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Book review for the Journal of Evolutionary Economics

Mary Gregory, Wiemer Salverda and Ronald Schettkat (eds) (2007), Services and Employment: Explaining the U.S-European Gap, Princeton University Press, Princeton and Oxford.

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The economic and socioeconomic literature has produced many major works on tertiary growth, opposing supporters and critics of the service economy and society. The so-called neo-industrial analyses (the heirs of Adam Smith) have not stopped warning about the processes of de-industrialisation, by comparing the service economy to an economy of decline. As for the post-industrial theories originated by Jean Fourastié and personified by Daniel Bell, these conveyed an optimistic and evolutionary idea of tertiary growth.

The book edited by Mary Gregory, Wiemer Salverda and Ronald Schettkat fits into this post-industrial perspective. Indeed, it becomes apparent from this book, which we would highly recommend reading, that the problem of contemporary developed economies is less their degree of de-industrialisation than their gap in servicisation. Such a gap exists when one compares employment in Europe and in the United States. This book, which is devoted to this gap, its nature, its mechanisms, is important not only because of the interest (theoretical and political) of the question addressed, but also because of how it is dealt with. Indeed, it compares the innovative results from a recent empirical study (the European DEMPATEM project, which brought together teams from five countries in the European Union and the United States for two years) and the contributions of four of the most eminent international experts in the role of services in employment and the growth of productivity (Baumol, Freeman, Fuchs, Gordon).

The problem subjected to analysis is the following: the difference in the employment rate between the United States and Europe is now about 10%, which represents a gap of 25 million jobs mainly, (if not exclusively) in the services. How can this difference (this employment gap, which is a services and employment gap) be explained? Each of the contributions in this book sheds a particular light on this question, while re-evaluating a certain number of traditional arguments (for example, that of the rigidity of the employment market). However, generally one could say that the main contribution of this work is to highlight the major role of differences in the levels and patterns of demand (mainly involving services) in explaining this gap.

Chapter 1 (Wiemer Salverda and Ronald Schettkat)) provides a clear diagnosis of the employment gap between the United States and Europe. It illustrates the central position that

on the one hand the services, and in particular distribution, hotels and catering, and, on the other hand, community and personal services, occupy in this. It is a general introduction to the different factors explaining the gap that are present in the literature (cost disease, outsourcing, wage compression, female participation, the marketisation of household services). But it emphasises the demand factor: the main explanation for the employment gap lies, in fact, in a demand gap (gap in per capita expenditure), which is mainly related to services.

In chapters 2 and 3, two authors who are highly influential in the services field undertake a particularly interesting exercise: that of reassessing the laws that bear their name. Thus, by using updated data, Victor Fuchs confirms the famous Fuchs law, established in the 1960s, which makes a positive link between the share of services in employment and per capita GDP. He believes that the continuity of this law is explained by two arguments: a productivity argument and an argument of differential growth in demand for services, due to their higher income elasticity. In the same way, William Baumol confirms and develops the theory of « cost disease » to better take into account changes in services. In his contribution to this book he is interested in the behaviour of a group of basic services (linked to R&D and to innovative activity in general) and he shows that they belong to the « asymptotically stagnant » category of sectors. Indeed, they combine two kinds of input: 1) a stagnant input: mental work (intellectual work) and 2) a progressive input: technological equipment (in particular computers). This kind of service thus also ends up by suffering from cost disease, given the limits on productivity imposed by the nature of intellectual work. The relative increase in this kind of service should lead to a fall in their demand, which should have a negative influence on innovation throughout the whole economy and slow down productivity growth in progressive sectors (agricultural and industrial).

The first major results of the DEMPATEM project are outlined in chapter 4. By using data from the input-output tables, Mary Gregory and Giovanni Russo apply an original and innovative empirical framework to analyse the impact of demand patterns on employment in the United States and in the five European countries concerned. The originality of their approach is that they are not interested, as is often the case, in the employment intensity of the end product (in the final phase of the production process), but in the total employment generated to supply a product, by taking into account all the stages in the supply chain. The analysis shows that i) the final demand for services, as for goods, generates an increasing number of jobs in services, ii) European consumption patterns are less employment-friendly than those in the United States, iii) but above all that the main explanation of the transatlantic gap is a stronger growth in demand in the United States, which is the source of job creation...

Chapter five (Adriaan Kalwij and Stephen Machin et al.) limits the analysis of demand to the consumption of services. Kalwij et al. try to homogenize the data supplied by national surveys of household budgets, to conduct a comparison of national patterns of household expenditure during the 1980s and 1990s. The chapter reassesses the main explanatory factors for the changes in patterns of demand, particularly by focusing on changes in households' demography and employment, changes in their budgets, variations in relative prices. A certain number of general results can be mentioned. There is strong growth in expenditure on certain services: particularly spending on accommodation, eating out, private transport, communication services. An increase in the relative price of services can also be noted in all countries. The growing share of services in the budget seems to be largely explained, first of all, by the level of total household expenditure, then, by the change in the demographic composition of households (in particular the increase in the share of two-earner households).

Chapters 6 and 7 are devoted to the service sectors, which appear to play a particularly important role in employment dynamics. These are the distribution sectors (retailing, hotels, catering). The comparative analysis of the retail sector in the United States and Europe reveals a certain number of interesting results. It questions the explanation of the gap using arguments of differences in salary models, and the idea by which European economies would be held back by the rigidity of the employment and goods markets. Indeed, the detailed examination of the structure of earnings seems to indicate that American retailing does not take advantage of its greater flexibility to pay lower wages. The main explanation of the gap in retailing is again an argument of demand: the volume of per capita consumption of goods is in fact much higher in the United States. Also in chapter 7, Robert Gordon introduces more general explanations relating to life style (preference for the « big box » format in retailing), to societal choice (earlier independence of young Americans) and more ambitious American policies on innovation.

Another explanation of the gap is dealt with in chapter 8 (Richard Freeman). It concerns marketisation, which means the market replacing traditional household production. This marketisation is stronger in the United States than in Europe, as time-use surveys show. The marketisation of household production is an important factor in creating jobs because it operates on both the supply and the demand side of the labour market... Indeed, marketisation releases time and helps to integrate women into the labour market. This marketisation creates a demand for labour (in services), to support domestic activities transferred to the market. Marketisation is considered here in a post-industrial perspective (of increased recourse to services). It could have been compared with a neo-industrial marketisation such as that defended by Jonathan Gershuny (1978) in his theory of the self-service society.

There are still a certain number of important questions to understand and interpret the employment gap. Some have been mentioned in the book but would merit further consideration.

The first question is the absence of Scandinavian economies in the analysis. These economies do, however, seem to offer an original model of the service society, which is often mentioned in Europe as an alternative to the American model. More generally, it would have been interesting, in addition to the comparison of the 6 countries, to make the analysis more general by comparing socio-economic groups or models (or "worlds") of the service economy. Gadrey (2007) achieves such an exercise by using a whole series of criteria, starting with the relative significance of the main service sectors which dominate in employment, and by applying, on the one hand, a convention of economic equality and solidarity, and on the other, a convention of family and gender. He distinguishes four groups or worlds of service economies: liberal (or anglo-saxon), nordic, continental, and familialist.

The second question is that of performance measurement. It is true that in several places one can find reflections on the difficulties of measuring, which call for caution and qualifying the results of the analyses. But as well as the warning, proposals for alternative measurements of the product and of productivity, particularly from the perspective of their consequences on interpreting the employment gap, seem to be increasingly necessary. These trials would benefit from a reference to studies which suggest alternative measurements of wealth in a post-industrial economy, of services, information, knowledge and sustainable development (Gadrey, 2006).

The question of innovation is dealt with in particular in chapter 7. But it is dealt with in a general manner, from the viewpoint of the introduction of informational technologies in the services. However, the issue of innovation in services is an important issue that has not yet been sufficiently mastered, which merits particular attention. Indeed, it also gives rise to a significant gap: an innovation gap which represents the difference between what traditional analytical tools (research-development, patents) can reveal and the reality of innovation, which is largely non technological, in these activities. Because of this innovation gap, but also the complexity of the innovation employment relationship, the link between innovation in services and employment is a question that is not investigated enough, that would merit very specific consideration in the future.

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