

Errore. Il segnalibro non è definito.

MAY 1996
revised SEPTEMBER 1996

**Technical change and employment growth in services :
analytical and policy challenges¹.**

Pascal Petit² and Luc Soete³

¹ Paper presented at the conference "Technology, Employment and Labour Markets" held in Athens University of Economics and Business 16-18 may 1996.

² CEPREMAP/CNRS - 142 rue du Chevaleret - Paris 75013.
tel.: 33 01 40.77.84.27 ; fax.: 33 01 44.24.38.57 ;
Email.: Petit@Cepremap.msh-Paris.FR

³ MERIT - P.O.Box 616 - 6200 MD Maastricht NETHERLANDS
tel.: 31.43.88.38.69 fax.: 31.43.21.65.18
e-mail: Luc.Soete@algec.unimaas.nl

Errore. Il segnalibro non è definito.

INTRODUCTION

It is generally acknowledged that employment in our economies is increasingly dependent on services. As in other highly developed economies, the European countries are continuing their gradual move towards a service-based economy with today nearly 70% of the total labour force being employed in service activities. It is also generally acknowledged that services provide the key to future employment growth. Neither agriculture nor manufacturing have been able to generate sufficient output growth to offset, in the last two decades, the productivity growth following the diffusion of labour saving machinery and the reorganisation of work and trades, impelled by an increasing international competition. And while some high-tech manufacturing sectors have succeeded through the introduction of new and improved high income elastic consumer goods to generate new employment opportunities, their number has been falling steadily over time. Particularly in Europe, high tech manufacturing sectors have no longer witnessed any employment growth over the 90s. Still, given the generally acknowledged importance of services for future output and employment growth, relatively little attention has been paid to technical change in services.

Though it is a key issue to understand to what extent it will help to develop new markets and welfare or will be furthering the trends of automation. The future of work is at stake in these processes and the answers are not straightforward. Technical change in services has its specificities.

In the first place the development of goods and service markets are not submitted to the same type of constraints. The localization of services and the interaction between customers and producers that occurs in these trades impose specific constraints to the development of new products and of new processes.

Both process and product innovations in services will thus be more severely constrained by the willingness, abilities and original tastes and habits of the customers than they are for goods. Process innovations in manufacturing of goods are neutral for the product market and product innovations can be channelled by widespread advertising, marketing techniques or straightforward and rapidly diffusing demonstration effects.

Information and communication technologies (ICTs) have also a specific impact in that respect as these technologies transform the basic context in which services can be perceived and delivered. We say they change the tradeability of services and expand the potential of fields and forms of new markets. Conversely ICTs transform the markets of goods, with more customerization and lasting relations, bringing thus characteristics of services to these markets.

Errore. Il segnalibro non è definito.

These transformations clearly depend on the initial types of arrangements under which service markets are organized. These arrangements are very country specific implying local cultures and customs. They also depend on the skill structure of the country. Still one hints that there is no determinism and that changes in regulations (which is more realistic than to speak of deregulations) and in policies may be quite important for the type and magnitude of new activities and therefore for the future of work.

This paper does not attempt to answer all these broad issues. It aims to coin some of the analytical arguments that we need to think in more appropriate terms what is the dynamics of technical change in services, how it relates with the dynamics of employment in these activities and in which directions should we look for to design policies at all levels.

We summarize in a first section the traditional technology and employment debate and points at some of the contemporary challenges. The spread of service activities and the extent of internationalization of markets and production processes make it difficult to assess any "compensation scheme", whereby the jobs destroyed in some trades by the emergence of new techniques and products would be more than offset by the gains in some other national trades. Opportunities for other countries or other activities to reap the benefits from the changes are too numerous. A second section tracks down the initial differences between innovations in goods and in services (generically speaking) and how ICTs, somehow, bridge some of these gaps.

A third section looks for the conditions under which service activities could presently act as an engine of growth for the whole economy. It leads to stress the importance for the expansion of service markets and for employment of a) user/producer relations, b) the skill structure and c) the time budget constraint.

The fourth section expands on the employment issue, taking into consideration, first the high diversity of activities under view and, second, how the form of changes brought by ICTs depend upon skills and cultures.

The fifth, and concluding, section explores on this basis which kind of policies could be pursued to develop markets as well as the number and quality of jobs contributing to such development.

Errore. Il segnalibro non è definito.

1. TECHNOLOGY, GROWTH AND EMPLOYMENT : THE END OF A VIRTUOUS CIRCLE ?

The relationship between technology, growth and employment has traditionally been the subject of many contributions in economics⁴. While controversial and the subject of intense debate over the last two centuries, the issue appears straightforward at least from the macroeconomic perspective. Either the introduction of new technologies leads to more efficient production processes, reducing costs by saving on labour, capital, materials, energy, or any other factor of production, or it leads more directly to the development of new products that generate new demand. In either case, more welfare is created : in the first, through more efficient production combinations that liberate scarce input resources ; in the second, by satisfying new wants.

The extent to which this higher welfare or increased productivity feeds back into employment growth depends on the extent to which firms translate productivity gains into lower prices and new investment and consumers respond to lower prices in terms of greater demand. The job losses that often follow the introduction of a new labour-saving process, for example, are compensated by the job creation associated with the output growth following the decline in prices, by

⁴ There is now a voluminous empirical and theoretical literature on this subject (see the surveys by Freeman, Soete 1987, Petit 1995). In this century alone, we would distinguish four sets of economic debate on the relationship between technology and employment. The first, probably the most "classical" in its origins, took place during the economic depression of the 1930s. Contributors included Hansen (1931, 1932), Kaldor (1933), Weintraub (1937), and Neisser (1942). Many of the issues and concerns raised by these authors sound quite familiar today, particularly in the context of the notion of increasing returns in current "new" growth models (e.g. Aghion and Howitt, 1991). The second debate focused mainly on the post-war United States and the fear of "automation". In the 1960s, levels of unemployment were higher in the United States than in Europe, and many blamed technological change. As a result, a National Commission on Automation was appointed and produced a massive six-volume report (US National Commission, 1966). This debate had little influence in Japan and in the European countries that were rapidly catching up. The third debate, which began in the late 1970s, was particularly active in Europe. It focused on the emergence of the cluster of computer-based communication, information, and automation techniques associated with microelectronics, which appeared at first glance to have great labour-displacing implications (e.g. Freeman *et al.*, 1982; OECD/ICCP, 1982; Katsoulacos, 1984). The fear that these displacement effects might dominate the compensating job creation effects for quite some time recalled in many ways the classical debate. As there, it appeared to be a reflection of the times: there was a set of "revolutionary" new technologies and persisting high unemployment.

The most recent upsurge focuses much more on the global aspects of the new information and communication technologies and the possible erosion of employment and high living standards in the advanced countries. Originating to some extent in the United States, and linked to the political debate surrounding NAFTA, it quickly "globalised", and contributions have come from throughout the world.

Errore. Il segnalibro non è definito.

additional employment creation in other sectors, particularly the new technology-supplying sector, and by the possible substitution of labour for capital following the downward wage adjustment that clears the labour market.

However, the extent to which new or improved products generate new employment growth depends on whether old products are replaced by new ones and on the responsiveness of consumers to the new or improved goods or services (reflected in the size of the income elasticity of demand). As long as there are unsatisfied needs in the economy and as long as labour and product markets are sufficiently flexible, technological change, even in the form of new labour-saving production processes, does not reduce aggregate employment but generates more growth and jobs.

Most of the controversies that have dominated the economics literature on this issue over the last decades have centred on the automatic nature of the various compensation effects described above. Many contributions have questioned the way in which cost reductions following the introduction of new technologies are effectively translated into lower prices and are likely to lead to more output growth : the functioning and flexibility of product markets depend in part on the firm's monopoly power, the degree of economies of scale, and various other factors influencing "price stickiness". Similar issues can be raised with respect to employment growth and the functioning of labour markets ; they range from downward wage flexibility to the many mismatches typical of relatively heterogeneous labour markets. In either case, it is less technology that is at the centre of the debate than the speed and clearing function of the product and labour markets⁵. The relevant policy issues fall primarily under the heading of improving the functioning of labour and/or product markets⁶.

Other contributions in the classical economics tradition have questioned the possibility of *ex post* substitutions between labour and other factors of production. At least in the short term, the implications of a more rigid fixed set of production coefficients for analysing technical change and employment are relatively straightforward. Labour-saving technological change embodied in new investment

⁵ As von Mises (1936, p. 485) put it: "Lack of wages would be a better term than lack of employment, for what the unemployed person misses is not work but the remuneration of work. The point [is] not that the "unemployed" [cannot] find work, but that they [are] not willing to work at the wages they [can] get in the labour market for the particular work they [are] able and willing to perform."

⁶ Both the OECD *Jobs Study* (1994b,1994c) and McKinsey Global Institute (1994) can be said to have focused primarily on these market issues. The former emphasised the functioning of labour markets, the latter the functioning of product markets, particularly in services.

Errore. Il segnalibro non è definito.

could, if wages adjust slowly, lead to unemployment because of insufficient investment to maintain the full-employment capital stock⁷ ; this is the so-called “capital-shortage” unemployment⁸. There was a lively debate during the 1980s on the extent to which the increase in unemployment in European countries in the 1970s could be due to this phenomenon.

Yet other contributions question the automatic nature of the link between input-saving new technologies and productivity gains. Most of these studies -- which often attempt to explain the “productivity paradox” -- are empirical in focus and attempt to find reasonable explanations for the disappointing performance of productivity growth in most OECD countries over the last two decades, despite rapid growth in knowledge investment, in particular in private sector R&D, and the emergence of the new cluster of information and communication technologies. The OECD summarised much of this debate in the so-called “Sundqvist Report” (OECD, 1986) and the subsequent “Technology and the Economy Programme” (OECD, 1992a). However, the discussion is far from over. In particular, there have recently been a large number of empirical and theoretical contributions from growth economists (e.g. Young, 1995 ; Mankiw, 1995).

Finally, some recent contributions have focused explicitly on the international “open economy” framework within which most compensation mechanisms are likely to operate. As a result, the relatively straightforward linkages between technology, productivity growth, and job creation mentioned above appear much more complex. A relatively simple elaboration in terms of employment compensation due to foreign demand, e.g. through export and import elasticities, complicates the matter greatly (Stoneman, 1984). More complete pictures including not only trade but also the effects of international spillovers of technology on productivity growth or international capital mobility make it much more difficult to identify the key links between the introduction of a new technology and the ensuing domestic employment impact.

Many of the recent concerns about the implications of technological change for employment appear to relate to these international compensation mechanisms

⁷ This result is obtained by Venables (1985), for instance, with the use of general equilibrium setting with fixed coefficients.

⁸ ‘Capital shortage’ unemployment reflects a seeming lack of ‘productive’ capital to employ part of an ‘adequately’ skilled and suitably located labour force.(...) Capital shortage unemployment can (...) occur as a result of both lack of physical capacity and economic obsolescence; if variable costs exceed price, capital will not be used (and the corresponding jobs will disappear) even though such capacity could be operated in a physical sense” (OECD, 1983)

Errore. Il segnalibro non è definito.

and to the way that gains from technological change are distributed internationally. In the gloomy vision of some popular authors⁹, “wages in the most advanced economies are being eroded owing to the emergence of a global market-place where low-paid workers compete for the few jobs created by footloose global corporations” (Rifkin, 1995). Others (as Freeman 1995) stress that the wages of developed economies are not set in Beijing, because a lot of jobs are in trades which do not face so directly the competition of very low wages countries, because either the products are more sophisticated or differentiated and submitted to non-price competitiveness or the trades are local and sheltered from outside competition as in some service activities. Thus even when the internationalization of manufacturing and service industries is expanding, spurred by low costs of transportation and communication, the balance of the interactions between technology and employment much depends on the type of competition prevailing on product markets and on service markets, which concentrate two thirds of employment.

While it is still generally agreed that in a “world” economy framework, input-saving technical change leads, through increases in productivity, to higher welfare, wages, and growth and thus generates new employment, the impact on individual countries is now much more complex and is based on a broad range of macroeconomic and microeconomic adjustment mechanisms.

At the same time, the premium placed on the role of knowledge and on the acquisition of skills in this global environment implies that international differences in the pattern of employment and unemployment in industrialised economies may be coming to depend increasingly on the capacity of national economies to innovate, enter new "service" areas and/or absorb new technology more rapidly.

⁹ See, for example, Aranowitz and DiFazio (1994) and Rifkin (1995). In many ways, and as noted by some trade economists (Krugman and Venables, 1994), such views are to some extent reminiscent of the old Prebisch-Singer *dependencia* arguments, but applied to the advanced countries. In the old core-periphery models, “immiserising” growth in the developing countries would take place because all the benefits of increased efficiency gains in raw materials, agricultural, and labour-intensive manufacturing production were passed on to the advanced economies, e.g. through lower prices or higher repatriated profits. In the current view, the pattern is the opposite: most of the benefits of technological change are passed on to some of the rapidly industrialising countries through more rapid international diffusion of technology from the advanced countries, the reinvestment of profits and relocation of production to those industrialising countries, and the erosion of various monopoly rents in the advanced countries, including wages. In principle though, and in contrast to the Prebisch-Singer model, such a redistribution process should lead, as trade theory would predict, to the convergence of growth and income.

Errore. Il segnalibro non è definito.

2. NEW INFORMATION AND COMMUNICATION TECHNOLOGIES: BRIDGING TIME AND DISTANCE

The dramatically increased capacity to store, process and disseminate information at minimal cost has been described most extensively in the context of industrial (or agricultural) production processes. Pre-dating even the early "Information Technology" literature, the so-called "automation debate", popular in the US in the mid-sixties, described how labour-saving "robotics" would raise industrial productivity and bring about major organisational changes. In line with this literature, many IT analyses have always wondered how confronted with such pervasive cost-reducing technologies, economies would be able to generate sufficient new employment (the various price and substitution elasticities being too low to bring about sufficient employment compensation¹⁰). More recently, the specific impact of new information technology on services has re-entered this debate. It could be argued that the impact on services will be more of an opposite nature compared to the impact on manufacturing.

In many ways services can be defined¹¹ as those activities (sectors) where output is essentially consumed when produced. While this might well be considered a rather narrow definition and one which covers only a limited number of sectors presently falling under the statistical definition of service sectors, it is an analytically useful definition because it highlights the intrinsic immaterial, intangible nature of many service activities, whether they are personal services, such as hair-cutting ; entertainment such as an opera performance ; education such as teaching ; health such as a doctor's visit ; or public services such as applying for welfare services. With intermediary services such as transport, communication, finance and trade, this simultaneity still holds but is partially altered. Intermediary services are effectively delivered more or less on a permanent or fixed basis, whether they are used or not. The frequency of provision may vary, but in a scheduled way (time table of services need to be available). The logistic support it gives is independant, in the short run, of demand. Good management should certainly adapt the level of production to the needs, still sizeable short term productivity cycle remain a characteristic of these service industries. The link between production and consumption is somehow even more altered when considering such business services as marketing, R&D, consultancy, accounting, advertising, ..

¹⁰ Interestingly this is still the main argument of those studies in this area which limit their focus to manufacturing (Pianta, 1995, Reati,1995, see also comments from the Commission on the OECD G-7 study).

¹¹ For early analyses along these lines see Quinn (1986) and Soete (1987).

Errore. Il segnalibro non è definito.

It follows that services range from activities where production and consumption cannot be dissociated to all kind of loose linkages between production and consumption. Still it is this similarity feature of production and consumption which has generally limited productivity improvements in such activities.

Information and communication technologies, almost by definition, allow for the increased tradeability of service activities, particularly those which have been most constrained by the geographical or time proximity of production and consumption. By releasing somehow these constraints, information technology will make possible the separation of production from consumption in a large number of such activities, hence increasing the possible trade of such activities¹².

On tradeability

The notion of tradeability when applied to a commodity seems to refer to the propensity to be more or less readily accessible in time and space. The notion is vague and has been mainly used in international economics to distinguish between commodities which were traded internationally and others. Tradeability obviously depends in the first place on the context in terms of logistics organizing the market : eg the distribution system, the communication system, the transportation system. We shall refer for this set of conditions to the standard means of market provisions. On top of that the quality and characteristics of one product may be more or less easy to identify and require some specific knowledge or abilities.

Tradeability of any given product has finally two dimensions : how easy and costly its provision is and how clear and straightforward its use is. Provisionability clearly depends on transportation and communications costs as well as on after sale services. User friendliness depends on information, regulations, insurances, knowledge,.. This dichotomy somehow decomposes the "transaction costs" which remain even on organized product markets.

¹² This was certainly the case with regard to the invention of printing in the Middle Ages and the impact this first new information technology had on the limited tradeable 'service' activity of monks copying manuscripts by hand. It was the time/storage dimension of the new printing technology which opened-up access to information in the most dramatic and pervasive way and led, to use Marx's words, to the 'renaissance of science', the growth of universities, education, libraries, the spreading of culture, etc. This opening-up, 'tradeability' effect would become of far more importance to the future growth and development of Western society than the emergence of a new, in this case purely manufactured-based, printing industry.

Errore. Il segnalibro non è definito.

An (incremental) innovation can enhance the tradeability of a product by improving either the context of provision or the straightforward content of a product.

Product and process cycles in innovation schemes.

ICTs play an essential role in the transformation of information into knowledge as well as in the "codification" of knowledge. The latter implies that knowledge is transformed into "information" which can either be embodied in new material goods (machines, new consumer goods) or be easily transmitted through information infrastructures. It is a process of reduction and conversion which renders the embodiment or transmission, verification, storage and reproduction of knowledge especially easy¹³. In contrast with codified knowledge, tacit knowledge refers to knowledge which cannot be easily transferred because it has not been stated in an explicit form. One important kind of tacit knowledge is skills. The skilled person follows rules which are not all known as such by the person following them. They are linked to activities acquired through learning but often of a non-routine kind¹⁴. The most important impact of new ICTs is that they move the border between tacit and codified knowledge. They make it technically possible and economically attractive to codify kinds of knowledge which so far have remained in a tacit form.

The embodiment of codified knowledge in material goods has been typical of the dramatically increased performance of many new capital and consumer goods, incorporating many new electronic information and communication devices. The latter in turn have been at the core of the continuous productivity, investment and consumer demand growth in Western societies. As emphasized by authors criticizing the early "post-industrial society" literature¹⁵, this process could also be described by a process of "industrialisation" of services : the continuous replacement of particular service activities by household material goods, embodying at least the "codified" knowledge part (washing machines, television, dryers, etc.). The more recent electronic improvement in these products has further increased the "household" performance of these products, freeing further household time. While the quality of these new material goods will not always substitute for the service activity they replace (a dishwasher is a good example), the codification process will be to some extent complete. The product might lack user

¹³ See in particular David and Foray (1995), Ergas, 1994...

¹⁴ One might think of such activities as gardening, biking or house keeping.

¹⁵ See amongst others Gershuny and Miles, 1982.

Errore. Il segnalibro non è definito.

friendliness (the typical example being the video player), but the user is not required to possess, or to understand, the knowledge embodied in the machine.

In services, by contrast, while the codification of knowledge will have made such knowledge more accessible than before to all sectors and agents in the economy linked to information networks or with the knowledge how to access such networks, its immaterial nature will imply that the codification will never be complete. The codification process will even rarely reduce the relative importance of tacit knowledge in the form of skills, competencies and other elements of tacit knowledge, rather the contrary. These latter activities will become the main value of the service activity : the "content". While part of the latter might be based on pure tacitness, such as talent or creativity, the largest part will be greatly dependent on continuous new knowledge accumulation -- learning --, which will typically be based on the spiral movement whereby tacit knowledge is transformed into codified knowledge, followed by a movement back where new kinds of tacit knowledge are developed in close interaction with the new piece of codified knowledge. Such a spiral movement is at the very core of individual as well as organisational learning.

On goods and services

If we come back to the characterization we gave above on services, namely that they are produced and consumed at the same time and on the same spot, we see that it implies a low tradeability with respect to the two dimensions. In the first place services cannot be stored, otherwise production and consumption could easily be separated. The market provision of services is therefore severely constrained. For the Classics (and Smith in particular) this non storability prevented drastically service activities to take part in the accumulation process and therefore services were considered as not creating value. Secondly, the fact that the service is consumed while produced leaves some uncertainty on its very content; the transactions are thus more open to asymetries of information and hazards of different kinds.

On the whole this simultaneity of production and consumption clearly render services less tradeable than goods. Still the border between the two types of production is not so clearly cut. We mentioned in the first place that the simultaneity of production and consumption is more or less strict depending which service we consider. Secondly some goods such as some equipment goods, highly customized or done upon specific order, have a low tradeability according to our definition. In that case a clear but specific content goes altogether most of the times with a more difficult type of provision (implying delays, special requirements for transportation).

Errore. Il segnalibro non è definito.

At given time and space the set of products available thus displays a wide spectrum of tradeability indexes, where goods depending to some extent on their degree of "standardisation" have on average a higher rating than services. Moreover these tradeability characteristics change over time. Even in the absence of any technological change and of any change in the logistics of service provision, simple learning processes would lead to some steady increases in tradeability. The crucial role of regulations in determining product tradeability should not be forgotten either.

Changes in the context of provision and in the content of products, which are produced by the diffusion of ICTs can therefore radically modify the tradeability pattern of the products.

ICTs can alter this simultaneity of production and consumption.

Considering the new facilities brought by ICTs, services can be delivered in various places simultaneously to their production. The concept of production itself is spread over time when deliveries are automated (pushing a button in various automated tellers or alike). If services are also something you get in indefinite amount, providing you show up at some counter (to get information, training ,...) the space simultaneity of production and consumption of services is also altered. The provisionability of services is thus greatly improved by releasing the constraint that services were consumed when and where produced. Besides the problems raised in appraising the content of services may also be reduced as ICTs can help to standardize and diffuse information on the products. On both dimensions, provision and content, the tradeability of services is thus improved, with a greater emphasis on provision improvement.

Conversely, ICTs seem to improve greatly the information and the control over the quality and the use of the goods we buy. This rise in the ability to certify the quality of goods and to control their use (the above content dimension) is even more crucial that the improvement in the provisionability of goods, brought by intermediary services regenerated by ICTs (such as transport, distribution, finance and telecommunication).

Graph 1 illustrates bluntly these asymmetric improvements in the two components of tradeability for both industry and services. By and large it suggests that the spectrums of tradeability of the sets of goods and of services are somehow converging. In effect the tradeability conditions between goods and services are getting more similar through the effects of ICTs.

(insert graph 1 around here)

This convergence results also from the fact that ICTs could well be characterised as reducing the time/storage dimension for goods and as bringing a time/storage dimension between production and consumption in services. Many

Errore. Il segnalibro non è definito.

of the most distinctive characteristics of the new information and communication technologies are effectively related directly to the potential of the new technology to link-up networks of component and material suppliers, thus allowing for reductions in storage and production time costs - typified in the so-called Just-in-Time production system. At the same time, the increased flexibility associated with the new technology allows for a closer integration of production with demand, thus reducing the firm's own storage and inventory costs - which could be typified as Just-in-Time selling. Both features aim at reducing the time/storage dimension between production and consumption, still the "tradeability" of products is not hampered because the product is more customerized (the buyer is made more confident that the product will meet his specific needs). In fact more customerized products, delivered just in time, transform the tradeability pattern of goods. Thus the paradox of opposed effects of ICTs on goods and services production disappears if one admits that ICTs have eventually an impact on two different things : the nature of the product itself and its provision. Graph 1 schematizes the relative convergence between the pattern of tradeability of goods and services.

Moreover tradeability appears to be a notion highly dependant on the general context of provision (for the provisionability dimension) and of regulations and customs (for the conditions of use of the product). ICTs in improving the logistics of intermediaries activities which are organizing markets¹⁶, have shifted upwards the general level of tradeability. But, much like the notion of competitiveness, it is the relative level of tradeability which matters to assess the new potential of product markets spurred by ICTs.

Finally the fact that ICTs are making services more tradeable and more like manufactured goods on one side and the fact that ICTs also favours the differentiation of products, all leads to modify the conditions of consumption.

A more binding time constraint for the consumers in a world of enlarged choices.

We are used to think that new products lead to the discarding of old ones. Not only innovation brings scrapping of old equipments and accelerates replacements but, according to the standard view, old varieties, often after a last

Though the transformation of intermediary services is not homothetic and therefore the effects on the organization of markets and production are biased in favor of some means of intermediation. Thus transport costs may have fallen systematically over the post war period, they have risen significantly in relation to communication costs over the last decade.

Errore. Il segnalibro non è definito.

fight (see e.g. Rosenberg's "sailing ship effect") disappear. Historically this stylized fact applies more accurately to innovation in goods than to innovation in services. In services, and especially in personal and social services as well as in intermediate services, it is quite characteristic that the new does not chase the old to the extent that it does with goods. Services, modernized by some automatization process, are often seen as different services and the old form tend to become a service "à l'ancienne" with an improved standard. Such has been the case with restaurants and hotels but also with arts performances, distribution and personal care. Finally innovation in services seemed to end up with a whole range of differentiated products¹⁷. A similar process happened with goods and "antiques" but this remained a fairly marginal activity, while the decoupling of services by the modernization, partial or total, of their process of production contributes in the case of final services in distribution, catering and leisure activities) to enlarge the basket of activities at the consumer's disposal. Another way to look at this phenomenon is once again to note that, to the extent that in services production and consumption are tied, any process innovation is perceived by the consumer and therefore is also by nature a product innovation.

As far as manufacturing activities have gained similar service characteristics in using ICTs, while services became themselves more tradeable, the basket of commodities available for the consumer has been greatly enlarged and transformed in nature, as their increased service dimension implied a more time consuming consumption.

As a result more numerous and more time consuming products have given de facto more importance than in the past to the time budget constraint, at least for the middle and high income groups. In effect, according to most recent surveys, while patterns of consumption have not been changing radically with the arrival of the new products, every choice seems to be more and more facing a competitive pressure from alternative time uses (Haddon, Silverstone 1995).

To summarize our argument, we would claim that for a long period of time new industrial goods have been substitutes for old services (the industrialisation of services hypothesis of) and therefore saving time for households, which could be used to work ..and increase the capital stock of equipments. The convergence we outlined following the diffusion of ICTs, leads us to insist much more on the time constraint.

The time budget pressure is building up as all final commodities are put in balance with the bunch of new enlarged opportunities. The time constraint is

¹⁷ With at an extreme end, the self service where innovation is turned into a new goods for personal use (TV sets and cars can be seen in such perspectives as following up from long lines of innovation in entertainment and transportation industries.)

Errore. Il segnalibro non è definito.

sometimes topping the budget constraint. This was a typical pattern for rich people but it seems now to concern a much larger set of people. One might think of youngsters having an increasingly difficult time to manage the time constraint between school education, home education, TV, multimedia entertainment, physical entertainment and contributions to household work.

Do these changes contribute to give a new role to services in the process of economic growth becomes a key question to assess for the future of growth and employment channelled by the ICTs.

3. SERVICES : THE NEW ECONOMIC DRIVING FACTOR ?

Since the emergence of ICTs and their impact on the tradeability of many service activities, which among other things partly blurred the frontier between goods and services and since service activities correspond on average to two thirds of economic activity in the EU countries, it is time to question the role of these services in the process of economic growth.

Services as an engine of growth.

Manufacturing has long been considered as an engine of growth for its capacity to organize and restructure production in ways allowing steady productivity gains. Economies of scale, eg replication at larger scale of production processes have been a favorite means to sustain this dynamic. It went altogether with the old smithian principle that large market allowed bigger scale of production, which in turn permitted a broader division of labour. Allyn Young(1928) insisted on the fact that such division occurred both within firms and between firms and that it stimulated in all cases technological change.. which in turn impulsed demand so that economic growth propagated itself in cumulative ways. This was basically the mechanism referred to by Kaldor when speaking of manufacturing as an engine of growth.

Can one identify a similar cumulative dynamics in service activities? Certainly not in the pre-ICT period. Service activities were then seen in the cumulative causation model as necessary conditions, complementary to the manufacturing engine of growth in order to organize markets (the provision or market access was a function of intermediary service activities). Meanwhile personal services were looked upon basically in relation to the prevailing conditions on the labour market (see the sponge effect in the presentation by

Errore. Il segnalibro non è definito.

Kaldor of the determinants of employment in personal services).

The question is thus whether innovation, impulsed by ICTs, can launch a cumulative mechanism based on services somehow similar to the one experienced in the past in manufacturing. Another way to rephrase this, following our previous definition, is to appreciate how innovation processes in services enhance their tradeability and help to expand their markets in ways which in turn cumulatively improve their efficiency and tradeability. The conditions for such a growth principle to be effective depend on the organisational issues raised by the diffusion of ICTs in services, in particular on the relation between processed information, knowledge accumulation and elaborated routines.

There is thus a need to compare the schemes of innovation in manufacturing and in services. The learning processes implied in cases of innovation in goods and in services are, as we argued above with respect to the different impacts of "codification", rather different. They characterize to some extent the various patterns of cumulative growth that can occur.

In the cases of goods the learning process is centered around the product itself. Producers are learning how to adapt the new product to tastes and how to take advantage of expanding markets to make productivity gains which in turn will help to increase the market and improve the product. It corresponds to the first phase of a Vernon product cycle. Users have of course their say in the process but that say is by and large limited to a process of adjusting to the quality of the product. We would even go a step further : the main driving factor for innovation is performance or quality improvement with the aim of trying to convince the average consumer that what he needs is the best, professional quality. In doing so the innovating firms can avoid at least for some time price competition. When the second phase of maturing product is reached and standardisation and imitation is taking place (e.g. when competitors with low wage costs take over a stabilized production process), productivity growth is the only answer but will heavily depend on the extent to which economies of scale can still be achieved. Conditions for sustained innovation and market expansion may thus depends on adequate demand policies.

By contrast the similar dynamics in services tend to start from the opposite process innovation side as suggested by Barras (1986). ICTs help to transform parts of the production process of services, mainly by codifying knowledge and processing accordingly information in one part of the old process¹⁸. The drive

¹⁸ This modernization of the production process can be done by direct use of ICTs in the

Errore. Il segnalibro non è definito.

behind this substitution is in the first instance an increase in tradeability and market for an existing product. While it isn't meant to modify the product, it of course will. In our view though, and contrary to manufacturing, this will often imply a product with lower quality characteristics, compensated for by faster delivery. The driving force behind service innovation is thus not just process innovation it is also cheap mass provision of a possible lower quality product. However, parallel to what was said above about manufacturing, the second phase will involve an explosion of new product innovation, involving high quality often personalised services, using the new process technology for the specific aims and needs of particular users. It is through the combined effects of learning by doing and learning by using that the innovative content of the "old" service product, produced with the new automated process, is progressively enlarged. Electronic networks have often evolved this way as well as a lot of new telecommunication products.

In other words, in this reverse product cycle productivity gains are conditioned by improvement in the quality of the service products and process innovations alone are not sufficient (as they risk to be associated with lower quality products). This is a much more hazardous way to fuel a process of cumulative growth than it is the case with manufacturing good. It requires skill from the producers to enlarge the process into a meaningful product innovation but it requires also some learning from the consumer to direct and legitimize the quality improvement of the services. A mismatch can occur which would lead to a disturbing underestimation of productivity gains.

Besides the implications for this continuous shift in value from manufactured goods embodying increasing amounts of "codifiable" knowledge towards service based "tacit" knowledge activities is typical of the new emerging Information Society. It explains the attempts of electronic and computing manufacturing firms to enter information content activities. Within services, it explains the move of "carrier" operating firms being most directly confronted with the codification of knowledge and its distribution, to enter content sectors (media, education, culture). This difference between innovation schemes in manufacturing and in services is much enhanced by the upstream dynamics of ICTs impelled by the on going miniaturization of micro-processors. It reinforces in all activities the process driven dimension of technological change.

Graph 2 tries to summarize these two schemes of innovation predominant,

process or indirectly by using modernized intermediary services (banks, transport, communication,..) as we shall stress in section 4. Such extension gives a much wider scope to the thesis of the reverse product cycle that we referred to.

Errore. Il segnalibro non è definito.

respectively, in goods and in services and to relate them with the specific effect of ICTs. It stresses that the outcome of innovation processes depends more extensively on learning processes on the side of the users in the case of services than on the ready made quality improvements of the suppliers in the case of manufacturing. It also brings to the forefront the need for a shift in policies to sustain the innovation process. In the first case policies to reflate demand, whereby the gains in productivity are reflected in gains in wages and domestic consumption are essential to keep the virtuous circle between productivity gains and new demand. The employment compensation mechanisms operate primarily through income elastic demand for new and improved goods. The only changes brought by ICTs will be to shift the focus of innovation policy away from supply dominated science and technology support policies to policies aimed at the translation of new scientific and technological breakthroughs into new innovations. Typically most of the current EU innovation policies, as their name indicates (VALUE) correspond to this aim.

In the second case, where the service oriented innovation scheme prevails, policies will be much more diversified, helping in the first instance users to coordinate themselves, deregulating particular service markets and breaking up where necessary cartel agreements and providing incentives to new firms to develop services using the new provision channels of old services.

(insert graph 2 - 2.a and 2.b - around here)

A two sector growth model.

In fact both innovation schemes are obviously interrelated, in a world where manufacturing and service activities tend to be more and more connected. Still it is difficult to assess which are the main linkages and how they affect the overall economic dynamics. Complex links have already been mentioned, regarding both innovation schemes. Three of them are worth recalling. One has to do with the change in tradeability (regarded as an innovation) generated by changes either in provisionability or in the product content. The second is tied with the time consuming or time saving bias of contemporary innovation depending on the kind of product we consider. The third stems from the difference made in the learning processes at work in the different innovation schemes.

A two sector growth model could help to set out the articulation of the two innovation schemes. Still it is difficult to encompass, if only the above set of three questions, into a seemingly tractable model. Though, to illustrate our assessment, we have retained (table 1) a model which presents how the content, C, and the provisionability, P, of the manufacturing and service products interact (leaving

Errore. Il segnalibro non è definito.

aside the time budget constraint and accounting very partially for the learning processes).

Basically we suppose in this formalization that C and P are positive functions of the share of ICT capital goods in total capital stock and that provisionnability P is also an increasing function of the overall productivity level in service activities. The content straightforwardness C is assumed to be connected with experience (learning by using effect) in the case of service product. Moreover the stock of ICT equipment goods in total capital stock, for both manufacturing and service industries, is supposed to depend on the tradeability of services. The model then adds equations more standard on price formation and on the dynamics of productivity gains.

If we reduce the model, substituting the tradeability variables by their expression (see table 1), then the model could be seen as mixing a standard two sector growth model, encompassing various externalities as in some models of endogenous growth. The effects of the level of productivity in services on the dynamic of product markets and on the speed of modernization of the capital stock are examples of such relationships.

Still the model remains highly speculative, while it does not account for the tightening of the time budget constraint and for important learning processes which condition the modernization of equipment (ICTs share) and the determinants of employment. The next section considers specifically this last issue.

Errore. Il segnalibro non è definito.

TABLE 1

<p>(C content ; P provisionability ; Z price ; M_i manufactured goods ; S_i services ; K* : ICT capital goods/stock)</p>	
<p>Demand $Dm_i = X_{m_i} = f [C_{m_i}, P_{m_i}, Z_{m_i}]$</p>	<p>$D_{s_i} = X_{s_i} = f [C_{s_i}, P_{s_i}, Z_{s_i}]$</p>
<p>Price $Z_{m_i} = f [w, \Pi_{m_i}, R_{m_i}]$ wages, productivity, profits/taxes</p>	<p>$Z_{s_i} = f [w, \Pi_{s_i}, R_{s_i}]$ wages, productivity, profits/taxes</p>
<p>$P_{m_i} = f [\Pi_{s_i}, K_{m_i}]$</p>	<p>$P_{s_i} = f [\Pi_{s_i}, K_{s_i}]$</p>
<p>$C_{m_i} = f [K_{m_i}]$</p>	<p>$C_{s_i} = f [D_{-1s_i}, K_{s_i}]$</p>
<p>$\Pi_{m_i} = f [K_{m_i}, P_{m_i}]$</p>	<p>$\Pi_{s_i} = f [K_{s_i}, C_{s_i}]$</p>
<p>$\Pi_{m_i} = X_{m_i} / L_{m_i}$</p>	<p>$\Pi_{s_i} = X_{s_i} / L_{s_i}$</p>
<p>$K_{m_i} = f [X_{m_i}, w,]$</p>	<p>$K_{s_i} = f [X_{s_i}, w,]$</p>
<p>$K_{m_i} = f [K_{m_i}, w, C_{s_i}, P_{s_i}]$</p>	<p>$K_{s_i} = f [K_{s_i}, w, C_s, P_s]$</p>

Errore. Il segnalibro non è definito.

4 Structure of employment and changes in service activities.

So far we have been mainly concerned with the dynamics of service markets and implicitly considered that employment could be fully determined by the levels of activity. The causality is not so one sided, especially in the case of services.

Traditionally in personal services the level and structure of employment has always been largely influenced by the conditions prevailing on the local labour market as the production in services can be more easily divided in tasks in accordance with local labour supplies. But this "sponge effect" (as Kaldor named it) obviously acts on the quality and therefore the nature of the service products under view. Culture and traditions strongly conditioned how these personal service products were perceived by the users.

In the present context of developed economies, largely engaged in tertiary activities and willing to take "their" advantages of the new ICTs, the interdependence between the stock of human capital, in broad multidimensional terms, and the growth path has been reenforced. The issue is at the core of recent works on endogenous economic growth (see Lucas and Romer various contributions in the past decade). Still the issue is not as linear as it is often assumed in the sense that "more human capital" is not always positively correlated with more economic growth. Clearly some matchings are required between the education of workers, the forms of on the job training, the availability of efficient producer and intermediary services, along with the capabilities of users. We want hereafter to explore some dimensions of this complex nexus, directly linked with the use of ICTs in service activities.

The assessment, made in the previous section, of what would be the main characteristics of a growth process more centered on service activities, leads us to stress the new role devoted to users in the learning processes. On one side the choices of products and activities for all users (final or intermediate) have been enlarged and consist of more time consuming products. Therefore choices between alternatives within the time budget constraint are more compelling and lead the consumers/producers, through some new learning processes, to modify slowly their ways of life. On the other side the dynamics of innovation which starts more often from process innovations directly impulsed by the diffusion of regularly improved ICTs, relies more largely for its expansion on positive feed backs from potential users. The development of these learning effects modify the content and the provision of new services. A networking effect with positive externalities sustains the diffusion of radically new services.

Errore. Il segnalibro non è definito.

However, we know little on these learning processes. The productivity slowdown, much more marked in services than in manufacturing activities (see Roach, 1991), suggests that organizational mismatches and market failures may be more important in service activities than elsewhere. Moreover all service activities are not in the same position, if only because as we noticed, their tradeability differs. In all cases the above implies that the dynamics of cumulative growth may depend to a larger extent than previously experienced on the quality of the labour force. We shall consequently look hereafter at employment in services with two considerations in mind: that the growth potential may specifically depend on the quality and size of the labour force and that situations may differ widely from one service activity to the other.

In presenting statistical trends, use will be made of the official statistical classification of service industries and the classification of services in four one-digit ISIC (International Standard Industrial Classification) sectors : wholesale and retail trade, hotels and restaurants ; transport, storage and communications ; finance, insurance, real estate and business services (FIRB) ; and finally community, social and personal services (CSPS).

Trends in service industries employment

The crucial importance of services for overall employment growth in the EU but also in the US is illustrated in Graph 3, representing employment trends for the period 1980-94 for the EU, the US and Japan for services, manufacturing and total employment. Even in Japan, services employment has now become essential for overall employment growth, manufacturing employment having fallen substantially since the early 90s.

As Graph 4 illustrates, amongst the sectors with the most substantial employment growth in the EU for the period 1970-93, service sectors (real estate and business services ; social services ; restaurants and hotels and finance and insurance on the first four places) dominate with only a couple of high tech manufacturing sectors (computers, pharmaceuticals, communications, aerospace) witnessing above average employment growth. This pattern is more or less similar for the US.

Graphs 5a-c represent the trends in employment for four broad service sectors: financing, insurance, real estate and business services (ISIC 8) ; community, social and personal services (ISIC 9) ; wholesale and retail trade, restaurants and hotels (ISIC 6); and transport, storage and communications (ISIC 7) ; and

Errore. Il segnalibro non è definito.

manufacturing (ISIC 3) for the EU, the US and Japan. Interestingly in all three countries, the FIRB and CSPA service sectors witnessed the most rapid employment growth. In the EU both sectors witnessed more or less identical employment growth patterns, in the US the growth in FIRB employment was much higher ; in Japan the growth in CSPA employment.

These two service sectors, FIRB and CSPA, illustrate well the totally different impact of ICTs on employment. In the case of FIRB, ICTs have led over this period to a substantial increase in the tradeability of such services ; in the case of CSPA, ICTs have practically had no impact on tradeability, most of these services depending crucially on physical contact and presence in delivering such services (even if ICTs are more and more put to use in the "back office" of these CSPA services, but actually very little in what we called the content).

It is also worth to notice that the productivity gains have on average been real low in these two kinds of activities. We have there a noticeable manifestation of a productivity paradox, considering that investments in ICTs have been relatively important.

By contrast intermediate services, where investments in ICTs have been especially important, displayed relatively enhanced productivity gains, as expected, but with little expansion of markets and therefore little employment growth.

Looking at detailed industries by country could bring more insight into this question, but data on real growth are problematic on two grounds. In the first place activities are not organized in similar way and sectors may not correspond from one country to the other. Secondly there is a severe measurement problem in most cases where precisely ICTs seem to have transformed largely the content and provision of activities. The quality improvement of those services may well have been underassessed in the national accounts.

The mismeasurement of consumer surplus may have become over the last decade quite sizeable (see Nakamura 1995,..). Such mismatch though is not a simple statistical flaw. It points to an important "under appreciation" of the quality improvement of some products. Careful studies, using hedonic price indexes, could tell how much of this "evaporation" of the consumer surplus is to blame on statistical methods and how much is due to some "deficit" on the part of users. This issue is rather important for the dynamics of the CSPA sector in times of ICTs and for its potential of employment. All the more so that nowadays the CSPA sector represents more than one third of total employment in the EU and the US, substantially more than the whole of manufacturing.

A similar issue of mismeasurement of real term values is raised for the FIRB sector, where such measures have always been problematic.

The question is all the more central that technological change not only

Errore. Il segnalibro non è definito.

modifies the content of these services but also strongly blurs the frontiers between activities.

Firstly, services, partly as a result of the increased tradeability of service activities in financial, communication and other business services, and partly as the result of the increased "outsourcing" of intermediate inputs have in other words become much more dependent on cyclical swings, causing similar up and downturns in service activities. As an increasing number of such service activities are becoming deregulated or opened up to international competition, these sectors are likely to become much more vulnerable to economic contractions and their traditional role as "non-tradeable" of employment reservoir is becoming significantly reduced.

Secondly, major structural changes unfold as a response to the challenge of internationalization and technological change. These include :

- potentially major shifts between sectors and services (e.g. as retail banks restructure away from physical branches and offer a wide range of services electronically while expanding from finance into other sectors such as travel, entertainment and shopping) ;
- new alliances and industrial groupings between different sectors (e.g. between media and communications, leisure and education, finance and computing) ;
- accentuation of the trend to globalise and deliver services internationally ;
- increasingly close links between suppliers and providers ; supported by EDI and vastly more accessible and improved inter-enterprise networking and connectivity ;
- greater opportunities for SMEs through universal access ;
- greater openness and participation of customers, consumers and businesses.

With such restructuring of service activities, straightforward extrapolations of past trends are of little help. Insights on the development paths to be followed have to come from analytical arguments.

Global competition and changes in work and occupations in service industries

The structural changes mentioned above are accompanied by considerable changes in the way people work and are employed in service industries.

Let us start with the essence of the new global competition which concern some of these services.

As a consequence of the increased potential for international codification and transferability, the new information and communication technologies can to

Errore. Il segnalibro non è definito.

some extent be considered as the first truly "global" technology. The possibility of ICTs to codify information and knowledge over both distance and time, brings about more global access. Knowledge, including economic knowledge, becomes world-wide available. While the local capacities to use or have the competence to access such knowledge will vary widely, the access potential is there. ICTs in other words bring to the forefront the enormous potential for catching-up, based upon the economic transparency of advantages, while stressing at the same time the crucial "tacit" and other competence elements in the capacity to access international codified knowledge. For technologically leading countries or firms this implies increasing erosion of monopoly rents associated with innovation and shortening of product life cycles.

At the same time, the ability to codify relevant knowledge in creative ways acquires more and more strategic value and will affect competitiveness at all levels. Network access as well as the competence to sort out the relevant information and to use it for economic purposes become of critical importance for performance and income distribution. Specific skills referring to the use of information become of strategic importance. More routine skills by contrast might become largely codifiable and their importance dramatically reduced.

For services this might imply significant localisation possibilities for many routine functions. The increased potential for tele-working does not stop at the border. The rapid growth in teleservices in less favoured regions, such as Ireland, is illustrative of this potential for localisation of hitherto untradeable service functions. In essence this is a process of international division of labour whereby service sectors are discovering advantages of international relocation. The impact of the decline in communication costs following the widespread use of global ICTs on the international trade of services can be compared with the impact of the decline over the last thirty years in transportation costs on the international trade of commodities and manufactured goods. This threat does not mean that huge share of service activities will be delocalized, if only because delocalized activities which deal with codified information can in turn be fully computerized, while activities back home can develop in expanding their capital of tacit knowledge.

Still the increased competition and market orientation that are impelled by the above changes affect more or less the work organisation in all activities. By and large such increased tradeability of services implies substantial shifts in the occupational and skill structure of service industries employment. The following broad trends can be expected :

- less security of employment and of careers in traditional areas (such as front and back office clerical work in banks, post offices, etc.) ;
- a much more explicit need for staff to be responsive to customers, able to

Errore. Il segnalibro non è definito.

adapt to and offer new services ;

-an increased ability to adjust to internal changes in company structure, such as reduction of the traditional hierarchy ;

-a need for quickly acquiring new skills - particularly for more world-wide communication.

-the need for public sector workers to adapt to the market rigours typical of private enterprises ;

-life-long learning or readiness for a continuous acquisition of skills and knowledge ;

-expansion of opportunities in services where human interaction remains the essential element - teaching, health, entertainment, leisure, social services.

These changes will represent a considerable change in the nature and content of work as well as in the organisation of the workplace. Making the best of these trends in terms of growth and employment, when their outcomes seem far ranging from the worse to the best, has become a major challenge.

It is all the more so that countries are starting from rather different positions, regarding occupational structures. Services industries have typically been characterized by their extensive use of white collar workers and the contemporary growth of employment in services has reinforced this characteristic. In both the manufacturing and service sectors the number of blue-collar workers employed are decreasing.

Still large differences appear in the occupational composition by sector across countries when looking at the qualification of the new jobs created (see graph 6). The distribution of the changes in employment by occupation between "Professional and technical workers", the most highly skilled occupational category, and the relatively low-skill categories, such as "Sales workers", "Clerical and related workers", and "Service workers" seem important and somehow display the differences in national trajectories. The question then is whether these changes in occupational skills are improving or deteriorating the position of the various countries.

Interdependence of technological change, skill and culture.

The ability to codify knowledge in creative ways, mentioned above as a factor of competitiveness in a world where service activities are internationalizing, seems to imply that technological change will lead to upgrade the average skill level in the activities concerned. Therefore one would find in services that the

Errore. Il segnalibro non è definito.

technological change that ICTs represent is skill bias, as it has been suggested concerning manufacturing industries (see Berman, Bound, Griliches, 1994). Still the argument might run somewhat differently when considering the whole range of services.

If we follow the argument presented when schematizing innovation in services (see graph 2b), technological change in services is to be assumed to depend on both the skill structure of the producers of the services as well as on the "skill structure" or cultural background of the consumers of these services. The assumption of such "reverse causality" stems directly from the reverse product cycle that we identified as an important pattern of innovation in service activities.

To clarify how functions this interaction between consumers capabilities and products innovation it is useful to distinguish service industries according to the extent to which the reverse cycle hypothesis applies. Basically this innovation scheme fits rather well the case of industries with a large number of registered customers, engaged in recurrent transactions, as in banks, insurance, but also in large systems of distribution, transport and communication. These intermediary activities are organized in networks addressing diversified communities of customers. The need to cut down the running costs of these networks is the main drive for process innovations. How these process innovations may lead to product innovations is at the core of the thesis of the reverse product cycle. The question is thus to see how changes in the way services are delivered on these networks create conditions for product innovations to emerge from active user/producer interactions. The answer lays at two levels. At the first level some intermediary activities may attract subsets of customers, but the exact forms of new services suitable for consumers and provisionable by services producers have to be elaborated in a joined learning process. The number of services that can be extensively developed straightforwardly without this cross learning process is limited¹⁹. Producers have to engage in processes of trials and errors through which they may develop specific services for segments of their customers. Customers reactions help to define the content of the products. Basically this clustering of new products much depends on the cultural and educational backgrounds of the groups of consumers concerned, be they final users or small and medium enterprises (culture and education are thus those of the employees at the interface of the intermediary services under view). We have then somehow a process of product differentiation which can lead to product innovations according to the creativeness of the interplay between the two learning processes involved. Price differentiation to adjust to the various needs and possibilities of the customers is a common practice of the intermediary services. Product differentiation is more

¹⁹ Banks and distribution services experienced some difficulty in the early eighties to enter right away the market of tourist services.

Errore. Il segnalibro non è definito.

difficult to achieve and requires adaptive flexibility which large systems of intermediation may have lost. The second level of answer precisely takes this rigidity into account in stressing that often SMEs of services take part in this process of innovation, either by taking over developments from large networked industries or by selecting directly such niches in making use of the improvement of the intermediary services. We then have an extended version of the reverse product cycle where firms innovate to fulfil specific needs using the technological innovations made in the production process of intermediary services.

At both levels (of the intermediary services or of their users) the potential for product innovation depends on the abilities of the users and on the quality of the feed backs they give. It conditions the extent to which the codification of information in the new services can leave room for the development of personal involvement and accumulation of new tacit knowledge.

Conversely if one aims to develop products in accordance with the capabilities and likings of the consumers, then the qualifications required of the labour force delivering the service may also mix various skills. In particular semi skilled workers might be more productive intermediaries because closer to the consumers than high skilled or low skilled attendants.

All of which suggests that successful learning processes (able to expand markets) could require more balanced (more realistic in a way) approaches to the skill requirements in a lot of service trades.

5 Policies and perspectives.

We have so far only assessed some of the key dimensions and questions raised by a growth pattern where service activities are preponderant and technological change intensively fuelled by the steady diffusion of ICTs. The bases for new virtuous circles are still unclear and highly conditional. Even if we have stressed a convergence between manufacturing and service activities, it does not follow that the forms of industrial organization have converged towards some best practice form of organization. Services have always been very country specific due to the set of institutional arrangements that their market provision requires ; the fact that ICTs have transformed their content and their "provisionability", which partially shows in the fact that they are more sensitive to the business cycle, does not alter radically this feature. National institutional contexts matter. Regionalization processes as experienced in Europe, or the liberalization of trade and foreign investments have also contributed to some convergence among the production processes ; still we are far to have industrial fabrics in service activities which can be easily internationally compared. This implies that if any new growth model is emerging there is a strong likelihood that these models will differ

Errore. Il segnalibro non è definito.

between countries. We have not reached that stage where the identification of growth patterns can take into account national differences, even if the overall coherence of such patterns may deeply differ from one case to the other.

The fact that users learning processes were directly concerned with the emergence of new markets and consequently that the cultural backgrounds of consumers were important conditions featuring the growth path of national economies, is also important reason to affirm that the "new" growth model will be plural.

Even if our knowledge and assessment of these new schemes remain patchy, as the reason for it is that changes are not over and may well extend over long periods of time (see David's comparison of ICTs diffusion with the diffusion of electric power), we should be able to conclude with some policy orientations as well as to point at some crucial lines of research.

We can retain three policy orientations, regarding respectively investment and related industrial policies, then labour market policies and finally education and training policies.

We stressed in this paper all the organizational difficulties raised by the market provision of services, using the facilities of ICTs. Asymetries of information and externalities remain numerous in these activities in these new networks and hinder some of the growth potential of this new fabric. Therefore public interventions to coordinate actions, certificate intangible productions, internalize positive externalities are very worthwhile. These public investments can take many forms. Still this public intervention is hindered by trends towards deregulation precisely in the intermediate services such as banking, telecommunications, transport where appropriate industrial policies should help to develop the logistics and normative framework required to coordinate the actions of private agents and internalize their effects. While the deregulations have been largely provoked by the obsolescence of the old regulatory frameworks, often inherited from the 30' and 40's, they have been too often viewed as a necessary withdrawal of public intervention. Though new regulatory frameworks need to be elaborated (and ICTs open new possibilities in that respect) in order to take full benefits of the ongoing structural changes, this can be done all the more easily when it will be accompanied by appropriate infrastructure investments, which can be tangible (especially in telecommunications networks for instance) or intangible (in the form of specialized training schemes or broader intermediation institution, social networks, to facilitate the access of populations with various cultural levels to new services). A wide range of measures can be envisaged at European, national and mainly regional level that we can qualified under the heading of new industrial

Errore. Il segnalibro non è definito.

policies. The current problem is the total lack of commitment to such policies given the absolute priority given to monetary rigour and fiscal consolidation.

A second set of policy issues concerns the labour market. Large amounts of public money are devoted, at least in European countries to cope with the rise and persistence of unemployment. These measures are costly and their efficiency is questioned; their main flaw is to be subject to important dead weight loss effect (meaning that most measures have little net incentive effect but possibly big distorting price effects, largely uncontrolled). Keeping in mind the change towards a growth regime where services and time budgets play a different role may help to reconstruct these labour market policies along ways which provide the safety net (guaranteed income), while inserting people out of work in any of the training schemes that are part of some learning processes, either on the consumer side (network accessing any of the big social systems) or on the production side (network retraining the labour force according to needs and wants) or both. Such comprehensive approach to labour market policies should thus be developed in setting up any scheme to reduce working time, where what the people out of work will do is as important as where and how the reduction will be implemented.

The third and last set of policies is a familiar claim as it concerns education and training policies. The fact that it should concern not so much initial formation but life long training scheme is also widely accepted. How it can be implemented or which principles are implied is less common. Our analysis suggests to look not only at the various types of learnings required at all stages of a working life but at all stages of consumption life or time. That includes looking also at the rate of obsolescence of knowledge on one side, and at the cultural backgrounds and their evolution over time on the other side. Returns to illiteracy, rigidity of cultural patterns regarding the use of ICTs are also important features revealing the difficulties of maintaining certain levels of training. Deskilling, eg people engaged in jobs requiring lower qualification than they detained, is another component of the mismatch. However, such deskilling at work could be compensated for by "reskilling" in consumption or other non-work activities. Policies have to be realist and take into account the poor performance of some groups and the barriers to access of some ICTs uses. If training policies only aim towards some general improvement they may well strengthen a tendency to discriminate that one finds at work (with skill biased modernization) and at home (with cultural barriers to access some service provisions).

Finally it is also worth to recall some of the lines for future research pointed at in our analysis.

Errore. Il segnalibro non è definito.

A first question concerns the dynamics of codification. How can we consider that codified knowledge is accumulating , what is its economic rate of depreciation which include "physical obsolescence" and overtaking by competition. These questions are crucial to clarify how the spiral movement by which codification of knowledge leaves room for increases in tacit knowledge and efficiency. It also concern questions on the rate of return to innovations. Too fast competition with a lack of similar speedy organisational change will reduce too rapidly or strongly the rent of innovation of the intangible investments under view (it may concern social as well as private rents of innovation in a world where network externalities are omnipresent).

A second line of research, following from above, has to do with our approach to educational and cultural issues. How far are skills specific or general, how do they combine along life cycles ? Are training specific out of work periods or can they be mixed with on the job or in consumption learning, in which cases training could be dealt with in the organisation of work. How does this apply respectively to large, small and medium firms? Conversely what is the nature of the cultural barriers to access? By which practices could they be overcome, adapted? Does it need to be channelled by formal social networking ? could it be conveyed by adapted forms of products and uses. We know relatively little on how ways of life, consumption patterns react to differentiated ranges of new products and services.

A third line of research would go back towards the identification of what would be the growth model in a fully developed "information economy". Of special interest would be to consider how such economies evolve in a context of growing internationalization. A large share of service activities take part in that process of internationalization. Does it lead to specific forms of competitiveness or do these service organizations evolve towards some best practice universal pattern of provision? By contrast it would be interesting to see how much country specific the organization of social and personal services can remain. These issues are directly linked with research trying to characterize the nature of the globalisation and the extent of the convergence of production processes and consumption patterns that internationalization conveys in a world market with a rapid diffusion of steadily improving ICTs.

Errore. Il segnalibro non è definito.

BIBLIOGRAPHY

AGHION P. and HOWITT P., (1991), "Unemployment : A Sympton of Stagnation or a Side-Effect of Growth?", *European Economic Review*, vol. 35, pp. 535-541.

ARANOWITZ S. and DIFAZIO W., (1994), *The Jobless Future : Sci-tech and the Dogma of Work*, University of Minnesota Press, Minneapolis

BARRAS R. (1986) Towards a Theory of Innovation in Services, *Research Policy*, vol.15, p.161-173

BERMAN E. , BOUND J., GRILICHES Z. (1994) "Changes in the Demand for Skilled Labor within U.S. Manufacturing: Evidence from the Annual Survey of Manufactures" , *Quaterly Journal of Economics*, CIX,367-398.

DAVID P. and FORAY D., (1995), "Accessing and Expanding the Science and Technology Knowledge-base", *STI Review*, N°16, OECD, Paris.

ERGAS H., (1994), "The New Faces of Technological Change and Some of Its Consequences", miméo.

FREEMAN R.B. (1995) *Are your Wages Set in Beijing ?* The Journal of Economic Perspectives, summer, vol.9 number 3.

FREEMAN C., CLARK J.A, and SOETE L., (1982), *Unemployment and Technical Innovation: A study of Long Waves and Economic Development*, Frances Pinter, London.

FREEMAN C., SOETE L. (1987) *Technical Change and Full Employment*, Oxford, Basil Blackwell.

GERSHUNY J. (1978) *After Industrial Society ?*, MacMillan, London.

GERSHUNY J., MILES I. (1983) *The New Service Economy: The Transformation of Employment in Industrial Societies.*, Frances Pinter, London.

HANSENS A., (1931) "Institutional Features and Technological Unemployment", *Quaterly Journal of Economics*.

Errore. Il segnalibro non è definito.

HANSENS A., (1932) "The Theory of Technological Progress and Dislocation of Employment," *American Economic Review*.

KALDOR N., (1933) "A Case Against Technological Progress", *Economica*.

KATSOULACOS Y., (1984) "Product Innovation and Employment", *European Economic Review*, Vol. 26, pp.83-108.

KRUGMAN P. and VENABLES A., (1994) "Globalization and the Inequality of Nations", *CEPR Discussion Paper Series*, N° 1015, September.

LESLIE (1995)

MANKIW G., (1995) "The Growth of Nations", *Brookings Paper on Economic Activity*, N° 1, pp. 275-310.

McKINSEY GLOBAL INSTITUTE (1994), *Employment Performance*, Washington, D.C., November.

MISES (VON) (1936) *Socialism.* , Jonathan Cape, London

NAKAMURA (1995) Is US Economic Performance Really that Bad ? Working Paper 95-21, Fed Res Bank of Philadelphia, October

NEISSER H. (1942), "Permanent Technological Unemployment", *American Economic Review*, Vol. 32(1), pp. 50-71.

OECD (1994b), *The OECD Jobs Study : Evidence and Explanations ; Part I: Labour Market Trends and Underlying Forces of Change*, Paris.

OECD (1994c), *The OECD Jobs Study : Facts, Analysis, Strategies*, Paris.

OECD (1992a), *Technology and the Economy : The Key Relationships*, Paris.

OECD (1986), *Flexibility in the Labour Market : the Current Debate*, Paris.

OECD/ICCP (1984) *Information Technology , Employment and Economic Growth*. ICCP 17, OECD, Paris

Errore. Il segnalibro non è definito.

OLINER SICHEL (1994) *Computers and Output Growth Revisited : How Bis Is the Puzzle ?*, Brookings Papers on Economic Activity 2.

PETIT P. (1995) Employment and Technological Change, in STONEMAN (1995) ed, *Handbook of the Economics of Innovation and Technological Change*, Blackwell, Oxford p.366-408.

PETIT P. (1991) "Diffusion of Information Technologies and the Productivity Black hole : with an application to the case of France, Working Paper, Cepremap, Paris.

PIANTA M. (1996), "S&T Specialisation and Employment Patterns", paper presented at the OECD/KUF conference on "Creativity, Innovation and Job Creation", Oslo, 11-12 January.

QUINN (1986) Technology Adoption: The Service Industries in R.Landau and N.Rosenberg (eds) *The Positive Sum Strategy*, National Academy Press, Washington DC

REATI A. (1995), "Radical Innovations and Long Waves in Pasinetti's Model of Structural Change : Output and Employment", Economic Paper Series N°109, Directorate-general for Economic and Financial Affairs, European Commission.

RIFKIN J. (1995), *The End of Work : The Decline of the Global Labor Force and the Dawn of the Post-Market Era*, G.P. Putnam's Sons, New York.

ROACH S.S. (1991), *Pitfalls on the "New" Assembly line : can services learn from manufacturing" ?*, p.119-129, Paris, OECD 1991.

SOETE L. (1987), "The Emerging Information Technology Sector", in C. Freeman and L. Soete (eds), *Technical Change and Full Employment*, Basil Blackwell, Oxford.

STONEMAN P. (1984), "An Analytical Framework for an Economic Perspective on the Impact of New Information Technologies", Paris, OECD/ICCP ITEP project

US NATIONAL COMMISSION ON TECHNOLOGY, AUTOMATION AND ECONOMIC PROGRESS (1966), *Report and Appendices*, Vols 1-6, Washington, DC.

US SENATE INTERIM REPORT (1995)

VENABLES A. (1985), "The Economic Implications of a Discrete Technical

Errore. Il segnalibro non è definito.

Change", *Oxford Economic Papers*, Vol. 37 pp. 230-248.

WEINTRAUB D. (1937), "Unemployment and Increasing Productivity" in National Resources Committee, *Technological Trends and National Policy*, Washington, DC.

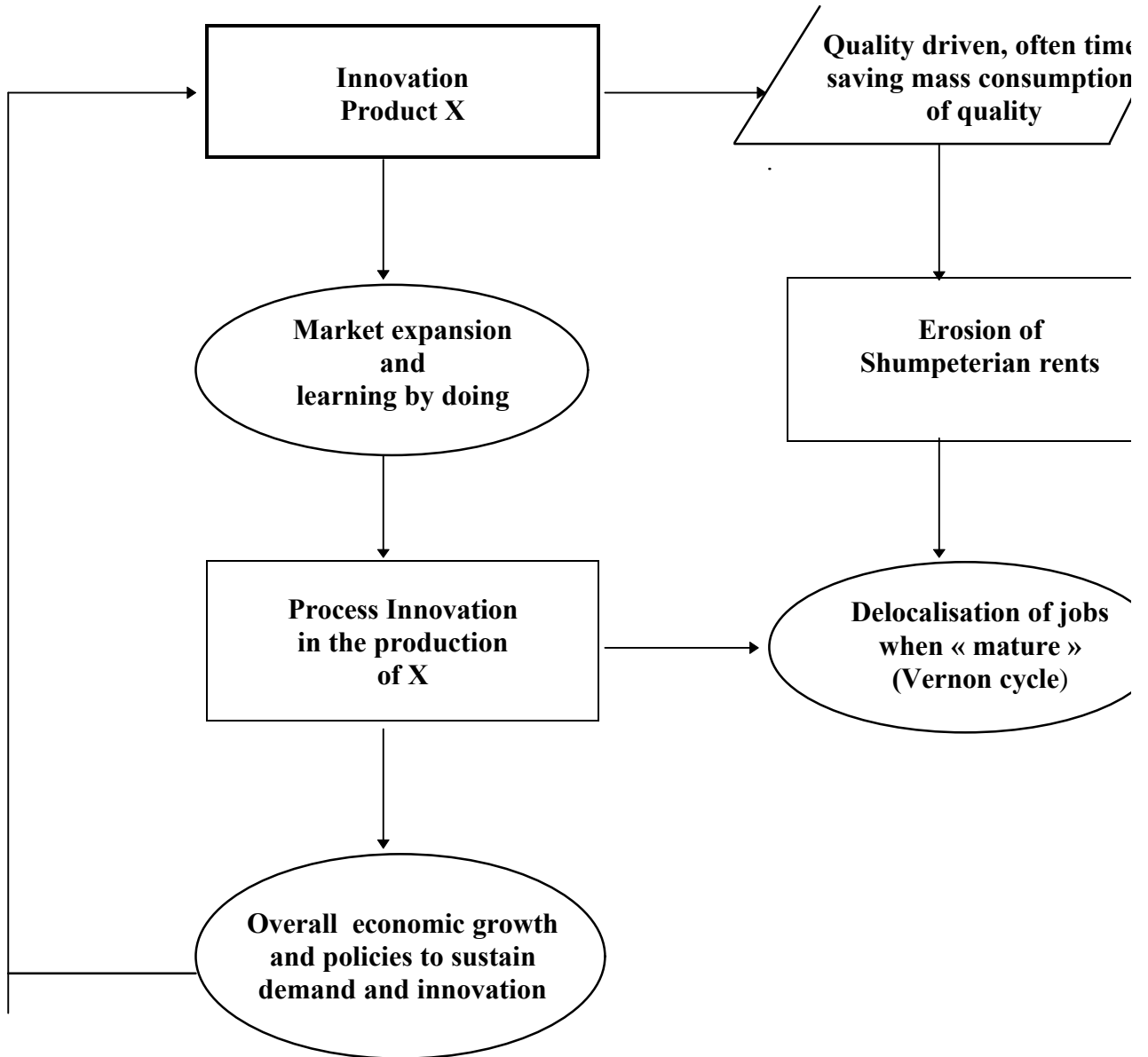
YOUNG A. (1995), "Growth Without Scale Effects", NBER Working Paper N°5211, Cambridge, MA.

YOUNG A. (1928), "*Increasing Returns and Technical Progress*", *Economic Journal*, December.

Errore. Il segnalibro non è definito.

INNOVATION SCHEME IN MANUFACTURING

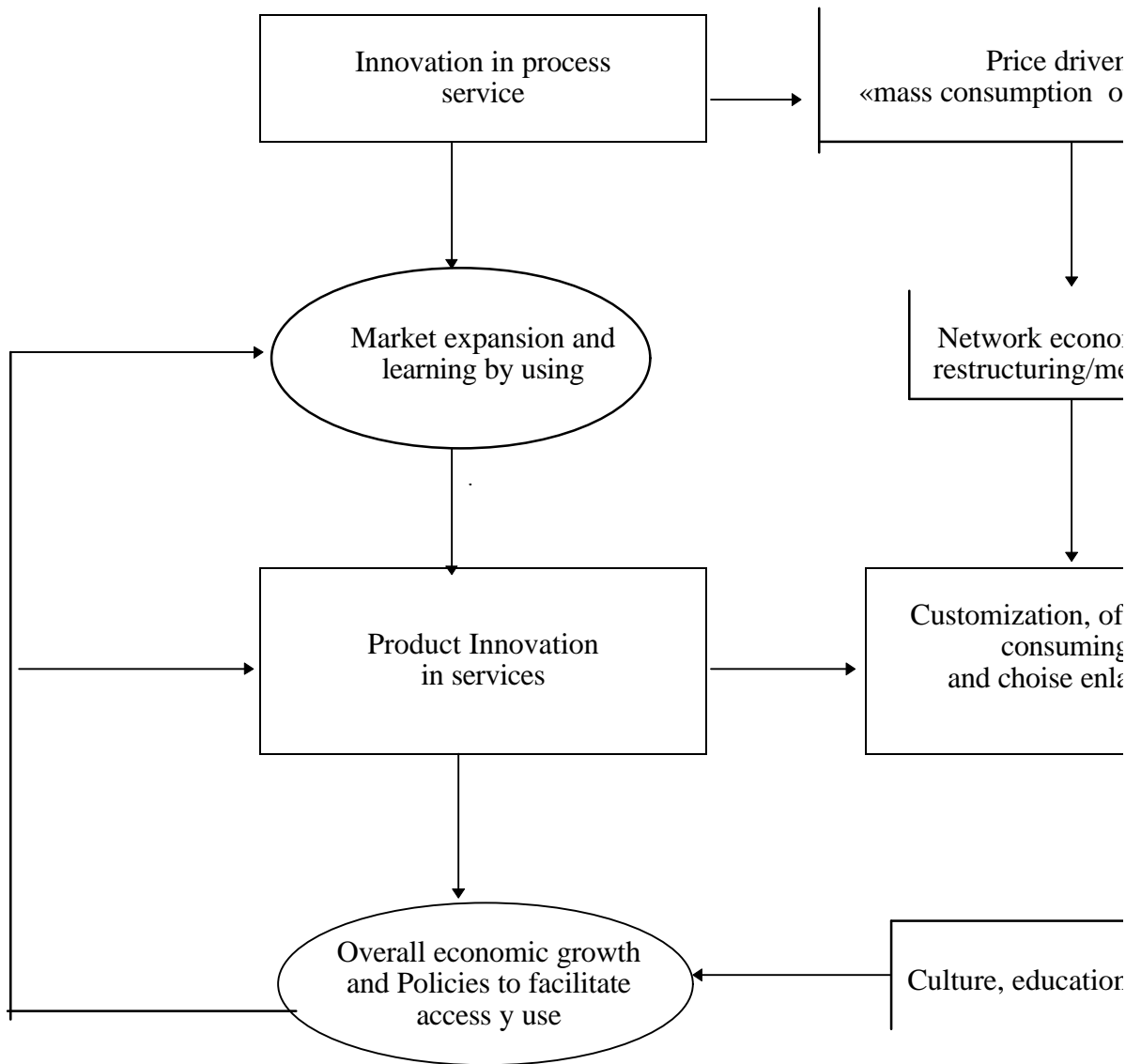
GRAPH 2a



Errore. Il segnalibro non è definito.

INNOVATION SCHEME IN SERVICES

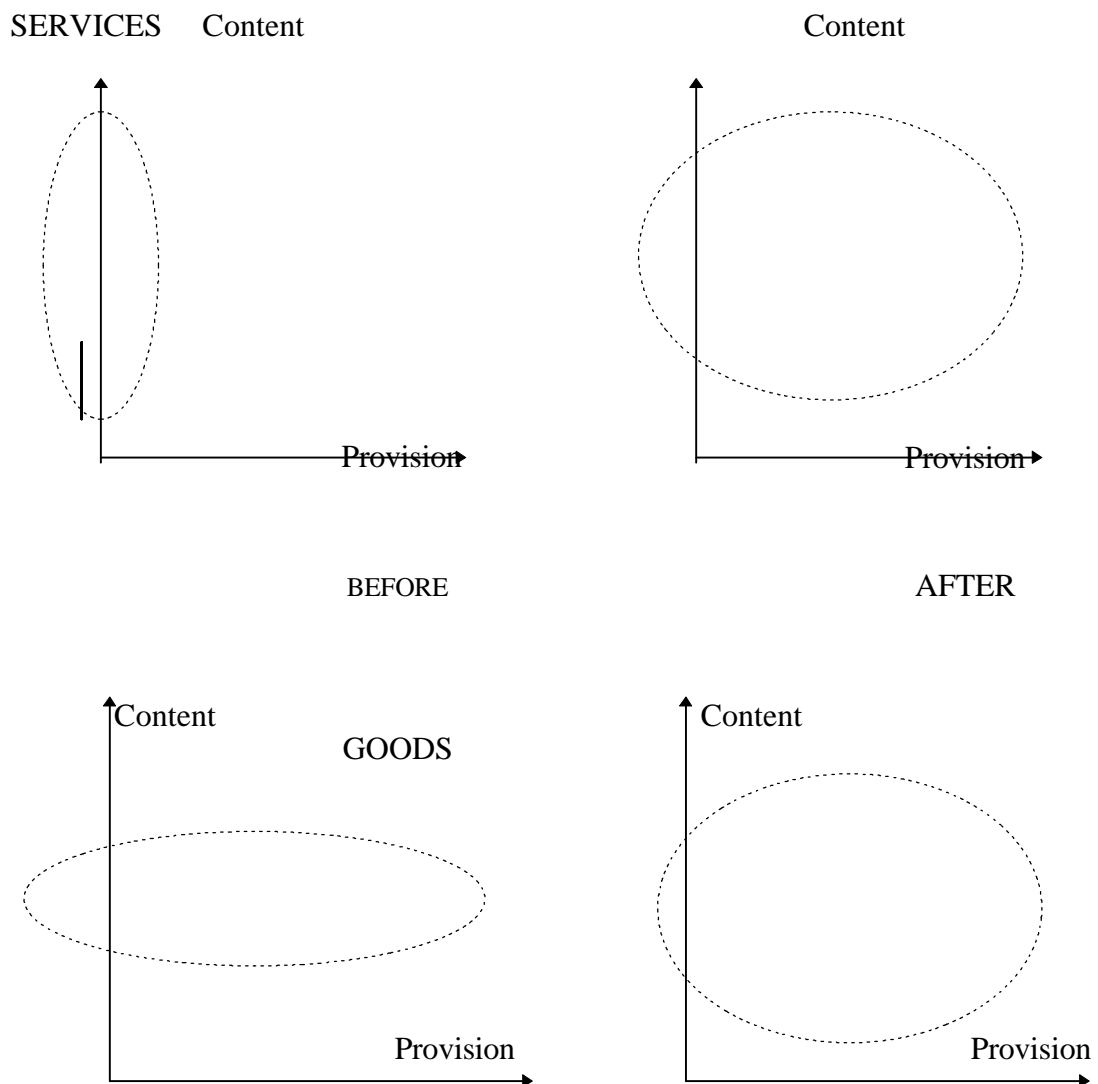
Graph 2b



Errore. Il segnalibro non è definito.

GRAPH 1

ICTs EFFECTS ON THE TRADEABILITY
of GOODS & SERVICES



Errore. Il segnalibro non è definito.

GRAPH 2c

ICT's ON TRADEABILITY

