Service Economy
as a Threat to Social Sustainability

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Abstract
Economic growth is often linked to service economy. Sustainable economic growth is based upon economic, environmental and social sustainability. Some argue that economic and environmental sustainability has its foundation on social sustainability. By analysing the effects of service economy on society, one can identify potential threats to social sustainability. Theoretical analysis is supported by historical events from around the world focusing on highlighting threats that service economy countries are exposed to. Findings were that while on short term post-industrial economies boost development and sustainability, on long term countries are facing challenges in terms of ageing population, sustainable communities and access to social equity. Furthermore, depending on local policies, in some cases a trade-off is needed among factors in order to reach the highest level of social sustainability.

Keywords: Service Economy, Social Sustainability, Economic Growth, Sustainable Economic Growth, Inequality

1 Introduction
Economic growth is often linked to service economy (Bell, 1973). However, economic growth to remain sustainable is based upon three pillars: economic, environmental and social sustainability (Boyer, Peterson, Arora & Caldwell, 2016). Some argues that service economy
leads to a prosperity fallacy, as the economical sustainability and strength of the growth is questionable (Solberg Søilen, 2012). In previous literature, little attention has been paid to the social aspect of sustainability, however, some found that in fact the matter of social sustainability is in core importance of sustainable development (Khan, 2016; Boyer, Peterson, Arora & Caldwell, 2016). According to Boyer, Peterson, Arora & Caldwell (2016), both economic and environmental sustainability are in fact based upon social sustainability. Therefore, factors that might harm social sustainability can consequently negatively affect economic and environmental sustainability, thus burden sustainable economic growth.

The purpose of the paper is to investigate how economic growth rooting from service economy might affect various social aspects that have an effect on social sustainability. Identified threats are supported by cases that happened worldwide. It has to be stated that not all service economies show the same patterns. This paper is focusing on the potential threats that social sustainability has to face.

In order to answer the purpose of this paper, a profound understanding of service economy and social sustainability is crucial. Therefore, a theoretical chapter provides a comprehensive overview of both aspects. This part is followed by the analysis that connects and discusses the two aspects, while bringing in real-life happenings to support argumentation. Lastly, a conclusion and further research recommendations will highlight the authors’ contribution.

2 Theory

2.1 Service Economy

Economic progress is in relation to shifts in labour, namely from agriculture to production, and from production to commerce and services (Clark, 1940). Bell (1973), who was investigating the electronic industry in the early ‘70s, found that technological innovation requires both science and theoretical knowledge, thus came to the assumption that post-industrial economies would have a diminished blue collar social class and an overall elevated skill level in the employment structure. However, Bell neglects the potential rise of unskilled working class. In contrast to Bell’s assumptions, Baumol’s (1967) model of unbalanced growth presents a more pessimistic approach to service economy. He categorizes economic activities into two groups: technologically progressive such as manufacturing and agriculture and non-progressive such as services, where labour productivity is close to constant over time. As Bernardi & Garrido (2008) conclude, one possible scenario of this model is if service prices raise simultaneously with manufacturing prices, service prices can eventually raise to a level that wages in the sector are no longer representative to productivity (as activities in the service sector are non-progressive), thus
potentially leading to the decrease of service employment or high levels of unemployment (Bernardi & Garrido, 2008). Therefore, the model of unbalanced growth concludes that service economy countries have to either increase low-wage employment or have to face high level of unemployment (Baumol, 1967).

According to Švarc (2016), “[t]his evolution is driven by mutually supportive and co-evolutionary processes since well before the beginning of the 21st century, recognized as deindustrialization, servitization, digitalization, financialization and globalization of economies resulting in domination of the technoeconomic model based on low labour intensity in industry and an increasing number of service-type occupations, which do not follow the same canons as classical professionalism” (p.393).

Gatta, Boushey & Appelbaum (2009) underline that while knowledge-intensive, highly-skilled services are needed (e.g. in the financial or health sectors), the service sector primary employees low-wage, low-skill people for fulfilling monotonous positions, therefore, leading to deskilling the society.

The role of women in economy changed in the last decades (Goldin, 2006). Whereas women did not have the same educational standards decades ago, they can have now the same educational level as men. Additionally, the age when people marry (for the first time) just like life expectancy increases. In contrast, the size of families decreases and also the time women spend on childcare and household. Despite this significant development, it has to be stated, that the gap between men and women regarding the two aspects, child caring and making household, are still existent, although it diminishes immensely. (Barnett & Hyde, 2001)

Compared to the manufacturing industry, jobs in service economy were in general seen as more suitable for women as they provide a more secure and cleaner conditions of work (Goldin, 2006).

It can be observed that the migration flow of women is increasing in addition to “the increasing selectivity of migration towards the highly skilled, which in turn has given rise to renewed concerns about the “brain drain” consequences for the sending countries.” (Dumont, Martin, & Spielvogel, 2007, p. 3). Moretti (2010) found that service economies, especially knowledge economies, where high-skill labour is needed, have a tendency of boosting geographical agglomeration. According to Desmet and Fafchamps (2005), larger cities that specialize in knowledge-intensive services are expected to grow as they attract both skilled and unskilled labour from smaller communities. The prosperity of cities is highly dependent on whether they manage to attract workers or not (Moretti, 2010).
2.2 Social Sustainability

The matter of social sustainability has been widely discussed, however, there is no clear definition what aspects the term clearly includes (Dempsey, Bramley, Power & Brown, 2011). Ahmed and McQuaid (2005) defines the term as it is the management of social resources such as people (and their skills and abilities), institutions and social values. The concept of social sustainability can be analysed in various different ways. Spangenberg and Omann (2006) approached the term from three different aspects: functional (rural, urban, community sustainability), capital (economic thinking) and system (each domain is capable of reproduction).

As the focus of the concept has changed over the last 20 years (Glasson and Wood, 2009), Colantonio and Dixon (2011) gathered a set of features that affect social sustainability and categorized them into two groups: traditional and emerging social sustainability key themes.

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Emerging</th>
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<tr>
<td>Basic needs, including housing and environmental health</td>
<td>Demographic change (ageing, migration and mobility)</td>
</tr>
<tr>
<td>Education and skills</td>
<td>Social mixing and cohesion</td>
</tr>
<tr>
<td>Employment</td>
<td>Identity, sense of place and culture</td>
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<tr>
<td>Equity</td>
<td>Empowerment, participation and access</td>
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<td>Human rights and gender issues</td>
<td>Health and Safety</td>
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<td>Poverty</td>
<td>Social capital</td>
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<td>Social justice</td>
<td>Well-being, happiness and quality of life</td>
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</table>

Fig. 1.: Traditional and Emerging Social Sustainability Key Themes (Colantonio and Dixon, 2011)

Among the mentioned, the importance of equity is underlined as an utmost contributor to social sustainability as in societies where inequality is lower, life expectancy is longer, homicide and crime rates are lower, civic engagement is higher as well as the economy is stronger (GVRD, 2004a).

The social aspect of equity covers social justice, fair distribution of resources and equality of conditions (Burton, 2000), and aims for satisfying the need of both present and future generations (Holden and Linnerud, 2007), to reduce social inequalities that might occur. ODPM (2006) defines sustainable communities as ‘places where people want to live and work, now and in the future. They meet the diverse needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life. They are safe and inclusive, well planned, built and run, and offer equality of opportunity and good services for
all’ (p. 12). Forrest and Kearns (2001) meanwhile emphasizes the importance of a stable group of residents within a sustainable community that feel attached to the place where they live.

3 Method
Analysis was conducted by drawing connections between dynamic service economy and factors which are affecting social sustainability by identifying potential threats. Thereby, secondary data was gathered from both scientific articles as well as statistical data from governmental agencies. The latter shall support country specific examples, which are included in the analysis in order to support connections drawn between theory and reality.

Limitations are that despite analysing threats of service economy and giving supporting examples, countries react differently to service economy development and matter various way. Furthermore, there is no clear definition on social sustainability; existing theory is partly overlapping but in total not complete. To overcome this issue, the authors of this paper decided on adopting traditional and emerging factors that affect social sustainability by Colantonio and Dixon (2011).

4 Discussion
While both equity and social equality highly influence social sustainability (GVRD, 2004a; Colantonio and Dixon, 2011), according to Baumol (1967), service economy countries have to tradeoff between increasing low-wage employment or facing high level of unemployment, thus harming social sustainability. This tradeoff can be observed in many cases around the world. In the USA, in 2006 approximately 24% of the working people earned less than $8.70 an hour (Appelbaum, Bernhardt, Murnane, 2006). In comparison to America, many European countries such as Spain, Greece or Cyprus or Italy, are facing a high level of unemployment (EuroStat, 2017).

By comparing the American employment in the three sectors (agricultural, manufacturing and service) and geography, Lopez-Cermeño (2015) analyses the disproportional allocation of labour in the USA and compares major cities, that drive the country’s economy, and rural areas. Desmet and Fafchamps (2005) also emphasize that workers in minor cities are leaving their homes due to “fear of becoming part of the rural US”. Furthermore, they also draw attention to the growing inequality among different states (Desmet and Fafchamps, 2005). This pattern of demographical changes can also be observed in other countries worldwide. From 1994 to 2005, Spain had a net employment creation of around 7 million people, which main share belonged to the service sector (Bernadi & Garrido, 2008). During this period of
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time 4 million, mainly unskilled, immigrants arrived to the country changing the demographics of Spain (Bernadi & Garrido, 2008). Another case might be Sweden’s capital, Stockholm, where 54% of all employees in finance, producer services, IT services, media and amenities were employed in the city’s region in 2002 (Hermelin, 2007).

While in one country service economy seems sustainable, other economies might be harmed due to a high level of emigration that results from the attractiveness of the growth of a service sector in the destination country. This trend can be explained by Moretti (2010), who found that service economies promote geographical agglomeration and the wealth of a city is dependent on what degree it manages to attract labour. Western Europe is still experiencing a high level of immigration, meanwhile Central-Eastern Europe is facing the consequences of the opposite, emigration (Favell, 2008). Even though, Eastern European countries have post-industrialized economies, they cannot attract labour to the same extent as the more developed Western economies. However, these demographic changes challenge influential factors on social sustainability, namely sustainable communities. Both Forrest and Kearns (2001) and ODPM (2006) argue that sustainable communities have a stable group of residents who want to live and work there now and in the future. As the mentioned phenomenon promotes high-skilled labour (such as doctors and nurses) to relocate from smaller cities to major ones badly affects social equity. Both Colantonio and Dixon (2011) and Burton (2000) identify equal access to resources and social equality as a contributor to social sustainability. However, the described relocation of labour badly affects the mentioned factors. Therefore, it can be concluded that the demographical changes caused by service economy can harm social sustainability in various manners.

Jackson (1991), who investigated all American cities with a population over 25,000 in 1970-1980, found that the country’s post-industrial development pattern resulted in increased crime rates and more youth gangs. This phenomenon can be traced back to the technological advancements that diminished the comparative advantages of industrial cities due to their location and thus limited the opportunities of unskilled labour (Jackson, 1991). The employment challenge of unskilled labour indicates inequality in income compared to other classes, and this contributes to higher crime rates (GVRD, 2004a). As Colantonio and Dixon (2011) explains, safety is an emerging factor influencing social sustainability.

The service economy has managed to help lifting women into the labour market, thus raising educational standards for them (Barnett & Hyde, 2001). The development of women in work becomes visible also in the United States where “the employment rate of prime age women has more than doubled from about 35% in 1945 to 77% at the end of the century” (Ngai & Petrongolo, 2013, p. 2). Even though, at early stages it contributed to social sustainability as
reducing gender issues is an influential factor social sustainability (Colantonio and Dixon, 2011), this change has raised other social issues. Barnett & Hyde (2001) found that as a result of this shift in the labour market that expected age of marriage is delayed, family sizes is decreased. This demographical changes challenge social sustainability as they lead to ageing population. While some economies can overcome this issue by supporting immigration or promoting having children, other countries, where high number of people are leaving from, need to face extreme social issues.

There are besides also countries such as China which is rather growing in population size than declining for example; in particular “[f]rom 1978 to 2010, China's urban population increased from 170 million to 670 million and its share of the total population rose from 18% to 50%.” (He, Chen, Mao & Zhou, 2016). But as in Western European countries for example the birth rate is declining, whereas the life expectancy increases (Barnett & Hyde, 2001), the society can be considered as aging. The fewer young people have to pay the pension for the older people. This also entails the consequences, that the retirement age gets older; people have to work longer in order to procure money and thus carry for the retired generation. These conditions lead to a rather unsatisfied situation.

This situation is becoming more and more present and makes the trade-off of service economy visible. Although it enables an economy to grow, it also involves disadvantages such as the above mentioned.

5 Conclusion

Service economy has provided people around the world with wider choices of services and employment opportunities. It also helped to decrease gender gaps as well as helped people towards a higher degree of mobility, however, it has also raised certain issues. Social sustainability is a very sensitive issue exposed to various factors. While service economy did positively affect factors that can contribute to social sustainability, the authors believe that it proposes various threats to social sustainability, thus sustainable economic growth.

The increased mobility that was enabled by service economy proposes further threats to social sustainability not only in the destination but also in the departure area or country. In case of inland migration, rural areas suffer the consequences of service economy, while in international migration it is the departure country.

The phenomenon of brain drain, the emigration of skilled labour, can harm various factors influencing social sustainability such as equal access to resources and social equity. Additionally, the need of integration of foreigners is crucial in order to reach a sustainable society. This immigration requires time and effort of both, the foreigners and the natives.
The threats proposed by service economy are highly dependent on local policies. Without the support of local policies, matters such as ageing population cannot be overcome.

6 Future research

Due to the fact, that economies are constantly changing and the ongoing research on factors, which influence social sustainability, is needed. In particular, research about the impact of gender development in economies. The ongoing development of the role of women and thus its impact on service economy in connection to the aging of societies requires further research.

Furthermore, recent changes in the immigration rate of several European countries will probably have a big impact on the upcoming development of affected countries’ economy - including both the destination and the departure country. The degree of this change and its influence on the certain economies has to be investigated.

Lastly, industrial economies, such as China, is most likely to become a service economy in the long-run. Conducted researched on countries, which will go through this transformation, may become important as influencing factors, such as population size, differ in comparison to European countries. Furthermore, external factors such as politics, culture, climate and geographical location for example may have a different influence on the transforming economies as they have in the western countries.

7 References


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