PRODUCER SERVICES AND REGIONAL DEVELOPMENT: A POLICY-ORIENTED PERSPECTIVE

William J. Coffey
Département d'études urbaines
Université du Québec à Montréal
C.P. 8888, Succ. A
Montréal, Québec H3C 3P8

Mario Polèse
INRS-Urbanisation
Université du Québec
3465, rue Durocher
Montréal, Québec H2X 2C6

ABSTRACT There is a certain optimism among policy makers concerning the ability of producer services, viewed as locationally flexible, to stimulate economic growth in lagging regions. Four issues related to the location of producer services are used to critically examine this notion: (1) observed centralization and decentralization trends, (2) the influence of corporate ownership and control, (3) intrafirm functional separation, and (4) the impact of telecommunications technology. Producer service growth has not benefited central and peripheral regions equally. The empirical and conceptual evidence presented suggests that these activities have little positive impact upon lagging regions. Some essential elements of a regional strategy involving producer services are proposed.

1. INTRODUCTION

Since the latter part of the 1970s, in both academic and government milieux, considerable optimism has been generated concerning the potential of service industries to stimulate economic development in lagging or peripheral regions. A now widely held view suggests that service industries (along with high-technology activities, in whatever manner that the latter may be defined) will ultimately aid in the solution of the longstanding economic development problems of disadvantaged regions. At the root of this optimism is the perception of these types of activities as relatively footloose; that is, they are free of the locational constraints that have made such regions relatively unattractive to investment in traditional forms of manufacturing. Slowly, during the early and middle 1980s, government administrative structures and policy initiatives in various countries and at various levels have begun to acknowledge explicitly the perceived capacity of service industries to influence regional economic problems (Marshall and Bachtler 1987).

In light of the growing interest on the part of decision makers in this sector of the economy, this paper critically examines the potential role of a specific set of service activities — producer services — in regional development. In carrying out this examination, we rely upon two principal sources: a broad range of empirical and conceptual research that we have undertaken in this area in recent years (for example, Coffey and Polèse 1986, 1987a, 1987b, 1987c, 1988; Coffey and McRae 1989), and the fairly substantial international literature on this topic that has arisen over the past decade (and which we review in the course of our
discussion). This analysis is undertaken from a policy perspective: it seeks, generally, to evaluate whether policies targeted at producer service activities are likely to be effective instruments of regional development and, more specifically, to explore some of the characteristics that could potentially enhance the impact of such policies. Although most of our observations are directly related to the Canadian context, they have, in our view, a broader degree of applicability.

Our analysis begins with an examination of the role of producer services in a regional development context. This is followed by an investigation of a set of issues related to the key issue of locational flexibility, and then by an exploration of existing and potential policy interventions involving producer services and regional development.

2. THE ROLE OF PRODUCER SERVICES IN REGIONAL DEVELOPMENT

It is the set of activities referred to as *producer services*, those intermediate demand functions that serve as inputs into the production of goods or of other services (and that, as such, are perhaps more correctly characterized as indirect elements of the production process), that has the greatest potential for stimulating the economic development of lagging regions. There are four reasons why this is so.

The first reason is that producer services comprise the most rapidly growing sector in the majority of developed economies. In Canada, over the period 1971 to 1981, employment in producer services experienced a growth rate of 141.2 percent, nearly twice that of its closest competitor, the finance, insurance, and real estate (FIRE) sector (Coffey and McRae 1989). In the United States, 25 percent of GNP now originates from producer services alone, the equivalent of the portion of GNP that results from the physical production of goods (Noyelle and Stanback 1984). This increased demand for producer services is, in turn, a function of the changing organizational structure of goods-producing activities, and of the enhanced role of product innovation and of market differentiation. Modern economies are witnessing important transformations in what types of goods are being produced and in how these goods are produced. It must also be recognized that, due to the strategies of individual firms in internalizing or externalizing certain management-related functions (the overall trends in the organizational structure of firms being to promote increasing externalization), the extent of the growth of free-standing producer service activities may represent an overestimation. For example, when a manufacturing firm decides to replace internalized accounting or legal functions with those purchased from external producer service firms, the extent of the producer service function in the economy has not grown, although the statistics show a net shift from manufacturing towards producer service employment. This has led some authors (e.g., McRae 1985) to argue that the observed growth of producer services (and, more generally, of the entire range of service activities) is largely a statistical artifact. On the other hand, it can be argued that the producer service function (as opposed to sector) is underrepresented due to the internalization of these activities in many goods-producing firms.

The second reason why producer services are so important from a development perspective is that they can constitute an important element of the economic base of a region. For many years, services had been viewed in the framework of the traditional Fisher-Clark typology of economic activity which relegated them to a "residual" category composed of "nonproductive" activities. It is now widely recognized, however, that a significant proportion of producer