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### **Beyond Conventional Service Economics:**

Utility Services, Service-Product Chains,  
and Job Services

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## **Abstract**

This essay intends to explore three innovative ways to foster job creation in services: First, the switch from product markets to utility markets would induce more and new types of user services. Such a switch would not only be more employment friendly but also foster a sustainable economic development compatible with ecological principles. The reorientation from products to utilities provides strong arguments for an emphasis on the framework conditions of services, for instance for lowering VAT in favour of labour intensive services, for forward regulation through (usually service enhancing) high quality standards, for deregulating market entry barriers, and for subsidising networks instead of individual products or services. Second, the thesis of cost disease has to be reconsidered in view of productivity enhancing possibilities by new technologies, and in view of innovative possibilities in managing specific income risks related to modern services. Service-product chains are the main ingredient for increasing productivity in services which is demonstrated in the field of art. Various approaches of social insurance in this field offer also inspiring ideas for risk management beyond the traditional welfare state. The most important policy conclusion related to this experience is the inclusion of consumers into the financing of social insurance. Third, the switch from transfers to persons with low earnings capacities to the support of peoples self-reliance through their own work could also induce increasing demand for already existing or new types of job services, and contribute especially to gender equality in the labour market. The central policy conclusion is the recommendation to turn social benefit entitlements (transfers) into vouchers for buying or co-financing job services.

## **Zusammenfassung**

Dieser Essay skizziert drei innovative Wege zur Förderung der Beschäftigung in Dienstleistungen: Erstens würde die Abkehr von Produktmärkten zugunsten von Nutzungsmärkten mehr und neue Typen von Nutzungsdienstleistungen hervorrufen. Auf Nutzungsmärkten wird der unmittelbare Nutzen und nicht ein möglicherweise Nutzen leistendes Produkt gekauft. Solch eine Umorientierung würde nicht nur der Beschäftigung, sondern auch der Umwelt gut tun. Darüber hinaus lenkt diese Strategie die Aufmerksamkeit auf günstigere Rahmenbedingungen für Dienstleistungen, z. B. auf eine Herabsetzung der Mehrwertsteuern für arbeitsintensive Dienstleistungen, auf eine an Zukunftsmärkten orientierte Regulierung durch Qualitätsstandards, auf die Deregulierung von Markteintrittsbarrieren und auf die Subventionierung von Netzwerken anstelle von einzelnen Produkten oder Dienstleistungen. Zweitens muß die These der „Kostenkrankheit“ revidiert werden, da durch die neuen Technologien die Möglichkeiten gestiegen sind, die Produktivität auch von Dienstleistungen zu steigern und die mit vielen Dienstleistungen verbundenen Einkommensrisiken durch modernes Risikomanagement abzusichern. Dienstleistungs-Produkt-Ketten sind die wichtigste Form der Produktivitätssteigerung in Dienstleistungen, was am Beispiel des Künstlerarbeitsmarkts demonstriert wird. Die Entwicklung der Sozialversicherung in diesem Bereich bietet anregende Ideen für ein Risikomanagement, das über den traditionellen Wohlfahrtsstaat hinausgeht. Die wichtigste Folgerung für die Politik ist die Einbeziehung der Konsumenten in die Finanzierung der sozialen Sicherung. Drittens könnte die Umlenkung von Transferzahlungen an Bezieher mit geringem Einkommensvermögen in direkte Beschäftigungsunterstützung deren Selbstvertrauen stärken, mehr Nachfrage nach Beschäftigungsdienstleistungen hervorrufen und dadurch vor allem die Gleichstellung zwischen den Geschlechtern auf dem Arbeitsmarkt fördern. Es wird daher empfohlen, den Tausch von Ansprüchen auf Sozialleistungen oder Transferzahlungen in Gutscheine zum Kauf von Beschäftigungsdienstleistungen zu ermöglichen.



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# 1. Introduction

Two pathways to increase service employment are usually suggested: improving competitiveness of high quality and export oriented business services, and relieving the cost burden for (low skill) personal services. Whereas competitiveness of business services can be increased through innovations in information and communication technologies (innovative milieus or networks), low skill personal services are suggested to be stimulated by widening the wage spread combined with various ways of wage subsidies or income policy. There are still untapped possibilities to improve these strategies by policy reforms or further research. However, both pathways are rather conventional and do not exhaust to range of innovative approaches towards the modern service society.

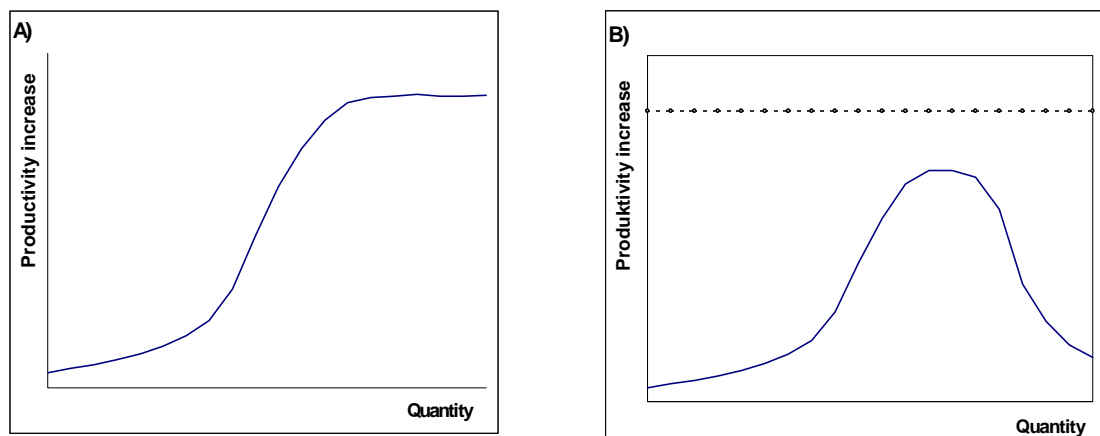
In the following essay, I will therefore explore three complementary (if not alternative) ways to foster job creation in services: *First*, the switch from product markets to utility markets would induce more and new types of *user services*. Such a switch would not only be more employment friendly but also foster a sustainable economic development compatible with ecological principles. The reorientation from products to utilities provides strong arguments for an emphasis on the framework conditions of services, for instance for lowering VAT in favour of labour intensive services, for forward regulation through (usually service enhancing) high quality standards, for deregulating market entry barriers, and for subsidising networks instead of individual products or services (section 2). *Second*, Baumol's cost disease has to be reconsidered in view of productivity enhancing possibilities by new technologies, and in view of innovative possibilities in managing specific income risks related to modern services. *Service-product chains* are the main ingredient for increasing productivity in services, and I will demonstrate this in the field of art services, Baumol's prototype and inspiring area for the theory of cost-disease. The evolution of social insurance in this field offers also inspiring ideas for risk management beyond the traditional welfare state. The most important policy conclusion related to this experience is the inclusion of consumers into the financing of social insurance (section 3). *Third*, the switch from transfers to persons with low earnings capacities to the support of peoples self-reliance through their own work could also induce increasing demand for already existing or new types of *job services*, and contribute especially to gender equality in the labour market. The central policy conclusion is the recommendation to turn social benefit entitlements (transfers) into vouchers for buying or co-financing job services (section 4).

## 2. From Producer Services to User Services

So far, high quality services have been looked at mainly from the perspective of productivity enhancing inputs into (manufactured) products. However, this perspective becomes more and more elusive, since the rationalisation of services themselves is only to a limited extent possible. Thus, if the input of services for a product (research, development, raw material transport, labour services, marketing, advertisement, transport, distribution and storing of the ready product) and finally the required waste disposal of the used product reaches a certain proportion, the price of the final product might become so high that it is not marketable, even if the production process itself is completely automated and at the highest productivity level. When the costs of all services necessary for distributing and using the product are increasing much faster than the increase of productivity on the pure production side, the overall productivity curve points downwards before reaching the top of the S-curve in the traditional theory of "economy of scale" (Figure 1).

**Figure 1: The Productivity Paradox**

- A) Increases in productivity regarding the effects of new technologies and specialisation only
- B) And, in addition, taking into account all service functions necessary to make the product available to the customer



Source: Adapted from Giarini and Stahel 1989, p. 18.

A model case is the idea of disposable bedsheets (reported in Giarini and Stahel 1989: 18). On average, a bedsheets is washed about fifty times a year before being thrown away. For producers, it would be fantastic if consumers would buy fifty bedsheets instead of one, attracted by the much lower price and by the elimination of the necessity

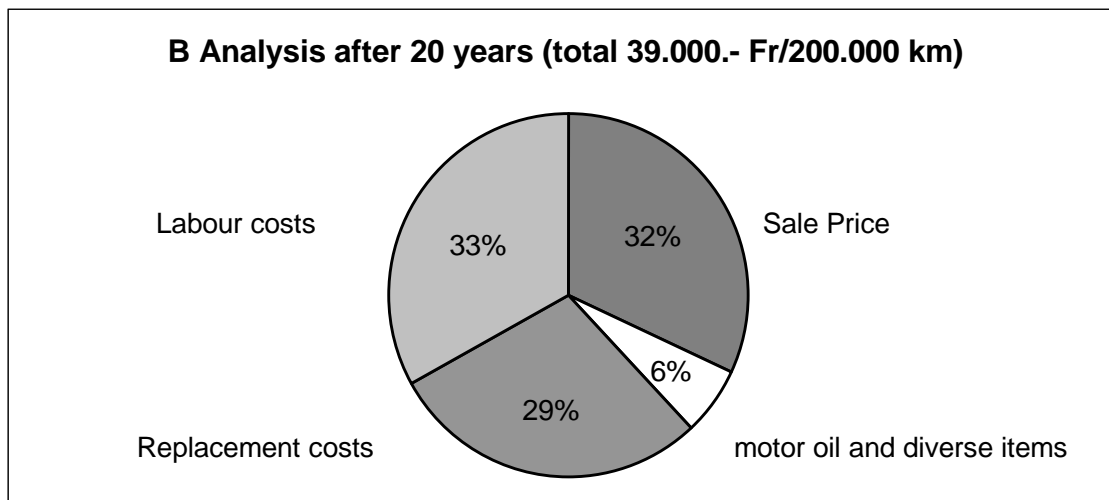
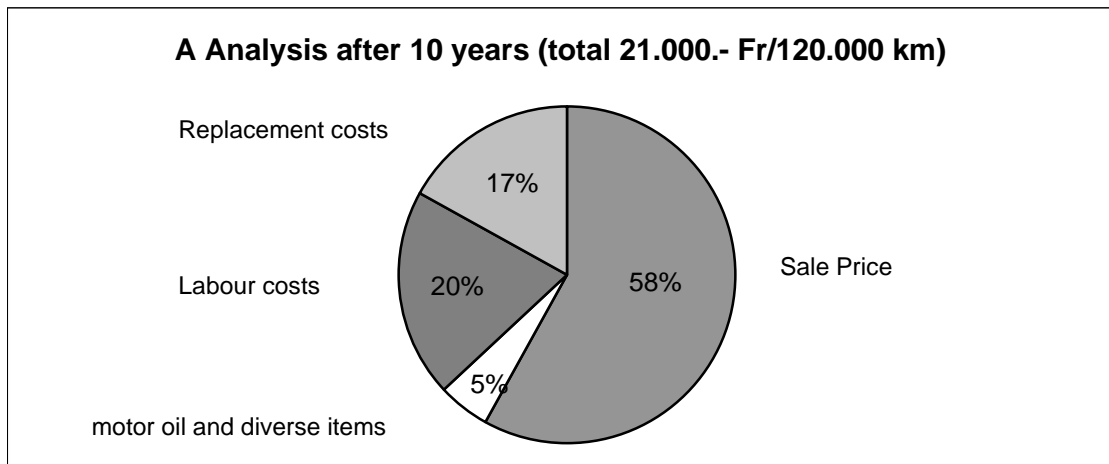


of washing them. But this would mean storing an enormous number of bedsheets at each home, the destruction of the same amount of bedsheets either at home (at a cost very near the washing them) or through an addition to the local waste disposal systems (which would increase local taxes for collecting and destroying the bedsheets). The lesson of this model is that the key economic problem is to consider the optimum product-life of a specific good, taking into consideration the costs of all services related to utilise and finally to dispose the consumed product. The utilisation or function of the product is the real issue, and products have to service optimal utilisation, and not the other way round, that services increase the amount of products.

How such a shift in the production system towards a real servicing economy would affect employment in favour of both low skill and high skill services (and in the regions where people are living) can be demonstrated by the case of extending the product-life of automobiles (Figure 2). In the specific example, the pattern of which can certainly be generalised, the purchasing price of the car after 10 years of use makes up 58 % of the total costs for the consumer; the labour costs concerning maintenance and repairing are with 20 % relatively modest, and so are the 17 % of expenditure for replacement units. After 20 years of use, however, the (same) purchasing price's share of the total costs declined to 32 %, whereas the share of labour costs increased to 33 %, and the share of replacement units to 29 %. After 20 years, the utilisation of the car contains higher expenditure and therefore higher investments in form of local wage work than in form of manufacturing the final product. In addition, the costs for replacement units and consumption material together exceed the purchasing price.

Increasing the life of products by increasing their time of utilisation, therefore, increases the share of services employment in the local region of utilisation. In addition, increasing product-life substitutes energy and raw material by labour (preserving, thereby, the natural environment), whereas replacement units will come partially from dismantled old cars and partially from suppliers which are independent from the automobile producer. The producers of new cars and people employed with those employers are the losers in this game since the turnover of automobile products and corresponding sales fall. It is very likely, however, that the net employment effect for the overall economy is higher since the new services are more labour intensive than the car manufacturing firms which might, in the extreme case, be totally automated.

**Figure 2: Comparison of Energy and Labour Input for Manufacturing and Maintenance of a Middle Class Car (Toyota Corina MK II, 1969) with a Utilisation Period of 10 and 20 Years; Without Gasoline (adapted with small corrections from Stahel 1997, p. 87)**



For the user, the longer utilisation of the car must not be a loss of utility, on the contrary. If the design of the automobiles is such that one can keep track of the latest useful technology by replacing corresponding components. One can even imagine that only new technology which really improves the utility will be stimulated by such customers who – not having to buy new cars – can afford more new components. A further condition, of course, is that the prices of maintenance and repairing services are affordable. This, probably, requires new incentive structures by the tax system, for

instance a differentiation of VAT (value added taxes) and/or a differentiation of employers contribution to the social security system (the so-called non-wage labour costs) in favour of services. From this point of view, the proposal by the European Commission to differentiate VAT in favour of service employment makes much sense (Europäische Kommission 1999). In addition, the regulation of high quality standards aiming at extending the product-life would enhance high quality services or the content of services in the products. A case of such "forward regulation" would be the obligation of car producers to take back the cars after utilisation. Finally, more and more specialised services are to be expected which is a case for deregulating any market entry barrier through occupational membership rules and replacing such rules by professional standards supervised by a licence system.

Such a new strategy would replace consumers by *prosumers* (Alvin Toffler) who buy utility systems and not individual goods (e.g. leasing transport facilities instead of buying cars which are to 95 % of the time not used), and it would replace producers of goods by the managers of utility systems. The new service economy is a complex production system in which supply and demand are not strictly separable as traditional economics supposes; in such a system, the distinction between manufacturing and services becomes more and more blurred.<sup>1</sup> The new service economy aims at providing results or an economic value defined in terms of actual utilisation. From the "production side", this includes various inputs (maintenance, counselling, repairing, restructuring) during the time of utilisation plus finally the prospective costs of waste management related to the product, and from the "consumption side" this involves contributions by the consumers themselves as part of the production system. Product managers inevitably encounter the situation in which they need the active collaboration of the users who condition the possibilities of generating usable results. The user or consumer thus becomes her/himself a condition for making the "production" work (Giarini and Stahel 1989:94).

Since the contribution of the 'prosumer' is usually an activity or a work which cannot be monetarised, the distinction between paid work ('Lohnarbeit' or labour) and unpaid work ('Aktivität' or work in the narrow sense) gets also blurred. In any case, the new service economy requires the explicit articulation of the interface between the labour market and the non-monetarised world of work. Paid work (services) for child care, for instance, will have to compete with unpaid (services) for child care, and the choice between both types of 'work' is not based on comparing prices with shadow prices but according to a more complex procedure of evaluation. This procedure

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<sup>1</sup> This is also one of the main conclusions from many sophisticated comparative empirical studies, for instance by Peter W. Daniels (1999).

includes indicators of performance or quality in terms of educational performance and sociability as well as valuing the emotional rewards. The outcome of such procedures, as we know, might be a combination of both types of providing child care depending on culture and budget constraints. The value of health services, to give another example, cannot be determined by the consumption of drugs or by the salaries of physicians, but in terms of the level of health achieved for a given population or individual; the same holds true for educational services. Whereas during the industrial period the value of products could be identified essentially with the costs involved in producing them (material, wages, capital), the notion of value in the service economy is shifting towards the evaluation of costs incurred with reference to obtained results in utilisation (Giarini and Stahel 1989: 33).

In the extreme case, the price of the product might even become zero or only symbolic like the case of the present days in Germany in which high quality computers are offered for only one DM, however related with buying a whole package of services for the use of Internet or specific software. Or in Sweden, mobile phones may cost only a crown but are coupled to a telephone subscription. In a way, one can interpret this *product-service-chain* as a form of credit market in which one receives the product as credit and pays later for the related services (or immediate utilities).<sup>2</sup> Where high capital costs are involved, *leasing* is one appropriate form of buying utilities, and *product-sharing* (like car-sharing or vacancy-home sharing) another. In both cases, various services are involved which are not required in a simple product-consumer chain: organisation, maintenance, a more complex form of financing and insurance, contract management. Functioning product-service-chains have a job creation potential, because products are to some extent substituted by services which – normally – are more labour intensive than the products.

Thus, the term "services" means, finally, performance in real periods of times whose value over the time is uncertain and has to be determined by probabilities. If this is accepted, a theoretical framework of reference based on the notion of risk and uncertainty is required, and policy interventions or institutions suitably adjusted to the new service economy will have to consider the insights of modern risk management or insurance policy. If not products but service packages or utilities over time are purchased, it is clear that conflicts are arising about the right value and the need to insure against the risks that the service is not delivered as expected. Since the new service economy implies also increasing horizontal complexity (interaction networks), service production and delivery systems become more vulnerable to small errors,

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<sup>2</sup> I owe this idea to Dominique Anxo and Donald Storrie.

unknown influences from outside or even criminal attacks. This explains the rocketing rise of various insurance and counselling services. As we know from the history, innovation in risk management was always extremely important for economic development.<sup>3</sup>

To sum up, increasing the job creation potential of services requires, first of all, an emphasis on changing the *framework conditions* in favour of immediate utilities (functions or results) instead of products with potential utilities. Such a switch increases the consumer's sovereignty but also the consumer's responsibility in participating in the valuing process; very often it is only this interaction between the consumer and the producer which brings forward the decisive value added of the service involved. Behavioural customs or transaction costs, of course, will slow or – in some areas – even prevent such a transition from consumers to 'prosumers'. However, as there is no "free lunch", there is also no "free utility". Policy can only set the right incentive structures. But there are – as I have tried to demonstrate – still many untapped possibilities in this respect.

So far, I have argued on the basis of Baumol's cost-disease which means that important productivity gains are not possible for most of the labour intensive services. Thus, if the content of such services in products increases, the price of the product may become prohibitive and therefore not marketable. The switch to utility systems was a strategy to overcome such a stalemate. However, at a closer look, more services than conventional economics imagines are prone or suitable to productivity gains. And as shown in another contribution (Dathe and Schmid 2000), interaction between knowledge intensive manufacturing and knowledge intensive services ("service-industry-districts") explains much of the divergence in regional employment performance. In the following, I will reconsider Baumol's cost disease in his own favoured field, in the area of art services, a case however, which can be generalised beyond this field.<sup>4</sup>

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<sup>3</sup> For an illuminative and extremely well written story about risk management in history see Bernstein 1996.

<sup>4</sup> The following chapter has been inspired by Frank and Cook 1995, Menger and Ginsburgh 1996, and especially by Tiongson 1997 who reviewed some of the recent literature on Baumol's cost disease in the economics of art. For the labour market of artists and journalists in Germany see Haak and Schmid 1999; for an excellent monography on the economics of culture (with special emphasis on France) see Benhamou 1996.

### 3. Repealing the Cost-Disease through Service-Product-Chains

For Baumol, productivity gains have created ways to reduce the labour needed to produce a car, but no one has yet devised ways of reducing the work-hours needed to perform a 45-minute Schubert quartet (Baumol and Bowen 1993 [1966]: 164). Baumol's "somber conclusions" are clear: The arts cannot match the productivity gains of the economy as a whole. Since the musicians performing this nice quartet or other pieces ask for wage increases related to the overall productivity, a chronic gap between the costs of performing organisations and their income is created. Either art disappears slowly or subsidies, tax exemptions or other incentives have to fill the productivity gap. Apart from this cost disease, Baumol cites the social benefits (especially in form of positive externalities) as argument for subsidising the arts. Since education, child or health care are also prone to the same cost disease, large areas of human services require continuous public support in one way or the other.

The logic of this argument is unassailable, and it certainly holds still true for a substantial part of human services. However the assumptions needs both empirical and theoretical re-examination.<sup>5</sup> David Throsby (1994) reviewed empirical studies finding lower wage increases (than overall productivity increases), changes in the repertoire (which requires fewer players or low copyright fees), changes in the organisation of performing (greater concert halls), increasing demand (income elasticity in favour of services), and – finally – donations as mechanisms for increasing productivity or overcoming the cost disease. More importantly, technology, specifically the development of mass media, rendered the private good of orchestra music into a potential public good which is nonrival in consumption at various levels: as live performances, as broadcasted performances, and as recorded performances. When a 45-minute Schubert quartet is played, (almost) no additional production cost is incurred by additional listeners (Tiongson 1997: 119). Although Baumol and Bowen acknowledged these possibilities already in their classical book on the economics of art, they underestimated their impact.

Apart from the forementioned possibilities of productivity increases, the cost disease can be overcome specifically through *service-product-chains* in which the one-time performance induces a chain of other services or products which again feed back to rise reputation and demand. Broadcasting and recording may function like advertising, making an orchestra more prestigious to consume the orchestra's products in the

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<sup>5</sup> For a systematic critic of the Baumol-model see Tronti, Sestini and Toma 2000.

process. In addition, merchandising art activities may provide substantial additional income, for example from Broadway shirts, posters, and other souvenirs. Christo's art of packaging is a clear model for such service-product-chains where the manufactured products at the end pay the performance. Because merchandising activities benefit from advancements in the manufacturing sector, this suggests other, more complex relationships between the arts and the rest of the economy. The economy uses more and more the arts, as the arts are using the economy. Technology may facilitate productivity gains in both the manufacturing sector and the performing arts, albeit in different, and at times interconnected, ways (Tiongson 1997: 120). Symphony orchestras or theatres can develop into multiproduct nonprofit enterprises with performances varying in content, audience, composition, location, and number of performances; or they can develop "strategic alliances" with commercial enterprises.

The logic of service-product-chains is not only restricted to the sector of arts. The digital revolution opens many possibilities to transform originally expensive services later on into standardised cheap products. The sector of *education* is a good example in which learning programmes (software) replace the immediate act of teaching, or at least part of this face-to-face service. The genuine service act of teaching can be specialised and be relieved from routine tasks. Like the product-services-chain discussed in the first section, the service-product-chain can open a symbiotic relationship with overall higher productivity plus increased employment if new markets are opened by this way (for instance professional training services in computer aided design, training in multimedia presentation). Public provision or publicly supported provision of the required communication networks (information high-ways, computing facilities in schools etc.) are crucial to develop such potential new markets.

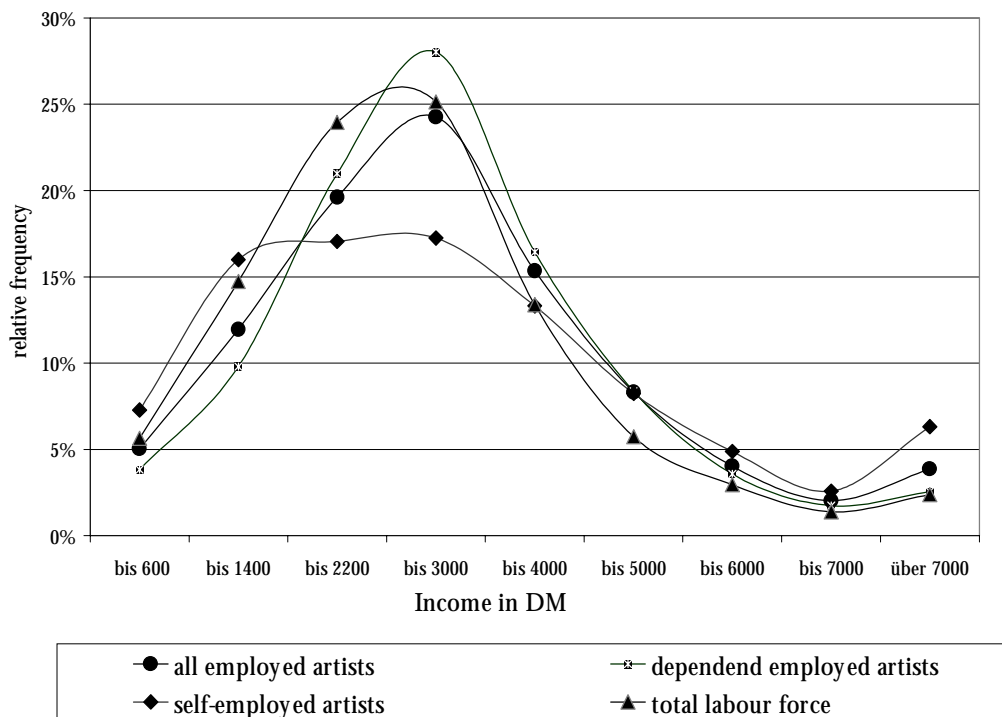
Although service-product-chains are flourishing and open probably still untapped possibilities, the fact cannot be contested that the majority of artists or artist-like professions face lower income or at least much more volatile income streams than the average wage earners of comparable (formal) skill levels.<sup>6</sup> This is largely due to the "winner-take-all" quality of these markets which has been studied perceptively by Frank and Cook (1995). Menger and Gurgand (1996) provide additional arguments for the structural surplus of labour in the artist labour markets which are responsible for low and volatile wages for a majority of artists. Haak and Schmid (1999) show the dual structure of income distribution among self-employed artists in Germany – a relatively high percentage in the bottom income range, and a relatively high percentage in the upper range, but a flat curve around median income levels instead of a "normal

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<sup>6</sup> For the two different but functionally equivalent models of artist labour markets in the UK and France see Benhamou and Gazier 2000.

distribution". The income structure of dependent artist does not differ much from that of the total active labour force, however, considering the above average education level of artists, one would expect a higher average income (Figure 3).

**Figure 3: Monthly Net Income of Artists Compared to All Employees**



Source: Microcensus 1995; own calculations (Haak and Schmid 1999).

How do (self-employed) artists solve the problem of high income risks involved in their kind of service activities? Are there comparable patterns in other professions? Can we learn from these institutions of risk management if those kinds of service jobs are further increasing or even intended to be fostered? An interesting model is the French special unemployment insurance system for artists as described and explained in Menger and Gurgand (1996). This system provides relatively generous benefits during the intermittent periods of non-engagements, a system heavily subsidised by the state. Since its introduction during the seventies, the number of artists as well as the number of (short) engagements increased due to serious moral hazard problems. Although one could legitimise the subsidies, along the line of Baumol, with the argument of cost disease and with positive social externalities related with an increasing number of artists, it seems unlikely that such a system can survive.<sup>7</sup>

<sup>7</sup> See also Benhamou and Gazier (2000) for the most recent development of this system.



The German social security system for artists and journalists, introduced in 1982 after long and heavy battles<sup>8</sup>, is far from perfect but provides an interesting innovative feature which could serve as a model for larger welfare reforms. Self-employed artists are dealt with like dependent employees in as far they were obliged to pay contributions into the "art social security fund" (Künstlersozialkasse", KSK) which should cover 50 % of the expenditure. The innovation is, that the other 25 % are subsidised by the state<sup>9</sup>, whereas 25 % come from a special tax of art utility providers, merchants or publishers; for instance art galleries have to pay 4 % of the honorariums or the sales to the KSK. The KSK covers health risks and pensions but not unemployment. It is a true public-private mix, and the implicit participation of the (art) consumer takes into account the asymmetry of "winner-take-all markets". As more and more jobs become like artists or journalists (Haak and Schmid 1999), an extension and continuous reform of this system seems to be recommendable.

There is, finally, another aspect of risk management in the artist labour market which is closely related to the uncertainty of the utility value which we considered in the first paragraph. Artist or writers in the service-product chain produce prototypes whose utility for consumers is (by definition of the art as an institution specialised in innovation) not known and valued consecutively by market processes. The common private solution to this uncertainty are authors' property rights and royalties that guarantee income or profit sharing depending on the "result" of the valuing process.<sup>10</sup> How effective this "future market" is working seems to be not well studied so far. It seems, however, plausible, that equity and fairness require regulatory provisions that compensate for the often structurally weak position of individual artists or writers or professions in a comparable situation. Successful artists are able to work with and to pay for professional agents, a precondition which many young artists, beginners or not yet successful artists are not fulfilling. Trade unions may find here an untapped area for collective support and specialised advice or services. However, since artists provide services or produce products which often have public goods' character, apart from the engagement in social security (see above) public provision of infrastructure and (regulated) obligatory risk sharing systems seem to be required to mobilise the job creation potential in artist and artist like labour or product markets.<sup>11</sup>

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<sup>8</sup> In which the recent Nobel price winner Günter Grass played an active role in pushing through the new system.

<sup>9</sup> The present government intends to reduce this share to 20 % due to heavy deficits of the public budget, but also to prevent further increases of members in the art social security fund which, by the way, holds also for journalists or writers.

<sup>10</sup> See on this point also Benhamou and Gazier 2000.

<sup>11</sup> Here is, for pondering, a *structural equivalent problem*: Why should firms or individuals invest in the production of knowledge (or art) if they cannot exclude others from the final product? The American economists Romer, Hyde and Solow, basing their argument on experiences in Silicon Valley, argue

## 4. From Personal Transfers to Job Services

As we know from modern job search theory, social networks play a crucial role in adjusting to structural changes in the labour market, especially in finding a new job (Anxo and Storrie 1999). The policy consequences of this insight have not yet been rigorously taken up. Although generous cash benefits can be regarded as financial precondition to maintain networks (membership in clubs, attending social events with friends etc.), a more proactive orientation towards establishing or supporting existing networks can be taken. It is almost by definition true that "social networks" cannot be created artificially. "Job search courses" and the related job services, therefore, are often rightly ridiculed. However, if one regards "social networks" as a metaphor for the existence of "experience knowledge" and "access of relevant information", there are several ways to exploit this insight in a more systematic way. Some of this "experience knowledge", often not known by the local placement officers, can be stimulated by arranging suitable context conditions which usually involve professional services related to job search. The activating of cash benefits into job (search) services makes also sense from the knowledge that service jobs, especially new services related to the information sector, are often ill defined and changing fast. Thus, the importance of experience knowledge is itself related to the service economy and its development.

In the following I will briefly sketch some examples and good practices related to the basic concept of stimulating job services as a kind of "double strategy": to increase employment in a relevant and increasing segment of the labour market which enhances itself the efficient job search or job mobility. I will thereby apply a very wide (and contestable) definition of "job services" which ranges from "self-servicing" through accepting low-wage jobs topped up with a kind of negative income tax up to job services provided by commercial time work agencies.

(1) Since most jobs are related with a "social network" (co-workers, clients, a new neighbourhood), *widening the range of acceptable jobs* can be counted as "job service", because accepting a job sets in motion a "self-servicing" activity to collect relevant experience knowledge. The acceptance can be blocked by high reservation wages, lack of job related skills or the loss of cash benefits. In any case, the possibility of transforming the cash benefit into a voucher to be used as wage (cost) subsidy or, if such an entitlement is not at stake, by compensating the deficits of earning capacity by a

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for deregulation in the sense of legally not supporting property right suits related to knowledge, and for generous public support in various ways, among others fostering private art sponsoring through tax exemptions or – this provides a bridge to the next part – by extending the earned income tax system (Hyde 1998).

kind of negative income tax (like the Earned Income Tax in the U.S.) would increase the range of choices of individuals without a job and certainly increase their *self-reliance*.

The institutional details are important but cannot be discussed here in detail. In general, however, it is obvious that such a scheme cannot be universal to avoid market distortions. Compensation of earning capacities seems only legitimate if connected with socially acknowledged (legitimate in terms of values) reasons. Candidates for such targeted income compensation schemes are people with care responsibilities for dependants (relevant especially for men and women with small children) or persons with work disabilities. In some cases, this kind of "job service" might involve the complementary creation of "public jobs" to provide the opportunity of choices. However, because such jobs often provide a narrow or stagnant "social network", such a "secondary labour market" should be kept very restricted. Another, more relevant case, is the provision of public infrastructure (day care for children etc.). Such a system will not come cheap. But, as Bob Solow (1998) persuasively elaborated, each person taken from the welfare payroll increases at the same time *altruism*, which mean the willingness to pay for such a system. Self-reliance and altruism are mutually reinforcing.

(2) *Placement services* by the public employment service (PES) and/or by private employment services (PRES) are acknowledged in the evaluation literature to be the most cost-efficient measure of active labour market policy (Walwei 1996). Training measures or wage subsidies turned out to be only effective under specific circumstances, very often connected with an effective placement service before or after the measure. Thus, to some extent a shift from cash benefit expenditure or from less effective job services to placement services seems to be justified. At present, only between 10 % and 30 % of total hirings in Europe are supported through intervention by PES. In 1995, around 185 billion ECU (3.3 % of Union GDP) was spent on income support for the unemployed and active labour market programmes; ranging from counselling and brokerage to training and subsidised employment. One third of this sum (65 billion ECU) went on active measures, which to a large degree organised through PESs. The share of national GDP spent on active labour market programmes ranged from 0.3 % in Austria to 3 % in Sweden. Across the Member States expenditure on PESs' staff and equipment ranges from less than 0.10 % to around 0.25 % of GDP. This range reflects individual Member States' expenditure on active and passive labour market programmes and the part played by PESs in implementing these programmes. Excluding the administration of benefits and programmes, expenditure on PESs is estimated to be below 5 % of total expenditure on active and passive policies. This is a

fairly modest investment which can bring a substantial return in terms of increased market efficiency and of savings on unemployment benefits (European Commission 1998). An increase of this kind of job services – under the condition of a modernised PES (through professionalisation, decentralisation and co-operation with private professionals) – would certainly pay-off. For Germany, it had been calculated that reducing the average duration of unemployment (presently at a level of almost 8 months) by one month through intensification of placement services would save around 11 billion Mark expenditure on cash benefits and related transfers (Schmid et al. 2000).<sup>12</sup> Research on determinants of mismatch shows that it is especially services which are prone to long unfilled vacancies.

(3) There is an untapped potential for *initiatives based within local communities* which may aid in the formation of networks. The local communities would also probably be more capable than the PES to mobilise and to interact with non-governmental organisations (NGO's). City employment contracts, local or regional employment pacts, organising local job markets have turned out to establish quite efficient networks for various employment initiatives. It is self-explaining, that the implementation of such networks are job-intensive, and therefore not a cheap solution. However, since functioning networks have long-term impacts, such investments usually pay-off.<sup>13</sup>

(4) *Buying professional placement and training services* is another untapped source of transferring cash benefits into job services. One strategy is the *internalisation of placement services into firms* and using benefit entitlements of potential unemployed as co-financing measures for retraining or wage subsidies related to a new job. For instance outplacement services in case of large-scale restructuring or bankruptcy and job rotation are more and more used as efficient instruments, and they create even slowly a market for commercial services in this field. Another strategy is *bundling interrelated services* to tap spillovers or economies of scope: PES contracting with professional private training centres can include placement into jobs as an explicit element of the service package and thus stimulate more market oriented training courses. The establishment and support of training and education networks between firms which have alone not the capacities would also be a new form of job services.

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<sup>12</sup> It would, of course, be nice to have harder facts such as some kind of "elasticity measure" showing how much expenditure on job services for placement activities is necessary to reduce cash benefits for unemployed by one percent. I do not know such figures or estimates, therefore my argument is (I guess, however, reasonably) speculative and suggestive.

<sup>13</sup> For the overall philosophy of the "Network Society" see Castells 1996; for theoretical backgrounds and examples of regional employment policy see Sabel 1989; for the theory and practice of policy networks see Marin and Mayntz 1991; the importance of the network strategy for rural areas is demonstrated in Van Depoele 2000.

Availability of local job services is important especially for young couples bound at home for family responsibilities. In the same category belongs the purchasing of rehabilitation services and job maintenance services for injured persons, chronically ill persons, and elderly people with reduced work capacities. Also Job-pools and the co-operation with time work agencies are promising job services which can substitute cash benefits. Experience in the Netherlands and Germany shows that between one and two third of time workers find through this way a regular job.<sup>14</sup>

(5) A final case – closely linked with the aspect of uncertainty related to service utilities considered in the second section – is the support of *risk management services* related to job creation. An example is the establishment of networks and specialised business services supporting business start ups for the unemployed. In a comparative research, it has been found that the evaluation of business start ups for mobilising the required capital is much more future (or forward) oriented towards the potential utility of the new business idea in the U.S. than in Germany.<sup>15</sup> In the German system, the evaluation of business start up ideas is much more backward oriented in emphasising the financial securities which the persons or the group applying can guarantee. Mobilising venture capital for business start ups is usually the task of professional intermediaries in the U.S., whereas in Germany banks or saving institutions ('Sparkassen') are taking over this business. Banks apply conventional financing techniques relying on traditional securities (real estate, capital assets). Intermediaries, for instance Community Development Corporations (CDC) rely on the evaluation of the business idea and the underlying management concept. New financing concepts such as "Peer Groups", "Loan Loss Reserve Funds" and "Stepwise Lending" manage a joint risk sharing between lenders and users. This demonstrates again the importance of new institutions of risk management which are at the core for an employment friendly service economy.

## 5. Conclusions

The main lesson from this essay starts from the decisive difference between manufacturing and services: Whereas services provide immediate utilities to known clients, manufactured products provide potential and standardised utilities sold on an anonymous market. If service utilities are standards and quickly consumed like fast food, window cleaning or transporting beer, the valuing of these utilities is also standard and most efficiently organised by the market. The majority of services, however, are

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<sup>14</sup> For the Netherlands see Visser and Hemerijck 1997; for Germany see Rudolph and Schröder 1997.

<sup>15</sup> See Kritikos and Wießner 1999 and U.S. Small Business Administration 1999.

utilities which are hard to measure. Their real value is uncertain, especially if they contain investive elements like health, child care, education, information and research services. The utilities of such services often accumulate in the future, or they realise only after some years or, in the worst case, never. And most importantly, many service utilities often realise only if they are combined with other services or with non-monetary inputs of the consumer or client.<sup>16</sup> So, the problem of these kind of services is how to organise a proper valuing system which takes into account the value of the real outcome or performance which contains high risks and uncertainty, and which takes also into account the often required non-monetary work to tap the potential utility of high quality services. Risk management and risk sharing is the real economic problem of the new service economy. The main thesis of this essay, therefore, is that those societies display successful employment performance which have established effective and efficient risk management systems which are able to evaluate properly contingent and future oriented utilities.

The paper considered three strategies which could – over and above the conventional recommendations – help to enhance a more employment friendly service economy in the European Member States: first the switch from product markets to utility markets (1); second the support of service-product-chains (2), and third the stimulation of job services (3). In the following conclusions, I concentrate on their specific contribution to risk management and to their possible impact on employment.

(1) One strategy of *enhancing utility markets* would be to increase the life-cycle of consumer products such as motor cars, electrical machines in the household and so on. Such a strategy would, as I have demonstrated with the example of our most celebrated consumer product - the automobile - affect employment in favour of both low skill and high skill services, and it would at the same time enhance the regional content of employment and counteract spatial concentrations of production. I have also developed arguments, that such a strategy would also foster technological development which is more consumer friendly; this may open new markets and exportable services for the region. A further condition, of course, is that the prices of the increased service content of products, like maintenance and repairing services, are affordable. This, probably, requires new incentive structures by the tax system, for instance a differentiation of VAT (value added taxes) or a differentiation of employers contribution to the social security system (the so-called non-wage labour costs) in favour of services. From this

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<sup>16</sup> To give an anecdotal example: A pain in the hips can be the starting point of expensive treatments by orthopaedists or surgeons and never be solved, but in a lucky case, it can be treated through an apt correction of the back by a chemo-therapeut and through daily gymnastics of the service consumer, here the 'prosumer'.

point of view, the proposal by the European Commission to differentiate VAT in favour of service employment makes much sense. In addition, the regulation of high quality standards aiming at extending the product-life would enhance high quality services or the content of services in the products. A case of such "forward regulation" would be the obligation of car producers to take back the cars after utilisation. Corresponding regulation might be useful for the lots of electrical machines in private households. Finally, more and more specialised services are to be expected which is a case for deregulating any market entry barrier through occupational membership rules and replacing such rules by professional standards supervised by a licence system.

Another possibility of enhancing utility markets, not discussed here at length, would be the switch from input payment systems to outcome payment systems or – at least – to a proper mix of both. A good example are changes in the payment systems of professors and teachers. We observe more and more complex evaluation systems which try to assess the real utility which teachers or professors are delivering, whereas former systems have mainly relied on input criteria like formal educational status, age, time worked and so on. A further important element of risk management institutions, also not dealt here with explicitly, are wage formation institutions. My hypothesis is that payment systems of the new service economy are outcome or forward oriented, whereas payment systems of industrial societies are basically input and backward oriented. The failure of Germany to gain a lead in the modern service economy has much to do with its former success in manufacturing and with the still central role of manufacturing. The input oriented payment systems of manufacturing still govern to a large extent the service sector where an increasing share of performance oriented payment systems containing risk sharing elements would be necessary.

(2) The second strategy starts from a critic of Baumol's "cost disease" by demonstrating that *service-product-chains* are an important way to repeal this "iron law" of services. Here the principle of risk sharing is the postponement of the "proper" pay of the service delivered and the profit sharing from related and succeeding products. The model of the service-product-chain demonstrated in Baumol's favoured sector, the artist labour market, is applicable to other service sectors, for instance education. The main proper policy response, here again, is not selective intervention but setting the suitable framework conditions for the functioning of such networks, for instance by regulating the complex issue of property rights involved in this issue, legal protection of these rights and the provision of a supportive infrastructure. The same holds true for the reverse case, the product-service-chain in which the basic principle of risk management is crediting future services related with the (cheap) purchase or leasing of the product.

To generalise this point, risk management and related jobs will not be any more secondary services but core activities in the new service economy. Here, not the smooth market exchange of individual products or services is representative, but complex and self-organising provider systems such as "Health Maintenance Organisations" (HMOs in the United States), "Human Resource Management Systems", "House Energy Saving Agencies", "Local Services Agencies" and so on. Thus, the right policy direction to foster corresponding service employment should not be to subsidise single services or products but to endorse the functioning of such complex and self-organising networks (service-product or product-service chains). To give an example: To foster employment in renewable energy systems such as solar techniques, the proper strategy would not be to subsidise the investment in producing new solar cells but to support local networks of counselling and risk management in energy saving, including the co-operation between large scale producers or utility managers and individual 'prosumers'.

Apart from these possibilities, the art sector was also identified as a prototype of increasing income risks related to precarious employment relationships. It is likely that such relationships are spreading more and more to other sectors although there is still need of more precise and longitudinal analyses in this respect. How do (self-employed) artists solve the problem of high income risks involved in their kind of service activities? Are there comparable patterns in other professions? Can we learn from these institutions of risk management if we want to expand those kinds of service jobs? It was argued that the German case of "Künstlersozialversicherung" provides an interesting model of a future oriented "Employment Insurance" (replacing old-fashioned UI-systems) for the systematic inclusion of consumers – the final evaluators of service utilities – in the social security contributions.

(3) The third strategy of switching from cash benefits to in kind benefits, here *job services*, starts from the observation that social networks play a crucial role in adjusting to structural changes in the labour market, especially in finding a new job. The policy consequences of this insight have not yet been rigorously taken up. Although generous cash benefits can be regarded as financial precondition to maintain networks (membership in clubs, going to social events with friends etc.), a more proactive orientation towards establishing or supporting existing networks can be taken. Some of this "experience knowledge", often not known by the local placement officers, can be stimulated by arranging suitable context conditions which usually involve professional services related to job search. The activating of cash benefits into job (search) services makes also sense from the knowledge that service jobs, especially in the new services related to the information sector, are often ill defined and changing fast. Thus, the importance of experience knowledge is itself related to the service economy and its



development. Concrete policy proposals reported in this essay were related to targeted vouchers or earning credits, intensification of placement services, support of local community networks, buying professional placement or training or rehabilitation services, and the support of new risk management services related to job creation - for instance business start ups for unemployed people.

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