

Arruñada, Benito (2005), "Baumol's Disease," in J. Segura and C. Rodríguez Braun, *An Eponymous Dictionary of Economics: A Guide to Laws and Theorems Named after Economists*, Edward Elgar, Cheltenham, 16-17.

Baumol's Disease. William Baumol hypothesized that because labour productivity in service industries grows less than in other industries, the costs in services end up rising over time as resources move and nominal wages tend to equalize across sectors. His model of unbalanced productivity growth predicts that (1) relative prices in sectors where productivity growth is lower than in other industry sectors would rise faster; (2) relative employment will tend to rise in sectors with low-productivity growth; and (3) productivity growth will tend to fall economy-wide as labour moves to low-productivity sectors, given a persistent demand for services.

The evolution of developed economies has confirmed these predictions. Prices of personal services have risen, the weight of service employment and the size of the service sector have increased substantially, and productivity has grown less in services. Problems are more serious in labour intensive services, with little room for capital substitution. It has also been argued that they are suffered by many government activities, which would imply growing public expenditures. Solutions that innovate around this trap are often effective but equally often radically alter the nature of the service, by including in it some elements of self-service and routine. Radio, records and television increased the productivity of musical performers, but their new services lacked the personal character and many other qualities of live concerts.

The root of the problem lies in a particular characteristic of services, for many of which consumers are the main input of the production process. This constrains innovation, because consumers often resent efforts to 'industrialize' production. Their complaints range from the depersonalisation of medicine, to being treated as objects by bureaucracies or protesting the poor quality of fast food.

BIBLIOGRAPHY

BAUMOL, William J. (1967), 'Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis,' *American Economic Review*, 57, 415-26.

BAUMOL, William J., and Edward N. WOLFF (1984), 'On Interindustry Differences in Absolute Productivity,' *Journal of Political Economy*, 92, 1017-34.

BAUMOL, William J., Sue Anne Batey BLACKMAN, and Edward N. WOLFF (1985), 'Unbalanced Growth Revisited: Asymptotic Stagnancy and New Evidence,' *American Economic Review*, 75, 806-17.