |
| Others | 3 | 3 | 3 | 3 | - | - | 1 | 0 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

It should be noted, however, that these figures are not a measure of the total resources devoted by the Member States to the fulfillment of social security and welfare needs. There is a contrast between the insurance-based health and pensions systems of most of the original Members of the Community and the systems of the New Members where there is a direct provision of such services by Government. Under the insurance system in the Federal Republic of Germany, for example, the Government lays down the rules for the financing and payment of medical services, but does not directly control their provision. Thus government expenditure on health is concentrated in current transfers rather than in public consumption. Table VIII illustrates this point further.

Table VIII

Government Expenditure on Education and Social Services (*)
(as a percentage of total Government expenditure
for the latest available year)

| | | Public Expenditure | Current Transfers | Other | Total |
|----------------------|--------------|-----------------------|----------------------|-------|-------|
| F.R. Germany 1973 | Health | 1.7 | 9.2 | 0.8 | 11.7 |
| | Other social | 3.4 | 35.0 | 4.6 | 43.0 |
| Italy 1975 | Health | 1.6 | 9.2 | 4.9 | 15.7 |
| | Other social | 3.0 | 33.3 | 2.3 | 38.6 |
| Belgium 1974 | Health | 0.3 | 8.2 | 0.5 | 9.0 |
| | Other social | 2.3 | 38.0 | 1.6 | 41.9 |
| U.K. 1975 | Health | 9.9 | 0.1 | 0.7 | 10.7 |
| | Other social | 5.1 | 20.6 | 7.5 | 38.2 |

(*) : Social security and welfare, housing and community amenities and other community and social services.

With regard to the future, there is little doubt that the demand for better medical and health services will continue to grow. The demand for education, on the other hand, is declining at the moment, following the fall in the birth-rate in the mid-1960's and, in some Member States, schools are closing and teacher training being re-structured.

2.1.3. Explanations of public sector growth and current problems

It has been seen that, between 1960 and 1975, the activities of the public tertiary sector have grown at current prices in all Member States at a faster rate than national product, with a particularly rapid increase in public transfers.

Such growth can be explained by two sorts of factors.

Firstly, an inevitable long-run increase in the relative cost of much government financed activity, even without a growth of numbers employed, in view of the limited possibilities for productivity increases.

Secondly, a growth in the volume of such activities due to :

- the growing demand for services provided directly or indirectly by the Government, notably health and education services;
- the desire for greater equality of incomes and the relief of poverty, finding expression in the extension of pension schemes and family allowances, and financial help for the handicapped and underprivileged;
- the growth of new collective requirements, with rising incomes and standards, for example in terms of environmental protection, tourism, or information.

In addition, since the recession began, counter-cyclical reactions have increased unemployment and welfare transfer payments, increased expenditure on job creation, training, and help for declining industries.

This has posed a series of questions, in particular :

- how far the present balance represents a real social preference, or how far it has resulted from a lack of adequate control, and whether there is any limit to the level of service to be provided out of public funds;
- how far this growth is consistent with overall macro-economic stability, and long-term expectations of our economies;
- how far such developments aggravate inflationary pressures and how far the limits of taxable capacity are appearing in the Member States, thereby inhibiting the future growth of the provision of public goods and services.

It should be noted that, since 1975, government expenditure has out-run revenue in all Member States, and all Government budgets have remained in deficit. For some countries this has posed financing problems and the threat of growing interest payments. This creates the fear of adding to inflation if indirect taxes are increased, or of depressing real incomes if direct taxes are raised.

Such practical consideration naturally mitigate against further increases in public expenditure but it should be recognized that, ultimately, the question of the appropriate level of public expenditure is one of political choice.

2.2. Public or private provision - the choice

While the growth of public expenditure has posed various practical problems, it is for the political system to balance Society's wishes in terms of the way in which certain goods and services are provided, and it is for political groups to seek support for alternative programmes and for the expenditure they entail. The range of possible outcomes in terms of public expenditure is very wide.

There is no economic "law" which says that government financed output should not fall below or should not rise above a given proportion of total economic output, or that it should not grow at more, or less, than a given annual rate. There is no fundamental reason why various goods and services should not be provided publicly rather than privately. Ultimately, such questions are ones of political choice.

However, there are economic factors to be taken into account, and the right of political authorities to persuade the public about the relative merits of different policy options are matched by certain responsibilities.

Since the longer term consequences of public expenditure trends may not be readily apparent in the immediate period, moreover a responsibility falls also on the executive and administrative bodies to point out any implications of such trends. The effects of policy initiatives may not always be as intended - for example, the economic and social effects of various measures designed to re-distribute income are not always readily identifiable.

Choices on all these issues are, however, most likely to reflect the true wishes of Society if they are conducted in an atmosphere where the full consequences of different options are clearly understood.

The growth of public sector expenditure has been rapid in recent years. It undoubtedly represents at least in part, a response to growing social needs and aspirations. Moreover, the longer run development of our economies is likely, on present trends, to involve an increasing share of collectively provided services, whether or not they are funded through the public sector as at present. However, in the short run, the rapidity of the growth of this expenditure has posed strains on the economic systems. Unless and until some of these are resolved, it could inhibit the further development of the public sector.

It is necessary, therefore, to turn first to the criticisms that have been made in order to assess their relevance and seriousness.

2.3. Short-term Public expenditure growth and optimal long run economic growth

One criticism of the recent growth of the public sector has been that it takes resources away from the private sector which largely produces the internationally tradeable goods and services. This growth of the public sector can, it is claimed, upset the overall stability of the economy, restrict the rate of economic growth, and thereby inhibit the achievement of the longer term social and economic objectives.

Such concern about economic stability and the ability of the economy to grow is not a reflection of a purely technical, or ideological, viewpoint in conflict with social objectives. Nor does it challenge the fact that such services meet real needs. Rather it reflects the view that Society's longer term welfare needs are not necessarily best served by meeting social problems only at the point and time when they occur. The health of the total economy must be maintained, and expanded, in order that social obligations can be more fully fulfilled in the future. This raises the difficult issue of time preferences, covering the interests of different generations.

It raises issues of present income distributions as well since the Community has a substantial proportion of dependent people to support - children and old people plus sick, handicapped - as well as aiding the least able, and providing help for less advanced countries.

Such people have real consumption needs, to be met from the production of the working population who, at most, account for 45 % of total population in the Member States. To permit, or encourage, too high a proportion of the active population, or the more able among them, to work on activities which do not produce tradeable physical goods or services can be to put at risk the future security and prosperity of both active and dependent members of the population.

If the public sector increases its claims on the economy without, for example, an equivalent reduction in private demand, this conflicts with other demands for resources in the economy. If neither private nor public consumption is reduced, this could deny the investment resources needed for the replacement of depreciating capital. In consequence, in a relatively short number of years, less might be available for collective domestic purposes than if a slower path had been followed, but a path which allowed for the maintenance of capital stock and for the incorporation of the benefits of technical progress in order to further growth.

This raises the question as to whether much more serious consideration and discussion of such issues could not help to identify a more "optimal" path for long run public sector growth, within the context of medium term projections, which could seek to balance and resolve the conflicting interests.

2.4. Inflation and taxation - financing public sector expenditure

Another criticism made of the high rate of increase of public expenditure has been that it has created inflationary strains as wage earners have struggled to maintain past rates of increase of private disposable purchasing power, or even past levels of disposable income, in the face of increased taxation. In some cases, it is claimed, taxation increases have been such that levels of real disposable income have fallen. Of course, the resources claimed by the public sector reappear as free public goods, services or transfer payments but, if the public fails to appreciate the value and cost of such services, or if they do not share in the benefits in any way, pressure can build up nevertheless.

The question is very contentious and there are undoubtedly many factors, domestic and international, behind the recent inflation. However, it is a fact that real disposable income increases in some Member States have been very low and that these did co-incide with inflationary increases. There is, moreover, evidence that, in certain Member States at least, the rates of marginal taxation, in particular, have now reached levels such as to encourage wide-spread evasion and severely limit the abilities of Government to further increase revenues. The interest on government borrowing has also become a substantial element in government expenditure.

In view of the serious constraints and difficulties concerning public finance, the question is posed as to whether alternative financial arrangements are not possible. For example, to what extent could more pricing, the use of tokens, the greater use of social indicators enable the social needs of different groups to be better identified and met, whilst avoiding some of the problems of finance? Such devices could also, perhaps, help in identifying needs and allocating resources, and be an incentive to better management.

Ideological as well as practical difficulties have inhibited the development of such approaches. Free market pricing as a means of allocating a given product between consumers with different income levels has been confused with the issue of pricing as a means of assisting in deciding on the appropriate levels of expenditure on different activities. Moreover, an egalitarian view concerning the provision of public services does not necessarily lead to an egalitarian result. There is much evidence that middle income groups frequently benefit as much, if not more, from many collective social facilities as do lower income groups.

There are, hence, many difficulties to be overcome. However, if the problem of developing criteria for choosing between alternative ends is not faced, and if some charging for certain services is not permitted, this could block the expansion of certain public activities, some of which represent significant areas of future increases in demand.

2.5. Public Sector Direct Job Creation

The growth of public expenditure has brought with it increased employment. However, the public sector has a special role in job creation at present since one of the fundamental roles of the modern State is to ensure that there are adequate employment opportunities for all people seeking a job. When economic circumstances temporarily deny this, the State falls back on its alternative of providing unemployment insurance or other social security insurance.

In such circumstances, the State is faced also with the alternatives of using its budgetary possibilities to stimulate the creation of jobs in the private sector, or to provide a job directly. Public sector job creation has not always been carried out in the most humane or progressive ways - as illustrated by the 18th and 19th century work-houses and even some of the schemes of the 1930s. Today, the approach is more positive but two questions still remain - will the extra benefit to the individual and society of an extra job outweigh any extra costs on the public purse which falls back on society as a whole? And how does the employment created in the short run relate to the longer run development of public sector employment?

There are many arguments on both sides. In favour of direct job creation are :

- unsatisfied needs in understaffed basic services
- low cost to society because expenditure offset by savings of unemployment compensation
- direct effect compared with indirect effect of alternative
- benefits to the individuals socially and psychologically.

Against, it can be argued :

- benefits only cosmetic if there is no real demand for the job that is created
- costs may be high if schemes attract unregistered unemployed or require capital or consumption expenditure

- it weakens the pressure on governments and social partners to take the necessary action to re-establish long term growth, stability and full employment. It can upset government priorities and inhibit necessary structural re-adjustments
- problems of duration and reversibility; and dangers of creating a workhouse ghetto mentality
- practicability since, while central government may take a policy decision, regional or local government may be able or unwilling to introduce schemes.

On balance, the conventional view is developing that job creation on a limited scale could be a useful contribution, particularly in a period such as the present where economic recession co-incides with a growing labour force. However, there are doubts as to how far such job creation can be developed

by an extension of posts within the existing framework of the public sector, for example, in hospitals and basic services, where shortages would appear to exist. Often, too, the needs that have to be met have to be met permanently or not at all - social visits to old people, for example, raise expectations that these will continue. Once started, they cannot be stopped abruptly. From the supply side, also, many such shortages reflect inadequate salaries, poor working conditions, or shortages of specific skills. The unemployed are either entitled to refuse, or unable to take up, such posts.

There may be conflicts, too, between the objective of providing employment and the objective of meeting social needs. It is important also to evaluate the longer term consequences of such an approach. When there is only one way of meeting a given demand - such as in traditional nursing or traditional school teaching - an increase in staffing is necessary in order to bring an improvement in the quality of service received by the customers.

However, the marginal improvement in service brought about by each additional nurse or teacher will become very small at a certain point. Also, unique "production functions" are rather rare - there will normally be alternative ways of meeting the demand perhaps requiring more training or capital investment, but ultimately proving more efficient.

From the experience of existing job creation schemes two tentative conclusions are emerging. In terms of the supply of jobs, emphasis must be put more on the development of better quality services and newer services in order that public sector job creation can then be more easily integrated into longer term developments.

Secondly, in terms of the types of schemes developed, if they are to have employment benefits, they must be related to the particular needs of the workers concerned. Blanket job creation schemes cannot cope with the differing needs of young people, disadvantaged young people, long term unemployed or older workers. Work experience may be appropriate for some, training for others, while some will essentially require sheltered employment at least for some period of time. Hence, such schemes cannot easily be seen as a way of "mopping-up" large numbers of unemployed people, on any permanent or semi-permanent basis.

OCCUPATIONAL STRUCTURE OF EMPLOYMENT

The occupational structure of employment within the tertiary and public sectors differs significantly from employment elsewhere in the economy in a number of ways, in particular in the proportions of men and women employed, in the structure of hours worked, in the number of self employed, and in the forms and levels of qualifications. Table IX illustrates the relevant proportions of men, single women and married women for the four principle groupings within the tertiary sector. Table X sets out the structure of hours worked indicating clearly the much greater extent of less than full week working that exists in certain services. Table XI provides some information on employment status within the sector.

This structure of tertiary employment raises a number of occupational or manpower issues. Firstly, "tertiary" jobs, whether in the tertiary sector proper or in manufacturing, seem to be more attractive than jobs which are directly related to the manufacturing process and which enjoy a lower level of social prestige. This can have major implications for the supply of different skills within the labour force, for example by discouraging the acquisition of manual skills in the traditional crafts, and bring into question the relative terms and conditions of employment - earnings, conditions of work, levels of responsibility and so on - which exist between these different types of job.

Table IX
Employment within Tertiary Sector by Sex
(Community figures - 1975)

| | Men | Women | Married Women | Total |
|-------------------------|-----------|-----------|---------------|--------------|
| Commerce | 52 | 48 | 29 | 100 % |
| Banking, Insurance | 55 | 45 | 24 | 100 % |
| Other Services | 35 | 65 | 38 | 100 % |
| General administration | 69 | 31 | 18 | 100 % |
| Total Employment | 65 | 35 | 10 | 100 % |

Source : Labour Force Sample Survey 1975

Table X

Structure of Hours worked in Tertiary Sector
(% working less than 30 hours per week)

| | Tertiary | All sectors |
|----------------|----------|-------------|
| Belgium | 14 | 10 |
| Denmark | 25 | 18 |
| F.R. Germany | 15 | 12 |
| France | 18 | 15 |
| Ireland | 13 | 8 |
| Italy | 11 | 8 |
| Luxemburg | 10 | 9 |
| Netherlands | 21 | 17 |
| United Kingdom | 27 | 19 |
| Community | 19 | 14 |

Source : Labour Force Sample Survey,
Eurostat 1975.

Table XI

Employment Status in Tertiary

| | 1975 % | | Family workers |
|-----------------------|--------------------------------|-----------|----------------|
| | Employers and Self-employed | Employees | |
| Belgium | 19 | 75 | 6 |
| Denmark | 10 | 87 | 3 |
| France | 12 | 85 | 3 |
| F.R. Germany | 11 | 86 | 2 |
| Ireland | 14 | 84 | 2 |
| Italy | 23 | 70 | 6 |
| Luxemburg | 13 | 84 | 3 |
| Netherlands | 10 | 87 | 2 |
| United Kingdom | 10 | 90 | - |
| EUR - 9 | 13 | 84 | 3 |
| EUR - 9 (industry) | 7 | 92 | 1 |
| EUR - 9 (agriculture) | 47 | 26 | 27 |

Source: Labour Force Sample Survey, Eurostat 1975.

There are further concerns about public sector employment. The first is to ensure greater flexibility in the terms or forms of recruitment, in order to avoid it becoming a closed, protected, or segmented labour market isolated from the private part of the economy. It has become clear that the traditional forms of lifetime appointments and lifetime careers are not appropriate for the wider range of jobs in the public sector which increasingly require openness and interchange with other parts of the economy.

Such questions are related, too, to the problems of democratic decision making in the public sector and the need to balance the interests of customers, the state and the professions within a given service. In particular there is a need to make the operation of public services more responsive to public demands and less "supply dominated" as professional interests do not necessarily co-incide with consumer interests.

SUMMARY

The Tertiary Sector, including the Public Sector, has shown a continuous growth during the history of the Community, and now accounts for some 40-45 % of total employment.

This paper, established as part of the follow-up to the Tripartite Conference, seeks to explain this growth, to look at the prospects for the future, and to identify certain key issues including questions concerned with the recent rapid increase in public sector expenditure.

The Tertiary Sector, defined to include commerce, banking and insurance, other services and public services (excluding public utilities and transport and communications) is highly heterogeneous, which poses problems for the development of adequate analyses. This difficulty is compounded by the lack of statistics available from Governmental sources. As a result, we know for less about the tertiary sector than we do about the manufacturing sector. The paper, nevertheless, seeks to make a first analysis, and to prepare the ground for future work.

Tertiary Sector - past growth, future prospects

Over the period 1960-1975, employment in services grew by some 3 % a year, as against the decline of 4 % a year in agriculture and mining, and the growth of industrial employment of less than 0.5 % a year.

This growth of services can be explained, in part by the direct growth of services to households, in part by the growth of services complementary to the increased ownership of physical goods and, in part by the growth of intermediate professional or business services to manufacturing companies.

Of all service activities, those concerned with health, education, business services, banking and government administration have shown the fastest growth of employment. Lowest employment growth in services has been in retail distribution - no more than 0.5 % a year.

It is difficult to envisage major changes in the relative growth of tertiary employment in total employment - although poor general economic prospects would limit the absolute growth. Vulnerable areas of employment probably include banking and commerce with securer prospects in areas of employment related to tourism, leisure, environmental improvement and in areas where specialised household services develop to cater for fuller and more complex working lives.

The Commission services are studying such developments further to see how far the trends can be identified and projected.

Tertiary productivity

Productivity growth, measured as growth of value added per employee, is low in the services - 2.5 % a year over the period 1960 to 1970 as opposed to 4.3 % for the whole economy.

Such statistics can be misleading, however, since many measures of service output are based only on wage costs and fail to take account of quality changes in the services provided. Investment is not the explanation, since statistics on capital stock show that the service sector as a whole is no less capital intensive than the manufacturing sector and, in recent years, investment growth has been higher in services.

Public Sector

Public Sector employment has grown like other service employment, but the paper treats this question in the wider context of public expenditure growth.

There has been a strong upward trend in total government expenditure from 1960 to 1973 with an acceleration since the recession. Public expenditure has thereby reached a level equivalent to 50 % of national output. Much of this expenditure represents transfers of income that has already been produced. The public sector does, however, employ some 20 % of resources directly in the provision of goods and services, although this varies between Member States. Some Member States provide certain services directly e.g. health, whereas others set the legislative framework for health provision, make income transfers and leave it to the private sector to actually supply the service.

The growth of public expenditure reflects in part a desire for a greater public provision of certain goods and services and for a greater equality of incomes and a greater relief of poverty. However, its growth has posed financial problems in all Member States.

In particular, public sector growth has been accused of reducing overall growth potential, thereby penalising the interests of future generations, and leading to inflationary pressures as wage earners have attempted to maintain real disposable income increases which have been eroded by the growth of taxation to meet the public expenditures.

The issues are both political and economic and cannot easily be resolved. However, more information about the structure of public spending and employment, which is currently very limited, and more serious and open discussions of issues could help in seeking a more "optimal" path for long run public sector growth.

The methods of financing certain collective public services may need to be re-examined. At the moment, the further provision of public collective services - for which there appears to be a growing demand - is blocked by the budgetary difficulties of the Member States. Charging for certain services or the greater use of tokens, and the use of social indicators to measure customer satisfaction, could all help in ensuring that different public expenditures reach the people for whom they are intended, be they the population as a whole or special groups.

The public sector has a special role in job creation at the present time since the State can use short-term job creation as an alternative to the payment of unemployment benefits.

Blanket job creation schemes cannot, however, cope with the differing needs of young people, disadvantaged young people, long term unemployed or older workers and schemes need to be carefully developed. It is difficult to find schemes which fulfill all criteria - meeting social need, not involving high capital costs, helping in the acquisition of skills. Moreover, such schemes would need to be carefully related to the longer term development of public sector employment to avoid the public sector being tainted as a work-house ghetto.

Finally, the structure of employment in the tertiary and public sector is very different from the rest of the economy - a greater concentration of women, more part-time work and, in some sectors, a relatively high proportion of self-employed. The implications of this in terms of labour market development and training needs further consideration. Also the whole question of the status of public sector employment needs re-appraisal in the light of the development of newer forms of public sector jobs, very different from those found in the career structures of traditional civil servants.