

# Service Industry Takes Off

By Tetsuo Ihara

An economy's increasing orientation toward services is generally shown by a rise in the weight of service-supplying activities, that is, the tertiary industry. As shown in Fig. 1, the role of services in the Japanese economy has grown significantly in terms of both employment and nominal output.

In real terms, however, the share of the service industry in Japan's economic output as measured by gross domestic product (GDP) has not increased since 1970. The gap between the nominal and real figures can be explained by a steeper rise in nominal service prices than in real prices. In other words, the growth of labor productivity in the tertiary industry has lagged because, generally speaking, the technology developed so far to improve industrial efficiency has not so much been introduced into the service sector. This has

led to a rise in the service industry's share in the employment structure.

There are several factors behind the rise in services in the Japanese economy. The foremost is simply the growing need. Services spending has increased rapidly as a percentage of total personal consumption expenditure (Fig. 2), which accounts for more than half the country's total economic output. The prime mover in this shift has often been said to be a rise in income. But disposable income per household in real terms has increased less than 1% annually since 1975. Given the rapid increase before 1975, real take-home income has actually leveled off. Yet the weight of services in total consumption has continued to rise.

One reason for this is the greater role of women. The employment rate among housewives began to rise significantly in

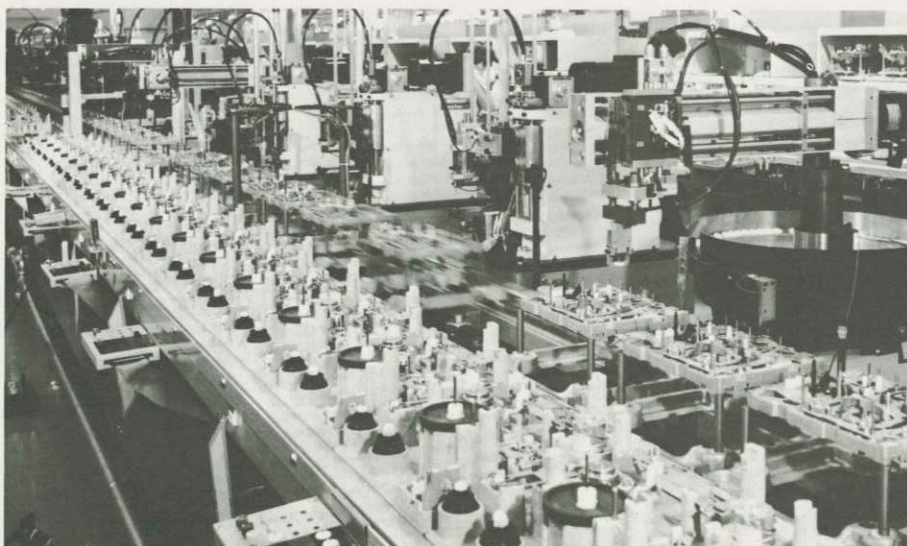
1975—a phenomenon coinciding with higher services spending. Another reason appears to be the profusion of vendors of new services and other incentives on the supply side.

## Supply to non-

A further indicator is a rise in service supply in non-service industries, such as manufacturing. For example, a manufacturing company consists of a production sector—factories—and a services sector—marketing, administration, planning, research and development. In Japan's case, the share of the service sector has been growing faster than that of production, and the trend seems likely to continue.

The background to this phenomenon is clear. Production has made greater progress in improving efficiency; if the volume of work remains unchanged in both sectors, production staff and costs will naturally decline as efficiency rises, leaving those of services relatively untouched. Another factor behind the growing weight of services in non-service industry is a comparative increase in the work load of the service division.

When production was still time- and labor-intensive, a company could grow simply by producing quality goods at low cost. But as production becomes easier, this principle no longer holds true in every area. For instance, consumers already satisfied with a product's performance may begin to seek innovative new features. To meet such needs, extra work—market research and product planning, for instance—becomes necessary, adding to costs. With consumers increasingly demanding unique products at extra cost, this kind of



Improved production efficiency makes manufacturing companies increasingly service-oriented.

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service is an expanding area for generating value added and new employment.

Manufacturers need not provide these services themselves. They may purchase what they want from service firms. Similarly, they may choose to hive off part of their service division to a new company. Needless to say, the motivation in either case is to obtain better service at lower cost. According to Japan's "inter-industry relations table," the rate of service input in the manufacturing industry rose from 17.7% in 1970 to 19.3% in 1980. The increase, which reflects the latest moves in the service industry, is an important element in the growing weight of the service market.



Sophisticated markets require products with added service value.

## In brief

A growing orientation toward services may be summarized as follows. A society centered on goods is one where production is costly and labor-intensive and where consumers are primarily interested in material acquisition. Many people engage in production, creating much value added, with the objective of producing quality goods efficiently.

In a society where the weight of services has risen, however, production is easy but people seek either services or goods with a

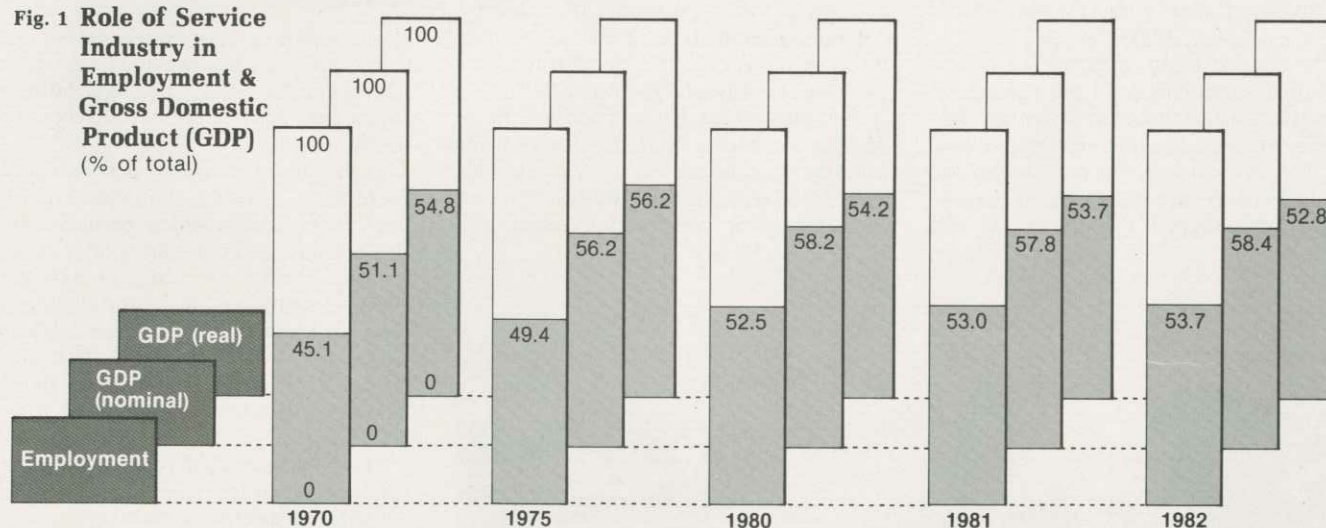
high service input. As the efficiency of service supply remains low, many engage in supplying services, thus producing value added; the goal is to supply quality services efficiently.

Since extensive services go into industrial products, foreign trade means indirect international service transfers. When the ratio of processing costs was high, the competitiveness of the processing division determined that of the final product. But with technological innovation simplifying processing, the quality of services involved in a product has become

an important part of its competitiveness. International division of labor in the form of product design being handled by one country and production by another will increase. Given the rising ratio of value added from services, countries with a comparative cost advantage in this sector will wield increasing economic power.

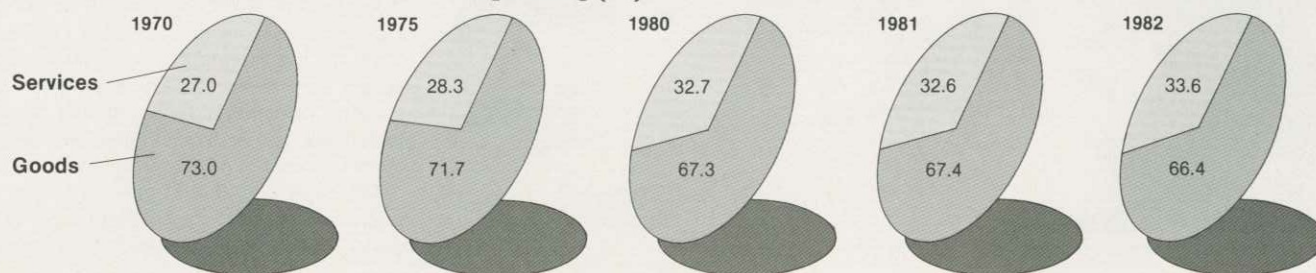
The rising share of services in economic activity could well invite new problems. Discerning these problem areas in advance and devising effective ways to cope with them will be of crucial importance to both industry and society at large.

**Fig. 1 Role of Service Industry in Employment & Gross Domestic Product (GDP)**  
(% of total)



Source: National Economic Accounts, Economic Planning Agency

**Fig. 2 Ratio of Services to Consumption Spending (%)**



Source: Household Accounting Survey, Prime Minister's Office