

SECTION 1

THE SERVICE SECTOR

1.1 DEFINITION AND NATURE OF SERVICES⁴

Allan Fisher and Colin Clark in the 1930's and 1940's were the first to propose a breakdown of the economy into three sectors: primary, secondary and tertiary. Clark defined the tertiary sector as "all forms of economic activity not included under primary and secondary".⁵ This definition reflects the fact that for a long time the tertiary sector of services were considered as "residuals", whereas manufacturing was understood to be a solid structural basis on which the rest of the economy would lie.

T.P Hill (1977) was one of the first modern writers to focus on the definition of services as opposed to simply identifying the residuals as tertiary. He defined services as "a change in the condition of a person, or a good belonging to some economic unit, with the prior agreement of the former person or economic unit".⁶ Although the definition of services has evolved over time, as more analytical research was undertaken and new characteristics of services were discovered, there is still no internationally agreed definition, and the economic literature uses the term in various ways. The difficulty of defining, and also classifying, services have led many authors to make an explicit reference in their studies as to what they considered services meant. This definitional problem reflects the difficulty of adopting a standard definition that will meet all the different characteristics of services (e.g., a haircut as opposed to transportation services).

Today, it is generally acknowledged that services can be as diversified as goods and can be labour intensive (domestic works) or capital intensive (communications), perishable (cleaning) or durable (education), simultaneous (live concert) or decoupled (computer-aided instruction).⁷ Andrew Wyckoff (1996) has reinforced the argument on the diversity of services by saying that the spread of information technology (IT) through the service sector will encourage a blurring of the distinction between services and manufacturing.⁸ He noted that services are becoming more storable, like goods, due to the codification of knowledge used by IT, and that services would also become more capital

⁴ Domestic services statistics in recent years have been used extensively to illustrate the growing size of the service sector. Statistics collected for this section come from OECD publications on services transactions and are aimed at comparing domestic performance between Canada and other G-7, as well as other OECD countries. More detailed Canadian domestic services data will be presented in the next section. Sections 1 and 2 will present the most current data on employment, output, productivity and R&D expenditures.

⁵ Bhagwati, J., « International Trade in Services and its Relevance for Economic Development » in Giarini, O., 1987, p. 9.

⁶ T.P Hill, "On goods and services", *The Review of Income and Wealth*, 1977, extract from Melvin (1989)

⁷ Riddle (1986).

⁸ OECD Observer (1996).