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## **Services and crisis: stop shooting at the ambulance!**

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**Abstract :** Paradoxically, despite the extent of their contribution to wealth and employment, services are regularly blamed (in both political discourses and certain theoretical works) to be directly or indirectly responsible for the economic crisis. This short note aims at refuting such a paradox, arguing that the service economy is an economy of knowledge, skills and innovation.

**Key words:** services, innovation, crisis.

### **Introduction**

In contemporary developed economies, services account for about three-quarters of wealth and jobs. Any work dedicated to these activities consistently starts with this statistical observation. One could add that one of the characteristics of the so-called emergent countries (for example, Brazil, China,...) is the acceleration of their tertiarization going hand in hand with their industrial success. Paradoxically, despite the extent of their contribution to wealth and employment, services are regularly blamed (in both political discourses and certain theoretical works) to be directly or indirectly responsible for the economic crisis. This short note aims at refuting such a paradox, arguing that the service economy is an economy of knowledge, skills and innovation.

### **1. The rise of the service economy and the establishment of the service theory**

If the concept of service is ancient (it is particularly discussed by Adam Smith in the « Wealth of Nations », 1776; Jean-Baptiste Say, 1803; Frédéric Bastiat, 1848), the concept of service sector was born in the 1930s and early 1940s in relation with national accountancy issues (Clark, 1940; Fisher, 1935). It was reinforced in the 1950s and 1960s, in the United States, by the statistical works of Kuznets (1957), and especially Fuchs (1968).

To simplify, one can say that there has been a struggle between two major theses in order to explain the growth of the service sector: the post-industrial thesis, on the one hand, and the neo-industrial thesis, on the other hand. The former one, and especially Daniel Bell (1973), advocates an optimistic and idealized vision of the service society in which the tertiarization is explained by a demand law (Engel's law) and a productivity law (Fourastié's law). Post-industrial society allegedly constitutes a new stage in human progress, based on the

production and consumption of services and the pre-eminence of a higher, white-collar tertiary sector. The neo-industrial thesis, whose figurehead is Jonathan Gershuny, is more critical regarding services. Thus for Gershuny (1978, see also Gershuny and Miles, 1983), technology and social innovation sound the death knell of the “service society” and replace it with a “self-service” society, in which consumers reject market services in favour of domestic production based on a technological system (the DVD rather than the cinema, the microwave and the pizza rather than the restaurant). For other authors belonging to the neo-industrialist perspective, services are subordinated to the manufacturing industry (the only driving force), when they are not just parasitical. These debates, which culminated in the 1970s-1980s, quietened down little by little, as services became established in an irremediable way in the socioeconomic landscape, as illustrated by the macroeconomic indicators.

## **2. Services and the economic crisis: the logic of the scapegoat**

The fact remains that according to the old logic of the scapegoat, at every downturn in the economy, these polemics are revived. Services are then more or less explicitly designated as responsible for the economic difficulties, and especially the weakening of the industrial basis (deindustrialization). Influential politicians and distinguished economists alike (who are sometimes the same persons) establish in their statements a questionable causal relationship between tertiarization and deindustrialization, as if the opening of a hotel or a restaurant, the creation of a consulting firm, or an association could cause the closing of a plant! Therefore, to limit oneself to these two recent French examples<sup>1</sup>, Nicolas Sarkozy, while he was Minister of Economy declared « France cannot be only an economy of banks, insurance and services ». (France Info., April 16th, 2004). Similarly, Arnaud Montebourg, at the head of the Ministry of the “manufacturing recovery” declared in 2012 « « Aluminium, textile industry, wood... our project is to recover all the industries which have gone abroad. The idea of France which succeeds without plants, is finished (...). Goodbye the service economy, long life to the recovery by manufacturing, by hard material. Our country should not become a large ski area for rich men, a luxury hotel with spa ». (Le Parisien, 2012). This suspicion regarding services is also regularly reflected in the literature, as illustrated by the following more or less recent titles: “Too few producers” (Bacon and Eltis, 1978), “Manufacturing matters” (Cohen and Zysman, 1987), “France without its plants” (Artus and Virard, 2011), “Reindustrialisation, I write your name” (Levet and al., 2012).

If nobody can deny the economic crisis which characterizes most of the European countries, what is the mechanism which leads to (implicitly or explicitly) attribute this crisis to services and to shout death to these activities? In some way, Adam Smith, whose thought keeps influencing the visions of the contemporary economists (and of politicians alike), bears the responsibility for this stigmatization of services. In an analysis limited, it should be acknowledged, to the work of domestic servants, of artists and of the servants of the State, he defined services as « unproductive of any value » and as activities “perishing at the very instant of their production ». However it must be acknowledged that other well-known myths systematically re-emerge at each crisis pick: the myths of the low capital intensity of services (the absence of plants), of their low productivity, of their disability to innovate, their maladjustment to exchange and international trade, the myth of the « society of services as a society of servants » (according to the expression of the philosopher André Gorz (Gorz, 1988), ...

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<sup>1</sup> It would be easy to provide examples for other countries.

### 3. The service society: a knowledge and innovation society

However, today more than in the past, these myths do not hold any more. It is mainly in services that ICTs, the emblematic technologies of our century are invasive. These ICTs facilitate the exchange and the international trade, productivity gains and innovation dynamics. Even if it is dual, the service society, as it is illustrated by statistics, is more an engineers' society than a society of servants: service organizations are the main employers of executives, engineers and managers. If they also recruit less skilled employees (« bad jobs » or « hamburger jobs »), is it always necessary to complain about it, especially in periods of economic difficulties? Nevertheless the services economy is also the economy of knowledge intensive services (engineering, consultancy), which are not only particularly innovative for themselves, but which constitute essential support for the innovation of other sectors (especially manufacturing sectors). As William Baumol (2002) pointed out in a very evocative paper (« Service as leaders and the leader of the services »), R-D is a service (one can add that this also holds for education). More generally, growing research works emphasise the overpowering rise of the capacity of innovation of services, or the recognition of a dynamics of innovation which was invisible to our analytical tools (characterized by a technologicistic and industrialist bias). One could go a step further in the improvement of the image of services, by paradoxically considering that the service economy does not exist any more (or is fast disappearing), that service and goods are consequently inextricably linked, as it is expressed in a certain number of recent theories: economics of functionalities (Stahel, 1997), economics of experience (Pime and Gilmore, 1999), approaches in terms of characteristics (Gallouj and Weinstein, 1997), service-dominant logic (Lusch and Vargo, 2006)...

### 4. Conclusion

All in all, in the search for the reasons for economic crisis, we must not choose the wrong target. If it is necessary to seriously tackle the problem of the deindustrialization of our economies, it is not by attacking services. Services are not the problem. They are conversely often a (part of the) solution. A defensive or therapeutic solution, in certain cases, in a general perspective of a social and solidarity-based economy. But also and above all an offensive solution, taking advantage from the capacity of innovation of services in general and from the driving effect of some of them (the knowledge intensive business services) over the national innovation dynamics and economic growth. Therefore let's stop shooting at the ambulance!

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