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Public Services and the Service Economy: Individualism and the Choice Agenda

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Abstract

This article argues that services have been under-theorised, in both welfare economics and social policy analysis. Programmes for opening up public services for competition and choice, and for widening the scope for 'targeted' services, treat them as analogous to goods. This ignores relational and contextual elements in human well-being, and the potentially crucial role of services in meeting such needs. The author calls for co-operation between economists and social policy analysts in filling this gap in welfare theory.

How are services different from goods? In what sense might all services be said to be *social*? In this article, I shall argue that economists have paid insufficient attention to the former question, and that social policy analysts now face a challenge to clarify the latter. These theoretical problems underlie important issues about the best balance between private and public services, and between universal and targeted elements of the latter, in present-day societies.

In the post-war period worldwide, the focus of both theory and policy was on public services as the infrastructure (or context) for appropriate interactions between equal and interdependent citizens (Dean, 2004, ch.1). During the past two decades, it has shifted to the opportunities and choices available to individuals in a 'mixed economy' of services. Theorists have sought to explain the changes in advanced capitalist regimes through the relationships between globalisation, individualisation and the service economy. They related constraints on national government spending to the transnational mobility of capital (Scharpf, 1999), and showed how these constraints could be partially offset by the growth of both private service employment (Esping-Andersen, 1990, 1996, 1999) and small enterprises (Stiglitz, 2002), but at the cost of greater inequalities of incomes (Iversen and Wren, 1998). Liberal, Christian Democratic and Social Democratic regimes have all, in their different ways, tried to adapt human resources to the requirements of mobile capital, while protecting their most vulnerable populations from the consequences of change. Services have been the terrain of this adaptation.

My aim is to focus on the fundamental issues masked by this shift: the nature of services as economic phenomena, and the role of services within a context for human well-being. I shall show that the neglect of services in economic theory can be traced to the origins of political economy as a method of inquiry, and that social policy analysis has not been vigorous enough in identifying and tackling this omission. As a result, the production and consumption of services have come to be treated as analogous to those of goods, so that competition and choice now provide the principles for public sector reform programmes. An opportunity to re-examine these issues, and for co-operation between welfare economists and social policy analysts in search of a new paradigm, now surprisingly presents itself.

This takes the form of survey evidence on self-assessed 'happiness' (subjective well-being) among national populations (Helliwell, 2002). Mainstream economists now accept the findings of economic psychologists that, across the full range of First World countries, improvements in subjective well-being have for some 30 years not matched growth in personal or national incomes (Kahneman *et al.*, 1999; Diener, 2000; Frey and Stutzer, 2000, 2002); indeed, these improvements seem to have stalled, at the point where average *per capita* GNP reaches about US\$15,000 per year, at current values (Layard, 2003, 2005). Hence, whatever it is in the transformation of these societies which has produced this outcome is common to all the three (or four) 'worlds of welfare capitalism', and all reform programmes.

According to conventional microeconomic analysis, this finding is, of course, theoretically impossible. In principle, higher incomes should always allow rational agents to improve their welfare by shifting to a superior point on their utility functions. In principle, they must always purchase goods and services which make them happier; if for some reason they cannot (for instance, because all desirable facilities would become overcrowded if they joined them), then *either* they should forgo the extra earnings (and enjoy more leisure), *or* they should save their money and wait until an entrepreneur creates new amenities.

So microeconomics itself cannot supply an explanation of what might lead citizens to work harder and spend more, even though neither the extra income nor the extra spending improves their welfare. Social research has provided important hints that the service economy sustains a culture of overwork (Bunting, 2004), and that the commercialisation of social relations leads to stress and insecurity (Lane, 2000; Pusey, 2003). I shall argue that these need to be integrated into an analysis of how human well-being requires a collective context for individual choice, and of the constituent features of a viable context.

I will take as the background to my argument the cultural shift in advanced economies towards individual autonomy, mobility and self-realisation

(Giddens, 1991, 1992, 1999), and its influence on personal and social relationships (Beck and Beck-Gernsheim, 2002). This standard has been adopted in the Anglophone countries as the basis for a new ideology of citizenship and governance (Rose, 1996; Giddens, 1998; Dukelow, 2004; Jordan, 2004). Citizens are required to seek self-development and the fulfillment of their potential; they should aim to be responsible for their choices in education, health and welfare, and to avoid burdening their taxpaying fellows. As well as providing opportunities for enterprise and self-improvement, governments in return restructure public services, to allow citizens to switch between suppliers, using evaluative information published by official agencies (the choice agenda). Although these developments originated in the USA (Putnam, 2000), the cultural ideal of the autonomous, mobile individual is now recognisable in all First World countries (Putnam, 2002), including such social democratic polities as Sweden (Rothstein, 2002).

I shall show how these principles had their roots in Enlightenment philosophers' accounts of the links between liberty, property and government by consent. Although these were much criticised and modified during the era of state socialism and welfare states, they have been re-instated by the neo-liberal ascendancy and the Washington Consensus. With the collapse of state socialism and the erosion of welfare collectivism and social citizenship, mainstream individuals have come to see a portfolio of property rights and command over their own earnings as better shields against exploitation and oppression than claims on the state. They would rather pay bank interest for loans than taxes to governments, and subscribe to private service organisations than improve public ones.

One of my main contentions is that these developments and the social relations they sustain have many hidden costs, which manifest themselves in 'stalled well-being'. Unease about the lack of a collective basis for membership and belonging was indicated in the 'values voting' in the US presidential election of November 2004; the religious right, demanding faith-based social legislation and welfare provision, were decisive in Bush's victory. In the UK, issues of 'respect' featured prominently in the general election of May 2005, while doubts about multiculturalism and social cohesion have followed the London suicide bombings.

All this signals a political challenge for liberals and social democrats, and a theoretical one for welfare economists and social policy analysts. How can individual freedom be balanced by collective solidarity? Can a better account of the nature of services reveal their distinctive features, and explain their role in a sustainable infrastructure for human flourishing? These questions demand the investigation of the origins of the present *impasse*, before a possible new paradigm can be developed.

The nature of services

Today's legacy of microeconomic theory about services can be traced to the Scottish Enlightenment philosophers' accounts of their distinguishing features. Adam Smith's explanation of variations in the 'wealth of nations' relied crucially on the proportions of resources deployed between 'productive' and 'unproductive' uses. The former (agriculture, industry, construction) resulted in outputs of commodities for sale; the latter gave rise to labour which did not 'fix and realise itself' in

some particular subject or vendible commodity, which lasts for some time at least after that labour is past. . . [S]ervices generally perish in the very instant of their performance, and seldom leave any trace or value behind them, for which an equal quantity of service could afterwards be procured. (Smith, 1776: 330)

This distinction was so important for Smith because he sought to demonstrate that commercial economies, such as Great Britain and the Netherlands, grew and prospered far more than traditional societies, which used higher proportions of their resources 'unproductively' in this sense. He was clearly thinking of aristocratic, feudal and militaristic regimes, in which nobles kept retinues of armed men, flunkies and attendants. It was not that services could not be remunerated (they usually were), but that they were produced for a single moment of instant consumption, and were often for the exclusive enjoyment of the privileged classes, under 'systems of authority'.

In a typical passage, Smith made it clear that, from the perspective of society as a whole, this applied as much to 'some of the most respectable orders' as to 'the most menial servants'. The sovereign, the military, the judiciary, churchmen, lawyers, physicians, men of letters of all kinds, were to be classed with 'buffoons, musicians, opera-singers, opera-dancers, &c.', as 'unproductive labourers' (*ibid*: 331).

Of course, the labour theory of value, in which the hours spent producing goods became embodied in them, and could subsequently be exchanged for other such embodiments, has long since been comprehensively discredited (Elster, 1985: 201–2). But astonishingly, Smith's distinction between goods and services still provides the basis for the microeconomic models which are taught to first-year economics students. On page 2 of the standard textbook, this is defined as follows:

Goods are physical commodities such as steel and strawberries. Services are activities such as massages or live theatre performances, consumed or enjoyed only at the instant they are produced. (Begg *et al.*, 1997: 2)

Not only does this definition uncritically reproduce the eighteenth century one; it also justifies the topic of services being barely mentioned again in the next 603 pages. But in fact it is clearly misleading, since strawberries are consumed and

enjoyed in an instant, and have very little nutritional value, whereas a massage may benefit its recipient for a whole week, and other health services for much longer. Just as Smith's distinction between productive and unproductive activities was misconceived, so is this one.

In essence, services are simply interactions between two or more people, in which some kind of exchange takes place. What is distinctive about them is, firstly, that they can be voluntary, commercial or organised by government, and individual or collective, each of these being a fairly close substitute for any other. In the case of goods, advanced forms of production generally involve processes which require very specialist organisation, and most products themselves have specific uses, by firms or individuals. While a concert, a class or a therapeutic group can be set up with equal facility by a voluntary association, a company or a government agency, a computer can be made only by an electronics enterprise, and operated by a trained and competent user.

Secondly, because they are produced in interactions, services usually involve a relationship of some kind between people, however brief. Goods, by contrast, are inert objects which are consumed or activated by humans. To give an example which might have appealed to Adam Smith (an ironist), the services of a prostitute involve relations of potential power, abuse, humiliation and so on (of either party); the use of sex toys risks only physical injury.

One reason why Adam Smith devoted so little attention to services was that, in eighteenth-century society, most of them were performed for rich people, to supply a context or infrastructure for their lives. Where the rich bought goods, their expenditures created independent manufacturers, merchants and artisans, who partook of the spirit of commerce, and hence (according to Smith) of liberty, reason and political tolerance (Smith, 1776: 411–27). In comparison, since 'servants' comprised members of the royal court, artists, musicians, architects and others who flattered and attended upon the aristocracy, as well as gardeners, cooks and chambermaids, Smith considered that services bred dependence and a supine political culture (*ibid.*: 415–21).

Smith's work fulfilled one part of the Enlightenment project, which aimed to show how the institutions of commerce (money, property, production) sustained liberty and consensual government (Hirschman, 1977; Jordan, 2004: chs 2–4). But this nexus of links excluded service work, just as it did community and household relations. Smith and his colleagues could not have foreseen the recent transformation, in which exactly these activities and relationships have become commercialised so that many individuals (especially women and young graduates) now define freedom and choice in terms of their work as service providers, and their consumption of services. Furthermore, they could not have anticipated public policies which focused on citizens' self-realisation through such choices, or the individualisation of social life that it has entailed. We can only guess Smith's reaction to the revelation, by the company which produces

the Yellow Pages, that between 1992 and 2002 there had been an increase of over 500 per cent in aromatherapists and cosmetic surgeons, compared with a 59 per cent decline in listed greengrocers (BBC Radio 4, 2004a).

Commerce and industry remained the focus of theorists who criticised bourgeois liberalism and capitalism during the following 150 years. The collectivist challenge to Enlightenment versions of liberty and good governance saw public services as part of a *political* context for equality and justice, rather than as distinctive economic phenomena. I shall argue that this contributed to the continuing neglect of services in economic theory (including welfare economics). And because social policy analysis was embedded in the collectivist political tradition, this left the public sector vulnerable to the neo-liberal challenge which emerged in the 1970s.

Collective services as an antidote to capitalism

Much as the original justifications of property and markets focused on the production of commodities, so did the critique of liberal political economy. Two fundamental criticisms of capitalism were common to Marxian (Marx, 1867), Guild Socialist (Cole, 1920, 1927; Reckitt and Bechhofer, 1918) and underconsumptionist (Hobson, 1900; Douglas, 1919, 1920) political mobilisations. First, the criteria by which finance capital chose to invest in productive industry were derived entirely from the prospect of profit, and not at all from human needs; rentiers were totally unaccountable to citizens, or to industrial stakeholders. Second, industrial production involved the extraction of value from workers which yielded profit, but their wages were insufficient for them to purchase the goods they produced. Although they disagreed about the exact mechanisms behind these injustices, their remedies all involved some combination of state ownership, fiscal and monetary management, and income redistribution (Hutchinson and Burkitt, 1997; Hutchinson *et al.*, 2002).

This focus on public finance and the processes of factory production meant that socialist revolutions and social democratic reforms targeted the property of the rich and the power of industrialists, leaving the consequences for private services to work themselves out. But as part of their new designs for societies, they created a more collectivised, planned and regulated social environment, which balanced the productive side of the economy. Public services expressed the goals of solidarity, security and justice.

They were 'designed to widen and deepen the expression of the spirit of democratic co-operation', practising in a 'more equalitarian spirit', with professional workers dealing with citizens in 'a democratic way consistent with the spirit of the times' (Cole, 1945: 29).

So the aims of collectivised services were explicitly political and social; there was little economic theory to inform their creation. The second-most quoted

text in Beveridge's great works (after Keynes), A. C. Pigou's *The Economics of Welfare* (1920) contained no references to health or education services. In the state socialist countries this political purpose was even more pronounced, reflected in the programmes and priorities of public services, and proclaimed by insignia and banners throughout the built environment. Professionals in state services under both ideological systems were acculturated through training, and co-opted through career incentives, to sustain these ideologies. In this way, the public services became an important instrument throughout which political elites spread the new collective values and standards of their regimes.

They also balanced and compensated for the harsher features of urban and industrial lifestyles, coercively imposed under state socialism, and more gradually developed in social democracies. Social housing schemes, for example, reflected both the collectivist mindset of the planners, and the attempt to create a convivial environment; as they deteriorated (especially in the UK and France), they demonstrated the failure of both aspects of that vision. Meanwhile, however, capitalism too was adapting and evolving within this new social environment, and addressing those features of the critique of its earlier form which remained largely unresolved under these new regimes. New developments in private services played key roles in both major evolutions.

First, neither state socialism nor social democracy gave workers or consumers much influence in the processes of planning what was produced, to what quality or specifications. New services allowed both capitalist industrial products and collectivist contexts to be adapted and used in unconventional or subversive ways. Youth culture, working-class culture and ghetto culture were shaped both on the street and in the cafés, clubs, retail outlets and sports centres frequented by residents and denizens. Under state socialism, such manifestations were ritually suppressed (Fischer, 1992), but always reappeared in new guises. Thus the private service sector was able to adapt and transform both capitalism and collectivism, giving groups without economic or political power a far greater influence over how they lived their lives. In this way, it mitigated both the unresolved problem of democratic control under capitalism, and the deficiencies of collective services.

The second adaptation concerned financial services, and their capacity to compensate for the shortfall in workers' purchasing power denounced by both socialists and underconsumptionists (Hobson, 1900; Douglas, 1919; Cole, 1933). By extending personal credit to an ever-wider spectrum of borrowers, the banks, building societies and other institutions gave mortgages, loans, overdrafts, and eventually credit cards, to most of the population, enabling owner-occupation and widespread ownership of cars and consumer durables. In the UK, personal indebtedness of these kinds totalled £1,000 billion by 2004; thus financial services sustained a considerably higher level of private consumption than could have been enjoyed if citizens had been living week-to-week on their wages.

Of course, both of these adaptations involved the creation of businesses and employment: mainly in large-scale banks, insurance companies and finance houses in the financial sector, and in small enterprises in the retail, leisure, recreation, personal and cultural services. By 1980, employment in the service sector was already expanding far more rapidly in all the advanced capitalist economies than the industrial one, which was declining, in absolute terms, in all except the USA and Japan (Jordan, 1983). By 2002, service employment supplied around 70 per cent of the jobs in all these countries.

I have argued that neither socialism nor social democracy generated distinctive new economic analyses of services. Their justifications for the public sector rested on the injustices of material inequalities, the oppressions of industrial power, and the inefficiencies of market failure. The collective infrastructures they constructed addressed these issues, and the rationale for public services was a political more than an economic one. This left public policy on services exposed to a revived liberal political economy, building on the successful growth of private services.

Neo-liberal transformation: theory and practice

Collectivism and the creation of a politicised public sector were a challenge for theorists like Hayek and Von Mises, who drew their inspiration from Adam Smith's account of liberty, property and commerce (Hayek, 1960; Von Mises, 1966). Throughout the post-war period, they fortified the philosophical and ideological lifeblood of a movement which had gone on the defensive worldwide. But in the meanwhile, a number of innovations in economic theory set out to undermine collectivist models, both by reducing them to microeconomic formulations (methodological individualism), and by demonstrating the limits of their contributions to economic optimisation (public choice theory).

All of these new models and theoretical advances took as their starting points the problem of defining the relative roles of private choices about marketed goods and government choices over public goods. None of them analysed the specific properties of services; they treated these as if the only relevant distinctions concerned the private-public boundary. The focus of their new models was the nature of the membership units which shared certain resources; they assimilated what was produced to the concept of 'goods', largely ignoring their service component. These were the main innovations:

- (a) *Mobility and choice* The first of these was a model of how the resources for a social and cultural infrastructure could emerge from competition between small jurisdictions, and the decisions of costlessly mobile individuals, choosing between them (Tiebout, 1956). Under a set of unrealistic assumptions about externalities and exclusivity of provision, this kind of 'voting with their feet' could achieve a market-like version of

what was planned and provided by democratic or state socialist authorities in the collectivist era. Each residential and productive community would offer a different set of amenities, and those who chose to join as members could in this way express their consensus about levels of taxation and quality of provision (Wicksell, 1896; Foldvary, 1994). This model has been enormously influential for public sector reform worldwide; for example, in Hong Kong the political authorities now license property developers to supply the whole physical infrastructure, including museums, libraries and theatres, with no public funding, where they give planning permission for new projects (BBC World Service, 2004a).

- (b) *The calculus of consent* The scope of individual choice was extended to political *institutions*, as well as policies. In Buchanan and Tullock's (1962) model, utility maximisation, based on calculation and comparison of costs and benefits, came to embrace organisations (voluntary, political or market); as Machiavelli (1525) had recognised, economic rationality could apply to any sphere of human activity:

all collective action may be converted to an economic dimension for the purposes of our model. . . . Specifically, this involves the working hypothesis that the choosing individual can rank the alternatives of collective as well as market choice, and that this ranking will be transitive. (Buchanan and Tullock 1962: 33–4)

- (c) *Exclusive clubs and groups* In their separate but simultaneous studies of the economics of groups, Buchanan (1965) and Olson (1965) explained that amenities and costs could be efficiently shared where members (subscribers) could establish exclusive use of 'club' facilities. In this sense, the 'goods' supplied in such organisations were not 'public' (in the sense of indivisible, non-rivalrous and non-congestible). Economic clubs, from trade unions and cartels to private health and education schemes, were feasible wherever boundaries could be erected to exclude non-contributors from the benefits ('collective goods') of co-operation among members (Buchanan, 1965; Olson, 1965). These analyses were later used to explain both how certain facilities and districts were purloined by particular users (even when they were owned by the state or local authority), and how groups like professionals and bureaucrats pursued their interests in public services (Buchanan, 1980; Olson, 1982; Niskanen, 1975). In the hands of neo-liberal politicians, the choice agenda could be presented as empowering unorganised individuals against the might of organised producers.
- (d) *Fiscal federalism* If what was produced by the public services could be shown to consist of 'goods' which could be supplied by market-like providers or competing jurisdictions, and if individuals could express their preferences for collective institutions by moving or choosing rather than through the ballot box, this implied that different kinds of membership organisations

could be formed for all these amenities (Oates, 1972). Citizens could belong to a number of overlapping systems, and power could be devolved from the central authority to small units (Davies, 1992), managed according to technical criteria, for the cost-efficient supply of health, education and welfare goods (Clarke and Newman, 1993).

Disseminated through influential think-tanks like the Institute for Economic Affairs, these models provided the basis for the neo-liberal reform of public services in the Anglophone countries (Jordan, 1998: ch.4), and were consolidated under the Third Way regimes of Bill Clinton (Waddan, 1997), Tony Blair and Gerhard Schröder (Elliott, 2004). Individual empowerment and choice were pitted against the 'Leviathan' of state authority, professional paternalism, bureaucratic standardisation and trade union self-interest. To facilitate citizens' expression of their preferences over welfare 'goods', governments made information about the quality and performance of each of them available in league tables.

These theoretical innovations and policy initiatives obscured the distinctive features of services in two ways. First, they focused on the technical possibilities for efficient supply through subscription and exclusion, rather than the nature of what was being provided, and the relationships between members. Second, they used 'exit', through mobility and choice, as the mechanism for improving quality, neglecting 'voice' (participation and collective action) and 'loyalty' (interdependence and belonging) (Hirschman, 1970). This meant that they overlooked some of the hidden costs of the growth of the service economy and the reform of public services.

The hidden costs of the new service economy

In this section, I shall start to try to identify the scope for co-operation between welfare economists and social policy analysts in developing a more complete and coherent theory of services, and their role in human flourishing. Although the need for such a theory is signalled by what I have called 'stalled well-being' in the affluent countries, the enquiry must embrace the whole transformation brought about by globalisation: the aggregate consequences of individual, commercial and government decisions in this phase of capitalist development.

The service economy is a direct outworking of the new global division of labour, in which multinational corporations have relocated mass production of manufactured goods in newly industrialising countries worldwide, and financial intermediaries have shifted their investments towards these sites (Held *et al.*, 1999). All this has allowed much of the industrial sector in the advanced countries to specialise in high-tech, high value-added production, but all consumers to benefit from cheaper manufactured products and processed goods from poorer countries, with lower wages and other production costs. These developments

have mitigated two aspects of earlier capitalist relations: the physical brutalities of the industrial system, and the poverty of those who laboured in it. It is foreign factory workers who are now exploited and impoverished, for the most part.

However, the first adaptation of late capitalism, the expansion of personal credit and financial services, imposed a heavy cost (in interest payments) on ordinary people. Although this burden was perfectly overt and transparent, the ideological shift which occurred in the 1980s made it seem quite bearable. Politicians such as Margaret Thatcher and Ronald Reagan were able to convince their electorates that repayments of mortgage interest charges and personal loans were a fair price to pay for the benefits, in terms of the individual autonomy and choice, bestowed by these forms of credit. By contrast, they argued that taxes, and especially income taxes, were unjustly burdensome, because they restricted choice, restrained individual initiative and enterprise, and imposed the costs of others' needs and behaviour on taxpayers.

Thus the neo-liberal transformation actually increased the disposable incomes of citizens far less in fact than it did on paper, allowing for these interest payments. The current level of UK personal indebtedness, £1,000 billion, is made up of loans secured on dwellings and consumer credit (National Statistics, 2004: 69, 75). It represents an interest burden of something between £50 and £100 billion a year (the figure is not recorded in the official accounts). This has brought about an enormous stiffening of resistance to increases in taxation – or more accurately in the case of the UK electorate, an insistence on making sure that state expenditures go to deserving groups within the population (Hills and Lelkes, 1999). Citizens understandably considered that taxation represented a double imposition, since they had borrowed to make up for new restrictions and shortfalls in social housing, civic amenities, transport networks, health and welfare facilities.

Furthermore, another part of the expansion of financial services in the new economy was concerned with the private provision of various pensions, annuities and insurances, which made good the deficiencies in systems of income maintenance and redistribution. Under strong pressure of government propaganda, citizens paid into such funds, sacrificing current income for the sake of future benefits, many of which have proved illusory or inadequate. Yet the New Labour administration, when it came to power, continued to endorse these developments. Instead of revaluing the collective features of social security (risk pooling and redistribution) it insisted that income maintenance and social services should be reformed, in line with the individualised commercial standards of banks and private agencies.

The way in which a service is delivered can be as important as the service itself – as retailers know only too well... [E]xpectations of service quality and convenience have risen – as with the growth of 24-hour banking – but public services have failed to keep up with these

developments . . . [A]s incomes rise, people prefer to own their own homes and investments. (DSS, 1998: 16)

What New Labour reforms continued to reinforce was the trend towards individual property rights replacing collective social rights, with the former funded by private financial companies, as public funds were withdrawn. The banking, pensions and insurance sector had an interest in emphasising citizens' vulnerability and insecurity, to sell their products, adding to the proportion of current income spent in funding future income streams. Although the value of housing stock rose rapidly, so did the costs of protecting it through insurance and private security services.

The second adaptation of late capitalism, the growth of private service employment, especially in personal, retail, leisure, sport, culture and care services, was possible because financial and industrial capital could thrive on the new international division of labour, as lower-cost activities were located abroad. However, these expanding services suffered from a common problem: they were not susceptible to improvements in the productivity of labour to anything like the same extent as was possible in manufacturing, construction or even agriculture.

Even if retailing could be made more efficient by new forms of organisation, based on customers serving themselves (supermarkets), hairdressing, catering, therapy and the care of elderly people could not. This meant that the new service economy suffered, from what economists have named the 'Baumol cost disease' (Baumol, 1967; Baumol *et al.*, 1985): the price of services constantly rises in relation to that of goods. This does not matter much if employment is predominantly industrial, but it becomes an issue in a service economy, where there is less and less scope for domestic gains in labour productivity, especially among aromatherapists and cosmetic surgeons (to say nothing of buffoons and opera dancers).

In a labour market which is balanced between industrial and service employments, a political settlement may allow constant redistribution of gains from improvements in industrial productivity to earnings in the public social services, as in Sweden (Esping-Andersen, 1990). In a new-style private service economy, earnings can only rise through competition between groups of workers, who are able to exploit their scarcity value, or temporary shifts in demand. Hence, the struggle for increased earnings becomes a zero-sum game; occupations and groups vie for positional advantage (Hirsch, 1977), whereas previously they might have acted in concert, or seen gains as potentially complementary. All this introduces new elements of rivalry and conflict into the labour market, and into subjective experiences of well-being.

As Layard (2003) notes, government policies which set targets related to performance indicators, or give pay incentives to individuals, are particularly

inappropriate for public service work. He attributes much of the disconnection between rises in income and increased well-being to this introduction of rivalry, comparison and competition to workplaces and activities for which it is unsuitable. But another factor must be that, in the absence of opportunities for productivity gains through automation and mechanisation of tasks, employers simply increase the intensity of labour, and hence the rate of exploitation (Ehrenreich, 2002; Abrams, 2002). Working conditions and employee welfare decline as firms seek competitive advantage in fields like cleaning, hospitality and leisure.

Services as a context for choice

The second and more challenging agenda for welfare economists and social policy analysts will be to identify how the relational element in services contributes to well-being. In microeconomic models, the final consumption of commodities is a 'black box'; all activities are reduced to choices between alternative uses of resources, including decisions about relationships. But there must ultimately be a distinction between choices (which lead to experiences) and the experiences themselves (which are interpreted through meanings shared by social groups). For decisions and their outcomes to make any sense, they must have a social context in which they are undergone, processed and evaluated (Jordan, 2004).

The defining feature of services is that they can *either* be seen as part of what is chosen and consumed, *or* as part of that context. Unlike goods, which are inert, divisible and marketable, services are inherently relational and social. They can be produced informally, commercially or publicly, and consumed privately or collectively. Hence, it is a social or political decision whether to organise society in ways that encourage individuals to treat a particular service as a commodity to be chosen and consumed, or as an element of the infrastructure or context for their choices.

Adam Smith's definition of service work as 'unproductive' was in part an attempt to capture the contextual aspect of services. For the rich, architects and artists, as well as 'buffoons, opera-singers, opera-dancers, &c', were – like flunkies and gardeners – a kind of human wallpaper for their daily lives. They supplied a cultural and convivial context for the consumption of commodities. At the other end of the social scale, of course, were households which could not afford to pay for services of any kind. Among ordinary people, most of these were provided communally by various informal 'wise women', wetnurses and caring neighbours, as part of local systems of interdependence. Whereas services for the rich were legitimated by their traditional status as military protectors, lawmakers, magistrates and landowners (who provided the authoritative context for all forms of activity), those of the poor were related to moral and social ties, and to physical survival.

Smith argued that more and more poor people could be drawn into commercial production, and hence out of 'servile dependence' on the authority of 'their superiors' (Smith, 1776: 412). But in the latest phase of capitalist development, women in particular have been drawn out of the household, informal and communal systems of interdependence (and from the authority of male breadwinners) through the growth of employment in services.

We have lived through a radical experiment in the transformation of the social landscape (Pusey, 2003). Neo-liberal privatisation programmes and the choice agenda allow us to construct our own context, buying such features as lifestyle coaching, fitness training and relationship counselling, and bestowing our own meanings and commitments on our bonds with others. In this web of interactions, choice itself is the dominant unifying element in projects of autonomous self-realisation and self-fulfillment (Jordan, 2004: chs 1–3). Hence the requirement that even public services must be 'personalised' (Leadbeater, 2004).

But the research evidence suggests that it is quality of relationships – both personal and communal – which most influences subjective well-being (Argyle, 1999; Myers, 1999). Hence, services might better aim to improve the connections between people, rather than try to fit their preferences as individual consumers. Above all, they could seek to balance individual autonomy and choice by supplying those elements of belonging, solidarity and community which have become invisible within a market economy and individualistic culture.

Such issues have recently been framed in terms of the moral and social 'glue' required to reinforce family, kinship and communal ties in a sustainable social order. The concept of 'social capital' has been deployed to describe the building of trust, reciprocity and co-operation in a prosperous, harmonious, democratic society (Putnam, 2000, 2002). These ideas have been extensively taken up, in the 'social cohesion' and 'civil renewal' initiatives in the UK (Home Office, 2002; Blunkett, 2003, 2004), and in the World Bank's programmes for global development and combating poverty (Dasgupta and Seregeldin, 2000; Stiglitz, 2002).

In the USA, the presidential election of November 2004 saw a mobilisation against choice and in favour of traditional morality, religious and patriotic loyalty. Around 22 per cent of the electorate identified themselves as 'values voters', who supported Bush's stance on abortion and gay marriage, approved his generous funding of faith-based schools and welfare agencies, and abstinence-based sex education, as well as his commitment to 'national security' (BBC World Service, 2004b). This was perceived as the only available alternative to programmes for enhancing individual self-realisation, but its negative impacts will be felt by women, gay people and minority ethnic and disadvantaged groups.

In the UK, disquiet about 'anti-social behaviour' – youth disorder, yobbishness and binge drinking – surfaced during the general election of May

2005 in debates about 'respect'. These concerns over public culture and the civic context have been greatly heightened by the suicide bombings in London; attention has focused on Muslim youth, and the manifestations of extreme disaffection from the mainstream order. But the challenge for the government is how to balance measures for security, surveillance and enforcement with ones which build common interests and engagement with wider society. Tony Blair has acknowledged the evidence on 'stalled well-being', and announced funding into research on sustainable communities (*Guardian*, 2005).

The task for social theorists, economists and social policy analysts is to define the collective elements in well-being, to identify how services can contribute to these, and to show how they might offset both individual consumerism and the exclusiveness of groups. In the absence of such an analysis, the vacuum in collective life is likely to be filled by authoritarian, religious and militaristic movements.

Conclusions

My starting point for this article was the evidence of 'stalled well-being', despite rising personal and national incomes in the affluent countries. I have not attempted to offer a full explanation of this phenomenon, but have instead outlined the need for collaboration between welfare economists and social policy analysts in tracing its origins. I have argued that much of the scope for this lies in theorising the economics of services, and the implications of the huge increase in service employment in these states.

During the collectivist era of the mid-twentieth century, public services provided the political context for interactions between members, under state socialist and democratic regimes which were competing for the loyalty of their citizens. Welfare states constructed versions of equality and social justice which could be contested, by new social movements claiming rights and recognition (Lustiger-Thaler and Shragge, 1993), and fora in which disputes between interest groups could be settled, and institutions adapted for change.

Imperfect as these services were, they did attempt to balance the three requirements for successful adaptation of all institutions: means for exit, voice and loyalty (Hirschman, 1970). Because neo-liberal and Third Way reform programmes returned to the Enlightenment view of liberty, property and good governance, and public choice theorists neglected the relational aspect of services, exit became the main mechanism for change, and the choices of mobile individuals restructured the landscape of services (Hirschman, 1978). In this process, many costs were concealed, and the contextual value of services was obscured.

This is not simply a question of the balance between public services and private ones. The gains of the 'universalist' welfare state era (for instance, in

life expectancy at birth, and in the proportions attending tertiary education) are now offset by evidence of increases in psychosocial disorders, anti-social behaviour and other specific forms of stress and dysfunction in present-day populations. The new issues concern how to combine universal services and targeted, specialist ones, and how to deploy those staff who provide the general context for co-operative and convivial interactions among citizens in ways which are best complemented by professionals with expertise in addressing disorders and diswelfares.

To illustrate what I mean, I shall use research findings on children, adolescents and young adults in the UK. By drawing together statistics on mental health, self-harm, suicide, alcohol and drug misuse (Rutter and Smith, 1995) and on criminal offending and anti-social behaviour (Rutter *et al.*, 1998), researchers have shown that these disorders have been increasing among young people for the past 40 or 50 years. More recently, survey evidence of first-time married people in their early thirties found that rates of dissatisfaction with their partners among men and women born in 1970 had increased to 22 and 24 per cent respectively, from 3 and 2 per cent when the same question had been asked of people born in 1958. Unmarried and second-married couples showed similar increases in mutual dissatisfaction (Ferri and Smith, 2003: 115). All this suggests that the UK government's aim that all children should reach their full potential (Blair, 2003: 2) faces considerable challenges in the spheres of well-being and social relationships.

One of the few spheres of human activity which offers a possible model is sport. In the way sports balance individual with team elements, in the integration between commercial and voluntary systems, in local, federal national and international organisations, and in multi-ethnic participation, this illustrates the possibilities for combining apparently disparate features in the same structures. It is to be hoped that London's successful Olympic bid will provide the chance of projects which embody positive regard for other citizens, and shared improvements in quality of life.

From the perspective of society as a whole, similar issues affect policies on income maintenance, housing and social cohesion. If the goals of the latter initiatives are to rebuild bridging social capital between heterogeneous groups of citizens whose life-chances have polarised during the neo-liberal era, 'civil renewal' is not enough. Research in the USA has shown that, as populations sort themselves into chosen 'lifestyle enclaves' (homogeneous districts) according to income, age and cultural tastes, they participate *less* in voluntary associations and communal activities (Oliver, 1999: 205). But even where, as in the UK mainstream citizens' participation rates are sustained, those for residents of disadvantaged districts, with low incomes and greater disabilities, have fallen dramatically in the last 30 years (Hall, 2002: 52–3; Bynner and Parsons, 2003, fig. 10.1a). Which services can provide the contexts for *all* citizens to interact co-operatively and generate shared norms and practices?

In a global perspective, all these issues are even more stark. Failed states and collapsing economies in the developing world, and growing inequalities and insecurities in the post-communist countries, have led the exit option (migration to affluent states) to be increasingly attractive (Jordan and Düvell, 2003, ch.5). International organisations such as the IMF, World Bank and World Trade Organisation have moved beyond the Washington Consensus on privatisation of public infrastructures and commercialisation of social relations. But they still lack a convincing model of how government services, NGOs, enterprises and local communities can interact to the advantage of the poorest populations (*ibid.*, chs 2 and 4). The tsunami disaster and African poverty have highlighted these deficiencies.

Individualism and the choice agenda have left a vacuum in social policy around the collective context, and the basis for membership, participation and belonging. I have argued that any new paradigm for solidarity (national and global) must start from a better economic analysis of the contextual and relational elements in services. The goal of social policy theory and research might then be to clarify the optimum balance between public and private provision, and between universal and specialist agencies.

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