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Book Review

[Book Review of] Elfring, Tom : Service sector employment in advanced economies : a comparative analysis of its implications for economic growth, Aldershot, Gower, 1988

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Competitiveness”, “Inward Direct Investment from the USA and Europe’s Technological Competitiveness” and “The Changing Role of MNEs in the Creation and Diffusion of Technology”) are directly related to the general theme of the collection. All other essays mainly deal with some side-aspects. After some introductory remarks, the author first presents an overview of the main factors influencing the growth of international business over the past century (Ch. 2). The following chapter takes a historical look at the changing characteristics of international technology transfer undertaken by multinational enterprises. Chapters 4–6 contain the central part of the collection. It is shown that technology acts as an important means of improving competitiveness and that foreign direct investment is the main institutional mechanism for the international transfer of technology. In Chapter 7, the author examines the factors making for the decentralization of research and development activities undertaken by pharmaceutical multinational enterprises and the choice of country in which research and development is located, whereas Chapter 8 turns its attention to the way in which the technology transfer by multinational enterprises to the newly industrializing countries has affected the technological competitiveness of the investing countries. Chapters 9 and 10 focus on the structural adjustment problems of the United Kingdom and examine the way in which outward and inward direct investment has aided and inhibited adjustment. Finally, Chapter 11 discusses the role of government in influencing the location of economic activity by multinational enterprises, whereas Chapter 12 focusses particularly on the way in which multinational enterprises can promote the integration of national economies.

In summary, “Explaining International Production” may be of value not only to economists, international business analysts and policy-makers who are interested in one of the most skillful theories of international production, but also to economic researchers who have specialized on international business and who already know a substantial part of the author’s work included in this collection, whereas “Multinationals, Technology and Competitiveness” may be of value to economists who want to have an easy access to those essays of the author dealing with a relatively broad spectrum of themes from international production to technological development and international competitiveness.

Jürgen Stehn

Elfring, Tom, *Service Sector Employment in Advanced Economies. A Comparative Analysis of its Implications for Economic Growth*. Aldershot, Brookfield, Hong Kong, Singapore, Sydney 1988. Gower Publishing Company Ltd. XII, 238 pp.

The continued employment growth of the service sector is an important stylized fact of the long-run economic performance of the industrialized countries. This fact has attracted the attention of economists and policymakers, especially since it became obvious that almost all additional employment opportunities during the eighties were created in the service sector. Stagnating employment and rising unemployment in the European economies during the mid-seventies to the mid-eighties, and at the same time an employment miracle in the US with nearly 20 mil. additional jobs spurred the interest to examine the causes of the rise of the service sector. This is exactly what Tom Elfring’s book concentrates on: The shift to services in seven OECD countries between 1960 and 1984 and an assessment of the role of this sector for economic growth (p. 1).

As Elfring points out, large parts of his investigation deal with the development of internationally comparable estimates, especially productivity estimates. He labels his

methodology a Kuznetsian approach because of its emphasis on concepts and measurement and its critical attitude towards purely deductive theory that does not lead to empirically testable hypotheses. While almost all applied economists will feel sympathetic with such a research strategy, it remains to be seen which empirically testable hypotheses the Kuznetsian approach as understood by Elfring will deliver. Elfring seems to believe that his approach will provide "... new insights on the arrival of a predominantly service economy, largely because it creates new analytical material" (p. 3). But this is only possible if there is a theoretical framework which allows for an organization and interpretation of the new empirical material.

Elfring's book starts with a historical chapter on the origin and the development of the concept of a service sector (Ch. II). Chapter III contains an analysis of what can be called the stylized facts of structural change. That is, it describes the empirical evidence for the sectoral change in employment, expenditures, output, prices, and productivity; and it discusses measurement problems. However, although Elfring's references include the seminal theoretical paper on service sector employment growth [Baumol, 1967], his book does not explicitly present a theoretical framework for his analysis. Without such a reference system it is rather difficult for a non-specialist in the field of structural analysis to follow the discussion in Chapter III, since it becomes not clear how one should evaluate the relative importance of the topics that are discussed and how they are interrelated.

Elfring claims that his aggregated and disaggregated results together enable him "... to examine the importance of each of the three basic underlying causes of the employment shift to services" (p. 5), by which he means the slower productivity growth in the service sector as compared to other sectors, an income elastic demand for services, and a rising intermediate demand for services. Elfring applies this approach at the end of Chapter V (p. 140) where he tries to evaluate the underlying causes of the rising employment share of the service sector. While the lagging productivity hypothesis is not a controversial issue from an empirical point of view – last but not least thanks to the careful work of Elfring documented in Chapter IV on productivity levels and in Chapter V on disaggregated productivity growth within the service sector – this is not true for the other two hypotheses. Given all the available evidence, it is not clear whether the real expenditure shares for services rise, as Elfring seems to believe. As an example, in one of his references [Inman, 1985a] there is a chapter by Robert Summers [1985] (which is not listed in Elfring's references) where *constant* real expenditure shares of services are reported. Furthermore, an increase in the final demand for services is not *directly* related to the Kuznets-demand-hypothesis. This hypothesis is related to the preference structure of consumers, or to income elasticities, a term which Elfring avoids throughout his book. For instance, a rising final demand for services may simply reflect shifts in the socio-demographic structure of the population or a rising female labor force participation, but not necessarily an income elastic demand for services. Here the reader misses a discussion of the empirical evidence on income and price elasticities of the demand for services. How estimates of such elasticities could be easily incorporated into an analysis of service sector employment growth is shown by Inman [1985b].

Some conceptual problems arise in the context of the relevance of intermediate demand for services. Elfring considers three subsectors,¹ for which he expects a major impact of intermediate demand on service employment growth. He considers it plausible that 50 to 75 percent of the employment growth of these subsectors were the result of demand by other sectors (p. 142). That is, multiplying the actual employment growth of these subsectors by the imputed weights gives Elfring the estimated impact of the

¹ These subsectors are: business and professional services; finance, insurance, and real estate; wholesale trade, transport and communications.

intermediate demand effect on the rise of the overall share of service employment. This is not a convincing procedure. The imputed weights are ad hoc numbers, as Elfring admits, and there is no evidence presented that the demand from “other sectors” actually originates outside the service sector. At least for Germany there is empirical evidence that the observable increase in the intermediate demand for services is more or less an intra-service sector phenomenon [Schmidt, Suhr, 1990]. If this holds for the other advanced economies as well, then the overall shift towards service sector employment cannot be explained by an increase in intermediate demand for services.

While Elfring’s evidence for the final demand hypothesis is not necessarily related to the theoretical concept of income elasticities as put forward by Kuznets and others, and the evidence presented for the intermediate demand hypothesis is based on rather crude ad hoc procedures, his evidence presented for the relevance of the lagging productivity hypothesis crucially depends on the chosen time period 1973–84. Elfring computes the contribution of the lagging productivity of the service sector to its employment growth by dividing the percentage point change of the share of value added (at constant prices) of services through the percentage point change of the employment share of services. Subtracting this number from 1 gives that part of the growth in the share of service sector employment that is “explained” by lagging service sector productivity (pp. 143 f.). Given this procedure, it is no wonder that “. . . some data judgements (had) to be made” (p. 143). If Elfring had considered the whole period from 1960–84 or if he had considered a relatively constant share of value added (at constant prices) of services, as suggested by the empirical work of Kuznets [1966] and others, then his concept would have indicated that lagging productivity alone accounts for nearly 100 percent of the relative growth of service sector employment. In the absence of hypotheses that postulate a shift away from services this wouldn’t leave any room for alternative hypotheses explaining the observable shift towards service sector employment. The reason that his calculations do not reveal this implicit “overexplanation” of service sector employment growth is the restriction of the analysis to the time period 1973–84, where the share of real value added of services increased. Using the data for the period 1960–73, where service sector employment has also grown (Table V.1, p. 107), Elfring’s concept would indicate an explanatory power of the lagging productivity hypothesis higher than 100 percent, because the real value added share of services *declined* during this period (Table III.4, p. 35).

Taken together, Elfring’s “comprehensive accounting approach” (p. 248) does not clarify whether his three hypotheses can actually contribute to an explanation of the shift towards service sector employment. This task would require a theoretical framework which relates the demand hypothesis and the productivity hypothesis as formulated by Kuznets to the growth path of service sector employment. Elfring’s book contributes to the empirical evidence in favor of the productivity hypothesis by a careful and comprehensive analysis of international statistics. But it does not succeed in estimating the relative importance of this hypothesis and others for an explanation of the observed structural change in advanced economies.

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Erich Gundlach

Gans, Oskar, Ingo Evers (Hrsg.), Handbuch der volkswirtschaftlichen Beratung. Baden-Baden 1990. Nomos Verlagsgesellschaft. 2 Bände, Loseblatt-Ausgabe.

Die Qualität volkswirtschaftlicher Beratung in der Entwicklungspolitik hängt entscheidend mit davon ab, inwieweit empirisch gesicherte Erkenntnisse der Entwicklungsökonomie den Beratern „vor Ort“ in einem kontinuierlichen Prozeß vermittelt, im Lichte praktischer Durchsetzbarkeit überprüft und zusammen mit den Entscheidungsträgern in Politikmaßnahmen umgesetzt werden können.

Diesem anspruchsvollen Ziel dient die vorliegende Loseblattsammlung, die in zehnjähriger Tätigkeit von sechsundzwanzig Autoren in enger Zusammenarbeit mit der Gesellschaft für technische Zusammenarbeit (GTZ) erstellt wurde. Ihr Schwerpunkt liegt auf der Vorstellung und Diskussion ziel-mittel-konsistenter Wirtschaftspolitik einschließlich der Sektorpolitiken sowie gesamtwirtschaftlicher Planung auf Makro-, Sektor- und Projektebene.

Das Werk gliedert sich in vier Teile: Entwicklungspolitik und Planungstheorie (A), gesamtwirtschaftliche Planung (B), Planung von Projekten und Programmen (C), Sektorplanung (D) sowie raumbezogene Planung (E). An sie schließen sich fünfundzwanzig Anhänge an, in denen zentrale wirtschaftspolitische und planungsrelevante Konzepte wie effektive Protektion, realer effektiver Wechselkurs, Strukturanalyse, Kosten-Nutzen-Analyse, dynamische Verfahren der Investitionsrechnung sowie makro- und sektorspezifische Planungsmodelle vorgestellt und in Fallanalysen vertieft werden. In seiner Qualität und inhaltlichen Tiefe vereinigt das Werk zweifellos die Arbeit mehrerer Lehrbücher über die Rolle der Wirtschaftspolitik und Planung im Entwicklungsprozeß zu einer eindrucksvollen Gesamtschau, in der der Planungsaspekt überwiegt.

Im Lichte der Aufgabenstellung, das heißt Verbesserung der Qualität wissenschaftlicher Beratung in der Entwicklungspolitik, müssen an ein derartiges Werk jedoch andere Fragen gestellt werden als an ein Lehrbuch mit engem Empiriebezug. Diese Beratung kämpft heute in der Regel weniger mit einem Wissensdefizit über die Richtung entwicklungsfördernder Politikmaßnahmen als mit Defiziten politischer Kommunikation und Durchsetzbarkeit sowie tiefgreifenden Verzerrungen und Krisen in der Ausgangssituation. Dies gilt gerade für den Typus von Ländern, den das Werk konzeptionell wie beispielhaft besonders anspricht: eher kleine offene Niedrigeinkommensländer „afrikanischer“ Prägung als Mitteleinkommensländer „ost- und südostasiatischer Provenienz“, deren gesamtwirtschaftliche Stabilität und Humankapitalausstattung weit fortgeschritten ist.

Angesichts von Durchsetzungsproblemen und krisenhafter Ausgangssituation mag sich der Berater mehr Antworten auf die Fragen erhoffen, wie die Wissenschaft Reformwiderstand und -unfähigkeit erklärt (Stichwort: politische Ökonomie), welche Therapien sie unterbreitet (Stichwort: externe Bindung wirtschaftspolitischer Maßnahmen zur Erhöhung der Glaubwürdigkeit und interne Transparenzverbesserung und