

domestic economies.<sup>13</sup> Employment in services covers a broad range of professions, demanding vastly different skills, from fast-food activities to telecommunications engineering jobs. It can, however, be divided in two broad groups: (a) services provided to consumers and (b) to producers. As will be discussed in the following sections, services provided to producers tend to produce more growth and employment opportunities for the whole economy than those provided to consumers. R. McKenzie (1987) suggested that "the growing complexity and sophistication of goods and services has induced greater specialization of production in goods and services".<sup>14</sup> The emergence of new products, characterized by a high information content, and technologies<sup>15</sup> has given rise to a new set of jobs which in turn will create its own demand for other types of jobs and products.

A comprehensive report prepared by the Economic Council of Canada (ECC) in 1991 summarized the major developments in the Canadian labour market as the service economy was expanding.<sup>16</sup> The ECC report showed that the structural shift to services carried important implications in terms of the reallocation of workers and jobs from the manufacturing to the services sector in Canada. The study also showed that some groups, such as older and less-educated employees, experienced special difficulties in adapting to structural changes.

#### **-Contracting-out (or vertical disintegration)**

The contracting-out, or the vertical disintegration, of services has proved to be a challenge for their measurement and classification. Two factors have been pointed as possible causes for the shift in employment from manufacturing to services: a shift from in-house services work to outside suppliers (contracting-out where only a change in location occurred); and an overall increased demand for services by manufacturing firms (increased contracting-out).<sup>17</sup> This illustrates that a firm can alter its purchase of services

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<sup>13</sup> In most developed countries, especially in the US, some people associated the growth in services employment with emerging surpluses of labour in manufacturing industries at a time where the manufacturing sector was facing downturns.

<sup>14</sup> McKenzie, R.B., "The Emergence of the "Service Economy": Fact or Artifact?" in Grubel, G., 1987, p. 75.

<sup>15</sup> For example, a large number of cross-border electronic transactions have increased employment opportunities.

<sup>16</sup> Between 1967-1989, the rate of growth in employment in services in Canada was more than three times on an average annual than that of the manufacturing sector. This rise in employment in terms of growth rate was fairly evenly distributed between the more dynamic sector of commercial services (finance, communications, etc.), traditional services (retail, personal services, etc.) and the "non-market" services (education, health, etc.)

<sup>17</sup> This also creates a statistical issue. Firms that used to have in-house accounting and marketing operations will now prefer contracting outside if it is less costly. As a result, statistics on employment in these two sectors are now recorded in the service industries classification whereas they were not in the first instance. More details contracting-out are provided in section 1.2.2.