

**Service Sector in Central and Eastern Europe and in the European Union  
- A Comparative Analysis**

**1. Introduction**

In the 1960s, all the countries belonging to the European Communities experienced a movement of employment from the industrial sector to the service sector and growth in the share of the service sector in the generation of GDP with a simultaneous decline in the share of industry. This led to a departure from traditional branches of industry and the service sector moved to the lead in the entire economy of the European Communities. At present it is often said that the EU is at the stage of a post-industrial or information society<sup>1</sup>.

The experiences of the countries which not long ago had centrally planned economies have shown entirely different tendencies in the development of the service sector in the last decades. This situation resulted from a negative attitude towards the service sector, which originated from the ideological identification of services with unproductive work. Also the numerous limitations on private ownership precluded growth of service activities in these economies. As a result most of the service industries in this group of countries remained weakly developed. However, since the commencement of the process of transformation of Central and East European economies towards market economies, growth in the service sector and development of modern service branches have been observed in this region.

The process of changes in the service sector related with the systemic transformation coincided with the process of adjusting the economies applying for accession to the EU to the requirements posed by that grouping.

---

<sup>1</sup> W.Molle, *Economics of European Integration: Theory, Practice, Politics*, Gdańsk, 1995, pp.319-320, W.Ochel and M.Wegner, *Service Economies in Europe*, London: Printer Publishers for the Commission of EC, 1987 - the theories of the information economy lay stress on new computer and information technologies as the main source of structural changes and a driving force for the creation of new workplaces for computer specialists in all sectors. Computerisation and development of telecommunications are thought to be the chief source of a new industrial revolution.

The goal of this paper is to compare the development of the service sector in the countries of the European Union and in the countries of Central and Eastern Europe and to analyse the importance of the service sector in the economies at different levels of economic development.

## 2. Service sector in the EU countries

A rapid expansion of the service sector in the Community countries (as in the remaining highly developed countries) proceeded under the influence of many factors and these in turn were the consequence of<sup>2</sup>:

### a) demographic changes:

- the average life span was extended, which caused an increase in the number of persons in pensionable age - this group created a demand for services connected with leisure, entertainment, travelling as well as for medical and para-medical services,
- development of new towns and regions caused an increase in the demand for services connected with the infrastructure and other services indispensable for a proper functioning of a community;

### b) social changes:

- growth in the number of working women contributed to an increase in the demand for services performed hitherto within households, e.g. growth in the demand for professional care of children and development of other personal services and on the other hand, most women found employment just in the service sector<sup>3</sup>,
- women's earnings increased the family's incomes and thereby the demand for services, including those rendered by retail trade, real estate and advisory firms,
- the quality of life improved - smaller families whose income consisted of two salaries could allot a higher proportion of their income for entertainment and travelling,
- foreign travels and freedom of people's movement led to a refinement of consumers' tastes - they started to compare the services rendered domestically and abroad, they demand services of both greater diversity and increasingly higher quality,
- more and more complicated procedures which cannot be avoided in every-day life produced a demand for many different services, especially in the area of legal and financial counselling,
- development of telecommunications and travels caused growth in people's aspirations - at present both children and adults demand extension of the scope of education and better teaching methods so as to be able to compete with others in the complex and quickly changing reality,

<sup>2</sup> A.Payne, *Marketing of Services*, Warsaw: PWE, 1997, pp.17-19; A.Budnikowski, E.Kawecka-Wyrzykowska (eds.) *International Economic Relations*, Warsaw: PWE, 1996, pp.57-58.

<sup>3</sup> Cf.J.Bridgford and J.Stirling, *Employee Relations in Europe*, Blackwell Business, 1994; In the last decades the share of women in total employment rose in all EU countries, reaching the level of about 73% in 1990. At the same time a considerable influence on growth in women's employment was exerted by development of other forms of employment (e.g. part-time work, work under fixed term contracts), and it should be underlined that this phenomenon occurred primarily in services - W.Molle. *Economics of European Integration: Theory, Practice, Policy*, Gdańsk, 1995. Also the expansion of the sector of public services (education, medical and social services) had an impact on growth in the employment of women).

## c) economic changes:

- globalisation of the economy caused an increased demand for services connected with communications, travelling and flow of information - growth in the demand for this kind of services resulted also from the rapid changes brought about by the introduction of new computer technologies,
- modernisation of the service sector step in step with progress of technology, which permitted growth in labour productivity in this sector and contributed to the emergence of new kinds of services such as satellite television, inter-bank services rendered by means of satellites,
- increased possibilities for rendering services over distance thanks to modern technology, e.g. computer reservation of air tickets,
- growth in the production of goods entailed development of complementary services such as transport, insurance of products,
- narrow specialisation of the particular branches of industry led to more frequent use of services of specialists, e.g. in the area of market research, advertising campaigns,
- growth of specialisation of services and development of specialised service firms, e.g. firms specialising in transport of products, separation of forwarding from transport, narrow specialisation in insurance services,
- development of national corporations - however, this influence is not unambiguous, for on the one hand transnational corporations contributed to growth in exports of services as a result of development of exports of products and specialised services but on the other hand their activity led to the replacement of some exports with services rendered in the buyer's country;

## d) political changes:

- the number of officials in central authorities increased, the structure of governments became overblown, many institutions of the EU were set up and this is accompanied by an expanded service infrastructure,
- international ties caused an increase in the demand for legal and specialised counselling in other areas.

All these factors have contributed to a rapid expansion of the services sector and to a change in the perception of the service sector. Already in the early 1980s, the service sector began to be perceived as a sector contributing significantly to the process of economic development, to the generation of domestic product and to the balance of payment.<sup>4</sup> It was realised that the

---

<sup>4</sup> Growth in the share of the service sector in GDP (in current prices) is explained in part by the rise of prices of services step in step with economic development. Analyses focusing on consumption (the share of final demand for services in national expenditures) showed that growth in the prices of services and not growth in quantity plays a major tool in pushing expenditures upwards when income increases. The factors affecting the phenomenon of price rises step in step with economic development are considered to be a lower growth of productivity in services than in the manufacturing sector, high labour-intensity of different services and the fact that developing countries are relatively well provided with the labour factor. Moreover, what accounts for such a marked growth of the service sector is a high income elasticity of the demand for services, and especially for consumer services such as entertainment, health, travelling. Analyses of this kind cause a certain concern for a negative influence of expansion of the service sector on productivity of the economy, prospects of economic growth and steady growth of real incomes (this process is often referred to as disindustrialisation).

ineffectively functioning service sector had an impeding effect on the development possibilities of the economy. Earlier the expansion of the service sector in developed countries was often explained as side-effects and a symptom of the so-called disindustrialisation and in the developing countries - as the effect of chaotic urbanisation, expansion of the grey (shadow) sphere and an overblown public sector. Generally speaking, the development of the service sector was perceived as a side-effect of changes in the resource and industrial sectors and sometimes even as an onus affecting negatively the long-term prospect of economic growth<sup>5</sup>.

Concomitantly in the late 1970s, the EU countries took efforts to deregulate and restrict the state's control in the service sector to an indispensable minimum. In many countries, a wide privatisation programme was carried, covering also a number of key sectors of the economy such as air transport or telecommunications<sup>6</sup>.

The best measure depicting the development of the service sector is analysis of the structure of GDP generation and structure of employment in the EU countries in recent years, which shows how the share of the service sector changed in the generation of GDP and in employment against the background of the other sectors of the economy. The data presented in table 1 show the structures of GDP generation and employment in the EU countries in the years 1980-1996/1998. It should be noted that the presented data come from the statistics of the International Monetary Fund and consequently construction and public utilities were included into industry, which of course considerably lowers the importance of services in the countries under survey.

As it follows from the data shown in table 1, in 1980-1998 a growth in the share of the service sector in the generation of GDP occurred in all the EU countries, with the biggest increases recorded by the UK and Austria (+12 percentage points). In 1980, the highest share of services in GDP generation was recorded by Denmark (62%) and the lowest by Greece (44%) and in 1998 the highest and lowest shares were recorded respectively by France and Belgium (72%) and Greece (53%). In most of the EU countries, the level of GDP per capita was in the range of USD 24,000-26,000 and the share of the service sector in GDP generation ranged from 68% to 72%. Thus it can be said that EU countries with a higher GDP per capita level had a higher share of the service sector in GDP generation. The exceptions are Denmark, which despite its considerably higher GDP in comparison with the remaining countries did not reach the highest share of the service sector in the generation of GDP and Finland, which recorded fairly low shares of the service sector in GDP generation despite its fairly high level of GDP per capita. The thesis that the share of the service sector in GDP generation is dependent on the level of economic development is confirmed by the fact that throughout the surveyed period the lowest share of the service sector in GDP generation was recorded by Greece, which beside Spain and Portugal had the GDP per capita index considerably below the average. The share of the service sector in GDP generation in Portugal also took rather low levels (although higher than in Finland and Ireland); there are no data for Spain.

---

<sup>5</sup> T.Radziwińska, *The Growing Role of Services in International Turnover*, Rynki Zagraniczne no. 73, 20 April 1995.

<sup>6</sup> J.Howells, *Economic, Technological and Locational Trends in European Services. A Report from the FAST Programme of the Commission of the European Communities 1988*, pp. 70-73; A.Sapir, *The Structure of Services in Europe: A Conceptual Framework*, Centre for Economic Policy Research, Discussion paper Series no. 498, January 1991, pp. 19-23.

**Table 1. Structure of GDP generation and employment structure in EU countries, 1980-1996/1998 (in %)**

	PKB per capita <sup>1</sup>	Structure of GDP generation						Structure of employment					
		Agriculture		Industry		Services		Agriculture		Industry		Services	
	1998	1980	1998	1980	1998	1980	1998	1980	1996	1980	1996	1980	1996
Austria	26225	4	2	40	30	56	68	10	8	41	31	49	63
Belgium	24441	2	1	34	27	64	72	3	3	35	28	62	70
Denmark*	32981	5	4	29	27	66	69	7	4	31	27	62	70
Finland	24505	10	4	40	34	51	62	12	8	35	26	53	63
France	24393	4	2	34	26	62	72	8	5	35	27	57	69
Greece*	11308	14	11	31	35	44	53	31	20	29	23	40	56
Spain*	14126	-	-	-	-	-	-	18	9	37	30	45	62
Holland*	24111	3	3	32	27	64	70	6	4	31	22	63	69
Ireland*	22364	-	6	-	-	-	62	19	12	34	28	47	62
Germany	26117	-	-	-	-	-	-	7	3	45	35	48	62
Portugal*	10744	-	4	-	32	-	64	26	12	36	32	38	57
Sweden	25853	4	2	34	30	63	68	-	3	-	26	-	71
UK	23006	2	2	43	31	55	67	3	2	38	27	59	70
Italy	20330	6	3	39	31	55	66	13	7	38	32	49	61

Notes: <sup>1</sup>Values in USD.

\* Data for 1997 instead of 1998.

*Source:* World Development Report 1996, From Plan to Market, Oxford University Press, pp. 194-195, 210-211; 1999 World Bank Indicators, World Bank 1999; Z. Wysokińska, J. Witkowska, European Integration - Development of Markets - Theory and Practice, Warsaw: PWN, 1999, pp. 124-127; Statistical Yearbook, Central Statistical Office, Warsaw, 2000.

In the analysed period of time, there was an increase in employment in services in comparison with total employment in all EU countries. It is worth noting that the highest increments in this value were recorded by the least developed countries of the EU, i.e. Portugal, Spain, Greece and Ireland (about 15-19 percentage points). However, in 1998, Greece and Portugal still had the lowest percentage of employment in services and Spain and Ireland were among the member countries with a relatively low share of employment in the service sector. It can be said that on the whole, the percentage of persons employed in this sector in each EU country was similar to the percentage of GDP generated in this sector in a given country although there were fewer countries where this value was at the level of about 70% (as it was the case with the share of the service sector in GDP generation). The highest percentage of persons employed in services in 1980 was recorded by the Netherlands (63%) and the lowest by Portugal. In 1996, the biggest employment in services occurred in Sweden (71%) and the lowest in Greece (56%).

Summing up, it can be said that the share of the service sector in GDP generation and employment was lower in the less developed EU countries than in the more developed EU member

states. However, it should be underlined that these differences diminished in the analysed period of time, as the economically less developed countries of the EU recorded the highest increments in the analysed values.

Table 2 shows the OECD data depicting the share of the particular branches of services in GDP generated by services (the first column in each service branch) and in employment in services (the second column in each service branch).

As regards the structure of GDP generation and employment in services in the EU countries, the statistics analysed here distinguish the following branches of services:

1. **Wholesale and retail trade, restaurants and hotels** - a fall in the share of this branch in GDP generation in most countries (a small growth only in Spain), with the biggest drop in Austria (-12 percentage points). The highest share in 1970 was recorded by Austria (38%) and the lowest by Finland (22%), and in 1994, the highest and lowest shares occurred in Belgium (28%) and Germany (13%) respectively. A fall in the percentage of persons employed in that branch took place in most countries (a slight increase only in Greece), with the biggest decline in Germany (-14 percentage points) - but such a considerable decline occurred after the unification). It should be underlined that in many countries this branch employed the highest percentage of the workforce in services. In 1970 the highest employment in that branch was recorded by Italy (40%) and the lowest by Denmark (31%), and in 1994 the highest indices were scored by Greece, Spain, Italy and Portugal (about 39-35%) - very attractive countries for tourists, and the lowest index by Denmark (19%).
2. **Transport, storage and communications** - a fall of this branch of services in GDP generation in most countries (a slight increase only in Portugal), with the highest drop in Germany (-5 percentage points). The highest share in 1970 was recorded by Finland (16%) and the lowest by Austria (13%) and in 1994 respectively by Finland (14%) and France (8%). The percentage of the workforce declined in all the EU countries, with the biggest drop in Greece (-7 percentage points). In 1970, the highest employment in this branch was recorded by Austria (15%) and the lowest by France (10%), and in 1994 the highest and lowest figures characterised respectively Greece, Finland and Austria (12%) and France (8%).
3. **Finance, insurance, real estate and business services** - growth in the share of this branch in GDP generation occurred in most countries (a small fall only in Greece), with the biggest increase in Holland and Italy (+15 percentage points). In 1970, the highest share was recorded by the UK (26%) and the lowest by Belgium (5%) and in 1994 respectively by the UK (37%) and Belgium (8%). The percentage of the workforce rose in all the countries (a slight decline only in Germany but it occurred only after the unification and this index remained unchanged in Portugal). The biggest increase in employment in this branch was recorded by Italy (+9 percentage points). In 1970, the highest share of employment in that branch occurred in Italy (16%) and the lowest in Belgium (5%), and in 1994 respectively in Italy (25%) and in Germany and Belgium (5% in either - it is the value for Germany after the unification and for the FRG a slightly higher level). The share of employment in this branch of services was not very high in Portugal and Spain, either but there are no data for these countries for 1994. In the remaining countries, the employment level ranged from 12% to 16%.
4. **Communal, social and personal services** - an increase in the share of this branch in GDP generation took place in most countries (declines only in Denmark, Finland and Spain), with the highest gains recorded by Germany (+11 percentage points). In 1970, the highest share was recorded by Belgium (25%) and the lowest by Austria (6%) and in 1994 respectively by Germany (34%) and Finland (5%) - big differentiation in the share of that branch. Most countries recorded increases in the employment level in that branch (declines occurred in

Denmark, Finland and Spain), with the highest growth in Germany (+15 percentage points). In 1970, the share of employment in this branch was the highest in Ireland (41%) and the lowest in France while in 1994 respectively in Ireland (42%) and Finland (5%). The share of employment in this branch is characterised by big differentiation - from several per cent to over 40%.

5. **Governmental services** - 8 countries of the "fifteen" recorded a drop in the share of this branch in GDP generation (Austria, Belgium, France, Germany, Italy, Ireland, Netherlands and Sweden) - the remaining countries recorded a growth. The highest decline took place in Sweden (-8 percentage points) and the highest growth in Greece (+7 percentage points). The biggest share in 1970 was recorded by Denmark (26%) and the lowest by Greece (17%) while in 1994 respectively by Sweden, Denmark and Finland (about 31%) and by Italy and Holland (16%). Most countries recorded increases in their employment shares (small drops only in the Netherlands, Germany, Italy and Sweden) and the highest increases in Denmark and Finland (+14 percentage points). In 1970, the highest share of employment in this branch was recorded in Ireland (41%) and the lowest in the Netherlands (20%) whereas in 1994 respectively in Sweden (46%) and the Netherlands (18%). Also fairly big differentiation is observed in the share of employment in this branch.
6. **Other services** - a small drop in the share of this branch in GDP generation was recorded by most of the countries (growth only in Denmark, Netherlands and Italy) and it should be noted that there is no such item in some of the countries. The highest share in 1970 was recorded by Finland (5%) and the lowest by Italy and the Netherlands (about 1%) while in 1994 respectively by Germany (4%) and by the Netherlands and Italy (0.5%). Employment dropped in most of the countries (growth only in Germany and Italy) but in many of the countries there is no such item, and the biggest decline in Finland (-8 percentage points). In 1970, the highest share of employment in this branch was recorded by Finland (13%) and the lowest by the Netherlands (2.5%) whereas in 1994 respectively by German (8%) and Denmark (2%).

Summing up, it can be said that most of the EU countries recorded a decline in the following services: "wholesale and retail, restaurants and hotels", "transport, storage and communications", "governmental services" (more than half of the countries recorded a decline) and "other services". The biggest drops were recorded in the branch "wholesale and retail, restaurants and hotels" and in the branch "governmental services" (in the latter, the changes were somewhat smaller) on the other hand the smallest drops were observed in the branch "transport, storage and communications and "other services". As regards branches which increased their shares, they include "finance, insurance and business services" and "communal, social and individual services". However, it should be underlined that "finance, insurance and business services" is this branch of services which recorded the biggest changes and it can be said that its dynamic growth made up for the drops in the other sectors of services. This growth was really imposing in many countries, which is shown by the fact that with a downward trend recorded in most of the services, the total service sector steadily increased its share in the generation of GDP. The big activity of the market of financial services was accompanied by high dynamics of international capital flows. A fast and efficient service of the dynamic capital market requires a strong and modern base of services. A decisive role in raising the quality of financial services is played by the latest technology and services related to it, including mainly computer science and telecommunications. The market for these services has been developing very dynamically in recent years. In the same period, branches like construction and transport showed a stagnation tendency. On the other hand, a fast growth of communal services was closely related to the construction of the state and the resultant involvement of the public sector in society.

Table 2. Structure of GDP generation<sup>a</sup> and employment in EU countries in 1970-1994

		Wholesale, retail, restaurants, hotels		Transport, storage, communication		Finance, insurance, business-supporting services, real estate		Communal, social, private services		Governmental services		Other services	
		GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment	GDP	Employment
Austria	1970	38	37	13	15	18	9	6	8	23	31	2	-
	1994	26	33	11	12	32	12	8	9	23	34	1	-
Belgium	1970	34	35	14	11	5	5	25	16	20	27	3	6
	1994	28	27	12	9	8	5	32	28	19	27	1	3
Denmark	1970	29	31	15	13	21	10	9	11	26	32	1	4
	1994	19	19	14	10	27	15	8	9	31	45	1	2
Finland	1970	22	32	16	14	25	8	7	9	25	25	5	13
	1994	18	25	14	12	30	14	5	5	31	39	3	5
France	1975	26	31	10	10	29	13	7	8	26	38	1	-
	1994	22	25	8	8	34	16	9	10	25	40	1	-
Greece	1970	24	-	15	-	20	-	23	-	-	17	-	-
	1994	23	39	12	12	19	11	29	38	18	-	-	-
Spain	1981	33	40	10	13	24	5	15	19	18	22	-	-
	1993	-	39	-	10	-	9	-	10	-	26	-	6
Holland	1970	29	33	14	12	18	10	16	21	23	22	1	2
	1994	21	28	10	9	33	18	19	25	16	18	1	2
Ireland	1978	-	38	-	13	-	8	-	41	-	-	-	-
	1994	22	32	10	9	14	14	26	42	28	-	-	-
Germany	1970	25	36	13	12	19	5	17	15	22	26	3	6
	1994	-	28	9	9	23	6	-	24	17	24	4	8
Portugal	1977	-	38	-	14	-	6	-	5	-	38	-	-
	1989	32	35	11	8	22	6	9	9	25	42	-	-
Sweden	1980	18	22	11	10	25	9	5	9	39	48	2	2
	1994	16	20	9	10	34	13	6	10	32	46	2	2
UK	1970	25	-	15	-	26	-	9	-	-	-	-	-
	1994	20	30	12	8	37	18	10	-	-	-	-	-
Italy	1970	29	40	14	12	18	16	16	-	23	28	1	5
	1994	21	35	10	10	33	25	19	-	16	26	1	5
Czech Rep.	1970	28	-	21	-	21	-	25	-	5	-	-	-
	1994	36	21	15	11	18	20	25	27	6	21	-	-

Note: <sup>a</sup> GDP is calculated in current prices.

Source: My own calculations on the basis of Services Statistics on Value Added and Employment, OECD.

It should also be noted that if any deviations occurred in these tendencies they usually occurred in the less developed EU members. For instance, if we take into account "wholesale and retail trade, hotels and restaurants" (branch with the biggest declines) then it decreased its share by 1 percentage point in Spain and in Greece, recorded no changes in Ireland and despite a fairly marked fall remained at almost the highest level in Portugal. On the other hand, in the case of the most dynamically growing branch of services, which is "financial services, insurance and business services", Greece recorded a drop of 2 percentage points, and Ireland and Portugal an increase of only 3 percentage points - in 1995 all of these countries recorded a low share of this branch in the range of 20% and Ireland even 14% whereas this value was at the level of above 30% in most of the EU countries. However, a rather low share of this branch in Germany 20% is striking. Changes observed in the structure of employment in services were similar to the changes in the structure of GDP generation in this sector (governmental services were an exception because their share in more than half of the EU member countries declined in GDP generation and rose in employment).

### 3. Service sector in the countries of Central and Eastern Europe

The trends observed in the development of the service sector in highly developed countries as exemplified by the countries of the EU did not take place in centrally planned economies. As a result, at the time of commencement of systemic transformation, the service sector in the countries of Central and Eastern Europe was at a very low level of development in comparison with developed economies and what is more the possibilities for its development were limited by the lack of an appropriate modern service infrastructure. Investments in expansion and improvement of quality of the service infrastructure require huge financial outlays and the countries of this region had fairly limited means for this purpose. On the other hand, however, the level of education and qualifications of the human resources in this group of countries was higher than the level of economic development would show. That is why a strong growth in the importance of the service sector in the economy as a whole was observed in the countries in which a considerable part of foreign capital was located in privatised service enterprises.<sup>7</sup>

It is also worth underlining that different segments of services were developed in different degree in the previous system (e.g. road and rail transport and industrial construction were excessively expanded whereas services connected with the functioning of the market such as financial services, marketing, counselling, etc. were underdeveloped and consequently each of these sector required a different approach. The huge sphere of services financed from the state budget should not be forgotten, either (e.g. health and education services); this sphere was considerably expanded in the former decades but in the new economic reality its way of functioning, organisation and financing had to change.<sup>8</sup>

---

<sup>7</sup> About a third of FDI located in Hungary was spent on a purchase of shares in privatised service enterprises such as transport and telecommunications enterprises, cable television, which contributed to emergence of competition in these sectors and consequently to their expansion. See E.Ehrlich, *Infrastructures and Services in Hungary in the Light of European Integration*, Institute for World Economics, Hungarian Academy of Sciences, Working Papers, no, 95, October 1998.

<sup>8</sup> J.Pietras, *White Paper Poland - EU. Consequences of the Europe Agreement for the Service Sector*. Plenipotentiary for European Integration and Foreign Assistance, Warsaw, 1993, p. 7.

The process of their systemic transformation was intertwined with the process of adjusting the Central and East European economies applying for accession to the EU to the requirements of this grouping. The changes resulting from adjustments to the EU requirements are revealed in two essential areas. Firstly, they are changes of a regulatory character, implying liberalisation of access to the market, introduction of the EU rules of competition in a given sector, a manner of protection of the consumer, rules of self-regulation and supervision, etc. On the other hand, the changes follow from the changes in the productive potential of the service sector manifesting themselves in the change in the number of employees and a share of this sector in GDP generation. The latter issue will be analysed in the further part of the paper.<sup>9</sup>

Table 3 presents the shares of services in the generation of GDP against the background of shares of the remaining sectors of the economy in selected countries of Central and East Europe.

As it follows from table 3, almost all of the Central and East European countries recorded an increase in the share of services in GDP generation and simultaneously there was a decline in the shares of agriculture and industry in most of the countries. The biggest changes in the share of services in the years 1985-1998 were recorded by Poland (an increase from 34% to 70%), Estonia (from 32% to 67%) and Slovakia (from 32% up to 62%).

In 1998, Poland (70%) and Estonia (67%) recorded the highest shares of services in GDP generation. It is worth underlining that only these two countries had this index at a comparable level with most of the EU countries. The share of services in GDP generation in Croatia, Latvia and Slovakia was at the level of the least developed EU members and the Hungarian and Slovenian indices were slightly below that level. In the remaining countries of this region, the index in question reached the value of 42-50% (the lowest share in Byelorussia) and thus below the level recorded in the least developed of the EU member countries. As it follows from the presented data, the share of services in GDP generation was higher in the Central and East European countries with a higher income per capita. This tendency is similar to the trend observed in the EU countries. However, as in the EU countries, the country with the highest income per capita, outdistancing the other countries (Slovenia) did not at all record the highest share of services in the generation of GDP. On the other hand, Central and East European countries with the lowest income per capita had shares of services in GDP generation at a lower level in comparison with the less developed EU countries.

---

<sup>9</sup> J.Pietras, *The Service Sector on the Way to Poland's Integration into the EU* in: K.Żukrowska (ed.) *Adjustment in the Real Sphere of Polish Economy to Integration into the European Union*, Institute of Development and Strategic Studies, Warsaw, 1998, p. 70.

Table 3. Structure of GDP generation in Central and East European countries (in %)

	GDP per Capita	Agriculture					Industry					Services				
	1998	1980	1985	1990	1994	1998	1980	1985	1990	1994	1998	1980	1985	1990	1994	1998
Byelorussia	2214	-	27	24	-	14	-	45	47	-	44	-	28	29	-	42
Bulgaria	1214	14	12	18	13	23	54	62	51	34	26	32	26	31	53	50
Croat <sup>*</sup>	-	-	-	9	11	12	-	-	30	30	25	-	-	63	59	62
Czech Rep. <sup>b</sup>	5374	7	7	-	6	-	63	63	-	39	-	30	30	-	55	-
Estonia	-	-	21	16	-	5	-	47	47	-	27	-	32	38	-	67
Lithuania	2584	-	28	28	-	14	-	44	43	-	40	-	29	29	-	46
Latvia	-	12	21	21	-	7	51	44	47	-	31	37	35	32	-	62
Poland	4068	-	15	9	6	4	-	51	57	38	26	-	34	34	56	70
Russia	3039	-	20	17	6	9	-	50	48	43	42	-	38	36	51	49
Romania	1545	-	14	18	20	15	-	60	56	39	36	-	26	25	41	48
Slovakia	3617	-	6	7	8	5	-	62	59	36	33	-	32	34	56	62
Slovenia	9146	-	5	6	-	5	-	40	36	-	39	-	55	58	-	57
Ukraine	981	-	19	23	39	12	-	46	42	31	40	-	35	35	30	48
Hungary	4698	19	16	12	-	6	47	41	33	-	34	34	43	55	-	60

Notes: \* Data 1997 instead of 1998.

\* Estimates for the former Soviet Union countries.

<sup>a</sup> GDP calculated on the basis of data in current prices.

<sup>b</sup> Data for the Czech Republic come from World Development Report, From Plan to Market Economy, World Bank Washington 1996. Data for 1980 instead of data for 1985

Source: Trends in Developing Economies 1995, Extracts, Volume 1. Eastern Europe and Central Asia, The World Bank, Washington, D.C.

**Table 4. Structure of employment in Central and East European countries (in %)**

Countries	Agriculture			Industry			Services		
	1980	1994	1990-97 <sup>a</sup>	1980	1994	1990-97 <sup>a</sup>	1980	1994	1990-97 <sup>a</sup>
Byelorussia			19.5			40.5			40.5
Bulgaria	20	13	-	45	48	-	35	39	-
Croatia	25	16	16	33	34	33	42	50	51
Czech Rep.	13	11	11	56	45	45	31	44	44
Estonia	15	14	14.5	43	41	41	42	45	44.5
Lithuania	28	18	18	38	41	40.5	34	41	41.5
Latvia	16	16	15.5	42	40	40	42	44	44.5
Poland	30	27	27.5	38	36	35	32	37	38
Russia	16	14	13.5	44	42	41.5	40	44	45
Romania	35	24	24.5	41	47	46.5	24	29	29
Slovakia	14	12	11.5	36	32	33.5	50	56	55
Slovenia	15	6	5.5	43	46	45.5	42	48	48.5
Ukraine	25	20	20	39	40	40	36	40	40
Hungary	18	15	15	43	38	37	39	47	48

Note: <sup>a</sup>Data for recent years are available.

Source: Columns 2, 3, 5, 6, 8 and 9 - World Development Report 1996. From Plan to Market, Oxford University Press, pp. 194-195; columns 4, 7 and 10 - my own calculations on the basis of 1999 World Development Indicators, World Bank 1999, pp. 54-56.

As it follows from table 4, growth of employment in the service sector occurred in all Central and East European countries in 1980-1997, with the biggest growth in the Czech Republic (+13 percentage points). In the same period of time, more or less half of the countries in question recorded a small drop in employment in industry (mainly the more developed countries) and half of them a small increase in employment in this sector. At the same time employment in agriculture dropped in all the countries. In 1980 most of the countries of Central and Eastern Europe had the highest share of industry, further services and the smallest share of agriculture. In 1994, this trend was reversed and the share of industry was higher than the share of services in most of the countries (the situation did not change only in the countries with the lowest income). The highest share of employment in services was recorded by Slovakia (55%) and the lowest by Romania (29%).

Although the structure of GDP generation in the more developed of the Central and East European countries was similar to the structure of GDP generation in the less developed of the EU countries (and in Poland and Estonia even to the GDP generation structure in the highly developed EU member countries), the structure of employment differed very much from the Union's

structure<sup>10</sup>. Employment in services in all Central and East European countries was much lower than even in the least developed countries of the EU and this was connected primarily with very high employment in agriculture in Central and Eastern Europe. The case of Poland is characteristic here - it had a very high share of the service sector in GDP generation whereas the percentage of employment in services was almost the lowest in Central and Eastern Europe (the lowest was in Romania). That is why changes in the employment structure are unavoidable in Poland and in the remaining Central and East European countries, and this is related mainly to gains in productivity of agriculture and a shift of the surplus of employees from agriculture to the service sector. Change in this direction took place in the EU countries in the past decades and generally services are perceived as a sector of the economy with a big capacity for absorbing surpluses of labour.<sup>11</sup>

Table 2 contains also OECD data on the structure of GDP generation and employment in services for the Czech Republic, which is among the most developed countries in Central and Eastern Europe. From the presented data it follows that the shares of retail and wholesale, restaurants and hotels and transport, storage and communication, i.e. traditional service sectors currently in decline in EU countries, were higher in the Czech Republic than in the EU countries. The former branch whose share was at the highest level in the Czech Republic recorded growth whereas it declined considerably in the EU countries. On the other hand, the share of the finance, insurance, real estate and business services, the most dynamically developing branch in the EU and "governmental services" were much lower in the Czech Republic than in the EU countries (in 1970, the share of this branch in the Czech Republic was relatively high but it recorded a drop).

As regards the employment structure in services there are no data for the Czech Republic for 1970 and thus it is not possible to track changes in this structure in the analysed period. On the other hand, the structure of employment in services in 1994 was similar to the EU structure.

---

<sup>10</sup> The difference in the GDP structure and in the employment structure in Central and East European countries are connected with low productivity of agriculture and rising productivity of services. Comparing the sector structure of GDP and employment it is possible to ascertain how many percent of GDP generated by a given sector fall to one per cent of employment in this sector. In the case of Poland, as in the case of Italy and Portugal, the structural productivity in services is 3-5 times higher than in agriculture (whereas in the case of France and Spain it is twice as high). It follows from this that traditionally agricultural countries generate little income with big employment in agriculture. Development of modern services has its influence on a higher value of this index for at a lower employment level services generate a higher percentage of GDP. See M.Okulus, *Services as a Factor Activating a Long-term Development of the Economy*, Institute of Development and Strategic Studies, Warsaw, pp. 15-17.

<sup>11</sup> Economists prove that there exists a close relation between the share of employment in services in relation to the total workforce and the unemployment rate. Countries with a high share of employment in services have the lowest unemployment rate (e.g. the Netherlands, Sweden). However, this regularity is seen only in countries at a high level of economic development. In poorly developed countries, a high share of employment in services is accompanied by high unemployment. See M.Okulus, *Services as a Factor Activating a Long-term Development of the Economy*, op.cit., pp. 15-17

#### 4. Summing up

Demographic, social economic and political changes led to a rapid development of the service sector in highly developed countries exemplified by the EU members. At present the share of services in GDP generation and in employment ranges in these countries from 60% to 70%. These figures show that at present it is the most important sector in these economies. However, among EU member countries certain disproportions can be noted in the level of development and importance of the service sector in the particular countries, for the share of the service sector in GDP generation and in employment was higher in the more developed of the EU countries than in the less developed members. This confirms the thesis that importance of the service sector grows step in step with economic development of a country. On the other hand, nobody negates the thesis that the level of development of the service sector has a considerable influence on the speed and possibilities of economic development. However, it is worth noting that the least developed EU countries recorded the highest growth in the share of the service sector in GDP generation and in employment in the analysed period of time, thanks to which the differences in the level of development of the service sector were narrowed between the least and most developed of the EU countries.

Analysing the statistical data on Central and East European countries it should be stated that in 1980-1998 structural changes proceeded in a similar direction to that in the EU economies, namely a decline in the importance of agriculture and industry and growth in the importance of services. These changes concerned both the structure of GDP generation and the structure of employment. As in the EU countries, it is possible to perceive a trend for countries with a higher income per capita to have a higher share of the service sector in GDP generation in Central and Eastern Europe. However, in the case of employment structure, similar tendency was not discernible in Central and East European countries although it occurred in the EU countries.

It can be said in general that the structure of GDP generation in the more developed Central and East European countries did not differ essentially from the GDP generation structure in the less developed EU countries but the structure of employment in services in Central and Eastern Europe differed considerably from the Union's. And although the direction of changes in the employment structure was similar in the two groups of countries, yet Central and Eastern Europe still has a considerably lower percentage of employment in services even in comparison with the least developed EU members and this is accompanied by a very high level of employment in agriculture. The current sectoral structure of employment in Poland is similar e.g. to the Portuguese structure in 1980 and the Greek structure in 1985. The differences in the structure of GDP generation and employment are related to low productivity in agriculture and growing productivity in services, which in conjunction with an unchanged level of employment in both sectors causes growth in the share of the service sector in GDP generation with a simultaneous decline in the share of agriculture. That is why changes are indispensable in the employment structure in Central and East European countries consisting in shifting a surplus of employment from agriculture to services, which of course requires a further development of the service sector in that group of countries.

On the basis of the presented data it was also possible to observe changes in the very structure of the service sector. In EU countries, traditional branches such as wholesale and retail, transport, communications declined and modern branches like financial and business services and communal and social services rose. However, it is necessary to underline that finance and insurance and broadly understood business supporting services recorded the highest growth which compensated for the drops in the share of the remaining branches and contributed to growth in importance of the service sector in the EU economies. In the last decades, a rapid expansion of various services rendered for enterprises was observed and they became one of the major sources for

generating value added in services. Professional services such as financial, legal, computer telecommunications services and many others are at present an indispensable complement to the production process and their appropriate integration and usage in the production process are a key element of competitiveness of both firms and the economy as a whole. On the other hand, a fast growth of communal and social services was connected with the construction of a social state and the resultant involvement of the public sector. Furthermore, step in step with development of new, more complex forms of service activities, the role of the government as the provider of basic services (e.g. telecommunications, health, education) decreased in favour of private service firms that are able to render services of higher quality and at lower costs.

As regards Central and Eastern Europe, comparable data concerning GDP generation and employment in the service sector were available only in the case of the Czech Republic. As it follows from the data, the share of traditional declining branches of services such as wholesale and retail trade, restaurants and hotels and transport storage and communication was higher in the Czech Republic than in the EU. What is more, the former branch recorded growth in the Czech Republic whereas its share was decreasing in the EU. This tendency, however, is not surprising as the rapid expansion of trade was observed in the entire region of Central and Eastern Europe step in step with the formation of the market economy economies. Fairly considerable changes were also observed in "restaurants and hotels" although most countries of this region still have no appropriate tourist base to take advantage of their tourist potential. As regards the relatively high share of the branch "transport, storage and communications", it results most probably from the excessive expansion of transport services in the previous system. Such a situation occurred also in Poland and probably in the remaining countries of the region. On the other hand, the low share of finance, insurance, real estate and business services - lower than in the EU - is disconcerting although it should be underlined that this sector had to be created from scratch in the period of transformation. Enormous transformations which were effected over a single decade are visible and in the coming years a further development of this branch of services can be expected.

### References

- BRIDGFORD, J. and J. STIRLING, *Employee Relations in Europe*, Blackwell Business, 1994.
- BUDNIKOWSKI, A. and E. KAWECKA-WYRZYKOWSKA, *Międzynarodowe Stosunki Gospodarcze (International Economic Relations)*, Warsaw: PWE, 1996.
- EHRlich, E., *Infrastructures and Services in Hungary in the Light of European Integration*, Institute for World Economics, Hungarian Academy of Sciences, Working Papers, No. 95, October 1998.
- HOWELLS, J., *Economic, Technological and Locational Trends in European Services*, A report from the FAST Programme of the Commission of the European Communities 1988.
- MOLLE, W., *Ekonomika Integracji Europejskiej: teoria, praktyka, polityka (Economics of European Integration: Theory, Practice, Policy)*, Gdańsk, 1995.
- OCHEL, W. and M. WEGNER, *Service Economies in Europe*, London: Pinter Publishers, for the Commission of EC, 1987.
- OKULUS, M., *Usługi jako czynnik aktywizujący długofalowy rozwój gospodarki (Services As a Stimulant of a Long-term Development of the Economy)*, Warsaw: IRiSS.
- PAYNE, A., *Marketing usług (Marketing of Services)*, Warsaw: PWE, 1997.

- PIETRAS, J., Biała Księga Polska-UE – konsekwencje Układu Europejskiego dla rynku usług (White Paper Poland - EU. Consequences of the Europe Agreement for the Service Market), Plenipotentiary for European Integration and Foreign Aid, Warsaw, 1993.
- PIETRAS, J., *Sektor usług na drodze do integracji Polski z UE (The Service Sector on the Way to Poland's Integration into the EU)* in: K. Żukrowska (ed.) *Dostosowanie w sferze realnej gospodarki Polski do integracji z Unią Europejską (Adjustments in the Real Sphere of Polish Economy to Integration into the EU)*, Warsaw: IRiSS, 1998.
- RADZIMIŃSKA, T., *Rośnie rola usług w obrocie międzynarodowym (A Growing Role of Services in International Turnover)*, Rynki Zagraniczne no. 73, 20 April 1995.
- SAPIR, A., *The Structure of Services in Europe: a Conceptual Framework*, Centre for Economic Policy Research, Discussion Paper Series No. 498, January 1991.
- Services Statistics on Value Added and Employment, OECD.
- Statistical Yearbook, CSO, Warsaw, 2000.
- Trends in Developing Economies 1995, Extracts, Volume 1. Eastern Europe and Central Asia, The World Bank, Washington, D.C.
- World Development Report 1996, From Plan to Market, Oxford University Press.
- World Bank Indicators 1999, World Bank 1999.
- WYSOKIŃSKA, Z. and J. WITKOWSKA, *Integracja Europejska – Rozwój Rynków – Teoria i Praktyka (European Integration - Development of Markets - Theory and Practice)*, Warsaw, 1999.