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**THE ROLE  
OF THE TERTIARY SECTOR  
IN REGIONAL POLICY**

**Summaries**

**of the national reports  
and of their comparative study**

**No. 7 — January 1980**

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**COMMISSION OF THE EUROPEAN COMMUNITIES**

**DIRECTORATE-GENERAL FOR REGIONAL POLICY**

Directorate Coordination, programmes, studies and analyses — Studies Division

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In 1978 the Commission financed a study on "the role of the tertiary sector in regional policy" which was carried out by a working group of independent experts from all the Member States of the Community, under the chairmanship of Mrs. J. Marquand of the UK's Centre for Environmental Studies. The results of the study have been condensed in a comparative report to be published in the series "Regional Policy Studies".

This comparative report is based on nine «national» reports, the summaries of which the Commission thinks useful to make available within its serie «Internal Documentation on Regional Policy in the Community». All the national reports are based on the answers to a questionnaire drawn up by the Centre for Environmental Studies, and attached in annex.

These summary reports are available in English, German and French.

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The present study does not necessarily reflect the views of the Commission of the European Communities on the subject matter of the study nor does it necessarily anticipate the future attitude of the Commission on the topic.

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## PREFACE

The study of the role of the tertiary sector in the regional policy of the Community in all EEC Member States, of which these are the summaries, was initiated by the EEC Commission in the second half of 1977. The Centre for Environmental Studies (CES), London was commissioned to co-ordinate the work and to prepare the Comparative Report in consultation with experts from each of the Member States. It appointed me to undertake this task.

Nine national reports, each including a section on analysis, a listing and appraisal of national policies, and a bibliography, were prepared by the members, a group of experts drawn from the nine Member States.

The authors of the national reports were :

Belgium	:	Prof. H. Vander Eycken (Vrije Universiteit Brussel)
Denmark	:	Mr. P. H. Matthiesen (Peter Matthiesen A/S, Herlev)
France	:	M. A. Valeyre (La Fondation Nationale des Sciences Politiques, Paris)
Germany	:	Prof. G. Strassert (Universität Karlsruhe)
Ireland	:	Dr. M. J. Bannon and Mr. J. Eustace (University College Dublin)
Italy	:	Prof. L. Frey (Universita di Parma)
Luxembourg	:	M. R. Molitor (Chambre de Commerce) and M. V. Reyter (Banque de Suez)
Netherlands	:	Prof. N. Tiemstra (Katholieke Hogeschool Tilburg)
United Kingdom	:	Mrs. J. Marquand (Université de Louvain-la-Neuve and Centre for Environmental Studies)

The group of experts held five meetings between November 1977 and September 1978, under the auspices of the EEC Commission in Brussels, which were chaired for CES by Prof. C. Foster (twice), Prof. G. Cameron (University of Glasgow - once), and Prof. P. Willmott (twice). Prof. J. B. Goddard (University of Newcastle) also attended the meetings in his capacity as consultant to the project at CES. In the earlier meetings, the form and content of the national reports were discussed; in the later ones the successive drafts of the Comparative Report were taken.

All the members of the Group subscribe to the views put forward in the Comparative Report.

JUDITH MARQUAND  
London  
November 1979



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THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

COMPARATIVE ANALYSIS

S u m m a r y

by

Judith Marquand

Chapter I

INTRODUCTION : RECEIVED VIEWS OF THE SERVICE SECTOR

The comparative report examines critically the basis of existing policy towards the service sector, drawing on evidence presented in nine national reports. It appraises the present approach of the EEC and member states and suggests in what directions the EEC Regional Fund Regulation might be modified.

2. The nine national reports were written as far as possible in terms of European and International industrial and occupational classifications, covering NACE Divisions 6-9 by industry and ISCO Groups 0-5 by occupation. Because of differences of national classifications, many of the comparisons have to be qualitative rather than precisely quantitative in nature.

3. A distinction used extensively is that between popular and consumer services. Producer services are those services which are provided to other firms whilst consumer services are final services provided directly to consumers. Especially where producer services are concerned, the distinction between the locational behaviour of higher managerial and professional occupations and other more routine service occupations emerges as important. The distinction between new and traditional services is discussed briefly. Whether there is a useful distinction to be drawn between basic and induced services is discussed, implicitly and explicitly, throughout most of the first seven chapters of the report.

4. The EEC Regional Fund Regulation restricts aid to services to "those concerned with tourism and those which have a choice of location. Such activities should have a direct impact on the development of the region and on the level of employment". The rationale underlying these restrictions, which appears explicitly in material relating to some Member States' policies but only implicitly in material produced by the EEC Commission itself, appears to derive from export base theory, with its distinction between the basic



industries in a region which export a significant proportion of their output and other industries which are held to be induced as a consequence of the local markets created by the basic industries. It is argued that industries which have no choice of location will be successfully induced if and only if an adequate market develops. Thus the task of regional policy is to attract industries which have a choice of location to the regions which are to be developed.

5. As stated, this is the crudest form of export base theory. It, like policies in many member states, makes no allowance for the identical economic role of import-saving industry. But an import-saving industry may well have mainly local markets and it need not be footloose.

6. Moreover, although exporting plays an important role in growth, especially for small regions, it is by no means the only aspect of industrial development which is relevant to moving towards sustained growth. Some activities may be particularly helpful in inducing other activities to move into a region or in ensuring that emigration from a region, particularly of highly trained personnel, is reduced. It will be argued that it is inappropriate to regard services as closely analogous to manufacturing industry; their location is closely related to urban structure and the role of some service industries is more akin to that of infrastructure than to that of manufacturing.

7. Five arguments are sometimes used why aids to services should be more restricted than aids to manufacturing :

- i) It is sometimes argued that services are transitory in nature providing welfare gains of very limited duration, less than those provided by goods.
- ii) It is sometimes argued that service productivity is lower and has less scope for increase than productivity in goods-producing industries.
- iii) It is argued that services which serve only the local population and are not import-saving do not contribute as significantly to development of a region as do industries and services which export or reduce the need for imports.
- iv) It is argued that services which serve only the local population and are not import-saving, for which the demand can only be satisfied by local provision, will be called forth locally to the extent justified by the market, so that to increase supply of such services would only reduce returns to the service industries existing already.
- v) If it is accepted that the local market is limited, it can be argued that only industries with a significant proportion of their markets outside the region are worthy of aid and it can be argued that such industries are able to choose between a range of locations, so that "footlooseness" becomes an indicator of worthiness for aid.

8. These propositions are examined in detail in chapters 2-7.

9. We note also the contrast between regional policies appropriate in periods of full employment and those appropriate in periods such as the present, when the expansion of employment is of paramount importance. Previously, labour supply in congested regions was an overriding constraint on expansion. The more that the congestion was relieved, the more that

national economic policies could allow the general level of demand to be raised. But in circumstances of widespread unemployment, the first function of regional policy is to ensure that sustainable jobs are created (or maintained) in areas of greatest need. Policies should no longer be appraised in relation to the difference which they make to the level of full employment optimum but on the basis of choice between a range of second best positions which may be attainable.

10. Two strands of policy towards regional development can be distinguished in both periods. The first tends to be associated with belief in the predominance of manufacturing industry, whilst the second views regional policy more broadly as a matter of revitalising or developing regions across a wide range of activities. Because of the improbability that manufacturing industry will substantially increase its employment in the medium term even if output expands, the first approach appears inadequate today. How far are there prospects that the service sector can expand to fill the gap?

## CHAPTER 2

### THE SERVICE SECTOR AS EMPLOYER

In every member state in the EEC, the tertiary sector has grown, both in terms of numbers employed and in terms of its share of the labour force, throughout the 20th century if not longer. Over the last two decades, the share of the tertiary sector has been of the order of 40-50% in every member state. The share of the primary sector has fallen everywhere, to a range from 22% employed in agriculture in Ireland in 1975 to less than 3% in the United Kingdom. The growth in employment in tertiary sector industries has been particularly rapid in all countries in the last twenty years. In 1960 the highest proportion employed in the tertiary sector was 46.4% in the United Kingdom and the lowest was 31.5% in Italy. By 1975, 60% of employees were in tertiary sector industries in the Netherlands and the lowest proportions were 47% in Germany, Italy and Ireland. Tertiary sector employment exceeded secondary sector employment in 1975 everywhere except in Luxembourg and Germany.

2. In all member states, the percentage of employed men who worked in tertiary sector industries lay between 40 and 50% in 1975. The proportion of employed women who worked in tertiary sector industries varied much more widely, from 50% in Italy to 76% in Denmark. In Denmark and the UK the number of women employed in the tertiary sector exceeded the number of men in 1975. By contrast, Italy employed only 40% as many women as men in the tertiary sector.

3. Employment in tertiary sector occupations appears to have grown at about the same speed as that in tertiary sector industries. The growth of the number of women in tertiary occupations has been faster than the growth in the number of men except in Germany. The concentration of women employees in tertiary sector occupations is even more pronounced than their concentration in tertiary sector industries.

4. Wherever the data are available, the proportion of part-time workers has been increasing since 1960, reaching as much as one third among women in Denmark and the United Kingdom in the 1970s. Part-time working is more prevalent in the tertiary sector than in the whole economy.
5. Similarly, self-employment is more common in the tertiary sector than in the economy as a whole for all member states except Denmark, France and probably Ireland. Proportions of employers and self-employed vary widely from one member state to another, ranging from 22% of tertiary sector workers in Italy in 1975 to only 8% in the United Kingdom.
6. There are some broad similarities between member states as to which parts of the tertiary sector have been growing most since the 1960s. Insurance, banking, financial and business services have everywhere grown very fast indeed. Professional services and public services such as education and health have usually grown almost as fast and in some cases even faster. Employment in commerce and distribution and in transport and communication (except in Ireland) has everywhere grown more slowly than employment in general.
7. Comparison at more detailed levels is impossible until a very fine breakdown indeed is reached. Accounts on a variety of bases at a more detailed level for each member state are found in the national reports.
8. Changes in employment in different sectors allow us to examine argument (i) of chapter 1. Only if a preference for services reflects a market distortion in their supply can it be argued that the contribution of services to welfare is less valuable than that of goods. Arguments based on the transitory nature of services are irrelevant; the goods themselves are valued for the stream of services they yield. There is no clear widespread evidence that tertiary sector pay, the major input in the production of services, is on balance lower than secondary sector pay for comparable jobs so that, given that employment adjustments in the service sector have certainly been taking place over time, it is hard to argue in general that market imperfections between the supply of goods and supply of services make the price of the latter misleadingly low.
9. We are interested in variations in demand for services not only through time but also from one region or one country to another. If there are significant differences in types of services demanded, it is possible that different policies towards services are appropriate. In particular, there may be some "traditional" services, more important in some places than in others, where supply especially and possibly also demand falls off as income rises.
10. If employment has been falling in the same industrial and occupational groups between countries as income rises and if these groups carry similar weight in each country, then there is little to suggest that the role of traditional services varies much between the states.
11. The similarities in industries with declining employment are in fact strongly marked; almost everywhere the predominant influences have been the rise of the television set, the washing machine, the private automobile, air transport and the supermarket, leading to declines in cinema employment and

film production, laundries, railways and road passenger transport, shipping and inland waterways, and some branches of retail trade especially retail distribution of food and drink. Personal and domestic services have also declined.

12. Indeed, since the effects of the changes in agricultural employment in most countries since 1960 have been commensurate with the changes in total tertiary sector employment, it appears it is still agriculture above all which is the traditional activity where employment diminishes as incomes rise and techniques change. The changes in "traditional" employment in services are by comparison small. What appears to have been happening is a readjustment, especially within retail trade and miscellaneous services, of the type of service supplied and the institutional organisation which supplies it, within a framework where overall employment in such sectors has not been changing greatly. The declines in employment in some portions of these sectors are associated with the decline in self-employment and small businesses. The changes are particularly marked in France, but in general, given that we cannot distinguish small "traditional" firms from other small firms, there is little reason to think that in the tertiary sector in general, by contrast with the primary sector, traditional activities play a substantial part anywhere in the EEC. There is no reason to suppose that any significant part of the tertiary sector conceals disguised unemployment nor to think that tertiary sector employment fails to respond to changing patterns of demand as between goods and services which are to some extent substitutes for one another. There is no reason to expect higher welfare gains from the production and consumption of goods than services.

13. Since 1973, growth in employment everywhere has slowed down, although it is still expanding in the tertiary sector in general. There are considerable variations between member states as to the extent of the slow down and as to which sectors are most affected. Without much more thorough work, it is impossible to generalise about the response of tertiary sector employment to the current crisis. There are variations in the behaviour of public sector employment, but these cannot account for the variations in other parts of the tertiary sector.

14. It follows that predictions for the short- to medium-term future are likely to vary too. However, several propositions appear likely to win general acceptance. For example, white collar employment in offices is in general more stable over the trade cycle than blue collar employment, although employment in distribution and miscellaneous services tends to be subject to cyclical variation. Employment in consumer services, in general and barring the effects of major technological change, likely to be related to various aspects of the general demand. Employment in producer services, again excluding the effects of technological change, is likely to be related in part to measures of the general level of activity, although it may be best simply to indicate this by GDP.

15. There is likely to be substantial technologically induced change in many tertiary occupations. Development in micro-electronics and advances in telecommunications are likely to alter substantially the amount and pattern of office employment. Other less predictable technological changes may affect the nature of consumer goods and the substitution into or out of consumer services.

16. On balance it appears likely that tertiary sector employment will expand faster than secondary sector employment but insufficiently fast to solve the stubborn problems of regional unemployment including youth unemployment. Nonetheless there will probably be some scope for special policies for the tertiary sector which are concerned with the location of new tertiary sector activity, rather than having to restrict policy entirely to the task of relocating existing activity.

## CHAPTER 3

### SERVICE SECTOR AS PRODUCER

It is often argued that tertiary sector employment is inherently less productive than secondary sector employment, thus suggesting that policy biased towards supporting the secondary sector is likely to improve the use of resources. The evidence for this view is not impressive. Comparisons of productivity are usually based on measures of growth of real output per man or man hour. Measures of tertiary sector output are often unsatisfactory and occasionally bizarre. All countries make relatively extensive use of input measures such as numbers employed or the deflated wage bill, sometimes in conjunction with national increases in productivity to measure output of parts of the tertiary sector. But real manufacturing output is scarcely ever indicated by measures of input. Thus a downward bias is introduced into any measure of tertiary sector productivity based on real output changes in comparison with measures of secondary sector productivity.

2. The comparison of the rate of growth of current price productivity between the sectors eliminates the particular downward bias inherent in the real output comparison. For this comparison to be fully appropriate, it is necessary to assume that relative price changes between the sectors reflect relative changes in the quality of goods or services provided rather than changes in the relative returns to similar labour in the two sectors. The assumption is probably broadly justified, although that is no reason to think that the current price comparison is necessarily entirely appropriate.

3. Comparison of current price and constant price measures for EEC member states since 1960 show that, using conventional constant price measures of output, in all member states except Luxembourg output per head rose significantly more slowly in the tertiary sector than in the secondary sector. However, using current price measures of output, in all countries (except Belgium over the period 1960-65) the current price measure of increases in tertiary sector productivity is higher than the constant price measure indicating the presence of the downward measurement bias mentioned. In all countries except Belgium and the Netherlands tertiary sector productivity rose faster than secondary sector productivity at least for some substantial part of the period since 1960.

4. Thus it is an open question, once known measurement biases are eliminated, whether secondary or tertiary output per head rises faster. There is no reason whatsoever to believe that tertiary sector is in any way inferior to the secondary sector in the use which it makes of resources.

5. Moreover, these comparisons consider only labour productivity. To appraise properly the contribution of the tertiary sector to the economy, it is relevant to consider the use of all factors of production. With the exception of Transport and Communication, the tertiary sector industries use significantly less capital per unit output and indeed less capital per unit labour than the economy as a whole or than manufacturing industry. Thus the total factor productivity of the tertiary sector in relation to the secondary sector will undoubtedly be higher than the labour productivity ratio.

6. In certain member states (e.g. Netherlands, UK) an increased proportion of total investment has been undertaken by the tertiary sector since 1970 by comparison with the 1960s, but it will require the trend to continue for many years before the tertiary sector becomes as capital intensive on balance as the secondary.

7. Whatever relative pay between the sectors may be skill for skill, at least in Belgium, Ireland and the UK, tertiary sector pay in aggregate and in many branches is on balance lower than in the secondary sector. Relative pay as between the sectors does not appear to have been changing significantly since 1960.

8. Thus it can neither be argued that disproportionate increases in tertiary sector employment are required if tertiary sector output is to rise as fast as secondary output, nor that the observed expansion in tertiary sector employment has been achieved by a marked increase in tertiary sector pay relative to comparable pay elsewhere.

9. When examining the contribution of the tertiary sector to GDP, it is necessary to use input/output data to make allowance for the contribution of service industries' intermediate inputs to final output.

10. Service industry coverage in input/output tables is in general less adequate than coverage of manufacturing industry. Even so, it can be seen that there are relatively large variations in the proportions of intermediate output provided by individual service groups from country to country. However, in all countries a substantial proportion of service sector output is intermediate output.

11. Similarly, the share of exports in final output of tertiary services greatly understates the contribution which the tertiary sector makes to exports, thus, for many sectors, is around or above the average for the economy as a whole. All the predominantly or significantly producer-oriented services are significantly affected. Moreover, the contribution of the tertiary sector to import saving has not been assessed.

12. Tertiary activities, by contrast with tertiary industries, may have a particularly important role in exporting for industrialised countries. There is fragmentary evidence that it is in activities rich in the use of human-capital intensive higher managerial and professional labour in which the comparative advantage of the developed world lies. Further work is needed to clarify this important question.

13. The multiplier effects of additional tertiary activity at a national level are high, because the import content of most services is very low indeed and the labour content of first round expenditure is high.

14. At a regional level, detailed multiplier studies are to be preferred to simple use of regional input-output tables. Office relocation studies and tourist multiplier studies in the UK all produce local income multipliers in the range 1.25-1.41, to be compared with manufacturing industry regional income multipliers in the range 1.15-1.25.

15. It is necessary to take into account the nature of linkage patterns, rather than using mechanistic techniques when considering the impact of additional activity upon the locality. For many service activities, where informational rather than physical inputs are important, it may well be the availability of appropriate contacts rather than the attraction of a large local market that influences the choice of location of additional activities. This information diffusion approach is compatible with complex views of regional development but not with exclusive concentration on measures derived from export-base theory.

#### CHAPTER 4

##### THE SERVICE SECTOR AND VARIATIONS IN THE DEGREE OF REGIONAL SELF-SUFFICIENCY

Where regional boundaries correspond to differences in history and institutions and where there are substantial powers at regional level, it is reasonable to hypothesise that inter-regional differences in significant part may be attributable to regional factors.

2. There are wide differences between member states in the extent of regional autonomy, with Germany at one extreme and Ireland, Denmark, France and the United Kingdom at the other as countries with one dominant primate city.

3. The hypothesis tested is that tertiary activities, especially those which on the face of it do not need to be tied in close physical proximity to relatively small local markets, will be more evenly distributed between regions in countries such as Germany and Italy than in countries such as the United Kingdom and France.

4. Appendix 4.1 to the report shows location quotients, employment based and population based, for regions in member states for tertiary sector industries and, for some countries, location quotients for office occupations of white collar occupations. The distribution of location quotients is in general wider for population based than for employment based location quotients, reflecting differing regional activity rates. The distribution of location quotients is far more skewed for white-collar or office occupations than for any of the tertiary sector industries as a whole.

5. Figure 4.1 shows Lorenz curves of cumulative proportions of employment in tertiary sector industries, region by region against cumulative proportions of total employment, for France, Germany, Italy and the United Kingdom. Figure 4.2 shows corresponding curves for tertiary sector industry employment and population. The figures reveal broadly similar distributions for France and the United Kingdom, with a more unequal distribution of tertiary employment in relation to population than in relation to total employment. Both member states show the expected characteristics of countries with highly centralised institutions and a primate city. If anything, tertiary employment is more concentrated in London and the South East in relation to total employment than in Paris and the Bassin Parisien.

6. Germany shows an inverted Lorenz curve, both in relation to employment and in relation to population. Tertiary employment is especially concentrated in some of a smaller Länder, especially Hamburg, Bremen and Hessen. The concentration here is not attributable to public administration. Germany shows clearly the expected characteristics of a multi-centred state, where economic history and centuries of regional autonomy have combined to produce a regional distribution of tertiary sector employment which is neither even, nor dominated by a primate city.

7. The Italian data show a more even distribution of tertiary sector employment in relation to total employment than in any of the other three states. In relation to population, tertiary sector employment is more evenly distributed than in France or the United Kingdom. This is consistent with the existence of a considerable degree of regional autonomy, but it is necessary to consider the Mezzogiorno and the rest separately. In the Mezzogiorno, tertiary sector employment is concentrated in Sardinia, Sicily and Campania - the administrative centres of the ancient kingdoms of Sardinia, Sicily and Naples. Unusually high proportions of public administration explain a high deal of this concentration, even today. It appears that older administrative traditions persist, combined with the failure to generate private sector tertiary activities to any marked extent. In the remainder of Italy, Rome appears to be developing towards the position of a primate city like Paris or London, but an older historical pattern remains visible. Liguria, Trentino Alto Adige, Friulia-Venezia G. and also Lombardy and Piedmont have particularly high proportions of professional, managerial and other office workers. The historical autonomy of Genoa and Trieste, Milan and Turin rather than any current concentration of public administration would seem to explain these results.

8. The experience of all four member states examined suggests that the degree of regional autonomy, today and over a long period of history, has an important influence on the observed pattern of tertiary sector employment. Whilst a high degree of regional administrative self-sufficiency does not guarantee an abundant endowment with tertiary sector activity, where there is little regional devolution, no member state appears to have succeeded in offsetting the powerful forces making for centralisation of such activity. The evidence also suggests that tertiary sector employment must be studied in relation to the urban structure of any regions examined.

## CHAPTER 5

### THE SERVICE SECTOR : THE SPATIAL CONTEXT WITHIN THE REGION

Where a region is dominated by a large city, there is often a heavy concentration of tertiary sector activity. This applies not only to capital cities but also to major provincial centres. Higher level occupations and predominantly producer services such as banking tend to be particularly heavily clustered in regions where large cities are dominant.

2. It follows that it is important to analyse the spatial structure of services in terms of cities and the hinterlands, rather than in terms of administrative regions. Since we are concerned with the spatial distribution of places where people work, functional spatial divisions based on travel-to-work areas appear likely to be the most appropriate.



3. For some countries, data for such analysis exists. Especially in the United Kingdom, 1971 and 1966 census data are available on the basis of Metropolitan Economic Labour Areas. Fewer data elsewhere are available on this detailed basis.

4. The UK report investigates the properties of the employment distribution of tertiary sector activities based on 126 MELAs (travel-to-work areas); the Belgian report contains an analysis based on the 46 arrondissements of the 1970 census and certain further analyses, whilst more limited work was undertaken for Denmark; France and Ireland. Thus empirical conclusions here are based on the UK analysis supported by the Belgian material and not contradicted by the material from other countries. But the conclusions are unequivocal and relevant.

5. Information diffusion theory suggests that information-intensive activities, particularly higher level managerial and professional activities, will tend to cluster at a point where communication with the sources and recipients of information is easy. As a first approximation, we could consider that the richness of contacts in an environment is indicated by the amount of employment there.

6. An alternative strand in theory relates more to consumer services and producer services, and is derived from central place theory, hypothesising that there is a minimum necessary size of market for each tertiary sector activity. Provided services need to be near their customers, we would expect to find consumer services increasingly concentrated (because of the location of more specialised services) in areas according to their population.

7. Both theories can be tested by hypothesising exponential relationships between tertiary sector employment of particular kinds and the size of the area, indicated by its total employment or by its total population.

8. Location quotients are closely related to the residuals from fitting a special case of this more general relationship,  $Y = \dots$ , where  $\dots = 1$  and the relationship is linear. Thus, to the extent that service employment is increasingly clustered in larger urban areas, location quotients will overstate the variation between areas because they do not take account of the degree of urbanisation.

9. In addition, Hannah/Kay concentration ratios, which show whether one industry is unequivocally more widely dispersed than another were estimated for different tertiary sector industries and activities.

10. A clear distinction emerged between the locational behaviour of consumer services on the one hand and producer and mixed services on the other. Using the Hannah/Kay concentration ratios, producer services all unequivocally more concentrated in the larger MELAs than consumer services (except "cinemas, theatres, ratio etc.") with only a very small overlapping range. Again the regression results for producer services were more closely related to employment; consumer and mixed services to population.

11. For most producer services and for various office occupations, the regression equations were significantly non-linear, indicating a marked degree of increasing concentration in the larger MELAs. Thus the information diffusion theory of the location of contact rich activities is supported.

12. Although some slight tendency to clustering in the larger MELAs was discernable for most consumer services, in most cases this was not statistically significant. There was little change in the results when London was excluded from the analysis. Thus the traditional view of consumer services, as serving mainly the local population, without very much sign as between MELAs of the hierarchical ordering predicted by central place theory, was upheld. The industries for which the regression relationships were least strong were those with fewest links with the local market - national government, research and hotels. Similarly, universities are the only industry with a distribution with decreasing concentration in the larger MELAs.

13. Aggregation of the results for individual MELAs back to regional level obscured systematic and important variations among the residuals from the regression equations. The pattern of residuals indicates that smaller areas than planning regions should be used for analysis.

14. It was concluded that producer services (and office occupations) should be regarded as industries which tend to be concentrated in certain areas, the larger cities where the contacts needed are most readily available. Consumer services on the other hand should indeed be regarded as serving mainly the local population. The clarity of the observed distinction between the two types of service suggests that separate analyses and separate policies may be appropriate.

15. Material in the Belgian report reinforces these findings. Producer services are more concentrated in the larger cities than consumer services. Employment is a better explanatory variable than population for transport and communication, financial institutions and insurance, and a composite group including distribution, hotels and restaurants and repairs. Population is a better explanatory variable for all other services taken jointly. Other Belgian work finds that service sectors are grouped closely together in a way which does not apply to any primary or secondary sectors.

16. Material in the French, Danish and Irish reports provides less detailed reinforcement for these conclusions. For France there is additional supportive material outside the reports, whilst by contrast, a Germany study finds more concentration of services in towns from 5,000 - 100,000 inhabitants than in smaller or larger cities. However there is increasing concentration of services as we move from small to medium sized urban areas.

## CHAPTER 6

### PRODUCER SERVICES - LOCATION AND ORGANISATION

The distribution of producer services and office occupations is heavily concentrated not only in some regions but in some areas within each region. We infer that the location of producer services depends not only on their markets, but also on their organisation and structure. There is a contrast in behaviour between larger firms - concentrated in urban areas - and the self-employed, scattered much more widely.

2. Large firms can choose between internalising the producer services which they use, or buying them in from outside. Small firms have to buy in the major part of the services they use. However, even large firms may find it

more efficient to lease equipment, for example, or to buy in cleaning services, or to make use of computer bureaux rather than undertaking the additional managerial task of organising such activities themselves.

3. Thus we arrive at two forms of physical organisation. Where services are internalised, even if the branches are fairly wide spread, the branches will still tend to draw on the services provided by the firm at a particular, often central, location. Substantial internal contact costs will often be generated. Where tertiary activities within the firm are dispersed, it will tend to be those which have relatively few contacts which are decentralised. Even such departments are found, in the UK, to remain within about two hours travelling time of their head offices.

4. By contrast, one plant firms tend to make use of local services. The higher the level of decision-taking at a plant, the more use of local services it tends to make.

5. This general view of the organisation of producer services or of offices is supported by material in the Danish, Irish, UK, French, Belgian and Netherlands reports. Increasing concentrations of higher managerial and professional manpower are shown, whilst in all countries except Ireland there is by contrast an increasing dispersion of producer services themselves over the most recent period for which comparative figures are available. Only France has an explicit policy to try to reverse the growing concentration of higher level activities in capital cities and it is too early yet to judge its success.

6. The routine activities which are readily dispersed are those most liable to suffer reductions in employment over the next few years as a consequence of technological developments.

7. In general, only the initial location or relocation of headquarters away from the primate cities and an increase in the degree of delegation and decision-taking to branches and subsidiaries outside the capital would be likely to help to reduce the dependence on higher level producer services in the primate city. Because headquarters tend to draw on specialised facilities, they are reluctant (using evidence from Denmark, France and the UK) to choose locations which are far from such services. Thus if a more balanced regional distribution of large firms, especially at higher management levels, is to be achieved, it will seem desirable to build up major centres at distances where all firms are within acceptable travelling time of such a centre. An adequate dispersion of major centres may perhaps already exist in Germany, Northern Italy and the Benelux countries, but elsewhere it appears that it does not. The concomitant of a policy to develop a network of major centres would be the provision of good transport and communications to such centres from their hinterlands rather than just between such centres and the capital.

8. Note that producer services are not the services of traditional theory which serve only the local population. They serve other industry wherever it may be and their role cannot be distinguished in economic terms from that of the final goods and services which they help to produce. There is no reason to think that particular local market conditions are predominant in determining the location of small producer service enterprises. We need to know much more about the economic role of small producer services, the extent to which absence of local producer services may be impeding regional development, the

extent to which producer services would respond to assistance, the location of customers for new producer services, and the effect of an increase in producer services in stimulating further local development.

9. In terms of the ultimate effect on employment and in terms of helping to provide a contact rich environment where all kinds of firms can flourish, higher level producer services are prima facie to be preferred to other activities as subjects for aid. Some evidence from Denmark and the UK concerning their potential willingness to choose development area locations suggests that sufficiently strong and well designed policies might be able partially to offset their tendency to cluster in centres which are not usually in development areas.

10. "Footlooseness" appears irrelevant to these questions. Those firms which are most footloose include those which have the weakest links with their surroundings and will tend to bring less benefit to their receiving areas than firms which draw on a multitude of local inputs. An administrative criterion for "footlooseness" which encourages local firms to expand is thus likely to bring greater benefits to an area than one which emphasises relocation. It is by import saving rather than by exporting that the success of a producer service firm should be judged; any criterion of "footlooseness" drawn up in terms of percentage of output exported from the assisted areas is irrelevant.

## CHAPTER 7

### CONSUMER SERVICES AND THE EFFICIENT FUNCTIONING OF THE MARKET

The received view is that consumer services are called forth wherever and to the extent that there is a sufficient market for them. The imperfections of markets for goods are widely recognised; it is perhaps surprising to find this widespread belief that the market for consumer services operates perfectly with respect to location. It does not operate perfectly in any other sense; there are oligopoly and oligopsony, barriers to entry and restrictive practices. Land use and planning policies would appear to make locational decisions less than perfect as well. The only basis for a belief in a perfect market for consumer services lies perhaps in the fact that entry to some consumer services is relatively easy because physical, financial and human capital requirements are relatively low.

2. The distribution of public provided consumer services is outside the scope of the reports. The Belgian, French and UK reports especially examine variations in provision of private sectors. Wide variations in provision were revealed, often too wide to be related plausibly to variations in income and not explicable in terms of the degree of urbanisation, since the relationships in this respect were not strong. Factors such as variations in age structure, activity rates, socio-economic structure, regional tastes or proximity to other large towns are of course relevant but, prima facie these were insufficient to explain the variations observed.

3. Moreover, the variations were not random, in the sense that when an area was deficient in one type of consumer service, it tended to be deficient in all. Although a great deal of work is needed before the nature and extent

of deprivation in consumer services is reliably charted, it would seem even now that there is no option but to conclude that the market for consumer services operates far from perfectly in its spatial dimension.

4. Consumer services are organised in several different ways. On the one hand, there are national and regional chains over an increasing range of services, often with explicit location policies and a limited rate of expansion on to additional sites. It is possible such firms would be responsive to the offer of particular sites, or to various forms of locational agreements.

5. Other consumer services are provided on a much smaller scale, by local firms with at most a handful of branches. These fall within the framework of measures to assist small and medium sized businesses. The question here is whether such measures are adequate for the areas of deficiency which are observed. But there are certain employment effects and possibly import saving effects of increased consumer services in areas where their deficiency is greater than the variation in incomes would warrant. Moreover, other firms, particularly their managers and particularly white collar firms are reluctant to locate themselves in areas where consumer services are deficient. And sufficiency of consumer services may have a role in deterring outward migration.

6. The concept of "footlooseness" has little relevance to this discussion of location of consumer services. Large firms with many branches may be footloose in their choice of new sites but do not usually qualify for aid under the present rules because they serve only local population. Small firms are rarely footloose within the terms of present rules. But in areas of deficiency, it would appear that services with mainly a local market deserve to be aided in the interests of regional development. The important distinctions to draw are those between one area and another in identifying deficiencies in relation to the extent of the market. Planning policies are clearly important in relation to such deficiencies; how important and how far other policies are needed is a matter for further investigation. But the concept of market failure and the effects of administrative decision-taking rather than the concept of mobility are central to the discussion of policies towards consumer services.

## PART TWO

### CHAPTER 8

#### THE NATURE AND RATIONALE OF POLICIES TOWARDS THE TERTIARY SECTOR

The main policies with regional implications towards the tertiary sector for each member state are listed and described briefly in Appendix 8.1 of the report. They are classified into four broad groups: regional policies which relate only to (all or some) tertiary activities; regional policies which include the tertiary sector on broadly the same basis as the secondary sector (although often subject to special qualifications or restrictions); a few regional policy measures in force which explicitly exclude the tertiary sector and thus cause a bias against it; and finally, national policies which are considered in the national reports to have a significant impact on the regional distribution of tertiary sector activity.

2. The main Belgian, Danish, German, Italian and Netherlands regional policies for the tertiary sector differ only in minor respects from the secondary sector policies and thus fall in the second category. In France, Ireland, Luxembourg and the UK there are some specially designed schemes, listed in the first category.
3. Associated with belief that the tertiary sector does not require special treatment is a heavy emphasis on investment grants of various kinds and interest relief. Associated with the belief that the tertiary sector requires different assistance to that accorded to manufacturing industry is an emphasis on rent relief for a temporary period after expanding or relocating; and on initial grants per job, where expansion or relocation takes place. Tax reliefs, removal grants and training grants appear in a minor role as policies in both the first and second main categories.
4. The only substantial regional policy which excludes the tertiary sector entirely appears to be the UK system of Regional Development Grants for manufacturing industries.
5. The most important national policies which appear to have a significant effect on regional distribution of tertiary sector activity includes policies for particular sectors such as tourism and policies for public sector decentralisation. Planning and licensing policies are mentioned specifically in most countries, supplemented by planning controls in France, the Netherlands and the UK. The UK and France have institutions which provide information and guidance to offices considering relocation. In France a system of planning agreements ('contrats de localisation') is developing. Agencies with special powers are found in Italy and to a lesser extent in the Netherlands and the UK. State financial participation is used extensively in Italy and to a much smaller extent in the UK. Aid to small and medium-sized businesses is particularly well developed in the Netherlands, in Germany and Belgium.
6. In all countries there is a quantitative bias in favour of manufacturing in the aids granted and in most a qualitative bias as well, although weaker in some countries such as the Netherlands than in others. Although in several countries (France, Ireland, UK) there are special forms of aid available to the service sector to try to redress the balance, in every case the total of such service sector assistance is minute by comparison with corresponding aids to the secondary sector. The bias against the service sector has however been lessening since about 1970, especially in Belgium, France, the Netherlands and the UK.
7. A rough distinction can be drawn between countries with a broad approach to the question of the tertiary sector in regional policy, viewing it in terms of the overall development and well-being of their less-favoured regions, and countries which tend to take a narrower approach to regional policy, viewing it more simply in terms of increasing relative regional employment and incomes, particularly by encouraging manufacturing. Countries where there appears to have been little interest in the role of the service sector per se include Belgium, Denmark, Germany and Ireland. France, Italy, Luxembourg, the Netherlands and the UK all appear to have more active or more wide ranging policies towards the service sector.
8. The EEC Regional Fund Regulation allows assistance to services, but only to tourism and to those services which have a choice of location. Interpret-

ation in member states of the "choice of location" criterion tends to derive directly from export base theory, often in a very crude form. Germany, Denmark, the UK and Ireland all use a more or less explicit export base theory as the basis for their administrative criteria for declining whether an industry has choice of location.

9. However, the export base theory cannot be used to provide support for aid to most consumer services other than tourism, although none the less aid to such services appears to have been increasing as the need for job creation has grown. Policies, not necessarily within the framework of regional policy, to give aid to a wide variety of tertiary activities in a particular location are of substantial importance in Italy and on a much smaller scale for particular areas in the Netherlands and in the UK Inner Cities policy.

10. A main channel, designated by industrial and organisational criteria rather than geographically, through which aid reaches tertiary sector activities is through policies for small and medium sized firms. Policies for aiding them are most highly developed in the Netherlands but there is certain explicit provision for them also in Germany, Belgium and Italy. Many small firms of course are tertiary sector firms. But there tends to be little regional variation in the main aids available to them, and such variation is not encouraged by the restrictions on EEC aids to services within the framework of the Regional Fund Regulation.

11. Whilst land use planning policies are recognised as important in influencing the location of tertiary sector activities in many countries, France and the UK have gone considerably further than this in developing policies of office location. In France, an explicit view has moreover been taken in the 1970s that decentralisation of higher level decision-taking is a prerequisite for balanced, self-sustaining regional development. Two major operations have been undertaken so far ("Place Lyon Bancaire" and the Science Park at Valbonne), but it is too early to appraise results. There is also the newly developing system of "contrats de localisation".

## CHAPTER 9

### AN APPRAISAL OF NATIONAL POLICIES

Although employment in the service sector is growing faster everywhere than employment in manufacturing, take up of aid to it is everywhere very small by comparison with aids to manufacturing. This low proportion of aid given to the service sector appears to be largely a consequence of the restrictions on its eligibility for aids, restrictions both by markets and by size.

2. It cannot be argued that the low take up of aids is a consequence of the unsuitability of aids to investment rather than to other expenditure where the service sector is concerned, since in Belgium, France and the UK the main service grants are once-for-all grants associated with job creation or maintenance, but the take up remains small. In Ireland, employment content is taken explicitly into account in making grants and the take up remains small.

3. The measures of costs per job created or maintained, admittedly very imperfect indicators, appear to show that aid to services is at least as cost effective as aids to manufacturing in all the countries for which data are

given in the reports - Belgium, France, Ireland, the Netherlands and the UK. But since employment in services is in any case expanding faster than in manufacturing and since the measure of jobs aided cannot be defined to exclude jobs which would have been created even without the aid, the probability is that a higher proportion of small jobs will be found in those service industries which are aided than in manufacturing. Hence service aid will tend to appear more cost effective. Secondly, to the extent that aid is aid to investment, since services are on balance less capital intensive than manufacturing, a given amount of aid to a given amount of investment in services will tend to be associated with more new jobs than a similar amount of aid to manufacturing.

4. In the absence of adequate direct indicators of the effectiveness of aid, appraisal has to be less straightforward, in the light of the results of the analysis in Part 1. The economic arguments in chapters 2 and 3 suggest there is no justification for exclusion of producer services from aid if manufacturing industry is to be admitted. If these economic arguments are valid, it follows that aid to producer services in assisted areas should not be subject to a restriction relating to location of the markets of these services but should instead be designed to be most relevant to their needs. Any discrimination should be in terms of institutional structure rather than terms of markets, since this can influence significantly the benefit to the area where the firm is situated.

5. Because of the organisational possibilities described in chapters 5 and 6, it is over simplistic to argue that producer services are called forth in a given arch sufficiently to meet the needs of the market. The "mobile" routine tertiary activities which qualify for aid under existing criteria tend to have few outside links and to be vulnerable to technological damage, thus bringing less benefit to an area than would be brought by a relocation of headquarters or a single plant establishment.

6. It is unresolved as to what the point may be where there are sufficient producer services in an area to act as a magnet for additional secondary or tertiary activities, or how far the absence of sufficient producer services in an area provides a bottleneck to its successful development. Large firms may be able to provide services for themselves, but smaller firms need to have access to predominantly local producer services.

7. Aids should be directed to those costs which are of relative importance for producer services: initial outlays on rent, training, recruiting or relocating workers and on improving communication equipment. Even so, evidence suggests such aids may not be particularly effective. They may need to be much more specific with regard to types of activity within the firms which are aided, and much more generous than present aids, provided they remain within the limit suggested by the net social benefit which the activity is expected to bring. Provision of appropriate sites may be quite as important as grants or loans.

8. If no attempt is made to develop high level producer services at a limited number of centres, there appears to be no prospect of developing an adequate career structure in the regions or leading them towards self-sustaining growth.



9. Most consumer services are deliberately excluded from aid under the provisions of regional policy, although we have seen that there are no logical grounds for believing that the market operates at all perfectly for these industries and that there is evidence that endowment with these services in relation to population is more uneven than differences in incomes and demographic structure would appear to warrant. It would seem likely that there are in most countries a limited number of areas which are grossly deficient in consumer services.

10. Multiplier effects of additional consumer services are unlikely to differ greatly from the secondary effects of, say, office location. The crucial question remains as to whether there is, or can be developed, a viable local market. It could be argued that aids to consumer services will simply displace existing traditional services. But there is little indication within the EEC member states that overall employment in any activity apart from agriculture declines significantly if incomes rise.

12. At present, aids to consumer services in particular areas fall under headings other than that of regional policy. Programmes for particular cities or parts of cities, agencies with special powers for particular areas, industrial restructuring in particular industries, and policies for small and medium businesses are the main routes which are open.

13. If areas of gross deficiency in consumer services can be reliably identified, it would seem appropriate to admit such services to various types of aid, in the context of programmes for narrowly designated areas. It is also for consideration how far a specifically regional dimension should be given to policies for small firms, of which many are in the tertiary sector.

14. All in all, there is a wide gap between existing policies and the desiderata which emerged from the analysis in the reports.

## CHAPTER 10

### CONCLUSIONS AND RECOMMENDATIONS FOR EEC POLICY

Of the five arguments listed in chapter 1, there appears to be no validity whatsoever to the first, second, third or fifth. The fourth, that services are called forth to the extent justified by the local market, appears to have limited validity, in that consumer services in many areas appear to be closely related to the size of the market served. But there are certain areas of grave deficiency, even for such services.

2. A clear distinction emerges, not only between the economic role of producer services and consumer services, but also between their locational behaviour. Producer services, serving other industries, contribute heavily to exports although often indirectly, cluster heavily in large urban centres, and can only usefully be analysed in conjunction with analysis of tertiary activities within secondary sector firms. It is largely an institutional question whether a firm buys in producer services from outside or supplies them itself. Branch plants tend to draw on headquarters services; it is headquarters and one plant establishments which tend to draw heavily on services brought in. These are the decision-taking portions of organisation; it follows that the dispersion of higher level managerial and professional and the dispersion of

a wide range of producer services are intimately linked. The dispersion of such activities is important for self sustaining employment and growth in the regions; the more routine activities which are commonly dispersed are highly vulnerable to cyclical fluctuations and technological change.

3. Consumer services, although in general dispersed in accordance with population, are markedly deficient in some areas. Agencies with special powers for such areas, appropriate planning policies, and appropriate policies for small and medium sized firms appear the most likely means of overcoming this. There is no reason to expect that adequate markets cannot be called forth for additional consumer services in such areas. In the longer term, if the areas are to move significantly towards self-sufficiency in services, self-sustaining growth and a balanced employment structure, the development of a thriving service sector, especially producer services, is essential. Such a development is closely associated with an urban structure where there is a strictly limited number of major urban centres, each with good communications with its hinterland (which may be extensive), each supporting a close concentration of a wide range of producer services.

4. Whilst such centres may develop and historically often have developed under circumstances of regional autonomy, it is neither true that regional autonomy guarantees such a development, nor that extensive devolution of political and administrative power is its necessary precondition. However, where regional authorities do not have particularly strong powers, an active policy of decentralisation of decision-taking in the private sector is necessary to offset the powerful factors encouraging centralisation of decision-takers, especially company headquarters and their supporting services.

5. In recommending decentralisation of decision-taking to a limited number of major centres, we are not recommending a return to the wider growth pole policies of a decade or so ago. The case emerging from the material in the reports rests on the peculiar nature of linkages between decision-takers generally - higher managers and professionals - and producer services.

6. A considerable amount of further research is needed to establish all the elements in such a policy. A list of research desiderata is set out in the annex. Statistical improvements in particular, including the collection of statistics using a special classification by functional area, and the improvement of occupational statistics, are a prerequisite for the development of well designed policies.

7. In the shorter run, some adaptations in member states' regional policies and in the EEC Regional Fund Regulation appears desirable if services are to benefit appropriately from more or less the existing types of aids. In particular, we have seen that the "choice of location" criterion is largely irrelevant and its interpretation in administrative terms often highly restrictive. We have seen that there is no case for restricting aids to service activities in areas where manufacturing industry is eligible for aids, except in the case of some consumer services which serve only the local market in areas where the local market is already adequately supplied.

8. Because service industries are not capital intensive in general, aids for other forms of initial expenses - for example, rent allowances for the first few years, training grants and some of the other, often relatively small aids listed in annex 8.1 - appear more appropriate than aids to investment.

The recent revisions of the Regional Fund Regulation allow aid to be related to jobs created and maintained. The Principles of Co-ordination for member states' own policies have been revised in a similar sense so member states might find it more attractive to redesign their policies similarly to broaden eligibility.

9. If the Regional Fund Regulation were further amended so that all producer services - service firms whose customers are predominantly other firms - became eligible for aid, and all exporting and import-saving consumer services, and groupings of small service firms otherwise eligible for aid, then EEC policies would incorporate all the short-run recommendations of this study (although it would remain for member states to adapt their own policies).

A form of words for a revised Regulation is suggested.

THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

BELGIUM

S u m m a r y

by

Prof. H. Vander Eycken

I. THE TERTIARY SECTOR IN THE NATIONAL ECONOMY

1. COURSE OF EMPLOYMENT

1.1. Total employment has grown only very slightly since 1960. The rise is due solely to the marked increase in female employment whereas male employment has declined somewhat. While employment is falling in the primary and secondary sectors, tertiary employment, and in particular female employment, is rising; in 1976, female employment accounted for 44% of tertiary employment.

1.2. The tertiary sector forms a heterogeneous entity the sub-sectors of which experienced differing trends between 1970 and 1976.

The fast-growing sub-sectors were :

- banking, finance and insurance;
- education (close to saturation, however) and public administration.

Transport and communication grew at the same rate as the tertiary sector as a whole.

Distributive trades expanded at only a very moderate rate.

The hotel, restaurant and catering sector is on the decline.

1.3. An analysis by occupation reveals a growing degree of training; expansion is pronounced in the case of professional and technical workers and in the case of management. The rate of growth of female employment in these occupational categories is relatively higher than that of male employment.

The purely administrative occupations are still expanding, but solely because of the increase in female employment. A contraction is under way in the employment of sales and service workers, mainly with regard to female employment, which is substantial in both groups.

1.4. Two thirds of all self-employed persons work in the tertiary sector. Self-employment is in marked decline in the other sectors; an albeit insignificant decline is also under way in the tertiary sector.

The share of self-employment is greatest in the sub-sectors distributive trades and hotels, restaurants and catering. It is, however, contracting in those sub-sectors, while expanding very slightly in the sub-sectors banking, finance and insurance and business services.

## 2. OUTPUT AND PRODUCTIVITY

2.1. The primary sector witnessed a fall in its share of GNP while the share accounted for by the secondary sector increased; the tertiary sector grew at the same rate as GNP.

There is an obvious contrast between the tertiary sector's contribution to GNP, on the one hand, and to employment, on the other, with the former increasing only slightly (from 54.4% in 1970 to 55.3% in 1975) and the latter climbing over the same period from 53.3% to 57.5%.

2.2. These developments would indicate lower productivity gains in the tertiary sector, which productivity being understood as "value added per person employed" calculated at constant prices, although, where applied to the tertiary sector, constant price measures may result in an underestimation of productivity growth since they do not reflect the effects of an increase in the quality of services. If calculations are based on current prices, tertiary sector productivity gains were only very slightly lower than in the secondary sector for the period 1960-75 as a whole and, in some years, they were even higher.

2.3. Average pay in the tertiary sector is only just below the general average. But there are significant differences in pay between the different branches in the sector : jobs in transport, in banking, finance and insurance, in general government and in education and research pay high average wages and salaries, while average pay is low in sub-sectors such as hotels, restaurants and catering and medical and other health services.

2.4. Almost 80% of tertiary sector output goes to final demand. Intermediate services (outputs) account for only 21.5% of tertiary output, as against 72.6% in the primary sector and 40% in the secondary sector. Intermediate services play an important role, however, in the tertiary sub-sectors banking, finance and insurance, business services and transport.

## II. REGIONAL ANALYSIS OF THE TERTIARY SECTOR

This study was carried out using both location quotients and cluster analysis.

### 1. LOCATION QUOTIENTS

1.1. Location quotients express the extent to which an area is "serviced" as regards a specific activity.

The statistics available relate to arrondissements (administrative districts), which do not constitute economic areas. The conclusions are therefore only

approximate. With this reservation, we considered as "under-serviced" with regard to a specific tertiary activity the arrondissements in which the degree of "servicing" is, in the case of that activity, below the average for all the arrondissements in Belgium.

1.2. The arrondissements of Brussels-Hal-Vilvoorde, Antwerp, Liège and Ostend are well serviced in respect of most tertiary activities.

By contrast, the following arrondissements show certain deficiencies : Mechelen, Turnhout; Louvain, Nivelles; Diksmuide, Leper, Tielt, Veurne; Aalst, Termonde, Eeklo, Oudenaarde, St Niklaas; Ath, Charleroi, Mouscron, Soignies, Thuin, Tournai; Huy, Liège, Verviers, Waremme; Bastogne, Marche-en-Famenne, Neufchâteau; Philippeville; Tongeren, Maaseik.

1.3. Special attention was paid to the "development arrondissements". We included in this category the arrondissements considered as such, in respect of a substantial part of their territory, by Belgian legislation and by EEC Recommendations.

Four of these arrondissements are perfectly well catered for : Mons, Charleroi, Liège and Arlon. The first three, where the tertiary sector is well developed and where conversion of the secondary sector poses problems, are traditional industrial regions. The degree of "servicing" has probably been overestimated in the case of Arlon, the chief town in the province of Luxembourg.

Four other arrondissements are under serviced as regards all tertiary branches : Oudenaarde, Turnhout, Maaseik and Hasselt. Development of the tertiary sector is not as advanced as elsewhere because industrial activity itself got off to a late start there.

Lastly, certain arrondissements are found to be under-serviced but only in respect of certain branches of activities. These are Diksmuide, Leper, Veurne and Virton. A tertiary sector development policy would therefore have to be selective in those arrondissements.

1.4. This "static" analysis was supplemented by a "dynamic" analysis - based on "redistribution coefficients" - of the trend in the degree of "servicing".

It shows that, in certain arrondissements, the tertiary sector is growing at a particularly slow rate or has a certain amount of catching up to do. The arrondissements in question are : Diksmuide, Veurne, Turnhout, Hasselt, Maaseik, Tongeren and Arlon.

## 2. CLUSTER ANALYSIS

This method makes it possible to test the validity of central place theory, which states that tertiary activities tend to be located in the urban centre of the area they serve. This analysis was applied to a geographical division of the territory into areas found in the "Atlas de Belgique".

Clustering is a feature of the country's five major urban areas only : Brussels, Antwerp, Liège, Charleroi and Ghent. This indicates that, in a small but densely populated country, there is no way in which new centres comparable to those urban areas or even to regional towns can be developed. A regional policy aimed at promoting growth of the tertiary sector cannot and

must not therefore set out to create new central places. It must confine itself to encouraging growth of the tertiary sector in under-serviced areas, with attention being paid also to the branches which are genuinely under-represented.

### III. REGIONAL POLICIES AND THEIR INFLUENCE

1. In Belgium, there are no regional policies concerned exclusively with tertiary activities (1) although most of them have a bearing on this sector.

2. Belgian regional development policies are primarily geared to stimulating private investment.

The system of interest subsidies, which plays the key role, is backed up by a system of capital grants. Both are concerned with investment only. Similarly, tax concessions are designed primarily to promote investment.

Since 1970, however, investment aids have been supplemented by the system of employment premiums which, as a general rule, assist job-creating investment. But it must be pointed out that the premiums can be granted to SMEs employing fewer than ten workers, regardless of whether any jobs are created.

3. The results show that the bulk of aid goes to the secondary sector with the tertiary sector receiving only a very small share.

This state of affairs does not, however, stem from a desire on the part of the legislator to discriminate in favour of the secondary sector and against the tertiary sector.

If the tertiary sector has benefited less from regional aid than the secondary sector, this is because the system is geared to promoting investment, and investment aids are more attractive for industry than for services.

This tendency in drawing up legislation is also apparent in its implementation. The Ministry for Economic Affairs allocates sectoral priorities but none is allocated to the tertiary sector. Similarly, the sectoral criteria applied by the Ministry for Small and Medium-Sized Enterprises are more biased in favour of industrial firms than tertiary sector firms.

However, fortunately for the tertiary sector, the policy of concentrating aid on investment (and indirectly on the secondary sector) underwent a change of emphasis with the introduction of employment premiums in 1970. It is still too early to ascertain the results of this new policy stance.

4. Where SMEs are concerned, the bulk of aid goes to the tertiary sector and is concentrated in the sectors distributive trade and hotels, restaurants and catering.

This state of affairs - apparently favourable to the tertiary sector - must be heavily qualified since aid granted to SMEs represents only a small proportion of total aid, most of which is channelled to large firms.

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(1) The regional distribution of the tertiary sector is, however, influenced by legislation governing the establishment of hypermarkets and the like

However, there is no discrimination against SMEs; on the contrary, they qualify, in several cases, for especially favourable treatment, and a specialized department deals with the problems they face. Perhaps one of the reasons for the situation described above is that SMEs are less well informed of the opportunities available to them and less well equipped to make use of them.

5. In conclusion, it is evident that the existing legislative machinery makes it possible to pursue an appropriate policy as regards the regional development of the tertiary sector.

It would probably be advisable to extend the system of employment premiums; these should be granted, without being tied to investment, to all applicant firms in the tertiary sector, and no longer only to SMEs employing fewer than ten workers. The ministerial departments concerned should also review their sectoral priorities as regards the granting of aids and should attach the same priorities to tertiary activities as to secondary activities.





# THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

DENMARK

S u m m a r y

by

Peter H. Matthiesen

## PART A : ANALYSIS

### 1. NATIONAL STRUCTURAL DEVELOPMENT 1960-1975

Employment in the tertiary sector has fallen sharply while the employment in the secondary sector has been slightly growing up to 1973/74 after which the employment has been slightly decreasing. By far the major growth sector has been the tertiary sector. This can be seen from the fact that while the employment within the tertiary sector in 1960 covered 44 percent of the total employment, in 1975 the tertiary sector accounted for 57 per cent of total employment. As far as the development since 1970 is concerned it can further be concluded :

The numbers of both men and women employed in the tertiary sector have grown since 1970, although male employment in the economy as a whole has fallen in the period.

However the growth of employment within the tertiary sector has been far the largest for female employment, with the result that in 1975 75 per cent of all female jobs were within the tertiary sector while only approximately 50 per cent of all male jobs were within the tertiary sector.

While the total increase of employment from 1970-75 has been approximately 8 per cent, the corresponding increase of full time employment has only been 0.5 per cent in this period. This means that the increase of the economically active population has been counteracted by the creation of many more part-time jobs, so the resulting transformed full-time employment has actually stagnated since 1970.

Although the tertiary sector as a whole has expanded tremendously during the period since 1960, this expansion has not been equal for the different sub-sectors of the tertiary sector.

The public service sector has expanded far more than the private one, which has resulted in an increase of the public employment component of the tertiary sector from 28 per cent in 1960 to 45 per cent in 1975. Within the public sector health and social institutions have been the fastest growing subsectors, while public administration has been the slowest growing one.

As far as the private tertiary sector is concerned, the fastest growing industries since 1960 have been activities serving other firms, especially financial institutions and business services. However, the growth rate of financial institutions is decreasing, while the growth rate of business services still is very high. The slowest growing private tertiary activities have been retail trade, transport, insurance and personal and household services, i.e. all kinds of consumer services.

It is very difficult to measure the sectoral output of the service sector compared to the other sectors. However, looking at the output per man measured as the gross domestic product of factor costs in current prices the growth rate has been almost equal for the primary, secondary and tertiary sectors ever since 1960. On the other hand if the gross domestic product is measured in constant prices the growth of output in the tertiary sector since 1960 has been much smaller than the growth of output in the primary and secondary sectors.

## 2. THE INTERREGIONAL DEVELOPMENT OF TERTIARY SECTOR ACTIVITIES

Before summarizing the results of the analysis of the development of the industrial distribution, we shall shortly look at the regional populational development. While the Copenhagen Metropolitan Region up to 1970 had a population growth rate greater than the national average, the growth rate of the Copenhagen Metropolitan Region has since 1970 been smaller than the national average and since 1974 this growth rate has turned negative.

However this decentralisation of population is not only a development of Copenhagen versus the rest of the nation. It is a general interregional process, which can be expressed by the fact that regions with a growth rate below the national average in the period 1965-70 all had higher growth rates in 1970-75 and vice versa.

As far as the industrial spatial development since 1960 is concerned it is striking how the employment within manufacturing industry has been decentralising away from the Copenhagen Metropolitan Region. Furthermore the growth of the share of the other agglomerational regions has stopped during the recent years and the change in distribution of employment in the manufacturing industry seem more and more accentuated towards a movement from the more densely populated regions to the peripheral regions.

The employment within commerce and financial institutions has been increasing during the whole period in all regions of the country. However, the increase has been relatively stronger in the provinces than in the Copenhagen Metropolitan Region.

The increase of the public and private services has been significant all over the country, but it has been relatively larger in the provinces than in the Copenhagen Metropolitan Region. Looking at location quotients at a county level it is noticed that the only county in Denmark with a location quotient over 1 in the tertiary sector as a whole is the Copenhagen Metropolitan Region.

Furthermore the following 3 location quotients within subsectors of the tertiary sector are extremely high in the Copenhagen Metropolitan Region : (i) Insurance, (ii) Real estate and business services and (iii) Recreational and cultural activities.

In 1975 in fact 60 per cent of employment within business services was located in the Copenhagen Metropolitan Region which should be compared with only 35 per cent of total employment located here.

While the Copenhagen Metropolitan Region in general is the superior center of the country it can furthermore be noticed that other regions with a high population density for some tertiary subsectors too have locational quotients above the average of the country. These subsectors are :

- Wholesale trade
- Insurance
- Real estate and business services
- Social and related community services
- Recreational and cultural services.

The role of Copenhagen as a superior center of the country could furthermore be illustrated by the fact that in 1970 approximately 60 per cent of all kinds of superior occupations (1) were in the Copenhagen Metropolitan Region (only 38 per cent of total employment was within this region).

Furthermore the development from 1960-70 with a tremendous increase of these superior occupations has shown a continuous concentration in Copenhagen Region with almost the same share of total employment in 1960 as in 1970.

And in general the highest regional stability has been seen within the business service sector and in general all superior occupations.

Looking at the causes for regional redistribution of employment Danish studies indicate that only a limited share of this redistribution is due to actual relocations. Some is due to branch locations, but most of the redistribution must be due to :

- Expansion/contraction of firms in situ
- Mergers and take-overs
- Establishment and death of firms.

### 3. THE INTERURBAN DEVELOPMENT OF TERTIARY SECTOR ACTIVITIES

The dispersion of employment from the agglomerations has been a general trend during the last 10 years. While this process has been strongest for the Copenhagen region the second biggest agglomeration in Arhus has also experienced a decentralisation although it is lacking behind in time. Also the two

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(1) Managers, highly educated professionals, senior staff in government, senior banking staff, senior clerical staff etc.

smallest agglomerations at this second level of the city hierarchy Odense and Alborg have experienced a decentralisation although again it should be observed that this decentralisation process is lacking behind that of Copenhagen and Aarhus.

Looking at the "tertiary activities" of the manufacturing industry a general overrepresentation of white collar employees in the agglomerations (and especially Copenhagen) is observed. Two main factors seem to cause this distribution of white collar employment :

1. Companies with more than one establishment often have their head-office located in the Copenhagen Metropolitan Region (or other agglomerations).
2. The types of companies (subsectors) typically located in the agglomerations have strongly developed "head-office functions" like :
  - Decision making functions
  - R & D functions
  - Sales functions
  - Edp functions etc.

and therefore in average employ more salaried employees than the types of companies (subsectors) typically located outside the agglomerations.

In 1975 44 percent of white collar employment within manufacturing industry was located in the Copenhagen Region compared with approximately 32 per cent of blue collar employment. While the share of blue collar employment in the Copenhagen Metropolitan Region has been decreasing up to now the share of white collar employment in the Copenhagen region has been almost stable. The causes for the general overrepresentation of salaried employment in the agglomerations can be seen from the fact that for the 500 largest manufacturing companies in Denmark approximately 50 per cent of their headquarter offices are located in the Copenhagen Metropolitan Region.

Furthermore approximately 75 per cent of all R & D expenses spent by manufacturing companies are spent by Copenhagen located companies.

Turning to the location of service industries within the urban hierarchy the general findings have been that the share of employment within many tertiary industries (and activities) is increasing with increasing city size (or degree of clustering) (like tertiary activities of the manufacturing industry).

To test this at a national scale, Denmark has been divided into 38 trading areas, each area containing one of the 38 biggest cities in the country. For these trading areas regression analyses have been performed to find the relationship between employment within a service subsector and total employment (or population) within the trading area.

This has been done for 11 subsectors of the tertiary sector and in general very good correlations between the total employment of a trading area and the employment within a tertiary subsector in the trading area have been found. Both the retail trade and the whole sale trade have been found to be uniformly distributed according to total employment. However it could be noticed that the fit for wholesale trade is the lowest of all the subsectors.

This means that wholesale trade to some extent is not following the general pattern and the spatial distribution is more random in relation to the city hierarchy than for the other subsectors. In fact there is a significant overrepresentation of wholesale trade at the very top of the city hierarchy (Copenhagen, Arhus and Odense) while further down in the hierarchy this does not hold true.

Turning to the other private service sectors a steep hierarchy emerges and it is noticed that the share of business services as well as banking, insurance etc. increases with increasing city size.

Business services in general is the subsector showing the steepest hierarchy and furthermore if business services is divided into activities solely serving the business life (consulting engineers, advertising agencies, edp-bureaus etc.) this subgroup of business services follows an even steeper hierarchy than business services activities also servicing the population (solicitors, barristers and auditors).

Insurance, too, shows quite a steep hierarchy while banking and financial institutions is more uniformly distributed according to the population. As far as the public services are concerned, in general these do show an increasing employment share by increasing city size which primarily is due to the location of central administration, higher educations etc. in the big agglomerations.

#### 4. MOBILITY OF TERTIARY ACTIVITIES

As previously discussed most of the redistribution of employment is not believed to be caused by actual relocations or branch locations of companies. Therefore when we talk about mobility of tertiary activities we should more broadly look at the operating conditions of tertiary activities in different regions. Those kind of activities for which the operating conditions outside the agglomerations are at least just as good as inside the agglomerations could be called potentially mobile.

For a particular company, being potentially mobile, furthermore to be able to move it is necessary that the transitional costs and relocation barriers are reasonable compared to the long-term-advantage in operating costs at the new location. Danish studies have indicated that in general operating costs do not vary considerably over space. In general wages and rents are lower in the peripheral areas while communication costs might be higher so the net result is an out-balancing of these different types of costs.

However, especially for some face-to-face contact intensive service companies (or headquarters functions) the increase of communications costs by a relocation from the agglomerations might be of a more significant size.

While in general operating costs do not vary so much over space some non-quantifiable factors seem to be of great interest when discussing special variations in operating conditions.

Especially the nature of the external contact network (face-to-face contacts) and the availability of highly educated or specially trained labour seem to be of great interest. It seems as if especially the sales contact network and the nature of this is important when discussing these non-quantifiable

factors. Firms being very dependent on "orientation" types of sales contacts i.e. contacts which are not "planned" as actual sales contacts, but more or less occurs by coincidence, seem to be dependent on the contact intensive agglomerational environment.

The need for these orientation types of sales contacts depends very much on the products or services of the firm. If the products or services are very standardised (branches), sales contacts usually are very planned and therefore the marketing situation is not very dependent on orientation type of contacts.

On the other hand firms selling rather undefined "tailored" products (or services) usually are much more dependent on orientation type of external marketing contacts. For importing wholesale trading firms it might be a question of the suppliers taking the contacts and therefore these types of "import intensive" firms might be dependent on an agglomerational location as well.

According to this the dependence on different kinds of orientation types of contacts might vary very much from company to company and inside the individual company from function to function. Consequently some functions might be more potentially mobile than others. Therefore the possibilities of decentralisation play a very big role for the potential mobility of the firm in the last run.

The possibilities of decentralisation depend on :

- Firm size
- Technology employed
- The internal contact network.

## PART B : POLICIES

The only formal regional policy oriented towards the regional distribution of the tertiary sector is the Regional Development Act. However, due to very limited resources - in fact Denmark is the country in the EEC with the smallest regional incentives per inhabitant - most of the funds (approximately 95 per cent) have been allocated to manufacturing industry. Furthermore, more than half of these small funds allocated for the tertiary sector have been allocated to hotel projects.

The rationale of this is the well known theory of the manufacturing industry as the leading activity, tertiary activities more or less quasi-automatically following the development of this. Up to now this has been the official attitude expressed by the Minister of the Environment as far as the regional objectives are concerned, and by the Council of Regional Development as far as the administrating of the Regional Development Act is concerned. This official opinion is furthermore explained by traditional theories of the manufacturing industry as the export base of the region - trade and services being more or less local.

Furthermore the existing regional incentives are investment oriented and consequently in general not so attractive for service firms, being very human intensive without any big investments.

The locational analysis has shown that the spatial distribution of tertiary activities vary very much from subsector to subsector. Some subsectors are very much linked to the city hierarchy, meaning that outside the big cities representation of these subsectors is very thin. The important decentralisation of the manufacturing industry during the last 15 years has not been supplemented by an equally strong decentralisation of tertiary activities. This indicates that tertiary activities do not automatically follow the manufacturing industry. This is further stressed by the fact that even tertiary activities within the manufacturing industry (headquarter functions) are much more often located in big cities than are production plants. These important differences in the spatial distribution of different functions, of course, are very much due to differences in locational needs. In general factors like communication network, availability of highly educated labour etc. play a big role for tertiary activities while they are less important for the production plant. Furthermore the existing set of incentive policies itself has probably to some extent helped to maintain or even perhaps increase these differences in spatial distribution. One reason is that a production plant benefits much more from investment incentives than do service activities.

It is obvious that many tertiary activities (even those within the manufacturing industry) do not quasi-automatically follow the general development of the manufacturing industry.

Furthermore the theory of the manufacturing industry as the export base of the region and tertiary activities more or less servicing the local market does not hold true. This is supported by the fact that the growth of the private tertiary sector has for many years been concentrated within nationwide and increasingly export oriented activities like business services and other professional activities. So this general appraisal of existing policies and the locational analysis lead to the following main conclusion :

Up to now there has been given practically no regional aid to the tertiary sector, partly because of the administrative practice and partly because of the existing possibilities of aid being more oriented towards creation of jobs within production units (investments) than within tertiary functions. However, due to the existing regional problem with big differences in the spatial distribution of different activities (and occupations), there is a need of regional policies specifically dealing with the tertiary sector.

Only changing the administrative practice of the existing Regional Development Act will not solve the problems, because the only existing incentives are investment oriented.

So a set of new regional policies has to be implemented.

In the long run more indirect measures are needed to improve the indigenous potential of the backward regions.

In this connection the development of infrastructure and decentralisation will be key words. Developing an urban structure in the peripheral areas with centres of sufficient size to be attractive to tertiary activities will be important. Furthermore decentralisation of public decision making and improving of the educational, communicational and technological infrastructure of these regions will be of great importance.



To improve the spatial distribution of tertiary activities in the short run some more specific measures might be brought into consideration. Some of these should mainly be oriented towards a stimulation to establish new firms and expand existing ones and others should be oriented towards influencing relocation of firms or departments of firms. For small new firms initial costs are of great importance and furthermore barriers of uncertainty and risk are significant. For these kinds of firms measures towards initial costs and in general reduction of risk will be of relevance. However, to influence relocation of tertiary activities it probably is necessary to design measures influencing the operating conditions of these firms in the peripheral areas. For these measures it is important that they are oriented towards the early stages of the decision making process and that they are attractive from an operating point of view because of transition costs being of small importance for many tertiary activities.

THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

FEDERAL REPUBLIC OF GERMANY

S u m m a r y

by

Prof. Dr. Günter Strassert

PART A : DEVELOPMENT OF THE TERTIARY SECTOR : GENERAL NATIONAL AND REGIONAL ANALYSIS

1. Tertiary sector employment (including local government and social insurance) has been permanently increasing for the last 25 years. Referring to an industrial classification, the 50 percent bench mark of total employment is not yet reached (and will not be reached before 1985), however, defining the tertiary sector with respect to an occupational classification, this mark is already surpassed. In both cases female employment is leading male employment.

2. The service industries 'distribution' and 'market services' show highest shares of tertiary sector employment. According to forecasts until 1990, distribution will sustain loss of relative importance whereas local government and social insurance will considerably augment their employment shares which finally will be higher than for market services.

3. There have been remarkable differences in the development of employment figures between various service industries, attended by shifts in the internal structure of the tertiary sector. In particular the following services have grown very rapidly during 1961 - 1970 : credit institutions; legal services accountants, tax experts, auditors; local government and social insurance. Most of these services are expected to grow (at least until 1990). However, the tertiary sector also comprises services with declining employment, particularly within the field of transport and communications.

4. Analysis of the occupational structure of the tertiary sector for the period 1950-1970 reveals positive development for more than half of all (46) occupational categories. This holds for female as well as for male employment figures. Almost 20 percent of all occupational categories show a negative development. The rest of 10 occupations is 'mixed', i.e., the altogether development is either positive or negative but there are contra-rotating developments, e.g. substitution of male for female employment.

5. The tertiary sector's absolute and relative contribution to gross value added in current prices has permanently increased in the past, but its share

is still below 50 percent. However, the 'real' development is contradictory, i.e., the relative share tends to decrease. In the light of these findings, the specific difficulty to ascertain real data for the tertiary sector has to be taken into consideration. Quantities of tertiary production cannot be directly ascertained but have to be estimated by several procedures which cannot totally eliminate the variations of price relations of tertiary products.

6. The ambiguity of a pseudo-view of real data also affects the attempt to understand correctly the development of productivity. The contribution to gross value added in constant prices per effective employment hour taken as an indicator for labour productivity, the tertiary sector shows higher labour productivity from 1950 to 1960, and lower since 1960 than the total economy.

7. A first indication of the interregional distribution of the tertiary sector, respectively of 6 service industries, is brought about by location quotients for 11 Bundesländer. The four service industries: distribution, transport and communications, credit institutions and insurance, and market services are found more often in the northern Bundesländer as compared to the southern ones (1961 as well as 1970). All together, there is a mild tendency to reduce interregional discrepancies which are, on this level of investigation, not very severe anyway.

8. Given three types of regions: agricultural, mixed and industrial, in 1970 about 23 percent of the tertiary sector employment falls into the agricultural zones, the rest is equally divided, 38.5 percent each, into the mixed and the industrial zones. Compared to 1961, the relative shares of agricultural zones and mixed zones have diminished whereas the share of industrial zones has considerably increased. It is predicted that tertiary sector employment will grow especially in highly industrialised zones. Nevertheless, the service industries distribution as well as transport and communications will sustain negative growth rates - distribution in industrial zones only, transport in all zones.

9. Regression analysis reveals a strong dependence of tertiary sector employment on population figures, i.e. the spatial distribution of population highly determines the spatial distribution of tertiary sector employment.

#### PART B : POLICY ANALYSIS

10. The manner of dealing with the tertiary sector depends on the types of regional policy. From regional investment grants the tertiary sector only benefits according to an exceptional regulation - apart from the a priori admittance of tourism. The exception is that investment grants are generally given to service industries, provided they are included in a positive list. On the other hand, regional ERP-loans as well as the assistance program for the frontier zone do not know any restrictions for tertiary sector industries. Assistance to the tertiary sector differs from program to program. All regional programs taken as a whole, the possibilities of tertiary sector assistance are far reaching. Nevertheless, one must confess - taking also into account the abundant assistance programs for the economy outside specific areas of regional policy - that a common and non-contradictory theoretical basis for tertiary sector assistance is still missing.

11. The so-called primary effect criterion is central for tertiary sector assistance. Three statements are relevant in this context :

- the objectives of assistance is to raise total income in regional policy areas specifically, 'not insignificantly' as well as 'immediately and for the long run';
- assistance should not be scattered but should be concentrated to promising investment projects;
- exports of goods to the national market are a prerequisite to successful assistance.

The first two statements are normative, the third one is a hypothesis.

12. This hypothesis has been based on two theories : economic base theory and spatial allocation theory. Both proved to be insufficient in this context. In many respects the export criterion is not adequate and should be given up, the more since practical use of this criterion is arbitrary.

13. With respect to relevance for regional goal achievement, it is a priori irrelevant whether an industry belongs to the primary, secondary, or tertiary sector. What matters is whether an industry's impact structure is appropriate for improving the regional situation.

14. Although in principle all industries and all sectors are eligible for assistance, the factual aid should be oriented to the possibility and need to influence individual decision of investment and location. Unfortunately, the tertiary sector is suspected to expand 'automatically' as soon as secondary sector industries develop. However, such an automatic optimism is not justified, neither from a theoretical nor from an empirical point of view.

15. It is recommended in principle to draw the tertiary sector into assistance. However, this does not imply to give up the possibility of differentiating tertiary sector assistance according to special criteria. Relevant criteria could be the persistency criterion and the deficiency criterion.

16. The persistency criterion aims at the durability of assistance effects. A simple version consists of reclamation of assistance if a plant could not achieve a certain persistence. A more pretentious approach is possible on the basis of empirical studies which allow to estimate persistence chances of industries.

17. The deficiency criterion takes into account that - because of prevailing complementarities - special scarcities in the regional production potential can block up regional development. The tertiary sector should be included into this consideration. Producer services as well as consumer services can play the role of bottlenecks for the regional development. Therefore, special assistance to certain services is obvious if these services are not available to the desired extent or did not arise 'automatically'.

18. For the tertiary sector fundamental empirical and methodical prerequisites are still missing. Thus, mobility studies as already available for industrial plants could help to appraise the latitude for tertiary sector assistance. In this context it is also necessary to scrutinise the transferability of assistance principles from secondary to tertiary sector industries.



# THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

## FRANCE

### S u m m a r y

by

Michelle Laperrousaz

Antoine Valeyre

#### Analysis of the development and location of tertiary activities

##### 1. Course of tertiary activities

1.1. As in all industrialised countries, the tertiary sector has expanded considerably in France since the beginning of the century. But its growth has been greatest since the Second World War. From 1962 to 1975, the tertiary sector's contribution to employment grew from 41.9% to 51.3% whereas that of the secondary sector showed little, if any change. As a result, the ratio of tertiary to secondary employment rose sharply, from 109.5% to 130.9%. It is mainly women who have accounted for the sharp expansion of the tertiary sector, filling two new additional jobs out of three. As a result, the proportion of women employed in the sector rose from 44.4% to 47.3% in thirteen years (see Chapter 1.1., pages 3 to 6).

1.2. There are distinctly fewer tertiary occupations than jobs in the tertiary sector; although the former have also increased rapidly, they accounted for only 45.6% of the labour force in 1975, i.e. hardly more than secondary occupations. This is due to the fact that the proportion of secondary occupations in the tertiary sector (23.8% in 1975) is distinctly higher than that of tertiary occupations in the secondary sector (17.5%). The differences between the sectoral and the occupational approach to the tertiary sector also explain the much higher concentration of women in tertiary occupations (55.3% in 1975) than in tertiary-sector industries (see Chapter 1.1., pages 6 to 8).

1.3. The most rapid expansion in employment has been in tertiary activities relating to economic management - banking, finance and insurance, and business services and in certain services provided to the general public such as education, health and other medical services, economic and social administration, and road and air transport. By contrast, employment has grown more slowly and indeed in most cases has contracted, sometimes substantially, in traditional activities such as the retail distribution of agri-food products or textiles, the sale of drinks and domestic services or services which encounter fierce competition from durable goods : railways and urban transport, entertainment and laundries (see Chapter 1.2., pages 15 to 21).

1.4. Tertiary occupations on the whole enjoyed rapid expansion from 1962 to 1975. However, not all occupations shared in this trend to the same degree. The decline of traditional self-employed activities, the growth in the number of wage and salary earners, changes in the organisation of work, and the introduction of new data-processing or telecommunications techniques have profoundly reshaped the structure and content of tertiary occupations. The most traditional occupations, such as small shopkeeper or domestic servant, contracted markedly. Conversely, the number of white-collar workers and executives rose significantly, particularly in education and health services (see Chapter 1.3., pages 37 to 42).

## 2. Characteristics of tertiary activities

2.1. Overall, wages and salaries in the tertiary branches are higher than those in industry. But if we compare wages and salaries in each socio-occupational category, we reach the opposite conclusion, particularly as regards the distributive trades and services. The socio-occupational structure of the branches goes a long way towards explaining the differences in income between the secondary and the tertiary sector. It also has a bearing on the disparities to be observed between tertiary branches, as do skill structures on the size of the female labour force. As a result, domestic service or jobs in laundries are almost half as well paid as those in banking and finance (see Chapter 1.4., pages 48 and 49).

2.2. Persons employed in general government account for only 21.7% of the total labour force but for 39% of the tertiary labour force. The public sector is well represented in banking and finance, non-market services and, above all, telecommunications but less so in health and other medical services, insurance and transport (see Chapter 1.4., page 50).

2.3. In 1975, concentration of wage and salary earners in the tertiary sector was greater than in the rest of the economy (85.8% as compared with 82%). However, it varies substantially between branches. For instance, there is a far higher proportion of wage and salary earners in intermediate services than in services provided to the general public (Chapter 1.4., page 51).

2.4. The analysis of the size of firms reveals two main categories. The first is made up, in essence, of branches with highly concentrated workforces : banking, finance and insurance, transport and telecommunications, and administration. The second consists mainly of branches dominated by SME, the distributive trade and market services (see Chapter 1.4., page 52).

2.5. Part-time work is relatively widespread in the tertiary sector, and this not merely because of the high concentration of women in tertiary activities, since men also work on a part-time basis. Services provided to the general public are the main tertiary branch in which part-time work is expanding. Services provided mainly to business are also affected but are an exception among intermediate services (see Chapter 1.4., page 52).

### 3. Contribution of the tertiary sector to value added

3.1. From 1960 to 1974, the growth of GDP in the market tertiary sector - estimated at constant prices - was slightly below that in the economy as a whole : 5.2% as against 5.7% expressed as an annual average. This meant that the contribution of services to value added fell slightly. If, however, we apply current price measures, it will be seen that the tertiary-sector share is definitely increasing; this is attributable to the trend of relative prices (see Chapter 1.5., pages 64 and 65).

3.2. The increase in the tertiary share of total employment and the relatively unchanged tertiary share of GDP estimated at constant prices are compatible only by virtue of a moderate improvement in average labour productivity. The productivity gap in relation to the secondary sector continued to widen. Since 1970, however, productivity gains have picked up sharply in the tertiary sector because of a rationalisation of production conditions and because the sector is less sensitive to the contraction of aggregate demand. Current price measures provide us with a slightly different analysis indicating that productivity in the tertiary sector is increasing at much the same rate as in the rest of the economy; slightly more slowly during the 1960s, at a faster rate in the early 1970s, and then more slowly since the crisis, (see Chapter 1.5., pages 66 to 68).

### 4. Future changes in the tertiary sector

4.1. Future changes in the tertiary sector are all the more difficult to predict because they depend, first, on the context in which they take place, particularly on the changes in the international environment and its implications for output and trade and, second, on changes in tertiary sector structure resulting from changes in consumption standards and notably from the choices made between goods and services and the impact of the introduction of new techniques, in particular data-processing and telecommunications techniques, on the volume, organisation and productivity of labour. Consequently, the growth of the tertiary sector can be expected to slow down. But taking into account developments in the rest of the economy, the tertiary-sector share in employment should continue to rise rapidly. There will probably also be a tendency for tertiary activities to become more evenly spread geographically, given the foreseeable contraction in their growth in the Ile-de-France (see Chapter 1.6., pages 74 to 76).

### 5. Distribution of tertiary activities

5.1. Tertiary employment is not uniformly distributed over the territory. It presents a distinctly greater degree of concentration in the most developed, most urbanised and highest-income areas. Whereas in 1975 there was an average of around one tertiary job for every five inhabitants, the Paris Region is extremely well-endowed with services (location quotient : 1.41), and this sets it apart from all the provincial regions. Of these, the Midi, particularly Provence-Côte d'Azur, and a number of regions such as Alsace, Rhône-Alpes or Haute Normandie have a relatively well-developed service infrastructure. At the other extreme are industrial regions such as Franche-Comté, Nord-Pas-de-Calais, Lorraine and Picardy and rural regions such as Poitou-Charentes, Limousin and Auvergne (see Chapter 2.1., pages 81 and 82).



5.2. From a sectoral viewpoint, economic management services present the most uneven pattern of geographical distribution with 42.8% of business service jobs, 42.3% of jobs in banking and 40.6% of jobs in insurance being located in the Paris Region whereas, taking the economy as a whole, only 21.9% of the labour force and 18.8% of the population are situated in this region. This is partly due to the fact that these activities retain close links with decision-making centres. Conversely, the spread of health services, education and the distributive trades much more resembles that of the population (see Chapter 2.1., pages 83 and 84).

5.3. In addition to concentration of tertiary activities, there is a marked polarisation of top tertiary sector jobs, involving decision-making, organisational, design or management functions, in the most developed areas which enjoy the benefits of a dense economic fabric, a pool of very highly skilled labour and a heavy concentration of decision-making and technological innovation centres. The Paris Region is the most privileged region in this respect. In 1975, it accounted for 48.2% of engineers and 40.3% of administrative and managerial workers. These two socio-occupational categories represented 8.1% of the labour force in this region, as against 4.2% in the country as a whole. In any case, the national average is not recorded in any other region. The most developed provincial regions (Provence-Côte d'Azur, Alsace, and Rhône-Alpes) come closest to it. Particularly low figures are recorded in the West of France and in the Massif Central (see Chapter 2.1., pages 85 to 87).

5.4. There is a slight tendency for the distribution of tertiary activities to even out between the regions. This is the result of a slowdown in the growth of the density of tertiary jobs in the Ile-de-France in favour of the least under-served regions in the provinces. However, recent developments are tending to maintain the imbalances evident in the spatial distribution of high-level tertiary-sector jobs (see Chapter 2.2., pages 96 to 99).

## 6. Location factors and "footlooseness" of tertiary activities

6.1. The analysis of the mobility and location of tertiary activities shows that their degree of "footlooseness" reflects the functional links they maintain with their economic environment and the structure and dynamism of the firm in question. The exercise of a tertiary activity, whether a firm or an internal department, supposes links - some of which are closer and more binding than others - with the customers or functional users of the results of the activity, with the market or financial departments, with the labour market, particularly where the most highly skilled activities are concerned, and with information sources. To differing degrees, the location of services is therefore closely conditioned. This is particularly true of the higher tertiary sector. In addition to these constraints, the size and structure of firms are conditioning factors too. The problem of the location of new jobs is very different according to whether a firm or simply a branch is being set up or, better, an activity being extended, and according to whether a large or a small firm is involved (see Chapter 2.3., pages 117 to 121, and Chapter 2.4., pages 127 to 130).

6.2. The most "footloose" activities are therefore the routine service activities of large tertiary enterprises, particularly financial and social institutions and government departments. They have, moreover, contributed to a large proportion of tertiary decentralisation operations. However, the location of decision-making, management or research activities can also be approached in a flexible manner if these activities have access to an adequate economic environment. Routine tertiary activities are important with regard to regional employment, but their induced effects on the local or regional economy are not very marked, much less so than those of higher-level activities, which by contrast are far less "footloose". Thus there is an inverse relationship between the "footlooseness" of a tertiary activity and the induced effects that can be expected from it (see Chapter 2.3., pages 112 to 116 and Chapter 2.4., pages 130 to 134).

## 7. Concentration of tertiary activities in large conurbations

7.1. As a rule, the density of tertiary jobs grows in line with the degree of urbanisation at regional level. Four regions, however, are exceptions to this rule : the Ile-de-France, where services are over-represented in relation to the degree of urbanisation, and the three most industrialised regions, viz : the Nord, Lorraine and Franche-Comté, where the converse is true. Factors other than urbanisation help to explain these special features : income levels, economic and social structure or the specific nature of needs, linked in particular to demographic structure.

7.2. Tertiary density rises in line not only with the degree of urbanisation but also with the size of conurbations. The urban hierarchy to some extent corresponds to the spatial organisation of service activities. To be more precise, we find that, in the case of large conurbations only, the density of "footloose" tertiary activities tends to increase with the number of jobs. By contrast, the density of "non-footloose" tertiary activities does not seem to be a function of the size of large conurbations. This indicates a greater degree of polarisation of "footloose" activities in large urban centres (see Chapter 2.5., pages 135 to 139).

## Analysis of policies

### General presentation and justification of the tertiary policy of regional development

8.1. The preoccupation with land use planning in France dates from the mid-1950s, when the first institutional frameworks for a policy for reestablishing the balanced development of activities were drawn up. The policy of reducing congestion in the Paris region was to be reinforced by studies and by a policy for regional development which will take account, in an initial phase, of employment and, in a second phase, of the quality of locations. In short, the policy of tertiary decentralisation in France took shape in three stages : the decongestion of Paris approvals and licencing fees, which affects industry as well as services; the reestablishment of the balanced development of tertiary jobs between Paris and the provinces (PLAT); lastly, the search for qualitative decentralisation (PLAT 76; PLARD; contractual policy). Based on the concept of regional "vocation", land use planning thus features an infra-

structure policy (urban, transport and telecommunications policies) and an activities policy (pages B1 to B3).

8.2. Urban policy : the "Comité interministeriel pour l'aménagement du territoire", which was set up in November 1965, decided to implement the policy of "balancing metropolitan areas", aimed at creating eight urban regional development poles on the basis of three lines of action : planning urban growth, enhancing the command function of these metropolitan areas (universities, research activities), and integrating the Paris Basin and the Paris Region (back-up areas, new towns). Since 1973, contracts for medium-sized towns have helped to create secondary centres, which are the components of a balanced regional urban network (pages B3 to B6).

8.3. Two objectives were set for transport policy : to open up links between the "balancing metropolitan areas" and abroad and to facilitate communication between regional towns (transverse links). To achieve these objectives, regional transport plans were drawn up on the basis of land use planning options; domestic air links and local rail transport were improved (pages B6 to B8).

8.4. The programme for achieving full automation of the telecommunications network is nearing completion. In 1975, the decision was taken to set up a public data-transmission network (page B8).

8.5. It is only since 1967 that tertiary activities have been dealt with separately, and this for several reasons : their contribution to job creation; opportunities for decentralisation which they offer because of their heavy concentration in the Paris region; attractiveness of high-level services for foreign firms; lastly, the possibility of providing a counterweight to the growth of the Paris Region. DATAR's powers to direct the location of activities take several forms : constraints (approvals and licencing fees); incentives (grants, loans and tax concessions); contractual policy (financial tertiary sector) and grouped operations ("Operation Lyon Place Bancaire", Valbonne, etc.) (pages B9 to B15).

8.6. Since 1970, tertiary policy has taken on a new look, according priority to high-quality activities in order to contribute to genuine decentralisation. The tertiary grant is awarded on a selective basis in the case of activities. Administrative decentralisation has become more systematic since 1975. The policy of assisting the decentralisation of research activities has been extended to higher-level technological activities. Lastly, two conditions have been restated, the exemplary nature of a decentralisation of central government administrative functions and the need to improve regional structures : collective facilities, living conditions, etc. (pages B15 to B19).

## 9. Presentation and appraisal of policies

9.1. The various tertiary policies contributing to regional development may be classified according to whether they are aimed explicitly at the tertiary sector or include it in a wider range of activities and according to whether they are regional or national in character (page B20).

9.2. Some of them have been analysed more specifically on account of their regional character and their specific tertiary character. They can be grouped

together by the types of resources they make available : financial incentives (grants, tax concessions, loans, aids to mobility); non-financial incentives (development of provincial markets for offices); constraints (approvals and licencing fees); contractual policies (financial tertiary sector) and grouped operations ("Operation Lyon Place Bancaire", Valbonne-Sophia-Antipolis).

9.3. Service activities grants ("primes de localisation de certaines activités tertiaires" - PLAT) and the research and development activities grants ("primes de localisation des activités de recherche-développement" - PLARD) are made to firms for the setting up, extension or transfer from the Paris region to specific areas of their general activities and in particular their data-processing, engineering or research activities. The rate of grant varies from area to area, with the West, the Massif Central and the South West offering the highest rates (PLAT), as do the large cities with the exception of Lyon and Paris (PLARD). The decentralisation of registered offices qualifies for a higher rate of grant. One comment is called for : in comparison with the industrial grant, the incentive effect of the PLAT is singularly weak. The difference in the number of industrial and tertiary grants awarded is striking. It must be remembered, however, that, since 1976, PLAT, unlike the industrial PDR ("primes de développement régional") have been concerned mainly with high-level activities. Moreover, since 1976, applications for tertiary grants have been increasing. In 1976 and 1977, for instance, the creation of 2000 and 2500 jobs respectively was planned. This is attributable to the greater flexibility of the system of aids and to the information drive mounted in connection with the new guidelines for land use planning. The results are, however, difficult to assess because of information shortcomings. Quite detailed figures are available for the number of favourable opinions delivered by the FDES ("Fonds de développement économique et social"). By contrast, only general data are available as regards results (jobs actually created, nature of the activity, etc.). Surveys relating to the decentralisation of tertiary activities indicate that grants are not the prime factor determining the decentralisation decision, although they do influence the choice of a particular region where several possible locations exist.

9.4. The policy of grants is backed up by other financial incentives. In particular, firms, notably tertiary firms carrying out operations covered by the policy on land use planning, are eligible for certain tax concessions : exemption from the local business tax ("patente", known as the "taxe professionnelle" since 1976), reduction of the transfer tax, special depreciation allowances, reduction of capital gains tax upon the transfer of building land for development purposes, etc. These various advantages may be combined but they are not automatic. They depend mainly on the number of jobs created and the areas in which firms choose to set up (pages B69 to B74).

9.5. Aids to firms (training costs) and to workers (removal costs) are also available with a view to promoting manpower mobility and adaptability. Allocation criteria are not regional but depend on the circumstances of the move. These aids are administered at local and national levels (pages B66 to B74).

9.6. Mention should also be made of long-term loans, loans to small craft firms, grants for fitting out hotels, and the different back-up measures for decentralisation policies with regard to infrastructures : telecommunications, housing, land (pages B83 to B91).

9.7. The policy of incentives is supplemented by a scheme to develop provincial markets for offices. The "Association Bureaux-Provinces", set up in 1974 for this purpose, is responsible for identifying and organising the market for offices in the "balancing metropolitan areas", the large cities and a number of medium-sized towns. Since 1975, it has been operating an information service and conducting location studies at the request of firms (pages B45 to B47).

9.8. The approvals procedure (20 June 1955) and the licencing procedure (2 July 1960) are aimed at restricting the location of service establishments and the building of offices in the Paris Region. The approvals procedure applies to Paris and the seven adjacent departments. Within this area, distinctions are made in order to achieve a better distribution of offices between Paris, on the one hand, and the new towns and the ring of new urban areas around Paris ("la grande couronne"). Although no assessment has been carried out of the volume and quality of the activities submitted for approval, the policy of restricting the location of services in the Paris Region can be said to have had very positive results : the area of approved office floor-space fell from 1 000 000 m<sup>2</sup> in 1971 to 300 000 m<sup>2</sup> in 1976 and has remained at this level since (pages B36 to B45).

9.9. The contractual policy for the financial tertiary sector is another major feature of decentralisation policy. In order to encourage the transfer to the provinces of financial activities not directly linked to the Paris bourse, to promote decentralisation of decision-making powers and to achieve balanced growth in the Paris region, ten-year planning agreements ("contrats de localisation") are concluded between the public authorities, on the one hand, and financial institutions and insurance companies, on the other. This policy was introduced in 1972 and has already been approved 24 plans. As a result, 68% of the central administration jobs of the 24 institutions concerned, are now located in the provinces, compared with a figure of only 21% at the outset. Decentralisation of this kind is achieved by setting up regional agencies in metropolitan areas but also in medium-sized towns and by transferring there autonomous central services (data-processing services, securities departments, pension departments, etc.) (pages B74 to B82).

9.10. Two grouped operations - very different as regards both the manner in which they are being carried out and their specific sector character - have been launched. The first is designed to promote regional development by improving financial networks, the second by setting up an R + D and advanced technology complex. Launched in 1974, the "Operation Lyon Place Bancaire" is aimed at establishing Lyons as a banking centre in its own right, thereby ensuring a greater measure of autonomy for the development of the region. The operation comprises two stages : firstly, transfer of banking responsibilities from Paris to Lyons and, secondly, preparations for a "financial centre" operation tailored to regional and international needs. The first stage is well under way, with three national banks having taken the step of conferring on their regional management in Lyon head office responsibilities (pages B48 to B54).

9.11. The Valbonne-Sophia-Antipolis operation, originally conceived in 1969, consists in establishing on a 2 400 hectare site near an advanced technology and research complex. The operation, which at the outset was a private local initiative, has received backing from the public authorities since 1972. The Nice Chamber of Commerce has acted as the prime contractor since 1974. A fair proportion of the site has now been developed and is up for sale. There is no

doubt that the operation has reached the point of no return. Nevertheless, the anticipated induced effects have as yet not materialised. But this is largely due to the general slowdown in economic activity, which means that the impact of such a policy is difficult to assess (pages B55 to B65).

#### 10. The role of the tertiary sector in regional development

10.1. The tertiary sector has become the main source of net job creation in the post-war period. Indeed, since the crisis, it is the only sector in which more jobs have been created than lost. We cannot, therefore, overlook its contribution to alleviating the employment difficulties facing most regions, and particularly the most disadvantaged regions, where the decline of traditional activities is not being offset by the creation of new activities (page B93).

10.2. However, improving the geographical distribution of employment, particularly to the advantage of the disadvantaged regions, in which the tertiary sector is expected to play an important role, is not the same thing as encouraging the genuine development of these regions. If tertiary activities were directed towards such regions without due regard to some degree of selectivity, the result would be the location there of routine tertiary activities and executive services, since these present the greatest measure of "footlooseness" but at the same time are the least beneficial because of their insignificant induced effects. Its contribution to regional employment is not, therefore, sufficient justification for a regional development policy tailored to tertiary activities. Where such is its only objective, a policy of this kind may produce a qualitative geographical imbalance of employment by accentuating the polarisation of high-level functions and sophisticated skills, even if it is, none the less, successful in restoring a certain quantitative balance (pages B94 to B97).

10.3. There are close functional links between the activities of the higher tertiary sector and the productive apparatus, with the former thus playing a decisive role in the development of a region. If regional growth is to be encouraged and if inter-regional imbalances in the distribution of power and quality jobs are to be limited, a selective decentralisation policy is needed that favours high-level services (pages B97 to B98).

10.4. The development of certain quality business services needed at regional level - banks and finance companies, consultancy and marketing companies, research bureaux, technical research laboratories, training centres - makes it possible to foster the growth and realise the full potential of many small and medium-sized regional firms, thereby strengthening the regional economic fabric (page B98).

10.5. The existence of transport or telecommunications infrastructures remains one, but not the only prerequisite for attracting quality activities; by contrast, anything which reduces a region's dependence (financial activities, administrative decentralisation, training establishments) acts as a stimulus to industrial investment. The real problem is to fix a threshold beyond which growth becomes self-sustaining. The threshold depends on the economic structure of each region: the diversity of needs and regional industrial structures thus influences the choice as to which tertiary activities need to be located in a given region (pages B98 to B99).

10.6. The improvement of services to individuals in disadvantaged regions can persuade people who are tempted to seek a way of life elsewhere to stay where they are and may, indeed, help to remove certain obstacles to the movement of people away from Paris. What is more, we should not disregard the quite special and important role played by tourism (page B100).

## 11. General appraisal of tertiary policy and recommendations

11.1. In comparison with the growth of the tertiary sector in France as a whole, the results of the policy pursued are relatively modest, both qualitatively and quantitatively speaking, even though they are difficult to assess accurately. Nevertheless, it is still too soon to judge its overall effectiveness. Because the policy is relatively new, and because of the general slowdown in economic growth and the emergence of new requirements for land use planning, especially in areas undergoing redevelopment, the policy has not yet realised its full potential. Nevertheless, there is evidence of a slightly better quantitative balance between the Ile-de-France and the provinces : between 1968 and 1975, the tertiary employment rate increased by 2.1% per inhabitant in the Ile-de-France, compared with a national average of 2.5% (pages B101 to B104).

11.2. On the basis of the French experience, a number of general recommendations can be made. A policy of constraints or controls in respect of the growth of service activities makes it possible in an initial phase to reduce congestion in certain large conurbations, but the effects of such deconcentration on regional economies are weak in that they often amount to no more than the creation of unskilled jobs. Moreover, these are mostly jobs with firms whose headquarters are not decentralised. As a result, employment is more dependent on delocalised units in the host regions and the spatial polarisation of functions and powers remains unchanged and even becomes more accentuated. It is therefore essential that this deconcentration policy be backed up by a policy clearly directed towards regional development. Planning agreements which cover locational matters ("contrats de localisation") are an example of an attempt to establish a link between the two policies (page B105).

11.3. A policy of financial aids in respect of the location of tertiary activities in disadvantaged regions is liable to engender the same type of operations as referred to above, namely the location of executive services. The policy must therefore be given a selective dimension which is of fundamental importance in attracting quality activities such as those carried out by decision-making, design or management centres so that they provide sizable induced effects. Moreover, grants have been found to play a secondary role in decentralisation decisions. By contrast, they can influence the choice of location. Lastly, a financial aid policy results in one-off operations which are neither coordinated nor jointly organised. There is a danger that the results of such operations will be spread too thinly, but if such dispersal could be limited and controlled the development of host areas would benefit greatly (cf. the remarks above concerning the problem of the thresholds to be reached before appreciable induced effects are felt (page B105)).

11.4. A tertiary location policy must be based on local initiatives and local responsible bodies. This is a fundamental prerequisite for the success of the new unit's integration into the local socio-economic fabric. It is also the best way of effectively adapting the newly located services to the existing productive structures and to the needs experienced by the local responsible bodies (page B105).

11.5. A qualitative decentralisation policy directed towards the tertiary sector, and in particular the location of decision-making centres in the provinces, must be centred on the implementation of an active policy of decentralising central government departments so that the State provides tangible evidence of its resolve in this respect (page B106).





# THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

## IRELAND

### S u m m a r y

by

Michael J. Bannon

James G. Eustace

#### Introduction

This report emphasises the view that the tertiary sector is no mere passive agent in the development process; rather, it is argued, that all sectors are interdependent and that many aspects of the tertiary sector initiate the expansion of other sectors. Throughout this report an attempt is made to see developments in the tertiary sector in a wider context : in terms of educational requirements, levels of skill, working environment or location of the workplace, many branches of industry, and a growing proportion of jobs in industry, are tertiary in nature. The term "tertiary" is both somewhat arbitrary and restrictive and it is necessary to complement the purely sectoral approach with occupational analyses which highlight parallel and interrelated trends in the other sectors.

#### Employment trends

Over the fifty years 1926-75, there has been a consistent and rapid decline of agricultural employment while employment in industry has increased from 12.9 per cent of the labour-force in 1926 to 31.3 in 1975. The tertiary sector has exhibited a consistent and steady employment growth rising from 33.6 per cent of the labour force in 1926 to 46.8 per cent in 1975. Between 1961 and 1975 tertiary sector employment grew by 60,000 while total employment declined. In terms of occupational changes all sectors experienced a decline in blue-collar and "production" employment while white-collar employment expanded rapidly. Of the total increase of 108,000 jobs in non-agricultural employment between 1961 and 1971, some 52 per cent was in white-collar work. Within the tertiary sector this shift towards white-collar work is reflected in the growth of employment in insurance, banking and finance, the professions and public administration, and a major decline in personal service employment.

From 1961 to 1971 most categories of tertiary activities witnessed a more rapid growth of male employment. Figures for 1975 reveal that in the 1971-75 period the growth of male employment declined sharply. The growing importance of female employment may also be accompanied by a growth of part-time employment.

Another important feature of Irish employment has been the growth of the public sector. By 1975 the Irish public sector accounted for one quarter of total employment and for one in every two tertiary jobs. Of the 250,000 public service jobs, the Civil Service accounted for 48,000 and the State sponsored bodies for a further 67,000.

#### Tertiary Sector Output and Income

The tertiary sector accounts for almost half of Ireland's Gross Domestic Product in real terms. However, the analysis demonstrates that this sector has the lowest labour productivity of all sectors and, if measured by the Kuznet's ratio, is seen to have actually declined. On the credit side, the tertiary sector was slower to be affected by the recession than industry and generally this sector does not experience the major cyclical variations common to industry. From the point of view of this study, the most significant factor has been the continued growth of tertiary sector output in a period of general decline.

Growth in tertiary sector incomes was well below average over the 1971-75 period and, overall, urban elasticity of expenditure increased relatively little between 1965 and 1973. Many traditional services experienced negative elasticities over the same period.

#### Self-Employment and Firm Size

On the basis of the limited data available, there appears to exist a trend towards decline in the numbers of self-employed except in the personal service subsector. The growth of large organisations, the amalgamation of firms, and the growth of the public service all contribute to this trend. Relatively little is known about the size of firms in the tertiary sector overall. Only for commerce is data on size of firm readily available.

#### Mobility of Tertiary Firms

To date in Ireland there has been little if any inter-urban relocation of tertiary firms. In theoretical terms this report distinguishes between the mobility of whole firms, whether they are described as Autonomous or Induced, and occupational mobility, whereby parts of the firm - usually those with only routine communication needs - can be hived off to other urban centres. Some such units of routine public sector work have been dispersed out of Dublin.

#### The Regional Dimension

Tables 1 and 2 show the regional trends in tertiary employment change from 1961 to 1975. Between 1961 and 1971 the percentage growth of the East region outstripped the performance of all other eight regions. By 1971 47.1 per cent of all tertiary jobs were located in the East region. In terms of tertiary jobs per 1000 population in 1971, the East region with 204 far exceeded all other regions and the national average of 154. While all nine regions experienced employment expansion from 1961 to 1971, two regions suffered an absolute loss of such jobs between 1971 and 1975. Of the growth of 26,000 tertiary jobs in 1971-75, over three-quarters occurred in the East region - Table 2.

White-collar occupations were similarly concentrated in the East region and Dublin up to 1971, and probably up to 1975 (Table 42). Forty-nine per cent of the white-collar jobs were in the East region in 1971 as were 59.0 per cent of all office jobs. Higher level white-collar and office jobs were even more concentrated in Dublin in consequence of the concentration of decision-making power in the capital.

### Urbanisation and Tertiary Activities

The Irish urban system is distinctly primate with over half of the aggregate urban population being resident in the Dublin area. Dublin is more than five times larger than Cork and only five urban centres exceeded 30,000 in 1971. The analysis in this study shows a very close relationship between urban size and the scale of tertiary activities in regional centres. Similar relationships were established in the case of white-collar occupations (Table 59).

### Development Policy in the Tertiary Sector

Traditionally, policies have focused upon the strengthening of the industrial structure, whether through the protectionism of the period 1932-56 or the expansionist programmes of the 1960's and 1970's. In either context the role of tertiary activities was viewed as essentially passive, with growth being induced as a consequence of industrial expansion. At the same time policy documents seem to have recognised the potential of the sector, even though this was not exploited. Nevertheless both employment protection and official employment targets relied heavily upon the growth of tertiary employment and the sector generally.

The Green Paper on Development and Full Employment (1978) presents a clear and detailed statement on the role of tertiary sector in development and in employment creation.

### Aid to Tertiary Firms

Since 1973 the I.D.A. has promoted a "Service Industries Programme" designed to attract overseas service firms to locate in Ireland. While the I.D.A. offer a wide variety of incentives, these incentives are normally confined to a very limited range of exports oriented or import substituting firms. The programme accounts for only a minute share of I.D.A. grant assistance with 58 per cent of the 1976 expenditure going towards training. The programme has not been supported by an urban policy and the majority of firms have located in Dublin to date. The I.D.A. also operate a Research and Development Programme while Shannon Development have operated an office location scheme since 1973, attracting 40 (most small) service firms to operate from Shannon. In addition there is a major Tourism Development Programme operated by Bord Failte and a Technical Assistance Grant Scheme operated by AnCo - the Industrial Training Authority. In addition to these aids to the tertiary sector, the Irish government operates an Employment Incentive Scheme which up to June 1978 had directed 13.9 per cent of its payments to tertiary firms.

### Recommendations

While both development policies and grant aid programmes place more importance on tertiary activities, it is the view of the authors of this report that existing programmes are inadequate to meet Ireland's needs. In addition

Table 1 Tertiary Sector Employment by Region, 1961-71

Sector	Numbers Employed Change 1961-71				1971 % Share	Number of Tertiary Sector Workers per 1000 Population	
	1961	1971	Number	%		1961	1971
East	188,447	216,571	+28,124	+14.9	47.1	208	204
South-West	60,368	65,288	4,920	+ 8.2	14.2	135	140
Mid-West	32,304	35,426	3,122	+ 9.7	7.7	124	131
North-East	21,215	21,899	684	+ 3.2	4.8	124	126
South-East	41,143	42,979	1,836	+ 4.5	9.4	129	131
West	26,447	28,768	2,321	+ 8.8	6.3	97	111
North-West	8,818	9,213	395	+ 4.5	2.0	101	117
Midlands	25,258	26,901	1,643	+ 6.5	5.9	105	116
Donegal	11,870	11,966	96	+ 0.8	2.6	104	111
Total	415,870	459,011	+13,141	+10.4	100.0	147	154

Source: Census of Population, 1961-71Tertiary Employment Trends 1971-75

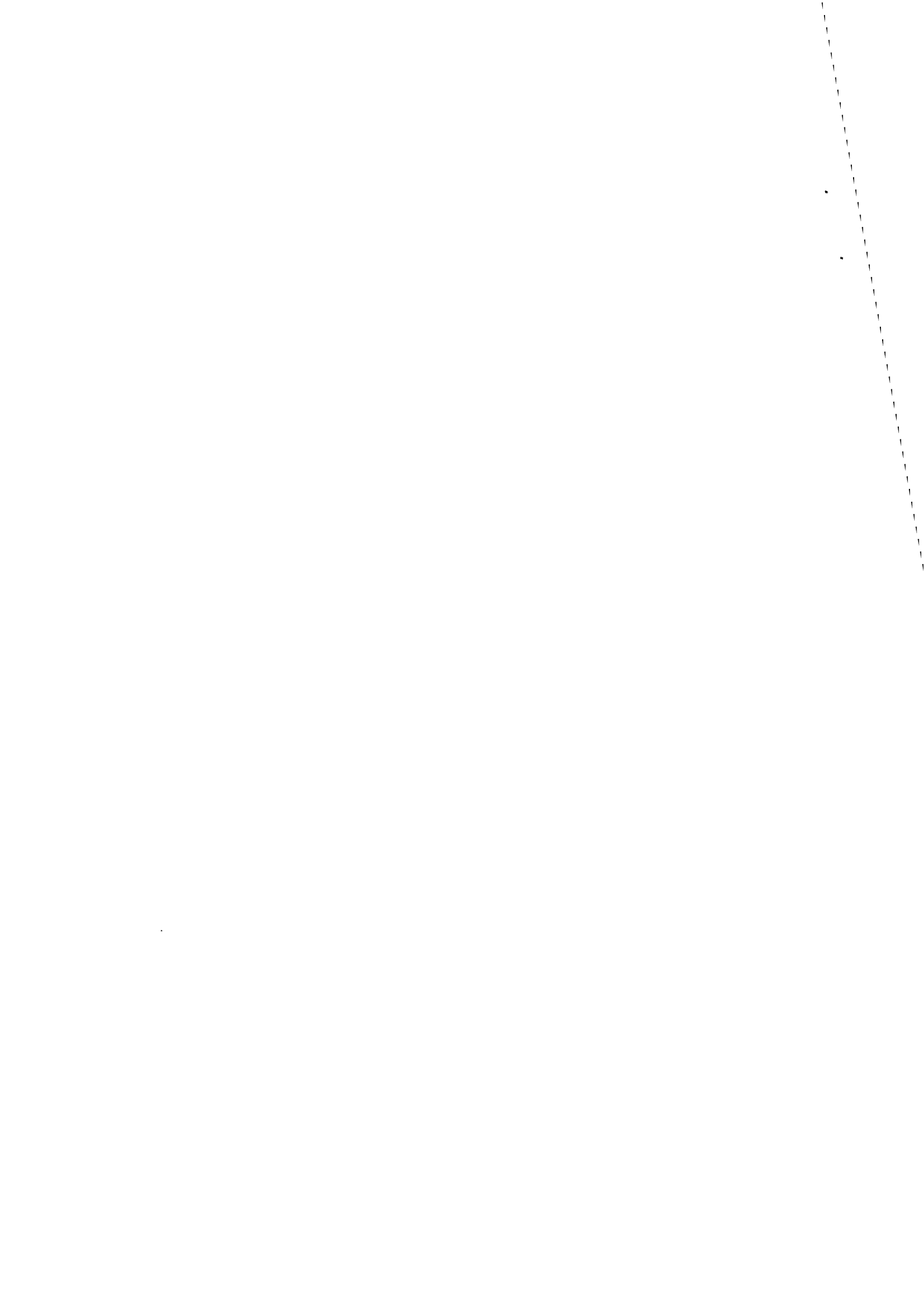
Table 2 Tertiary Sector Employment by Region, 1971-75

Region	Numbers Employed Change 1971-75				% Share 1975	Number of Tertiary Workers per 1000 Population	
	1971	1975	Number	%		1971	1975
East	216,571	236,500	+19,929	+ 9.2	48.8	204	209
South-West	65,288	65,600	+ 312	+ 0.5	13.5	140	133
Mid-West	35,426	38,600	+ 3,174	+ 9.0	8.0	131	136
North-East	21,899	19,800	- 2,099	- 9.6	4.1	126	113
South-East	42,979	46,000	+ 3,021	+ 7.0	9.5	131	113
West	28,768	27,500	- 1,268	- 4.4	5.7	111	107
North-West and Donegal	21,179	22,900	+ 1,721	+ 8.1	4.7	114	127
Midlands	26,901	27,900	+ 999	+ 3.7	5.7	116	120
Total	459,011	484,800	25,789	+ 5.6	100.0	154	156

Source: Census of Population 1971 and E.E.C. Labour Force Survey

1975

existing programmes are hampered by the absence of a unified approach to tertiary activities. At the national level there is a need to intensify efforts to attract tertiary (office and white-collar) work to Ireland. Within Ireland, regional development policies need a more active tertiary input involving a coordinated programme by both foreign and indigenous firms and incorporating both the public and private sectors. Inevitably such a programme has to be seen in the context of an active urban policy.



# THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

## ITALY

### S u m m a r y

by

Prof. L. Frey

1. Tertiary employment expansion in Italy in the seventies has been an important antidote to the negative consequences of a fall-off in industrial jobs coupled with a pre-existing stock of unemployed/underemployed and growing labour supply.

Given the qualitative structure of the labour demand and supply relationship, and professional structures and educational levels in particular, such expansion has been decisive in containing the unemployment/underemployment problem of first-job seekers, women and young people.

ISTAT labour force statistics (old series) clearly demonstrate the importance of employment expansion : tertiary employment of both sexes grew by + 1,004,000 units in Italy from 1970 to 1976 (+ 14.4%) while overall employment grew only + 433,000 units; female tertiary employment increased + 552,000 units in the same period (+ 24.7%).

The increase primarily affected dependent employees, although in recent years self-employment, particularly in commerce and services, has also increased. However, self-employment in the tertiary sector dropped from 31.18% of the sector in 1970 (31.05% for women) to 27.21% in 1976 (25.83% for women).

The biggest employment increases came in the public administration (an average 3.1% a year from 1970 to 1976), in financial services (an average 4.8% a year), in communications and transport. In the broad field of commerce, the increase was relatively minor (an average + 0.9% a year).

A job-by-job breakdown shows large employment gains among teachers, women employed in the health services, administrative employees, police services, shop-keepers, clerks-ushers-janitors-attendants, domestics, street sweepers and those engaged in pest control, writers-journalists-artists. On the other hand, decreases were registered among side-walk vendors, mid-wives and people involved in jobs that tend to be re-classified with reconversion.



2. Tertiary employment development responded to diverse factors in different activities. An analysis of cross-sector influences (working from matrixes) shows no decisive links between services produced in the tertiary sector and industrial production. Only in the case of transportation, and to a lesser extent in commerce in its totality, does industrial activity absorb significant levels of product (with a higher incidence in the case of construction, food and machine tools).

Even recourse to analyses based on the hypothesis that tertiary employment depends upon fundamental macroeconomic variables does not produce reassuring results. One may conclude then that exogenous factors, partially attributable to economic policy strategies, have a substantial impact on the production of tertiary services. Exogenous factors are however a greater influence than specific sector strategies. In effect, factors attributable to the structural characteristics of Italy's economic development over the last 20-25 years show a sharp impact. Structural characteristics induced by income distribution deserve special attention.

The tertiary employment expansion registered in the seventies was not accompanied by any marked efforts at capital accumulation. In fact, the investment's situation probably influenced further decreases in the weight borne by the stock of capital, at constant prices, on the sector product. This was also true for commerce which registered an increase in this regard from 1960 to 1970.

This was partially reflected on the value-added situation per employee within the sector (at constant prices the product increase from 1970 to 1976 was 92.9% of the relative increase in the industrial sector), even though the value-added dynamic per employee at current prices (particularly in services) was especially marked. Growth in productivity was accompanied by an increase in monetary labour costs that proved slightly less accented in tertiary activity than in industrial activity. Only in the totality of commerce were average retribution increases in line with increases in industry. In those services where average retribution was higher than in industry, the increase in the 1970-76 period was sharply lower (according to nationally calculated data on the economy), with relative minimums in the case of civil servants. The retribution situation in the Italian tertiary sector is confused and differs widely from service to service.

3. The tertiary employment expansion which occurred in Italy in the seventies differed widely from region to region. Employment growth in sales services was slightly less all over the Mezzogiorno (the Italian South, including the islands) than in the Centre-North so that the quota of the national total slipped slightly to 25.6%. Employment expansion in commerce, credit/insurance and various other services was greater in the South than elsewhere in Italy. At the same time employment growth in hotels, communications and restaurants, bars, etc. was lower. The employment increases in non-sales-related services, mainly the civil service, was slightly higher than in the rest of Italy. However, the increase was inferior to current population growth in the Mezzogiorno. As a consequence, overall Southern tertiary employment, up from 27.5% in 1970 to 27.8% in 1977, rose less than population levels (35% in 1977). Therefore, in terms of population, there was no overall improvement during the seventies in the Mezzogiorno's tertiary employment. Moreover, even within the Mezzogiorno, there were radical differences at the regional level, which put Molise, Basilicata and Calabria at a particular disadvantage. Dispersion

of employment increases, in both public and private sectors, over the different regions, does not appear largely a result of levels of production development or industrialisation of the specific territorial realities under consideration.

The main influence on the diverse rates of employment expansion in the private tertiary sector was the development of commerce and transport, while various private services and financial services frequently played a compensative role. Looking at the last few years experience, one notes that the public administration has been a long way from making any significant contribution to expanded employment in the Southern regions.

An examination of available information on tertiary employment, categorised by sex and professional qualifications, shows probable complex processes underway that are partially conditioned by extra-economic factors (through expansion variations in tertiary activity) influencing the professional structure inside the sector and overall regional employment. In brief, neither the overall regional productive structure nor the local tertiary activity structure appear to have any determinant influence on tertiary employment.

4. The problems involved in singling out determinant factors in tertiary employment in the various regions make it very difficult to formulate forecasts for future growth in that employment sector. Given the specific realities of the Italian case, it would be preferable to try to make forecasts based on projects drawn up by major public or private decision-making centres. These projects should lead to an increase in Italian tertiary employment (an average + 146,000 a year) in the 1979/81 period slightly lower than that registered in the three-year period from 1974/1977 (an average + 179,000 units a year). Even for the Mezzogiorno, forecast increases would be slightly lower than those registered in the three-year period 1974/1977 (an average + 48,700 units a year in contrast to + 54,300) but higher than the increases revealed in the area from 1976 to 1977 (+ 43,000 employed in the sector).

5. Examination of the information gathered pointed to an in-depth regional analysis. In order to clarify economic policy aimed at evening out territorial employment distribution and new jobs, it was necessary to quantify existing imbalances. We therefore measured the levels of tertiary employment (or to be more exact : diverse tertiary activities) in total employment and population in each area or region, and with respect to total national employment and population. The concept used was the "localisation co-efficient, based either on employment or population; a co-efficient of 0.93 was revealed in the Mezzogiorno in 1976, with respect to total Italian tertiary activity (0.83 for commerce, 0.89 for various private services, 1.10 for non-sales related services) with minimums in the Molise and Basilicata Regions. A series of even sharper imbalances was revealed in relation to the 1976 population : the localisation co-efficient was 0.80 for all tertiary activity in the Mezzogiorno (0.72 for commerce, 0.74 for transport/communications, only 0.54 for financial services, 0.80 for various private services and 0.94 for the public administration with exceptional lows, far removed from the normal co-efficient levels in the Centre-North Regions, in Calabria (as well as Molise and Basilicata) and for some activities in other Southern Regions.

There appears to be an unequal distribution in the tertiary employment sector for 1976 that shows the Southern Regions at a distinct disadvantage. Southern Regions are far removed from the favoured position commonly attributed to them by public opinion and data on employment.

6. Therefore, regional development policies with employment goals should make direct efforts at concentrating future expansion possibilities in Italian tertiary activities in the Southern Regions, particularly in Basilicata, Calabria and Molise, with varying concentrations in other regions, depending upon the type of tertiary activity under consideration. Examination of other aspects of regional analyses suggests that Italy's tertiary sector is largely dominated by "footloose" activity. Research conducted by Svimez researchers indicates that attention should be concentrated on services with an urban development support function. These so-called urban services are not only badly distributed and widely lacking in the Mezzogiorno area but they have undergone deterioration in the last 15 years. Hence, there is a need for better development of urban services in the major Southern urban centres (Naples included) and a different, better-balanced distribution of these services within the Southern territory in order to give adequate support to industrial and productive development. The inferior state of urban services in the Southern Regions appears particularly marked in the light of tendencies to the formation of metropolitan areas in Italy. Consideration of the "tertiarization" aspects of the existing professional structure within industrial activities reveals the Southern Region in the same inferior light. In fact tertiary professions most instrumental in production and industrial development appear to be concentrated not only in regions that are "tertiary" at the sectorial level (Friuli-Venezia-Giulia, Liguria, Lazio) but also in the more industrialised regions like Lombardy and Piedmont as well as in regions like Tuscany and Veneto which are characterised by large concentrations of small industry.

The Southern Regions' inferior position is particularly significant in the light of intentions to relaunch regional development in Italy, basing this development on smaller enterprise, rather than on further, large-scale industrial processes.

7. Moreover, regional economic policies developed at the national level, i.e. Mezzogiorno development policies, have to date failed to meet employment objectives. Therefore, regional development must be relaunched concentrating (although not exclusively) on small industry and the employment area identifiable as tertiary activity. The departure point might be the 1976 Law, N° 183, which provides for major regional participation and a substantial area of support for tertiary activities. Functions relegated to the regions under laws now in force (the most important is Law 382/1975 and the relative decrees of 1977) would enlarge the scope of the law mentioned, as would national economic policy influencing territorial distribution of specific tertiary activities. This category would take in fiscal policy, monetary and credit policies (including location of bank branches), policies authorising commercial activity, reorganising transport or distributing scholastic and health services.

8. Putting a new regional development policy into effect in Italy demands a review of the logic behind policy to date, particularly where Mezzogiorno policy is concerned. Past development has been based on a wide range of "ordinary" and "extraordinary" instruments. Its logic was essentially guided by industrial development objectives. The expansion of tertiary activities was pursued, in part, to support this development although there was also some tertiary expansion based on the logic of turning the widespread natural and cultural wealth of the Southern Regions to good account.

In addition, adequate use must be made of economic development possibilities within programmed capillary action at the local level, with sufficient utilisation of the institutional levels of "inter-community territory".

Finally, many of the wide ranging instruments available within industrialisation policies should be extended to the various tertiary activities to a much greater extent than in the past (from public contracts, to public enterprise activity, to fiscal, para-fiscal and credit facilitations, administrative authorisations, etc.).

9. An evaluation of the effects of employment policies followed to date is a decisive recommendation for the renewal of regional development policies.

A particular attempt was made to evaluate the effects on employment of Mezzogiorno policy specifically favouring the tourist/hotel sector (which has dominated sectorial reality in the Mezzogiorno, without sufficient impact on employment levels and the sharp, incompressible imbalances in regions like Puglia, Sicily, Campania and Calabria with enormous tourist potential) and the commercial sector (quite limited even within the area of Southern policy). A further examination of enterprises with public shareholdings revealed that they did not contribute to better distribution of tertiary activity in Italy. Finally, the effects of national policies aimed at regional development were examined. It was observed that the 1971 law, N° 426, did not provide much occasion for the realisation of efficient commercial structures over the national territory nor for better distribution from a regional development point of view. It has been observed that regional policies based on norms now in force are both essential and inevitable as far as transport policies, now being formulated at the national level, and health and other social service policies are concerned. Emphasis was placed on the important role of current public expenditures (from the point of view of growth in public employment and territorial localisation) to recruit teachers which has had a substantial impact on the expansion of tertiary activity in the past (particularly female) and helped contain regional employment imbalances.

However, growing public budget constraints imply less room for further expansion in Italy in the next three years than in the 1974/77 period. Therefore continued containment and gradual solution of unequal employment distribution in the regions necessitate dependence on private services, particularly those that reinforce (through development of smaller enterprise) employment expansion possibilities in industry and those that open up interesting employment prospects to first job seekers.

Thus regional or intercommunity-territorial project programming appears indispensable. The projects could become important terms of reference for capital transfers, perhaps even within the framework of EEC regional policies aimed at instituting fresh, large-scale service initiatives beyond limited local resources. It might be useful to recall that the investment necessary to favour fresh initiatives or radical restructurisation of those already in existence may be calculated at an average 40,000 dollars for a new job in private services, excluding transport/communications/financial services.



THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

LUXEMBOURG

S u m m a r y

by

Roger Molitor

Summary of Part A (Analysis of the tertiary sector)

1. Since the Grand Duchy of Luxembourg constitutes only a single region at European level, the analysis of the distribution of tertiary activities within the country is less significant than the study of the location of tertiary activities in Luxembourg itself and in the regions bordering on Luxembourg.
2. In this connection, it is interesting to note that a whole range of economic activities are located in Luxembourg even though, at the outset, there were various possible choices of location for the activities in question.
3. While this observation is certainly true of the secondary sector, it applies even more to service activities : over the last twenty years a variety of tertiary firms with markets extending well into neighbouring countries and even covering the whole of Europe have set up in Luxembourg and today play a major role in the national economy.
4. The activities of the Luxembourg financial market are indisputedly the most spectacular success in this respect : at present, financial activities account for some 20% of the country's GDP, provide jobs for one twentieth of the labour force and are the source of a not insignificant - though difficult to quantify - proportion of central governmental tax revenue.
5. The spectacular growth of the tertiary sector has so far enabled Luxembourg to take effective measures to combat the economic crisis, the full brunt of which has been felt in its main industry, steel. Although the expansion of certain service activities has been facilitated by a combination of circumstances not confined to Luxembourg itself, it is also possible that, in future, external influences will inhibit - and even put an end to - some of the tertiary activities located in Luxembourg, in so far as these activities will have retained the freedom to choose where to be located in the future.

It would therefore be rash to predict what the future holds for the tertiary sector by applying the many hypotheses regarding the different unknown factors determining its future development; at best it is to be hoped that the responsible authorities in Luxembourg are wise enough to create an environment which favours service activities and to make it easier for them to prosper by pursuing a reasoned economic policy.

# THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

## NETHERLANDS

### S u m m a r y

by

Prof. Dr. Nico Tiemstra

#### A.1. General Analysis : National

The shares of the primary, secondary and tertiary sectors in both labour population and employment have changed considerably over time. According to census data the share of the primary sector in the labour population decreased from 41.5 in 1849 till 11.0 in 1960, and 6.7 in 1971. For the secondary sector the figures are resp. 26.5 - 43.4 - 41.5, and for the tertiary sector resp. 32.0 - 45.6 - 51.8. The share of the male labour population in the T.S. was 37.7% in 1960, and 43.3% in 1971. The corresponding figures for the female labour population are resp. 72.6% and 76.8%.

Using an occupational classification it can be stated that in 1973 8.8% were primary activities, 31.2% secondary, and 60.0% tertiary activities. It is important to observe that by then about 32% of employment in the secondary sector (industry classification) were, according to occupations, tertiary activities. Secondary activities in the T.S. were in 1973 8.6%.

From 1963 till 1975 incl. the volume of employment in the primary sector decreased with 29%, in the secondary sector with 10%. The latter was due to manufacture (-15%): construction did better (+2%), and public companies did very well (+15%). The volume of employment in the T.S. increased with 29%, including public administration (+24%). A pronounced increase showed banking (+112%), business services (+102%), other services (classes 91, 94-99) (+67%), insurance (+32%), and wholesale trade (+22%). It is remarkable that in all tertiary industries (exc. for 91, 94-99) the volume of employees employed by small and medium sized firms (up to 100 workers) increased far more pronounced. Notwithstanding the continuous decrease of selfemployment the total volume of employment even increased in wholesale trade, repair, transport, and insurance in said type of firms.

There is a distinct relation between employment and market structure. Between 1970 and 1976 the so-called national sector (low export quote, high national market share) did well: up to +26%. The "international sector" only scored employment losses. The "oligopoloid sector" (market share biggest four over 50%) showed a capricious development: positive scores by banking and insurance (+22%), and communication (+7.8%).

Up to 1975 fast growing sectors were banking and insurance, but this development slowed down. Now certain business services (83-85, 91, 94-99) still grow



distinctly. In retail trade only furniture, watches, stationary, flowers and plants still grow. Self employment (in % of total employment) decreased from 19% (1963) to 15% (1976). But in certain industries, and in small and middle sized firms therein, it increased; for instance, hotels etc. : + 7% (1963/75), insurance : + 21%, business services (83-85) : +63%, other services: + 3%.

As to the age structure it can be stated that in 1971 53% of the male employees in manufacturing was 35 years or older; in trade : 48%, transport : 53%, banking/insurance : 51%, other services : 56%. Of the female employees in manufacturing 23% was 35 years or older, in trade : 33%, in transport : 29%, in banking/insurance : 20%, in other services : 37%.

The highest educational level of employees is centred in certain tertiary classes. For (advanced) primary education the various classes generally score (males) 85-90%, but banking/insurance only 57%, and other services 54% (1971). In said classes respectively 17 and even 34% have an academic education (average figure 1-2%). Of the female employees about 90% have an (advanced) primary education, but in banking/insurance only 83%, and in other business services 59%. In said industries respectively 3% and 18% have an academic education.

The output per worker was in 1973 in the primary sector N.fl. 57 411, in the secondary sector N.fl. 99 122, and in the tertiary sector N.fl. 43 576. One should bear in mind, however, that, generally speaking, the non-market activities included in the tertiary sector have no statistical output, but demand a rather substantial volume of employment. Output per worker has steadily increased in the tertiary sector after 1960, but less than in the secondary sector. Tertiary sector output per head was in 1965 91.2% of the secondary output per head, and in 1973 86.8%.

From 1970 till 1973 inclusive average wages in the tertiary and public sector increased distinctly more than those in the secondary sector. Somewhat in keeping with the secondary sector were trade, hotels, repair, and business services. Transport, communication, and, to a lesser degree, medical services, scored high. As to the average wage level in manufacturing (1973 = 100), only banking/insurance, and the public sector (both 130) were ahead; transport and communication scored 114; the other classes lagged behind, especially trade, hotels, and repair (80). As to income-distribution, it can be stated that in 1974 an income of about N.fl. 20 000 was the modal-income. The share of over-modal incomes in the secondary sector was by then 44%, but in trade 30%, in banking/insurance, and business services 43%, in other services 49%. Only in transport and communication was it 56%. One should bear in mind, however, that (November 1974) the share of (legal) minimum-wagers in % of all employees is in manufacturing 6.2%, but in trade, hotels, repair : 24.3%, in banking/insurance : 8.3%, in other services 15.8%. In manufacturing 21% of all employees is 15-22 years, but in the tertiary classes mentioned respectively 50.2%, 23.0%, and 19.1%.

If output increases with N.fl. 100.- (1970), total wages increase in whole-sale and retail trade with N.fl. 40.92, in hotels with N.fl. 42.37, in repair with N.fl. 42.61, in communication with N.fl. 50.95, against manufacturing roughly between N.fl. 23. - and N.fl. 38.- (mostly under N.fl. 30.-).

Another important observation regarding wages is that the relative number of part-time employees (average working week less than 24 hours) is in manufacturing/construction 4%, in trade, hotels, repair 11%, in transport/communication 4%, in banking/insurance 9%, and in other services 18%. Both age structure and part-time work push downward the wage level in certain tertiary industries.

The growth of tertiary sector output is positively related to variables as GDP, disposable income per head, consumers' expenditure, and industrial output, but inflation over-emphasises this relation. As to investment not all tertiary industries are affected in the same way by the trade cycle as manufacturing. For trade and transport the relation is clear, and till some years ago, it was also as to banking. But by now banks seem to prosper partly because of the disappointing profitability of manufacturing (need for loan capital). Some public sector-classes show an opposite trend, partly due to anti-cyclic policy of the central government. A. Blumer (1972) believes that the tertiary sector weakens the effect of the trade cycle.

As to size distribution it can be observed that only 66% of firms in manufacturing employ up to 10 workers against banking/insurance 79%, transport and communication : 78%, trade, hotels, repair 86%, and other services 84%. 6% of all firms in manufacturing employ 100 workers or more : the tertiary firms score 2-3%. This small(er) scale aspect of tertiary firms is an important issue to bear in mind (see later).

It appears that services of credit and insurance institutions (72.2), communications (67.7), inland transport (66.5), business services provided to enterprises (56.0), and auxiliary transport services (54.4) provide a considerable volume of intermediate services (1970).

Regarding household consumption the CBS-study 1974/75 distinguished three classes of gross family income : till N.fl. 28 000, N.fl. 28 000 till N.fl. 40 000, and N.fl. 50 000 and more. By then only 29% of total household consumption in the lowest class was foods, and in the highest category 18.6%. Lower income categories pay about 27% for housing in its broadest sense; for higher income categories this percentage increases till 34. Clothes, footwear, and refineries took 8.9 to 9.7%, hygiene and medical treatment 11.7 to 12.4%. Expenditure for education, recreation and transport are more income-sensitive. The lowest income class pays 21.9%, the highest class 27.1%. Real consumption increased after 1963 for the three classes with respectively 31.8%, 15.8% and 17.2%. Striking in this period was the increase in real consumption as to housing (for a large part rents): 45.6%, 39.4% and 85.2%. But clothes, footwear and refineries decreased : -10.2%, -20.8%, -34.7%. So did real expenditure for domestic services and cleansing, but, due to substitution, real consumption regarding domestic apparatus and tools increased with 31.1% (highest class). Lower income classes scored distinct increases regarding medical treatment (21.7%), recreation and holidays (64.6%), other ways of recreation including audiovisual apparatus (115.6%), and transport (118.2%), working away their arrears.

Middle incomes, and more pronounced, higher incomes, scored substantially less increases for education, recreation and transport. An ever-increasing part of household expenditure finds its way outside retail trade : in 1963 29.8%, in 1976 47.1%. Reasons behind : holidays, transport, insurance, rents.

The cumulative employment per N.fl. 10 mln sales of final produce and services (1970) is for retail trade 573 man years (of which 497 direct), for hotels etc. 554 (410), repair 542 (488), sea and air transport 138 (93), other transport 346 (272), communications 323 (285), banking 310(228), insurance 359 (193), business services 475 (449).

#### A.2. General Analysis : Classification of Activities as Potentially Footloose

A rough indication on the national level gives the ratio export/total output. Wholesale and retail trade (especially the latter), sea and air transport, other transport, storage and warehousing, score high.

Only part of 61 is footloose : many wholesale-trading enterprises are "linked" to retail firms (attainability factor). For retail trade the degree of footlooseness depends on the character of the goods sold : convenience goods, for instance, imply tied to a local market.

Most of 7 (transport and communications) is on a national level footloose, but commercial road transport serves a distance of about 50 KM on the average. Small travel agents (771) are mostly linked to their local markets.

Re: banking, insurance, business services, renting. This subsector both interacts with households and enterprises, and partly demands a fine network of settlements, advisors, and agents all over the country. Advertising (838) and market research (839) are less tied to local markets. The big consultants are less regionally "induced". 84 and 85 are also more footloose.

Most subclasses of 9 are linked to local and regional markets. Employer's federations, trade unions, religious organisations, tourist clubs, professional associations, etc. are to a high degree footloose, with a tendency to settle down in the "Randstad". 980 (personal services), and 990 (domestic services) demand a local market, except for the bigger photographic studios (983).

Regarding footlooseness of occupations (ISCO-1968) : most occupations of 0/1 (professional and technical workers) are "footloose". So does 2 (adm. and managerial workers). Class 3 (clerical and related workers) more looks around in its own region, even municipality. 4 (sales workers) feels less "tied", except for 4.1. 5 to a higher degree gets its education and experience in the region of origin. The same counts for 7.9 - 8.9, except for 8.6.

Labour mobility, except for major groups 0/I is very low. The average Dutch worker is to a certain extent "locally bound", avoids moving out, or even longer daily trips from and to their dwellings of over 15-20 KM.

Many removals of enterprises only cover a restricted distance, about 10-20 KM. Manufacturing, and many service industries, if they leave densely populated quarters, tend to settle down again at a short distance from their former location.

### A.3. General Analysis : Regional

It appears that Utrecht, North and South Holland, taking nearly half of the Dutch population, are the most developed provinces. Drenthe, Friesland, Groningen, in the north, and Limburg in the south, have the lowest shares regarding tertiary employment vs. population. The less developed provinces did not work away their arrears so far. The output-shares of Groningen and Friesland even decreased, except for banking and insurance. But in these industries new settlements are not always dependent on the expected outcomes of the market, but, in a way, on the presence of rival-settlements. Medical settlements are being better distributed than before, and there seems in this respect to be no relation with income per head. Transport is heavily clustered in North and South Holland, due to their key-function for supplying a big market up to the German F.R. These clusters have generating effects on inland water and road transport. In peripheric regions 2/3 to 3/4 of the newer industrial settlements are side-settlements.

### A.4. Forecasts : National and Regional

The Centraal Plan Bureau expects, based on the assumption of (only) 150 000 unemployed persons in 1980 and a restriction of the growth of government expenditure to 1% per year, that between 1975 and 1980 the volume of labour in agriculture will decrease with 13% (North : -16, East : -15, West : -11, South : -12), of manufacturing with 5% (respectively -9, -6, -4, -6), of market services with plus 6% (+ 5, + 10, + 5, + 11), and of the public sector with plus 5% (+ 5, + 4, + 3, + 7).

On a national level, from 1975 till 2000 the following changes in the volume of employment (man years) are expected :

agriculture :	- 33%
manufacturing :	- 15%
construction :	- 18%
services :	+ 39%
all enterpr. :	+ 11%
publ. sect. :	+ 26%.

These, and suchlike forecasts are probably far too optimistic. A recent analysis by J.J. Siegers (1977) reckons with a share of the tertiary sector in the labour population of maximally 54%, only a few percents over the present level.

### A.5. Locational Analysis

A map shows the empirical nodal areas and the hierarchy of regional centres. The Netherlands has been differentiated into primary, secondary and tertiary nodal areas, and the various centres and their class of inhabitants, are indicated.

The map clearly shows that in the peripheric regions the various nodal areas are distinctly bigger and the centres are, on the average, rather far away from the consumers. In the north and south the smaller service centres within primary nodal areas often are absent. The map also indicates deficient centres. Another map shows the so-called economic-geographic regions (129 in

all) which are "over-serviced", and which are in keeping with the national average or "under-serviced" as to business establishments in distribution. Again it is showed that outside the "Randstad", especially in the north and south, only few e.g. - regions do well (for instance the north according to the food sector, and the south regarding restaurants and cafés). These regions are weakest as to the non-food sector, and the presence of bank-offices, travelling agencies, laundries, photographers, shoe-repair, rental firms, and hairdressers.

The share of the population in communities of 50 000 persons and more is expected to decrease from 42.5% (1975) to 34% in 2000. So will the share in communities to 10 000 persons (18.5% to 11%). The share of the middle category is expected to increase from 39% to 55%.

## B. Policy Analysis - Remarks and Suggestions

For nearly twenty years, from the early fifties, regional policy in the Netherlands was industrial policy. Agriculture was to expell most of its workers (about 1/4 of the 1945 level might "survive"). Tertiary activities would be induced by industrial growth, manufacturing being the "engine" of all economic activities. Backward regions (mainly in the north and the south) were indicated, and centres to be developed therein (over 40). Industrial settlements and extensions (the latter often treated in a minor way) were encouraged, in the beginning regarding floorspace combined with a price reduction for industrial sites, and obligations to offer unemployed workers in the regions new jobs according to floorspace added. From 1967 in stipulated regions investments in fixed assets may be premied ("Investeringspremieregeling") : generally speaking regarding settlements up to 25% incl. (max. N.fl. 4 mln), and for extensions in certain nuclei 15% (max. N.fl. 2.4 mln). The IPR has also come into force for service settlements and extensions. The IPR has been modified many times as to regions, nuclei and percentages. Interest subsidies (nearly never granted, max. 3%, max. 15 years) were officially in operation until May 1975. In that year a concession on the price of land, awardable by administrators of industrial sites, was introduced. A special regulation holds since 1968 for new economic activities in the newly established polder city of Lelystad (N.fl. 10 000.- per new employee going to settle down permanently in Lelystad).

No doubt the IPR has contributed to employment creation. Between 1950 and 1970 industrial employment in the province of Drenthe increased by 129%, in Friesland with 93%, in Groningen with 37%, in North and Middle Limburg (1960-1975) with respectively 36% and 31% (The Netherlands : -6%). But arrears in average income per head in the backward regions remained high, between -16% and -19%. In the period 1970-1974 in areas in which the IPR was (partly) in force, 23 to 68% of the investments in fixed assets has been premied under the IPR. While employment in manufacturing (man years) decreased from 1 203 000 in 1970 to 1 089 000 in 1975, premied projects (excl. Lelystad) created between 1-8-69 and 30-6-76 54 947 jobs. In service industries the increase of employment was in said period 107 000 against 1 378 "premiered" jobs. In manufacturing the investment per job is distinctly larger for extensions (N.fl. 158 260) (against N.fl. 128 804 for settlements). The same holds for services (N. fl. 135 217 against N.fl. 83 298). It is remarkable that the average investment in service extensions projects is bigger than in industrial setting up projects. The latter score is 85.5 new jobs per

project, services are near behind with 75 jobs.

A regional policy relating to a specified tertiary sector activity only is for instance the subsidy of modernisation of shopping centres (1977).

A national policy relating to a tertiary activity is the Credit subsidy for touristic accommodation (1970).

Furthermore a number of regional development companies are active in the three northern provinces, in Overijssel, and Limburg. They should contribute to the improvement of the social-economic structure of their regions, by giving credits, or being an intermediate in this respect, by participating in the equity capital, both relating to new and existing companies, industrial and tertiary.

The "Stichting Nederlandse Herstructureringsmaatschappij NEHEM" (1972) is a sectoral institute, aiming at improving the structure of Dutch business, and furthering sector-structural studies. Important for reshaping regional policy may be (come) various finance institutions, which in fact work on a national base: the "Nederlands Participatie Maatschappij", and the "Industrieel Garantiefonds" (especially for small and middle-sized firms). For these small and middle-sized firms a credit regulation is in operation: an enterprise credit for new equipment, extensions, replacement or modernisation; an economic cooperation credit; a capital reinforcing credit; a mortgage credit; and a credit for smoothing the effects of city-reconstruction.

Two important governmental notes are:

- a. The Note on the Selective Growth (1976), with two basic starting points, viz. continuity of business enterprises, and selectivity of economic development regarding labour-intensity, quality of labour input, effects on environment, economic use of energy and raw materials, effects on the international division of labour;
- b. The Note on Regional Social Economic Policy 1977-1980 aims at eliminating undesired regional economic instabilities, using comparative advantages or lessening or compensating comparative disadvantages. Short term objectives (till 1980): working away the regional component of unemployment.

On May 24, 1978, the accelerated depreciation allowance and the investment deduction, were replaced by the Law on the Investment Account ("Wet Investeringsrekening", WIR). A number of premiums are given as tax-reductions, so it is no longer necessary to make profit first. The aim is: stimulating and directing of investments (differentiated into buildings, not dwellings, fixed installations in the open air, seagoing ships, aeroplanes, other business investments).

The general basic premium varies between 7% and 23% (buildings). Linked to this premium is the "Selective Investment Regulation" - SIR, which aims at controlling investments in the densely populated areas in the western and middle parts of the Netherlands with their already high concentration of economic activities. In said areas a system of levies (new buildings and installations respectively 15% over N.fl. 250 000, and 8% over N.fl. 500 000), permits and notifications works.

There is furthermore a special regional allowance for extensions in three areas with much unemployment (buildings 20%, fixed installations 10%), a removal allowance (respectively 15% and 7.5%) from the SIR region to a number of nuclei, an allowance for big projects (at least N.fl. 30 mln, and then, generally speaking N.fl. 25 000 per new job), and a small scale allowance (up to investments of N.fl. 800 000.-, premiums decreasing from 6 to 0%). In the second phase there will be allowances for innovations, energy-saving investments, and effects on environment.

Should we move towards a special "Tertiary Sector Policy"? Let us be very careful in this field. Technologically advanced manufacturing is and remains the "engine" of economic activities in our countries. Continuation of transforming tertiary activities from manufacturing to the tertiary sector proper has distinct disadvantages: the system of price-setting in the tertiary sector is often not transparent and may foster inflation; tertiary sector labour demand does not tend to take over workers from manufacturing, but creates its own demand on the labour market. The tertiary sector is and will remain to a high degree dependent on manufacturing. Expectations regarding the capacity of the tertiary sector to expand its employment should be modest :

a) although denied by employers in 1977 one of the labour unions reckoned with a 10 000 workers' drain-off during the coming five years in insurance due to automatisisation projects. Employment creation in banking distinctly slowed down after the oil crisis and certain experts have already warned against over-banking regarding the network of settlements. Developments in expenditures and elasticities point towards distinct shifts within the tertiary sector. Already half of the households' expenditures finds its way outside retail trade : holidays (partly abroad), private transport, rents, insurance. In retail trade only a few industries still create employment. The increase of employment in the tertiary sector will not be substantial :

- many governments will meet severe deficits the coming years (about 6% in the Netherlands in 1978),
- standards will not demand much new employment.

Example : the share of age class 0-20 years will in 1990 be decreased by about 1/3. Although demand for higher education will rise, (advanced) primary education will be less personnel-consuming. The increase of the share of 65+ people will be modest, due to which not very much new employment for service personnel may be expected.

On the other hand there is evidence to coach by sound policy, information and incentives the tertiary sector. The sector is fairly stable also regarding the effect of the trade-cycle, but especially regarding employment as far as the firms serve local, regional or national markets. The relation between growth of sales and employment is distinct and positive, and so is the relation with the sum of wages. Regarding increase of incomes trade, hotels, repair and business services are in keeping with the secondary sector; transport and communication score high. As to the wage level only banking, insurance, transport and communications are ahead. One should not forget that the tertiary sector employs relatively many young and part-time workers.

Another important point is that many tertiary sector firms are small or middle-sized. It has been proven as to 1975 that the profitability of the smaller firms is distinctly better than the profitability of the bigger enterprises. Bigger firms score rather high as to absenteeism and to the relative number of workers entering and leaving the firm annually, and that is expensive. In a "quartary sense" the governments may do well to stimulate co-operation between smaller firms as to personnel management, in order to further the social effectivity of those firms.

Tertiary sector firms tend to cluster in densely populated areas where economic activities are concentrated; if they move out, they do so over short distances. According to research push factors (to leave a site) are 1. lack of space to produce properly or to expand in the present location (= 100), 2. unsatisfactory accommodations (= 43), 3. expropriation or notice to quit (= 39), 4. surroundings not considered representative for the firm (= 36), 5. traffic conditions (= 29), 6. government incentives (= 18). Pull factors (to attract tertiary sector firms) are 1. the possibility to expand (= 100), 2. new accommodations readily available (= 77), 3. reachability (= 48), 4. low(er) prices for site and premises (= 42), 5. "representative" surroundings (= 42), 6. good labour supply (= 26), 7. government incentives (= 16). Incentives, if they are intended to have any effect, should be given in a number of alternatives, reckoning with the character of the tertiary sector firms (including aids as to working-capital, inventories, loan capital interest, wages), and they should bear a temporary character in order to foster a sound tertiary sector which can move on without aids.

As to the so-called deficiency areas - which are indicated in the report for the Netherlands - it should be recommended to introduce a system of income-suppletions for owners/leaders of those small and middle-sized service industries that are necessary for the viability of said regions. A suchlike aid should be given temporarily and the incentive should be based upon cost-benefit analysis (specially estimating social costs related with sacrifices including productivity lost of consumers in the regions concerned who are continuously forced to overbridge relatively big distances for a number of expenditures). The argument for competition-falsification does not seem to hold: if no proper policy is introduced no entrepreneur will settle down (or stay) in those regions. Only firms outside the deficiency areas will suffer slight losses by losing a very small part of their turnovers. Keeping a region attractive and "viable" means moreover handling an important factor of location for industrial settlements.

It should be recommended to gradually break down the big differences in land-prices for industrial and service activities (in the Netherlands certainly a factor 10!). It stands to reason that part of the service firms are located in urban cores, where land is very scarce. But it is unacceptable that municipalities offer industrial settlements cheap and well laid-out sites, and at the same time try to balance their incomes and expenditures by having tertiary firms pay high prices for land. If governments expect the tertiary sector to create, or maintain at least, employment, this form of discrimination should be banned.

When reshaping tertiary sector policy a labour market approach should be strongly recommended. Quite a lot of professional tertiary activities take place in the secondary sector: in 1973 about 32%, whereas 9% of "secondary" occupations is tertiary. Differentiation of the labour population into males



and females gives distinct under and over-estimations. In the coming decades a substantial part of the new entries to the various labour markets will demand tertiary occupations, and supply of and demand for labour should be reconciled as well as possible. Moreover the Dutch report shows that between 1960 and 1971 it was only manufacturing which, by its new settlements and extensions throughout the country properly redistributed its tertiary employment (including the higher professions) too, whereas the tertiary firms strengthened their concentration of employment in the dominant region ("Randstad"). Therefore a strong plea for a labour market approach and a well-tuned combined industrial/tertiary sector policy. The report (No. 13) of the "Wetenschappelijke Raad voor het Regeringsbeleid" (1977) does not offer a solution : when growth in the private sector is modest, an increase of the collective sector is necessary. So keep real disposable private incomes at zero growth, and finance the increase of the collective sector out of the value added by business enterprises, leaving there part of the value added for replacements, improvements, and continuity. Non-market services satisfy demands which are not satisfied otherwise (medical services, aid for elderly people), they influence positively other activities (city reconstruction), it is specially this sector which can be influenced according to special objectives and targets for further employment. Part of the value added to be levied off may be directed to labour intensive classes, e.g. shops in under-served, sparsely populated areas, for restoration of certain handicrafts, for furthering environment investments. The author agrees with the interest of the W.R.R. for non-market services, but waves off the link with valued added levies in manufacturing, and strengthening the tertiary sector. At last it should always be borne in mind that a policy which stimulates the viability of economic life in a general way, on a national level, always will have positive effects on backward regions. When, after World War II, business life prospered, manufacturing in the "Randstad" first reached the over-employment stage, and reacted with quite a lot of new settlements and extensions in peripheric areas.

# THE ROLE OF THE TERTIARY SECTOR IN REGIONAL POLICY :

## UNITED KINGDOM

### S u m m a r y

by

Judith Marquand

#### Part A : Analysis

##### Chapter 1. Characteristics of the Tertiary Sector.

I.i The tertiary sector developed early in the United Kingdom as a consequence of early industrialisation, but then scarcely grew as a proportion of employment from about 1920 to about 1960. Since 1960 its growth has been rapid, from about 46% of all employees in 1960 to about 56% in 1975. (As shares of total working population, these proportions would be slightly higher, because of the concentration of self-employment in the tertiary sector.)

I.ii The numbers of both men and women employed in the tertiary sector have grown since 1960, although male employment has fallen in the economy as a whole. The tertiary sector has always been the main employer of female labour, and by 1975 accounted for nearly 75% of the women employed, although still less than 50% of the men.

I.iii The growth rate of employment in tertiary occupations has been rapid, with 56% of all employees in 1961 and 61% in 1971. By 1971 more males were employed in tertiary occupations than in secondary, and more than four-fifths of employed women were in tertiary occupations.

I.iv The fastest growing industries from 1960 to 1973 were nearly all in activities serving firms. The only major exceptions were education and health. Since 1973 some of these intermediate services are no longer increasing employment, but some consumer services (especially sport and recreation, pubs and clubs) are growing strongly. Industries with declining employment were a mixed bag in the earlier period, but effects of the recession on intermediate services and effects of the rise in the relative price of oil are discernible after 1973.

I.v Occupational comparisons are only possible between census years. Comparing 1966 and 1971, growth is overwhelmingly concentrated among the orders covering administrators and managers, and professional and technical workers and artists. Computer programmers and systems analysts are found in the fastest growing occupational group.

I.vi Public sector employment is almost entirely in education, health and public administration. It has been growing rapidly from 1960-76, by 3.25% p.a., far more rapidly than service employment in general, with 1.25% p.a. growth (G.B.).

I.vii Mainly because of the difficulties of measuring many service sector outputs, services are poorly specified in the national input-output tables and data are not available to distinguish adequately between final and intermediate services.

I.viii When allowance is made for the underestimation of service sector output by the use of employment indicators to measure it, it is not clear over the period 1951-72, that service sector output per head has been growing any more slowly than secondary sector output per head. Perverse relative price movements since 1972 make it difficult to interpret what has happened since then. A cursory examination of the effects of the change in part-time working suggested that this made little difference to the outcome.

I.ix The income elasticity of demand for these services which appear in the Family Expenditure Survey is greater, on a cross-sectional analysis, than the income elasticity of demand for goods. Services with a particularly high income elasticity of demand in 1976 are closely associated with the parts of the service sector which were growing strongly or improving their relative position during 1973-76.

I.x Service sector pay is overwhelmingly dominated by the skill mix. When allowance is made for this, service sector pay is on balance less attractive than secondary sector pay, so is unlikely to have an important factor in facilitating the growth of the service sector.

I.xi There is far more part-time employment in the service sector than in the secondary sector, both for men and for women. For both sexes the proportions have risen rapidly since 1960. By 1976 more than half the female employees in miscellaneous services and the distributive trades worked part-time, and nearly half in professional and scientific services. This growth in part-time working has major social consequences and is associated with limited labour market mobility.

I.xii If the growth in employment from 1960-1976 is expressed in terms of full-time equivalents, the growth of the service sector is reduced by about one-fifth, whilst the decline of the manufacturing sector is barely changed. Employment in all industries and services in 1976 becomes 97% of that in 1960 instead of 103%; employment in services, 120% instead of 126%.

I.xiii Self-employment is concentrated heavily (about 75%) in the service sector, and has scarcely changed in numbers from 1961-75. Whilst the proportion of self-employment has risen fractionally in the whole economy (entirely because of the behaviour of construction), self-employment in the service sector has declined from about 9.75% of total service employment in 1960 to about 9% in 1976, because total service employment has risen.

I.xiv Small firms predominate in much of the service sector. Present evidence is patchy, although likely to improve in the near future.

## Chapter 2. Cycle, Trend and Outlook.

II.i Tertiary sector employment as a whole fluctuates much less over the trade cycle than secondary sector employment, but within the tertiary sector, employment in Distributive Trades and Miscellaneous Services is highly volatile, whilst all other tertiary sector employment is very stable.

II.ii Occupational unemployment statistics exist only since 1973, and show that non-manual unemployment is consistently lower as a proportion of non-manual employment than the corresponding manual ratio, but has been rising slightly, except for managerial, professional and clerical men, and managerial and professional women. Thus, excepting these groups, non-manual employment (such as in Distribution and Miscellaneous Services) appears more volatile recently than manual employment.

II.iii Transport and Communications are highly capital intensive, but the rest of the tertiary sector uses significantly less capital per unit of output and capital per unit of labour than manufacturing.

II.iv Investment per employee has been higher and more stable since about 1970 than investment in manufacturing. About one-third of private sector tertiary investment is in new building and works, compared with less than one-fifth of manufacturing investment.

II.v Tertiary sector output and employment can be related to the behaviour of macro-economic variables, particularly consumers' expenditure and/or personal disposable income, GDP, and in some cases industrial production, but considerably more thorough work is needed before adequate forecasting relationships can be produced. A much better fit for almost all the relationships is achieved when 1973-6 is included in the regression (using data since 1960) rather than when the data used finishes in 1973, but observations for the longer period could not, in general, be drawn from the same population as the observations for the period 1960-73. In the aggregate, tertiary sector output and employment have been more buoyant since 1973 than earlier relationships would have allowed us to predict.

II.vi Regression relationships for individual sectors were rather better than for the tertiary sector as a whole, but were still not robust enough to give confidence in their use for forecasting. For the most recent period, Transport and Communications, like aggregate tertiary output, are more buoyant than would have been predicted, whilst the other sectors appear less buoyant. The equations allow a wide range of indeterminacy in any forecasts made from them.

II.vii In sum, tertiary sector output rises pari passu with GDP and tertiary sector employment rises at about half this rate.

II.viii The U.K. Government publishes no medium-term forecasts or assessments, but the equation it uses in its short- and medium-term forecasting model for employment in market services relates this to a time trend (proxy for productivity) and lagged output. Non-market public services are related to the wage bill and a time trend. Problems arise with its equations similar to those which we observed in our equations.

II.ix The U.K. Government publishes projections of public expenditure, but these do not usually include (published) manpower forecasts. The National Economic Development Office produces but does not publish forecasts of aspects of retail trade, and publishes forecasts of the prospects for the hotel industry. No other official forecasts for parts of the tertiary sector are published.

### Chapter 3. Regional Patterns of Tertiary Sector Activity

III.i The overwhelming characteristic of location quotients, both population and employment based, for tertiary sector industries is the above average concentration in the South East, most markedly of all for Insurance, Banking and Financial Services. The East and West Midlands on balance have the lowest location quotients.

III.ii Between 1966 and 1971, the location quotients for the remainder of the South East increased markedly whilst those for Greater London declined. The East Midlands improved its relative position and the North West declined.

III.iii A longer historical perspective shows that national growth rates swamp regional variations. The main changes in the regional structure of services since 1952 are associated with relative changes in production in the secondary sector (measured by employment). The biggest changes took place in the Insurance, Banking and Financial Services sector.

III.iv Experience since 1971 has been more diverse than earlier. The East Midlands and Northern Ireland have improved their relative positions and the South East and North West deteriorated.

III.v Variations in public sector provision for the local population do not explain the location quotients for Professional and Miscellaneous Services and Public Administration. Public sector standards of provision in general appear fairly uniform. Especially in view of this result, regional variations in the levels of public expenditure cannot be taken to indicate that public expenditure is not reasonably well-matched to needs. Moreover, much of it shows on balance a bias towards the peripheral regions.

III.vi There are regional variations in the extent of self-employment in services, which broadly match regional variations in self-employment in all industries. There is little self-employment in general in the North, Scotland and Northern Ireland, and high levels in the South West, Wales, and Yorkshire and Humberside (predominantly in Distribution), and East Anglia (predominantly in Miscellaneous Services). The South East has the highest proportion of professional and scientific self-employed.

III.vii Industry studies are scanty except for Distribution and Tourism, and listed in the bibliography. Multiplier studies are also scanty, mainly for methodological reasons.

III.viii Employment in office occupations is heavily biased towards the South East, more heavily than any industrial sector. Wales and the North, both especially lacking in managers, have the lowest location quotients. As with service industries, there has been a marked shift between 1966 and 1971 out of Greater London into the rest of the South East. The positions of the North West, West Midlands, and, to a lesser extent, Yorkshire and Humberside and the North, have deteriorated. Caution should be used in extrapolating these trends beyond 1971, but they do in fact have a long history, starting not merely from 1961-66 (where census data can be examined), but at the end of the nineteenth century.

III.ix Higher managerial and professional occupations in particular are overwhelmingly concentrated in the South East.

III.x Head offices of large firms are heavily concentrated in London, and the concentration has been growing from 1971/2, the first date for which data is available, till 1976/7. As a corollary, the share of employment, whether in branch plants or subsidiaries, controlled from outside the region, has increased elsewhere, to (for example) 59% of manufacturing in Scotland in 1973. Takeover is the main engine of change; the consequences for the service sector are serious since branch plants draw significantly fewer of their services from within the region than locally-owned plants, with subsidiaries in an intermediate position. (The same is not true of purchases of material inputs.)

III.xi The pull of services towards the South East, associated with a severing of linkages with local services after acquisitions, contrasts strongly with the recent movement of manufacturing towards the periphery.

#### Chapter 4. Locational Analysis of Tertiary Sector Activity

IV.i We hypothesised that localities based on travel-to-work areas provide appropriate building blocks for testing the least restrictive form of central place theory, for providing both a better description of the distribution of economic activity than location quotients and a partial explanation of it, for examining the dispersion and changes in the dispersion of economic activity, and for observing the extent and location of under-servicing with consumer services and of rich (or poor) endowments with producer services, by regions and by metropolitan economic labour market areas (MELAs) within regions.

IV.ii We found that there was a significant tendency for certain activities to cluster increasingly in the larger metropolitan economic labour market areas. For producer services, the relationship tended to hold more strongly when employment in the particular service was related to total employment in the area; for consumer and mixed services the relationship was closer with population. The relationship was least strong for those activities where links with the local market might be expected to be least important - national government, research, hotels. The relationship was significantly inverse only for universities - another industry where government decisions determine location.

IV.iii Even if London were excluded, a significant hierarchical effect remained in almost every case where one existed when London was included. However, the consequence of including London was in almost every case to bias the curve upwards, and the effect was strongest for the managerial and higher professional activities, and also for cinemas, theatres, and actors and musicians. This result reinforces the observations on company headquarters and on research and development in Chapter 3.

IV.iv It would be of considerable interest to examine the distribution of services between central cores and inner and outer rings, and perhaps to examine apparent minimum requirements of different types of service industries in areas of different sizes.

IV.v When more disaggregated industries and occupations were examined, it was only to be expected that the fit of the regressions would worsen. However, the fit remained extremely good, with the slope of the regression line differing significantly from unity for many of the groups, especially when population was the independent variable.

IV.vi Because significant curvature was observed in many cases, it follows that the descriptive power of exponential regression equations is generally better than that of linear regressions related to location quotients and that they provide a simple way of explaining the problem of the correlation of the location quotient residuals with population (and to a lesser extent, employment) revealed in Chapter 3. Because regression equations alone (of whatever form) are not totally reliable, especially when comparing the concentration of two different sets of observations (the same industry at different times, or different industries at the same time), we supplemented them with Hannah/Kay concentration ratios. Whilst these do not allow examination of the individual MELAs, they permit a clear judgement to be made as to whether one industry is unequivocally more concentrated than another, and hence whether the regression equations are misleading. In general they were not, so that it becomes legitimate to go on to draw conclusions in detail from analysis of the residuals of the regression equations.

IV.vii One striking result from the concentration ratios, supported by the regression results, is the demonstration of a clear difference in the locational behaviour of consumer and producer industries. The latter are far more concentrated in the larger MELAs than the former. Further analysis of the regression residuals by detailed occupational groups is required to illuminate the surpluses and deficiencies of individual MELAs in this respect.

IV.viii Although consumer services are widely dispersed, there are considerable variations between MELAs in their endowment with them. The variations are sufficiently wide to make it clear that it is unjustifiable to assume that the market will operate to distribute consumer services (relatively) evenly in relation to population, or population and size of urban centre. Moreover, MELAs which are deficient in Miscellaneous Services (the most purely consumer-oriented SIC Order) tend to be deficient in several other of the SIC Orders containing consumer services as well. More detailed analysis, using a finer industrial breakdown, is indicated. Nonetheless, it would seem that the residuals from the exponential regression equations provide a good starting-point for the identification of areas of gross deficiency in consumer services.

#### Chapter 5. Location and Relocation Decisions - Which Firms are Footloose?

V.i We define an activity as footloose as between two locations if there is no significant difference between its long run costs in each.

V.ii The main long run costs which differ are salaries, rents and rates, which are lower outside London, and contact costs.

V.iii Government assistance may be sufficient to offset the transitional costs of relocation.

V.iv Firms which relocate usually retain at least a small office in London. They differ from firms which do not relocate in having fewer outside contacts and lower contact costs. There are also possibilities of adapting contacts after relocation.

V.v Branches make fewer local links than subsidiaries which make fewer local links than headquarters or one plant establishments. Indeed a high proportion of business travel is generated by the need to maintain contact between the parts of spatially separated organisations.

V.vi There is significant potential for reducing travel requirements by substituting audio teleconference media for meetings, even at today's costs.

V.vii The costs of travel are such that increased communication costs should not prevent location in any of the major cities in the U.K., except for offices where very large amounts of additional travel by senior managers would be generated.

V.viii Relocation out of Central London has been taking place at the rate of about 24,000 jobs a year from 1963 to 1970, of which about half were recorded by LOB. However, almost all the inter-regional moves will have been recorded by LOB.

V.ix Most moves are made by small firms, but most jobs moved are in larger firms moving blocks of 200 people or more. Movers tend to be larger than Central London offices which remain. Low status level jobs involving little external communication tend to be moved. Many moves are partial moves; accounts departments and sales departments with few external contacts move the most. Many of the movers are firms in those parts of the tertiary sector which have high proportions of routine clerical work.

V.x Larger firms move further than small firms, which usually only move a short distance and largely retain their old contact patterns. For the longer distance moves, only the key staff move with the firm, and a Central London office of some sort is retained.

V.xi Most firms are satisfied with their moves.

V.xii The majority of the jobs moved are not merely tertiary activities but tertiary sector activities. Substantially more of many manufacturing industry offices, insurance companies, and societies and associations moved than the proportions present in Central London would lead you to expect.

V.xiii Many of the activities which move in lower proportion than their concentration in Central London suggests are in fact industries which are very highly concentrated in London, so that in national terms the number of movers is not low. Relocation has contributed to the more even dispersion observed in most tertiary sector activities in 1971 compared with 1966.

V.xiv Relocation has proceeded much faster since 1971 than before, with a higher proportion of moves going beyond the South East, mainly to places still within 150 miles of London. Greater London has been losing jobs to the rest of the South East at an increasing rate.



V.xv Relocation accounts for at most one-seventh of the total net change in office employment recorded outside London; birth, growth, merger and death of firms are quantitatively far more important.

V.xvi New service sector single establishment firms will by definition be small firms. Entry is relatively easy as capital requirements are low; vulnerability is probably high. Entrepreneurs will locate in regions they know, and are unlikely to move far even when the firm grows.

V.xvii Multi-establishment consumer services use sophisticated market analysis to choose locations for new branches, but no hard facts appear to be available.

V.xviii For multi-establishment services where consumer accessibility is not the main consideration, location decisions for new branches are very similar to (partial) relocation decisions.

V.xix Much tertiary activity may be regarded as footloose, either in its initial location decisions or its relocation decisions. For small firms, individual entrepreneurs may not wish to change location, but entry is often easy so that new activity could be stimulated in areas where there appears to be room for it.

## Chapter 6. Conclusions from the Analysis

VI.i In Chapters 4-5 a rich pattern of factors affecting growth and location was uncovered, some of them in accordance with received views and others more controversial. Only by understanding the causal factors can well-founded policies for the tertiary sector be developed.

VI.ii It is not proven that the rate of growth of tertiary sector productivity is in general any lower than elsewhere in the economy. Consequently it cannot be argued that tertiary sector employment expanded faster than that in the secondary sector simply to provide matching increases in supply, but rather that it expanded to meet increases in demand. However, it is an institutional question with locational implications how far increases in demand for producer services show themselves as increases in employment in tertiary sector industries rather than in tertiary occupations inside secondary sector industries. And projection of demand for consumer services is often vitiated by the effects of changes in technology. Thus projections of the future growth of service output and employment are hazardous, especially as no satisfactory relationships describing past experience have been identified.

VI.iii Many characteristics of tertiary sector employment - the extent to which tertiary employees are women, the extent to which they work part-time, the extent of self-employment and the large numbers of small firms - have important spatial consequences.

VI.iv The economic role of tertiary activities requires much fuller investigation, especially with regard to exports, import-saving, and adaptation to changes in technology, but it is unlikely that expansion of the tertiary sector will be sufficient to solve current unemployment problems.

VI.v The contribution of an establishment to an area depends as much on where it buys its inputs as on where it sells its outputs. Because of the nature of service linkages we cannot extrapolate from existing input-output patterns when considering the impact of additional service activity upon a region. Studies suggest that the multiplier effect of services is at least as great as that of manufacturing.

VI.vi Regions with boundaries drawn for administrative purposes appear less appropriate for analysis of tertiary sector employment than functional cases based on travel-to-work flows.

VI.vii Producer services are strongly clustered and increasingly clustered in the larger of these functional areas (Metropolitan Economic Labour Areas). For these services, it appears that the extent of urbanisation in a region is an important determinant of concentration and that location quotients may lead to misleading inferences. On the other hand, consumer services are not in general clustered increasingly in relatively larger areas, and are almost always more widely dispersed. Since the factors influencing location for the two types of services are different, it follows that policies to influence location must be considered separately too.

VI.viii Although producer services became more decentralised during 1966-71, company headquarters became increasingly concentrated in or near London. Relocated work was usually of a routine nature. The drift of professional and higher management manpower towards London is a long established phenomenon, associated partly with changes in the means of communication.

VI.ix Policies which generate more varied regional opportunity and which will bring regions nearer to self-sustaining growth are to be preferred to policies which simply increase regional job opportunities. For example, decentralisation of higher managerial and professional activities, encouragement of small firms, discouragement of mergers, and perhaps increased decentralisation of administrative decision-making appear appropriate objectives.

VI.x Although consumer services did not show an increasing concentration in the larger MELAs, private services in particular showed considerable variation in endowment between MELAs, beyond what was likely to be explicable in terms of variations in incomes or socio-economic composition. Insofar as we can identify areas of marked deficiency, we can argue that there is market failure and that assistance to consumer services to offset these market imperfections may be appropriate.

VI.xi Selectivity in areas and activities aided and in methods of aid appears appropriate. Metropolitan areas rather than whole regions should in general be its subjects, but there should be differentiation between producer services, where it is appropriate to provide wide-ranging support and to attempt to encourage decentralisation of decision-making, and consumer services, where it is not clear that it is appropriate for aids to move beyond the removal of market imperfections.

## Part B : Policies

### Chapter 7. Policies, their Rationale and their Effectiveness

VII.i Regional policy in the United Kingdom stretches back some 50 years, and has always been concerned with revitalising the areas of structural decline in manufacturing industry. Although the primary concern has often been to bring in new manufacturing industry to replace the old, a second strand in the policy has often been apparent, that of bringing new activities of every kind, including services, to the declining areas.

VII.ii Policies which discriminate against the tertiary sector, whether by exclusion of explicitly, include Regional Development Grants (for secondary industry only) and have included Regional Employment Premium and Selective Employment Tax; also the policy towards New Towns, both in the Assisted Areas, and elsewhere. The first two of these, the most important in expenditure terms, probably influenced the balance of new activity in the Assisted Areas, but estimates even of their overall effect are not substantial. SET had a noticeable effect on tertiary sector employment and productivity (in the Assisted Areas and elsewhere), and the balance of activities in the New Towns appears deficient in services.

VII.iii Policies which include the tertiary sector on the same footing as manufacturing include Selective Assistance under Section 7 of the Industry Act 1972, excluding the Service Industry Grants Scheme; the key workers scheme under the Local Employment Act 1972 and the Employment and Training Act 1973, and a special Assisted Areas Training Grant scheme, from 1964-73. For all of these measures the uptake by the tertiary sector has been very small.

VII.iv The National Enterprise Board, set up under the Industry Act 1975, has among its functions that of providing new jobs in areas of high unemployment. Its remit covers the tertiary sector as well as the secondary sector; so far it has been involved in two tertiary sector projects, but neither has any particular relevance to the Assisted Areas.

VII.v The Service Industry Grants Scheme, introduced in 1973 and expanded in 1976, appears to have created about 5000 new jobs in the period before it was changed, at a gross Exchequer cost of offers per associated job of about £1000, much the same as the cost per job in manufacturing provided by Selective Assistance. But manufacturing industry receives other assistance too; when this is taken into account, the gross Exchequer cost per manufacturing job appears to have been £8000 and rising over the period. Selective Assistance under the Service Industry Grants Scheme is restricted to projects with a "genuine choice of location", explicitly excluding "projects serving primarily local needs". Some combination of these restrictions, and the low level of assistance available by comparison with that for manufacturing probably explains the low level of response to the scheme (at any rate, until some restrictions on eligibility were lifted in October 1976).

VII.vi Selective assistance to tourism projects under the Development of Tourism Act 1969 has created some 2000 jobs in England during 1971-7 at an average gross Exchequer cost per job of some £2800.

VII.vii There was Government dispersal of some 35,000 posts to what are broadly speaking the Assisted Areas during 1963-72. Present Government policy, announced in 1974 after the Government had considered the Hardman Report, and republished in 1977, is to disperse a further 30,000 posts, some 20,000 of them to the Assisted Areas, by 1987-8, at an estimated gross Exchequer cost of the order of £1000 per job, to be recouped entirely from the expected flow of benefits by the end of the century, with 1989 as the first year of net benefit.

VII.viii The system of Office Development Permits, aided by the advice of the Location of Offices Bureau, caused many firms (some 145,000 jobs) to relocate outside central London during the period 1963-77, probably more because of the indirect effects of the policy on rents than because of the direct effect of the refusal of permits. Only some 3500 of these jobs were relocated to the Assisted Areas, but note that until 1977 it was not a particular objective of the policy to encourage them to move there.

VII.ix Policy has changed significantly in the period since 1976, not only with the changes in Service Industry grants in October 1976, and with a changed emphasis on tourism and other rural depopulation policies, but with a new emphasis on aiding inner city areas, where services are included in the provisions of the Inner Urban Areas Act, and on aiding small businesses. It is too early to appraise the effectiveness of the new policies taking shape, but the policy stance can be appraised in relation to the analysis in Part A of the Report.

## Chapter 8. Appraisal of Current Policy Stance

VIII.i The present policy stance can be related to the conclusions of the analysis set out in Chapter 6, distinguishing between producer and consumer services.

VIII.ii The broadening of eligibility for Service Industry Grants to include firms, the development of the Inner Cities Policy, and the new emphasis on the problems of small firms are all steps in the right direction.

VIII.iii Examining Service Industry Grants in more detail, the relevance of the mobility criterion and the suitability of its administrative interpretation have already been queried (in Chapter 7). There appears to be no valid argument for a higher cut-off point for aid for new and expanding firms than for relocating ones. There appears to be a case for redressing the balance of aids between manufacturing and service industry, although more study is needed. But it appears that there might be little response to increases in the levels of aid or to some types of extension of eligibility.

VIII.iv There is some overlap, but by no means a perfect coincidence, between areas covered by the Inner Cities policy and areas shown by the analysis to be seriously deficient in consumer services. Thus the geographical coverage of that policy appears inappropriate for our purposes, although the instruments and types of aid appear suitable to serve industries.

VIII.v It is necessary to have some reservations until results can be observed about the effects for the assisted areas of the new version of the office development permit scheme and the new terms of reference of the LOB.

Should aid to relocating firms not be raised at least to cover the current level of transitional costs? Should it be granted to cover additional aspects of the relocation decision? Should R + D departments in particular be encouraged to relocate? Should aid be given specifically to reduce communication costs?

VIII.vi More study of small firms and appropriate forms of aid to them is required before it is possible to decide whether a specifically regional policy for them should be formulated.

VIII.vii The EEC Regional Fund Regulations allow support for most of the policy directions suggested. However, they and their interpretation should be broadened, since there is no good reason for excluding from aid any producer services, nor consumer services in areas of deprivation. Similarly, service activities should not be excluded from the grouping provisions.

## Part C.

### Chapter 9. Recommendations : Summary

IX.i The cut-off point for eligibility for the Service Industry Grant Scheme job job creation by new or expanding firms should be reduced from 25 to 10 new jobs.

IX.ii The administrative interpretation of the mobility criterion for eligibility for Service Industry Grants should be changed to admit all producer services.

IX.iii Whether an applicant firm provides producer services should be determined by examination of its markets.

IX.iv Consumer services eligible for Service Industry Grants under the present criterion (20% of output exported beyond the Assisted Areas) should remain eligible, as should any consumer service which can demonstrate that it will make a substantial contribution (to be defined) to import-saving.

IX.v New, expanding or relocating consumer services should be eligible for aid in areas (to be defined) where consumer services (or perhaps all services) are grossly deficient.

IX.vi Substantial further investigation of the nature and location of deficiency areas is required.

IX.vii EEC Regional Policy Guidelines should be amended to allow aid to consumer services in designated areas.

IX.viii EEC Regional Policy Guidelines should be amended to allow aid to clusters of small service sector firms.

IX.ix A far-reaching examination of the needs of small firms in the service sector should be set in hand.

IX.x Consideration should be given to providing advice to small firms at more points than the present 10 Regional Advice Centres.

IX.xi The structure and coverage of regional incentives under the Service Industry Grant Scheme should be reassessed, especially in view of the possible consequences of the change in ODP policy towards Inner London. Questions for consideration include :

- (i) Should the structure of aid be made more progressive to give greater aid than at present to areas furthest from London?
- (ii) Should special incentives be provided to encourage company headquarters to locate or relocate in Assisted Areas? In particular, forms of aid to reduce the communication costs with London might be considered.
- (iii) Should special incentives be provided to encourage R + D departments to locate in Assisted Areas?

IX.xii EEC infrastructure aid to transport and communication to reduce contact costs with London is recommended.

IX.xiii The balance of aids between the service sector and manufacturing should be redressed in favour of services.

IX.xiv The most important research requirements to underpin these recommendations comprise :

- (i) development of reliable indicators of areas of gross deficiency in services;
- (ii) improvements in official statistics relating to the service sector;
- (iii) further analysis of the role of services with regard to output, productivity, growth and the balance of payments;
- (iv) a research programme to examine the behaviour and needs of small firms.

IX.xv Other areas for research include :

- (i) work on consumer elasticity of demand for services;
- (ii) without much priority until improved statistics are available, further work on forecasting;
- (iii) industry studies of output, productivity and technical change, including, for example, studies of insurance, banking and business services;
- (iv) studies of birth, growth, merger and death of tertiary sector firms, both generally and in a spatial context;
- (v) studies of location and relocation decision procedures by large tertiary sector firms;
- (vi) studies of the relationship between location (in relation to the industries they serve) and performance by R + D establishments;
- (vii) studies of the feasible changes in contact costs from improved travel arrangements.



LIST OF QUESTIONS ON WHICH NATIONAL REPORTS WERE BASED

All experts were asked to answer all asterisked questions, and as many of the others as possible.

A.1. General Analysis : National

- \* (i) What has been the course of primary, secondary and tertiary sector employment, and the course of the ratio of tertiary to secondary sector employment since 1960 (and in less detail over a longer period).
    - (a) in the aggregate, using an industry classification of employment
    - (b) in the aggregate, using an occupational classification of employment.
- If possible, distinguish male and female employment separately.
- \* (ii) What has been the course of primary, secondary and tertiary sector output over the same period?  
What has been the course of secondary and tertiary output per man, insofar as the latter can reasonably be measured?  
What has been the course of value added?
  - \* (iii) As for A.1.(i) above, in more detail for the tertiary sector, still distinguishing by sex if possible, and showing employment
    - (a) by main (2-digit) industry groups
    - (b) by main (2-digit) occupational groups.
  - \* (iv) Using the 2-digit groups from A.1.(iii) above, and where relevant a finer breakdown, which are the especially fast growing and the especially slow-growing tertiary industries and occupations?
  - (v) How do tertiary sector incomes relate to other incomes? (Again, distinguishing by sex, industry groups and occupational groups if possible.)



(vi) How much are tertiary sector employment and output affected by the trade cycle?

What has been the course of unemployment and vacancies?

- \* (vii) Distinguish between the public sector and private sector components of tertiary employment by industry and occupation.

(viii) Identify the growth and distribution between (secondary and tertiary) industries of higher managerial and professional employment.

(ix) For tertiary sector industries, what is the extent of selfemployment? What is the size distribution of firms, especially of small firms? How does it relate to the secondary sector distribution? How has it been changing?

- \* (x) How far do the various tertiary industries produce final services and how far intermediate services?

(xi) What can you tell us about the growth of tertiary sector output in relation to variables such as GDP, disposable income, disposable income per head, consumers' expenditure, industrial output, etc.:

(a) in the aggregate

(b) distinguishing final and intermediate services

(c) distinguishing privately and public provided final services?

(xii) Can you give estimates of the income elasticity of demand for (final) services and the income elasticity of demand for goods using time series data?

(xiii) Can you give estimates of the income elasticity of demand for some final services (and for some goods) using cross-sectional data such as household expenditure data?

(xiv) Can 'traditional' services (negative income elasticity of demand) be separately distinguished?

(xv) For those tertiary industries where it can sensibly be measured, discuss the behaviour of output per man.

(xvi) Is there any evidence concerning the relative productivity of comparable (secondary sector) firms who use differing amounts of tertiary sector activities (internal or external to the firm) in making their products?

(xvii) Is there any readily available material concerning capital stock, and the level of investment for tertiary industries, collectively or individually, preferably in relation to comparable figures for secondary industry?

A.2. General Analysis : Classification of Activities as Potentially Footloose

- \* (i) Can you classify tertiary sector activities into potentially footloose and non-footloose categories, with reference to national evidence.
- \* (ii) Cross-reference the classification as far as possible to :
  - (a) the industry classification of tertiary sector employment
  - (b) the occupational classification of tertiary sector employment.
- (iii) Consider the classification into potentially footloose and non-footloose categories in relation to various market classifications, such as :
  - (a) the distinction between final and intermediate services
  - (b) the distinction between services produced for local, national and international markets.
- (iv) Can any well-founded and empirically observable distinction be drawn between 'induced' and 'inducing' (or 'induced' and 'basic') services? If so, how does it relate to the distinction between footloose and non-footloose services?

A.3. General Analysis : Regional

- \* (i) Estimate location quotients (employment based and population based), for tertiary sector activities broadly classified, by region, for a recent date :
  - (a) by industry
  - (b) by occupation
  - (c) for higher managerial and professional occupations.
- \* (ii) Show the changes in regional distribution of the main tertiary activities between dates since 1960 :
  - (a) by industry
  - (b) by occupation
  - (c) for higher managerial and professional occupations.
- \* (iii) Can you relate the regional distributions described in A.3.(i) and A.3.(ii) to regional factors such as incomes, socio economic classes, regional indicators of the degree of urbanisation, etc.? (This question is particularly important if the locational analysis in section A.5. cannot be undertaken.)
- \* (iv) Can regional tertiary activities be split between potentially footloose and non-footloose activities (see A.2, especially (ii) and (iii))? Can the private and public sector components of each be distinguished (see A.1.(vi))?

(v) Can the distinction between services produced for local, national and international markets (A.2.(iii)b) be made at regional level?

(vi) Can the extent of self-employment and the size distribution of tertiary sector firms (see A.1.(vii)) be shown at regional level?

(vii) How far are the firms (establishments), both secondary and tertiary sector, within the region, head offices or branch offices plants? How far are they R and D establishments?

(viii) How far, for main groups of tertiary sector activities, is it possible to make estimates of the effects, direct or indirect, on employment and incomes, of a unit increase in tertiary sector activity of a particular kind within the region? How do these results relate to similar results for secondary sector activities?

(ix) To the extent that studies have been carried out of particular activities, such as tourism, they should be reported here.

#### A.4. Forecasts : National and Regional

\* (i) At a national or a regional level, for any main groups of tertiary activities, are there any signs of a change in trend in employment or output since 1973, especially in relation to GDP industrial output, total employment, etc.? (It may be helpful to distinguish publicly and privately provided services separately here.)

(ii) Can you give any forecasts of tertiary sector employment or output, either in the aggregate or for particular sectors, either nationally or regionally.

#### A.5. Locational Analysis.

It is suggested that the analysis be carried out by nodal areas and for potentially footloose and for non-footloose services separately, if this is possible.

(A) Potentially footloose services (see A.2.(i) and (ii))

(i) For nodal areas, what is the extent of clustering :

(a) for potentially footloose tertiary occupations in relation to total employment?

(b) for higher managerial and professional occupations in relation to total employment?

(c) for potentially footloose tertiary industries in relation to total employment?

How good is the fit? How steep is the hierarchy?

(ii) When the nodal areas are aggregated into regions, are some regions significantly 'under-serviced' with potentially footloose services in relation to their degree of urbanisation?

(iii) How do the results under A.5.(ii) immediately above relate to those in A.3.(i) and (iv), which examine regional concentrations of tertiary activity without taking account of the degree of urbanisation? How do the results relate to A.3.(iii), where if urbanisation is included, it is estimated in a cruder way?

(B) Non-footloose services. (See A.2.(i) and (ii)).

(i) For nodal areas, what is the extent of clustering :

(a) for all non-footloose services, in relation to population?

(b) for publicly provided non-footloose services, in relation to population?

(c) for privately provided non-footloose services, in relation to population?

How good is the fit? How steep is the hierarchy? Are some nodal areas significantly 'under-serviced', taking account of their degree of urbanisation,

(a) with publicly provided services?

(b) with privately provided services?

(ii) When the nodal areas are aggregated into regions, are some regions significantly 'under-serviced', taking account of their degree of urbanisation,

(a) with publicly provided services?

(b) with privately provided services?

(iii) How do the results under A.5., (B)(ii) immediately above relate to those in A.3.(iii), which examine regional concentrations of non-footloose public and private sector tertiary activity without taking account of the degree of urbanisation?

## B. Policy Analysis

### \* B.1. List of Policies

List all relevant policies now in force or about to be brought into force under their respective headings. Judgement should be used with regard to policies which are no longer in force, of which particularly interesting or important ones may be mentioned. The list should be sub-divided :

- (i) Regional policies relating to (all or some) tertiary sector activities only.
- (ii) Regional policies which include (all or some) tertiary sector activities along with other activities.
- (iii) National policies relating to the tertiary sector which may have significant consequences for its regional distribution.
- (iv) Major regional policies which explicitly exclude the tertiary sector and hence may cause a significant bias against it.

### B.2. General Rationale of Policies

What is the rationale given for the policy stance towards the tertiary sector in general and in the disadvantaged regions?

### B.3. Characteristics of Policies

For each policy listed under B.1.(i) and (ii) above, all the characteristics below are relevant. For policies listed under B.1.(iii), most characteristics are relevant, but judgement obviously needs to be exercised in relation to characteristics (viii) - (xi). For policies listed under B.1.(iv), only grounds for believing that there may be a bias and attempts to quantify the bias are relevant under heads (viii) - (xi).

For each policy listed in B.1. (subject to the qualifications above) :

- (i) outline the main provisions
- (ii) mention any special treatment for particular sub-sectors
- (iii) indicate the level (national, regional or local) at which the policy is administered
- (iv) set out the criteria for delimiting target zones, where appropriate
- (v) describe the criteria to be used for determining whether aid shall be granted, where this is discretionary
- (vi) indicate the state of implementation (date of coming into force, etc.)
- (vii) provide a brief rationale, where this is not covered by the general account under B.2.

- (ix) indicate the expenditure incurred, both directly and in administering the policy, and to indicate its regional distribution
- (x) set out simple indicators of the results of the policy (e.g. jobs created or transferred), or indeed more complex indicators where these are available
- (xi) appraise the operation of the policy in relation to its own stated objectives (e.g. indicate cost-effectiveness, magnitude in relation to the dimensions of the problem and in relation to other policies, etc.)

#### B.4. General Appraisal of Policies

The general policy stance (B.2.), the operation of the bunch of policies as a whole and of individual policies where appropriate, should be appraised in the light of the results of the analysis in Section A. Is it appropriate to try to encourage additional tertiary activities of some types in disadvantaged regions? Is the policy stance described (B.2.) in accordance with this? Are the policies listed (B.1. and B.3.) appropriate ones? Are they likely to be effective?

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