

DEMYSTIFYING THE SERVICE ECONOMY*

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I

There is general consensus regarding the major post-war socio-economic achievements: rapid technological advances, the so-called tertiarization of industry, the accelerating internationalization of the economy, and new demographic changes, i.e. rapid aging, the destabilized family, and the growing role of women.

Among these, the tertiarization of industry or the growing importance of the service economy has been widely acclaimed and commonly accepted as a central concept, which has captured the imagination of professionals and the public by addressing the driving forces that have propelled these post-war changes, and the new perspectives that they have brought about.

In fact, social scientists have coined various concepts to grasp the dynamics of such development and change. The most important and influential of these is Daniel Bell's phrase "the post-industrial revolution." It is one of the most illuminating illustrations of these concepts that took centre stage and quickly entered our common vocabulary. Since then, the conventional notion that the service economy has replaced manufacturing industry has become safely entrenched behind this concept without the proper examination necessary to assess its validity.

However, with the passage of time, the rosy picture that many post-war optimists depicted turned out to have little or no validity, as demonstrated by the simple fact of continuing job polarization, the emergence of a new service proletariat, and ever widening class divisions visible throughout the advanced countries. The more tertiary industry expands, the larger becomes the proportion of low-skilled service jobs. No one can deny the fact that the bulk of service jobs today are low paying, low skill, dead-end, and occupied mainly by women and minorities. The growing proportion of this new service proletariat reminds us, ironically enough, that we cannot dismiss the old familiar dilemma that haunted the entire industrial era. Although it is true that we still lack a clear conception of the new evolving order, and compensate by simply labeling it "post-industrial," it cannot be denied that the post-industrial stage of our post-war industrial development has neither put an end to the old classical industrial disputes nor abolished social class. Rather, we have found fundamental problems concerning the single, overburdened concept of "service" upon which so many disparate phenomena have been haphazardly placed.

Faced with such a vexing misconception, or even a chaotic conceptual muddle, our task

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is to push the entire discussion back to the fundamental question of the validity of this concept, by means of simply sorting out the various aspects of the service economy. I try to identify three different aspects of the service economy and the different driving forces behind each, i.e. (1) the unfolding of the division of labour as a natural consequence of progressing industrialism (business or producer services and distributive services), (2) the newly staged or further developing subsumption of consumption under the general category of capitalism (personal or consumer services), (3) the institutionalization of the social order or class formation in particular (social services embracing health, education, and caring activities). By dissecting conventional notions and wisdom about the service economy, the concept can finally be demystified.

The primary motivation behind my argument is to refute the sociological and political message, long supported by the notion of post-industrialism, that capitalist industrialism has been replaced by the service economy, social class has died out, and the work of those such as Adam Smith, Karl Marx, and Max Weber are no longer relevant. Despite these popular notions and claims, Marx's thinking on this issue is entirely coherent and still salient. In what follows, I will try to identify the nature of each service sector, mainly by drawing on quotations from Marx's classic work, *Capital* (Penguin edition).

II

It is commonly assumed that the category of "services" is to be defined in contrast to that of goods. The distinction between goods and services lies in the form of labour and its output, not in the nature of labour and its function. If we look at the functional attribute of the major body of various workers and their activities that are to be commonly aggregated under the single category of service, the whole assumption that they share uniquely common features collapses because of their heterogeneity. What is misleading is the assumption that the advanced industrial societies have undergone a transformation from "goods" to "service" economies. Census data showing a majority of employment in the "service" or "tertiary" sectors can only be claimed on the commonly assumed fallacy of aggregation, which consequently has given a huge boost to employment in these sectors.

On the particular basis of this doubtful assumption, it is conventionally argued that since services produce non-material products they are to be classified as tertiary industry. In fact, early theorists, such as Fisher and Clark, developed the idea of the following tripartite division of industries in the following logical context: primary industries (agriculture, mining, fishing, and forestry); secondary industries (manufacturing, construction, and utilities); tertiary industries (commerce, transport, communication, and services). According to this model, services are to be attributed to the residual, and since then this residualism has been the backdrop of the overall discussion of the nature of services. Browning and Singelman also took a further step by proposing their modified scheme of the Fisher-Clark model and classified services into four broad sectors: distributive, producer, personal, and social services. Let us, then, examine more closely the attributes of these four categories.

1. Distributive Services

First, distributive services include wholesale, retail, transportation, communications, and the like.

Trade

Wholesale and retail trade is commodity circulation per se. Their function is to undertake the exchange of commodities by connecting producers and consumers across space and by linking needs to goods. The labour in this business, as in any other unproductive sectors subsumed by capitalist control, is the unproductive one that is paid by unproductive capital, that is, capital employed in the process of circulation. In this trade, the labour is engaged in the realization, rather than the production, of surplus-value. Although this commercial labour fulfills a necessary function for capital, and performs unpaid labour for the individual capitalist, it intrinsically creates neither value nor product.

Marx notes:

“An illusion is introduced here by the function of merchant’s capital. But, without going into further detail, this much is clear from the start: if we have a function which, although in and for itself unproductive, is nevertheless a necessary moment of reproduction, then when this is transformed, through the division of labour, from the secondary activity of many into the exclusive activity of a few, into their special business, this does not change the character of the function itself.” (*Capital*, II, p. 209)

Although there may be some difficulty in sorting this out at the empirical level, those activities that are exclusively instrumental and engaged conceptually in the change of form between commodities and money, as we see in the function of cashiers, are necessary in societies with an advanced division of labour that is, however, unproductive in any strict sense. Marx regards the expenses of circulation and the wages of workers employed in this sphere as the *faux frais* of capitalism. The sphere of circulation is to be distinct conceptually and empirically from the sphere of production.

Transportation

The ambiguous feature of the transport industry is that it forms a link between the sphere of production and the sphere of circulation. Consequently, notes Marx, it is common for the economists to bring transport into the cost of circulation and not production. This argument, however, is unjustified. Transporting a commodity to the market is part of the production process itself. It produces the physical change of the commodities, i.e. a new location. The transport industry thus appears “as a continuation of a process of production within the process of circulation and for the process of circulation.” (*Capital*, II, p. 152)

It is therefore a simple mistake to include transportation among the distributive services. It should be classified as material production.

Marx clearly and specifically notes:

“In addition to extractive industry, agriculture and manufacture, there exists yet a fourth sphere of material production, which also passes through the various stages of handicraft industry, manufacture and mechanical industry; this is the transport industry, transporting either people or commodities.” (*Theories of Surplus Value*, Moscow edition, 1963, I, p. 412)

Communication

Contrary to the conventional wisdom that computer technology has brought about a revolution in communication, we must remember that it is only one in a long line of technological and organizational inventions that have created not only armies of workers engaged in the processing of knowledge, but also sophisticated systems for coordination and integration. Transformation of the world economy into one dominated by information handling began in the nineteenth century when the greatly increased speed of industrial production and transportation generated new mechanisms of communication and control over this vastly more complex system of material processing.

Marx was an eye-witness to this historic change in the communication infrastructure, and noted the following:

“The main means of cutting circulation time has been improved communications. And the last fifty years have brought a revolution in this respect that is comparable only with the industrial revolution of the second half of the last century. On land the Macadamized road has been replaced by the railway, while at sea the slow and irregular sailing ship has been driven into the background by the rapid and regular steamer line; the whole earth has been girded by telegraph cables.” (*Capital*, III, p. 164)

From Marx’s perspective, there is nothing mysterious about the role and nature of communication technology. It was a part of the general conditions of the social process of production and also represented historical progress along the line of developing mode of production:

“The revolution in the modes of production of industry and agriculture made necessary a revolution in the general conditions of the social process of production, i.e. in the means of communication and transport.” (*Capital*, I, pp. 505-6)

What he refers to here is again “a system of river steamers, railways, ocean steamers and telegraphs”. (*Capital*, I, p. 506)

Referring to the cost and benefit of newly developed technology, Marx states how the application of new technology into production will take place:

“Once discovered, the law of the deflection of a magnetic needle in the field of an electric current, or the law of the magnetization of iron by electricity, cost absolutely nothing. But the exploitation of these laws for the purposes of telegraphy, etc., necessitates costly and extensive apparatus.” (*Capital*, I, p. 508-9)

2. Producer Services

Producer services include finance, insurance, real estate, and business-related professional services, such as accounting, consulting, marketing, engineering, or design, most of which perform various productive and unproductive functions on behalf of the other producers and those individuals who control property in various forms.

Finance

Financing is one of the major non-productive spheres in the whole socio-economic process. It is the circulation of money and the institution of market exchange. Historically it existed long before modern capitalism. Capitalism in its modern form requires well-developed

financial institutions, which in turn requires a certain portion of social labour to accelerate money circulation.

Marx's basic aim of differentiating between the sphere of production and the sphere of circulation is one of the central features of Volume I of *Capital*. His aim here is to show that mere buying and selling can never, from the social point view, be the source of surplus value. As was mentioned earlier in this paper, such trade can only perform the realization of surplus value. He developed the theory of circulation mainly in Volume II of *Capital*.

Financing, or banking in particular, is picked up and developed by Marx in the third volume of *Capital*. Although the detailed analysis of financial capital seems anything but clear in his writing, it is still apparent that the essence of the banking business is identified as non-productive. Marx is quite explicit in stating his views on the unproductive nature of banking business as follows:

"To put it in general terms, the business of banking consists from this aspect in concentrating money capital for loan in large masses in the bank's hands, so that, instead of the individual lender of money, it is the bankers as representatives of all lenders of money who confront the industrial and commercial capitalists. They become the general managers of money capital. On the other hand, they concentrate the borrowers vis-a-vis all the lenders, in so far as they borrow for the entire world of trade. A bank represents on the one hand the centralization of money capital, of the lenders, and on the other hand the centralization of the borrowers. It makes its profit in general by borrowing at lower rates than those at which it lends." (*Capital*, III, p. 528)

Again, it is obvious that the sphere of finance is distinctively different from production and circulation. The financial capitalist could hire a wage-worker to perform this distinctively unique function and a part of the variable capital would have to be laid out in the purchase of this labour-power functioning only in this financing. Even by performing his/her substantial surplus-labour, the financial capitalist cannot make him/her produce any value. What the capitalist can obtain is a part of the social product that is to be transferred to him. That is the same case with the mercantile capitalist who hires the wage-worker to perform his non-productive function, i.e. the exchange of commodities.

Insurance

The essence of insurance lies in the elimination of risk of uncertainty for the individual through the combination of a large number of similarly exposed individuals who each contribute to a common fund covering any loss that may be caused by those individuals. Following this principle, the capitalist type of insurance, the insurance business, was founded for profit and based on commercial calculation.

As Marx writes:

"Insurance companies, for example, divide the losses of individual capitalists among the capitalist class. But this does not prevent the losses thus adjusted from being losses as before, from the standpoint of the total social capital." (*Capital*, II, p. 215)

There is nothing particularly mysterious about the overall unproductive nature of the insurance business. The common fund that it holds is non-productive reserved money from the total annual product of society. The labour employed in this business is unproductive simply because of its performance in such a non-productive sphere in the whole process of social reproduction. Concerning the common fund that each insurance company holds, Marx clearly

states:

“One part of the profit accordingly serves as an insurance fund, and thus also a part of the surplus-value and surplus product in which the freshly added labour is expressed. And it in no way affects the nature of the problem whether or not this insurance fund is managed by insurance companies as a separate business. This is the only part of the revenue that is neither consumed as such nor serves necessarily as an accumulation fund.” (*Capital*, III, p. 986)

Other miscellaneous “professional services”

The growth of other producer services is mainly a reflection of the increasing social division of labour. Social division of labour refers to the differentiation and specialization of labour within complex production processes and diversified production systems. This differentiation and specialization are developed further by the growing economic scale that eventually requires corporate downsizing, enhanced flexibility, and new technology to cater to this sector.

Basically, many tasks in the complex production processes do not directly contribute to production, playing only an auxiliary role in the workplace or performing an unproductive function. Furthermore, though more complicated, the status of each of these miscellaneous services depends on whether the service in question is one relating to a productive function or to a circulative or other non-productive activity. Examples of the former are human resource training and product design. The latter case can be seen in marketing, advertising and financial consultancy services.

3. Personal or Consumer Services

It is extremely difficult to construct a modern theory of personal services that would be consistent with the writings of Marx. It is mainly because personal or consumer services are the modern equivalent of old domestic services, such as servants, butlers, cooks, gardeners, and maids, which flourished before industrialization and whose importance and role have almost continuously declined since. The style of these old domestic activities has changed, and they have become thriving new businesses of personal or consumer services under capitalist control.

The first and main problem concerning this sector is the ambiguous location of transportation in the category of personal services. It is commonly assumed that, while the transport of goods belongs in the distributive sector, the transport of people belongs in personal services (taxi-drivers etc.). Despite such a conventional aggregation, we, rather, wish to classify all of transportation as material production, on the basis of Marx's argument. As we already know, he claimed that there could be no theoretical distinction between goods and personal transportation.

The remaining businesses (restaurant, hotel etc.) link more or less with consumption per se, where the temporary substitution of services for goods takes place and vice versa.

Of such substitution, Marx states as follows:

“Since certain family functions, such as nursing and suckling children, cannot be entirely suppressed, the mothers who have been confiscated by capital must try substitutes of some sort. Domestic work, such as sewing and mending, must be replaced by the purchase of ready-made articles. Hence the diminished expenditure of labour in the house is accompanied by an increased expenditure of money outside.” (*Capital*, I, p. 518, fn 39)

This fact implies the historical and contingent replacement of domestic labour by commodities purchased in the market, or nowadays by the paid work employed in consumer businesses. Those employed in hotels and restaurants, regardless of how productive to their employers they may be, provide nothing but additional activities to the personal consumption of others in such forms as catering, bed-making, serving etc. A growing number of people now require such activities for their own consumption itself. No longer is it possible to think of consumption in a single, one-dimensional and self-contained way. It is not just something that happens within the household, nor can it be reduced to domestic circles. It has extended to the social and business sphere and involves various additional kinds of work, which is part of the complex division of labour in society.

No matter how prosperous such a business may become, the hotel workers are neither performing a productive function nor completing the production process. Rather, they are simply involved in many phases of consumption. They serve and comfort the customers who demand this. What they offer is a specific kind of labour that became necessary in the course of the historic transformation of personal consumption styles in daily life. The economic status of those employed in such industrialized businesses as chain hotels or highly mechanized restaurants etc. is quite similar to the case of the commercial workers whose performance is non-productive, though profitable to their employer. This simply means that they are commonly employed by non-productive capital.

If we look at this extended process of consumption, where the paid workers are employed to complement and fulfill the overall process of personal consumption, we must, then, raise the fundamental question of how we define the economic nature of this non-productive capital invested in such businesses.

Referring to this question, we come across the following very interesting passage from *Grundrisse*:

"It is not necessarily the case that fixed capital is capital which in all its aspects serves not for individual consumption, but only for production. A house can serve for production as well as for consumption; likewise all vehicles, a ship and a wagon, for pleasure outings as well as means of transport; a street as a means of communication for production proper, as well as for taking walks, etc." (*Grundrisse*, Penguin edition, p. 687)

This aspect of fixed capital concerns us greatly because it is relatively neglected by most studies. The building, instruments, equipment and other utensils used in hotel business do not fall under the category of means of production. They are the means of consumption. At the same time, they also can be employed as fixed capital for business owners.

This is quite similar to the case in which a house is rented for individual consumption. The rented house is a means of consumption and loaned in kind. In the hotel business, each room is reserved, occupied and consumed by the customers. The difference is that additional labour is actually involved to make the consumption possible for the customers in the hotel business.

Therefore, the simple elements of the personal consumption businesses are: (1) the means of consumption serving as fixed capital and loaned in kind to customers, and (2) the additional consumptive labour to be incorporated within the actual process of personal consumption.

It is widely recognized that growth in population and per capita income under conditions of mass production and mass distribution have brought about increasingly higher levels of consumption and the increasing importance of the role played by services in consumption.

On the basis of this historical background, consumer services are now purchased directly

in the marketplace. Services are playing an increasingly critical role in consumption. Even so, seen from the perspective suggested above, the growth of employment in the sector of consumer services is more of an indication of the growing social division of labour, the unique combination of a particular type of fixed capital with additional labour to facilitate socialization of individual consumption, and, above all, capitalist penetration into the entire process of our daily life. This signifies that the overall subsumption of our economic life under capitalist control has taken place gradually and historically, beginning in the sphere of production, then moving into that of the circulation or commercial, and financial spheres, and finally into the sphere of consumption. This represents more the triumph of industrialism than a unique and fundamental shift towards a service economy.

4. Social Services

Social services embrace health, education, and a variety of welfare activities.

The growth of social services is one of the most important features of sectoral transformation, for it is closely linked to the role of the state in advanced industrial societies. The growing section of state activities is directed to the provision of social services, services which are related to the Welfare State.

This expanding role of the state has resulted in part from the changing character of social production. Also, it is necessary to note that the state's new and more extensive regulatory activities serve the capitalist needs of reproduction and accumulation within the changed economic and social context. These large public or state expenditures for military forces, welfare, social security, public control, etc. are required not only to stabilize the capitalist social order but also to mobilize the potential social resources, both at home and abroad.

The historical transition to monopoly capitalism produced a far greater role for the state than under competitive capitalism. The role of the state as we know it today is largely the outcome of the transformation that came about as a result of the incessant crises since the dawn of industrialism.

A more detailed examination of the growth of social services reveals that it has resulted mainly from those services such as health and education whose function was primarily the reproduction of the labour force. These services are provided by unproductive workers mainly employed directly by the State, for example, in public and local administration.

There is something new in the increase of this sort of non-productive provision mainly supported and staffed by unproductive labour. Mass education, the welfare state, and huge bureaucratic institutions were largely unknown to the classical founders of the social sciences. The advanced capitalist societies are now regulated by institutions such as the welfare and warfare state and mass education, which hardly existed in the classical era of industrialization.

This brought about the historic change of class formation whereby advanced capitalist societies are regulated by institutions that hardly existed in the era of industrialization. The welfare state, the warfare state, the corporative state, and mass education are the simple outcome of this historic change.

Within such an historical context, social services have grown in response to changing demands for improved services, particularly for education, health, and welfare and for such conventional services as police, fire, and sanitation--demands that could not have been met readily, if at all, by the market sector. The result has been an expansion affecting mainly state

and local governments and non-profit institutions, in particular colleges, universities, and hospitals.

Since today many social services are maintained by the state, their expansion raises the question of why the state supports such unproductive activities, that is, those that do not produce surplus value. In order to fully examine this question, the nature of the class struggle, the structure of the state, and the relationships between them would have to be analyzed. Although these cannot be examined in depth in this paper, we must remind ourselves of a passage from Marx's writings as a promising clue to understand the class impact of growing state expenditure. Here Marx criticizes the huge financial deficit in France caused by "Louis Bonaparte's effort to play Napoleon in Europe," where Bonaparte made "gigantic outlays on public works in order to occupy the entrepreneurs and the proletariat and keep them in good humour" (Collected Works, Vol. 19, p. 83) and pursued "the plan followed hitherto of binding a part of the middle class and of the city proletariat to the existing government by means of great government construction projects and other public works" (*ibid.*, p. 84)

These activities of the state have grown enormously in the period of monopoly capitalism. This growth has brought about the persistent tendency of communal and domestic activities to become more social in nature. In order to regulate every corner of society, the state has changed itself into a welfare state and adopted an interventionist policy. Consequently, large state expenditures for military forces, welfare, social security, pollution control, etc. are required to mobilize social resources. These costs eventually result in the reproduction of the capitalist order.

Social services are usually not sold as commodities on the market and therefore the national education system or that of the national health service cannot be regarded as capitalist or profitable enterprise. Consequently, the workers employed there cannot be classified as productive labourers. They are unproductive in a specific sense, as a result of the nature of the social relationship within which labour power is exchanged against capital. They are also unproductive in a general sense as a result of the nature of their activities. Teachers, doctors, nurses, and other health workers do provide useful activities in terms of the satisfaction of human needs. As long as they are socially useful, they might be employed by a capitalist enterprise even if they are sacked by the state, which has long suffered from a chronic shortage of welfare funds. Even in such a situation, regardless of how much profit they produce for the owner of the privatized hospital or school, their labour basically consists of a non-productive set of activities, which all societies have to carry out. Their status is the same as that of the tax-collector who cannot be considered productive under any type of social organization.

III. *Conclusion*

This paper has attempted to identify the functional attribute of each component of the service economy, with the specific aim of demolishing the conceptual framework of the conventional service theories. The main focus of criticism is on the conventional notion of service economy in order to show the extent to which the supposed service economy may be understood according to the classical terms of capitalist industrialism.

In the light of our discussion so far, we can see how the further development of the division of labour within the capitalist sector itself has brought about growing business

opportunities centred on productive services. We have also determined how capitalist industrialization together with the institutional changes of society, not only in terms of class conflict but also in terms of class formation, have resulted in newly emerging forms of personal consumption. The welfare state, industrial relations, and the educational system emerged as key institutional determinants of contemporary capitalist society and played an historic role in shaping our contemporary style of economic life. They are also the main forces that dictate the particular shape of the structure of employment by filtering off a large bottom-end service proletariat. The totality of these changes indicates that, although a new stage of capitalist industrialization was emerging, the inherent built-in contradictions that these changes introduced ruled out the possibility of a unique giant step beyond classical capitalist rule, which was promised by post-war optimists.

It can hardly be claimed that industrialism has been surpassed in the advanced stage of capitalist development. Rather the expansion of the "service economy" in this century is a clear sign of the triumph of capitalist industrialism. The profound consequences of the full-fledged social division of labour are so immense that their impact has quickly been felt in every corner of society.

In this sense, most aspects of our services and their functions, as conventionally defined, are not actions separate from commodity production, but are integrally involved and derivative offshoots of the latter. They can be better understood in terms of the historical deployment of industrialism rather than as a historic progression overcoming it. One would not want to draw hasty conclusions about the post-industrial economy from the number of newly emerging miscellaneous jobs, which are the simple outcome of the unfolding division of labour, the tightening grip of capitalist control, and the institutionalization of state intervention into civil society. It may follow from the preceding discussion that the service economy and the highest state of industrialism have in fact become synonymous.