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Chapter Title: Reasons for the Relative Growth of Service Employment

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tween the two sectors has been slightly larger, 1.7 per cent per annum.

Until 1920, the shift to services could be explained entirely by the movement from agricultural to non-agricultural pursuits; employment in the goods sector, excluding agriculture, rose as rapidly as in services. After 1920, however, the rates of growth diverged; and, as we saw in the first section of this paper, in recent years employment in the non-agricultural goods sector has begun to decline absolutely as well as relatively.

REASONS FOR THE RELATIVE GROWTH OF SERVICE EMPLOYMENT

Allan G. B. Fisher was one of the first economists in this century to emphasize the strength of the trends we are examining in this paper. His book, *The Clash of Progress and Security*, published in 1935, is perceptive and contains much that is relevant to the problems of 1965.[5]

Colin Clark's writings on this point are better known, particularly his often-quoted conclusion, "We may well now turn to examine what much careful generalization of available fact shows to be the most important concomitant of economic progress, namely, the movement of working population from agriculture to manufacture, and from manufacture to commerce and services."[6]

Neither Fisher nor Clark offered a systematic analysis of the factors responsible for the growth of services; both tended to stress sector differences in income elasticity and changes in productivity. Professors Kuznets and Stigler have questioned the existence of significant differences in income elasticity,[7] and a recent econometric analysis questions the alleged difference in productivity.[8] This section considers some evidence concerning both matters.

INCOME ELASTICITY OF DEMAND

When the income of a family or a nation rises, so does its demand for most goods and services.[9] The ratio of the percentage increase in demand to the percentage increase in income is referred to as the "income elasticity." When the percentage increase in demand is equal to the percentage increase in income, the income elasticity is unity. Individual items of consumption that have elasticities greater than unity are said to have elastic demand, while those with elasticities below unity are characterized as inelastic. The question at issue here is whether services, in the aggregate and at the individual industry level, face demands that are more elastic than the demand for goods.

A clear-cut answer to this question is difficult to obtain for a number of reasons. Some of the most important are:

1. To calculate elasticities, we need

[5] London: Macmillan & Co., 1935. E.g., "When we reach a level of wealth where the provision of personal services becomes economically important, the importance of the limitations of physical natural resources in the narrow sense steadily diminishes. We are then much more concerned with the exploitation of human capacity (which is also perfectly 'natural') and the maintenance of a moving equilibrium in a progressive economy comes to depend more and more upon the effective organization and education of human capacity" (p. 38).

[6] *The Conditions of Economic Progress* (1st ed., London: Macmillan & Co., 1940), p. 176.

[7] Cf. Simon Kuznets, "Quantitative Aspects of the Economic Growth of Nations, II, Industrial Distribution of National Product and Labor Force," *Economic Development and Cultural Change*, Supplement, July, 1957; and George J. Stigler, *Trends in Employment in the Service Industries* (Princeton, N.J.: Princeton University Press [for the National Bureau of Economic Research], 1956), p. 161.

[8] Phoebus Dhrymes, "A Comparison of Productivity Behavior in Manufacturing and Service Industries," *Review of Economics and Statistics*, XLV (February, 1963), 64–69.

[9] The exceptions are often referred to as "inferior" goods, e.g., potatoes.