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THE SERVICE ECONOMY FALLACY

(THE FALLACY OF THE SERVICE ECONOMY)

– A MATERIALIST PERSPECTIVE

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THE SERVICE ECONOMY FALLACY (The Fallacy of the Service Economy) – A MATERIALIST PERSPECTIVE

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ABSTRACT: The article, which is based in the tradition of Critical Theory, presents a number of reasons for preserving a strong production economy given that the aim of the nation state is to work for improved competitive advantage. It is also an attempt to show why a majority of Western countries have defended the transformation from a predominant production economy to a service economy by explaining the shift as a result of class interests, using New Class theory. It argues for why a materialist perspective in economic theory is relevant today.

INTRODUCTION

The service economy refers to the increased importance of the service sector in industrialized economies. The fallacy of the service economy is explained by an excessive belief in a post-industrial solution for economic growth whereby production is largely replaced by service. It is not denying the economic importance of the service economy (Greenhalgh and Gregory, 2001), like freeing managerial capacity to focus on core and entrepreneurial activities (Wirtz and Ehret, 2009), or the existence of different value configuration logics (Sweet, 2001), or different useful divisions of services (Jansson, 2010), nor the change of importance within the service sector (Kushida and Zysman, 2009). Sweet defines four enduring value configuration logics; industrial, service/information, knowledge and web/network macroeconomic paradigms. Jansson divides the service economy into five areas; distribution of goods, housing, business-to-business services, user-financed consumer services and tax-financed consumer services. Out of these areas tax-financed consumer services account for the largest part. Kushida and Zysman (2009) argue that the transformation of service activities towards more IT is more important than the total scale of the service sector. It is the criticism (or critique) against the belief that production can largely be replaced by services that are here referred to as “myth” or “cult”. This criticism started with Baumol (1967) and has continued with scholars such as Gershuny (1977). It is the critique against the belief that the service economy is so fundamentally different that it cannot be understood with the use of existing economic ideas, suggesting there is a need for new ideas, yet undiscovered, to explain the new economy, or “the new service economy” (Giarnini and Liedtke, 2001). The idea that developed countries must inevitably move toward a post-industrial or service economy related to a “knowledge economy” is one of the most popular beliefs concerning economic development. It is also a dangerous misconception because the "service economy" is nothing other than a “statistical artifact” (Kaske, 1991) or “statistical illusion” (Jansson, 2009). The term “knowledge economy” has been twisted after it was first popularized by Peter Drucker (1968) to fit new political realities.

The result of this strategic shift from production to service is now clear for all to see. It has led to a weaker competitive position for the majority of Western countries vis-à-vis the new Asian economic powers, first of all China. It is suggested here that the major reason for the failure is linked to the growing interests of two institutions in the Western world in the second half of the 20th century: the public sector and the financial industry. More worryingly, this is a development supported and propagated in main stream economic theory. By altering the Gross Domestic Product (GDP) measure the public sector is able to redefine economic

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growth to include its own contribution as something which is beneficiary to society. With the support of modern financial theory the financial industry is able to enrich itself on the cost of others, by making debt financing more available, whereby organizations and individuals have become entrapped, in the end unable to make necessary investments for the economy to continue to grow. The same economic theories are used to convince the heads of the Central Banks to give loans more easily, leading to more rapid boom and bust cycles.

In an historical perspective this strategic change from production to service is a serious break not only with previous practices of political and economic rule, but with our previous understanding of what makes nations prosper. The Spanish empire around the 15th century, the Dutch of the 17th, the British of the 18th, or the Japanese or Chinese of the 20th and 21st century all built their wealth mostly on trade and the accumulation of trade surpluses. In fact, this idea of what it takes to gain a competitive advantage among nations is so well documented in economic theory (from Adam Smith and onwards) that it must be considered common knowledge. The deviation from this notion of what it takes to make a nation prosper must therefore be considered one of modern history's great intellectual misconceptions.

In the US, this change in ideas occurred in the 1970s, at the beginning of that country's decline as a superpower. Warning(or: For example, warning…) of such a decline due to a weakening of the labor forces by refusing to handle manufacturing domestically, and limiting the amount of automated production is given in Cohen and Zysman (1988). In the UK, it happened around the same time. There was an actual fall in production in the UK after 1973. This again led to mass unemployment (Kaldor, 1986), an unemployment that these islands have not been able to redress since. Others have argued that certain cultures, especially the Christian American is more inclined to prefer a service economy before production (Moreton,

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2007). Moreton sees in the service economy paradigm a shift from Fordism and the unfinished task of sanctifying capitalism and consumption under Christianity.

Furthermore, it is argued here that the change in theory was brought forward not by a concern for what keeps countries competitive, but for reasons of class interests. The shift to the service economy has to a large extent made Western countries less competitive. After much of the production in the Western world moved offshore in the 80s and 90s, the most powerful class interests left was the financial industry. The Chicago School and self-proclaimed “neoclassical” economists have since persuaded two generations of decision makers of the usefulness, but more remarkably about the objectivity, of theories which have served these interests, placing borrowing before saving and short term gain and speculation before long term provision. This development was only possible due to a theoretical fatigue and disillusionment with continental European thinking after the Second World War which resulted in a widening gap between mainstream economic thinking and critical theory. This fatigue or vacuum has been well described by Luc Boltanski and Eve Chiapello (2006).

For the public sector we can study this change in the adjusted GDP measure. For the financial sector we can study it in the changing attitude towards unearned income in economic theory, more precisely towards the encouragement of economic policies which yield revenue that is not the result of competition, is short sighted and builds on financial speculation. The perspective of a long-term national competitive advantage has been substituted by the idea of a personal, individualist enrichment with great damage to the national economic strength. As a direct result the Western world has also seen a widening gap between rich and poor, also domestically, within each country’s borders.

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FOR THE PUBLIC SECTOR: THE ADJUSTED GDP MEASURE

As the bureaucratic sector grew after the Second World War, there was a need to redefine economic growth as expressed by GDP to account for a new kind of value created, first and foremost the work performed by the civil service. In economics the G for government spending was introduced in the formula:

Take in Formula 1

Where Inv equals gross investment and (eX – i) is the difference between exports and imports. Otherwise GDP would have shown a decline throughout the Western world as the cost of running the state apparatus was increasing. This would have shown our political direction as an economic failure as there has been relatively little real economic growth in a majority of Western countries during the past decades when we exclude the enlargement of the civil service. As Jansson (2009) points out for Sweden "The growth of the service consumption share in GDP from 1950 to 1980 is entirely due to the public consumption increase." (p. 5). Most of the growth is in HEC (Health, Education and Care) which does not generate any income in this country, only costs.

The changes made to the GDP Index came at a price and meant that it was less suited as an indicator of real national competitive advantage. It is not obvious that increased governmental spending leads to a healthier economy. Quite often it also leads to more bureaucracy, to inefficiency, even a certain kind of cynicism that affects the working morale in society at large. To ward off the worst criticism which such a change was expected to lead to, it was decided to omit so called transfer payments, expenses to social security and welfare. These posts were omitted as it was thought that most people would think it obvious that these costs do not lead to much economic growth. At the same time other forms of government spending where there is also no obvious positive correlation with economic growth was kept, like military spending. Spending large amounts of money on military equipment will have a

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negative economic effect if it is not sold or used to force other nations to comply with one's economic interests. The indicator affects the economy of large military spenders like the US, the UK and France positively today on paper while it is highly questionable whether there are any positive effects in reality. The US military budget alone represents more than half of the world's total military spending. This has not led to any increase in the competitive advantage of this country, on the contrary. The US has lost almost all its wars after the Second World War and relatively few contracts have been gained when compared to the total cost of military spending. The US, for example, has so far not been able to get any of the major oil contracts in Iraq after the war.

Another problem with the GDP indicator as a measure of a country's competitive advantage is that it does not consider how the money is financed, if this is done through savings or debt. Furthermore, and as can be expected, the wealth of a country measured by GDP does not give different values depending on whether the source of income is production or service. From a competitive advantage perspective production is often preferred to services. Here are two examples which illustrates why. India's economic boom comes much from services, such as call centers and back offices functions which can be copied by other nations. The service sector already accounts for more than 50% of GDP in this country. When the Chinese will have achieved a sufficient level of English, which will probably happen within a generation, much of this market is likely to move from India to China. Another example is the negative cost of having a large public sector, like in the example of France where 79% of GDP comes from services and of Greece with 76%. An increase in public sector spending is often used as a way to show that the economy is looking strong, when the exact opposite is the case. As an example from 1960 until 2008 the GDP of Greece was increasing rapidly from 4 Billion USD to 350 billion USD. On paper what looked like a success story was in fact, and as we now know, a burgeoning catastrophe. The GDP measure

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gave a false impression of the real economic performance of this country. Last year the country was bailed out by the European Central Bank (ECB) with no immediate solution for improvements ahead and its problems have continued to cumulate this year. None of the civil servants in the affected economies around the Mediterranean Sea are willing to accept a pay cut either, like they did in the Baltic states after their financial crisis. What this teaches us is that it is easy to build a large public sector, but difficult to dismantle it. The Soviet Union, at the end of the Cold War, is an excellent example of this. Their bureaucracy was unreformable. In the end, they saw no other solution but to pull the plug on the whole socialist system with dire consequences to the society as a whole .

Most of the existing criticism of the GDP indicator has so far not focused on its inability to measure a competitive advantage, but on other aspects, such as its inability to account for “quality of life” and the damage to the environment. As a response to this criticism other indexes have been created. Thus to account for life expectancy we have got the Human Development Index (HDI), for income distribution the Genuine Progress Indicator (GPI) or the Gini Coefficient, and for quality of life the Gross National Happiness (GNH). To compensate for the lack of capability to measure competitive advantage two indexes have been proposed. These are the Business Competitiveness Index (BCI) and the Growth Competitive Index (GCI). The GCI is based on data from university enrollment rates, inflation performance, the state of the public finances, and the level of penetration of new technologies on one side and on survey data from the World Economic Forum’s Executive Opinion Survey on the other. The survey captures the expert opinions of business leaders and entrepreneurs on issues such as the macroeconomic environment, technology, innovation, domestic competition and corruption. The BCI is not seen as a direct substitute for the GDP but as a supplement. What has been observed is that a higher GDP does not necessarily lead to a higher BCI. The BCI was first of all not developed as a response to the critique (or

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criticism) against the GDP measures of economic growth per se, but arose from the idea that GDP is too focused on macroeconomic factors omitting the importance of the contributions made by individual firms. Neither the Growth Competitive Index (GCI) nor the Business Competitiveness Index (BCI) account for differences between the production of products and services and the growth of the public sector.

One of the main arguments in favor of GDP has always been that it is a value neutral measure. This must also be questioned. Is it political neutrality when one rewards the building of a large civil service, or the purchasing of arms, or when one excludes the economic value to society that is contributed by housewives? More importantly, is the measure a good indicator for the competitive advantage of nations?

Another solution is to adjust the existing GDP Index. In a GDP adjusted for competitive advantage we could e.g. subtract military spending and reduce government spending and services by half of their value. In economics:

Take in Formula 2

Work performed by housewives, or househusbands, could be reintroduced into government spending. A housewife/househusband (houseperson= a person employed to perform housekeeping tasks, as in a hotel) defined in economics would be someone, man or woman, who takes care of the house while a partner/wife/husband works full-time. This would certainly favour (Br.E) the results obtained in developing countries where a majority of women stay at home looking after children while the father works to provide for the family. When the GDP measure was conceived it was said not to include the value created in society by housewives with the explanation that they did not receive a salary. This became an incitement to help women seek a job outside of their homes and reflected the new political values as defined in the Social Democratic Model and the Welfare State. At the same time it often led to the deterioration of family values and ties, and very often to a double workload

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for women, who still spend more time caring for their children even in Western countries where the couple can decide who takes out the days allocated to staying at home with a child.

If work by civil servants is to be accounted for in production we could at least take into consideration the complexity of the value created by this group. It is true, on one hand the civil service creates value to society through the different functions it performs, but on the other hand all of its costs are being carried by taxes paid by others, money that in the end must come from the private sector and from sales to other countries if the nation is to be economically sustainable. This complexity is not accounted for in today's measure. This can be corrected by a few weighted measures.

Instead an easy calculation was chosen whereby a job was a job, regardless of how it was financed. Simple models are good and should be encouraged, but only to the extent to which they represent reality and are truly useful. This has been a general reoccurring problem in economic theory, especially since the Second World War. The main idea with the GDP measure was to measure economic strength and growth. To the extent that this growth is not sustainable the measure should therefore be adjusted.

FOR THE FINANCIAL INDUSTRY: UNEARNED INCREMENT ENCOURAGED BY ECONOMIC THEORY

The assumption that export of products leads to the creation of national wealth was first seriously questioned after the Second World War. For centuries it had been considered common knowledge as people had observed the rise and fall of great powers throughout history. This was the competitive formula followed by all great nations in modern history. In Europe today it is the formula for success for countries such as Switzerland, Sweden and Germany, and for China, South-Korea and Singapore in Asia. These countries have also fared much better under the financial crisis, which is no coincidence. They all build their

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economies largely on production and exports. The German economy, for example, is performing better than the French despite the fact that France has more large MNEs (Multinational Enterprises?). The largest French companies are mostly in the service economy, in the insurance, bank (inga bindestreck på engelska) and petroleum industry. The largest German companies are mostly related to the car and electronics industry. Confronted with such facts, neoclassical economists insist on data that can prove this, by which they mean a 15-page article with a dataset, a few variables and some Gaussian statistics. Larger, more complex causality (finns inte plural form) principles which cannot be tested directly are refuted. Personal experience, which is also empirical evidence, or the overwhelming historical experience of Japan, Taiwan, Singapore, South Korea and now China, is not proof enough because the method does not tally (agree) with the criteria of the more prestigious peer reviewed journals (Bhagwati, 2010). Thus the erroneous perception of value of the service economy remains largely unshaken.

To explain how we got there we need to go back to the study of 19th century economics. At the time a service economy was what most established economists would call a "free lunch" economy, or an unproductive economy. Income that came from simply moving money around, which has been strongly supported by neoclassical economists (cs), was frowned upon by classical economists like Adam Smith or John Stuart Mill (1895). In this sense it is wrong to use the term neoclassical economists when referring to The Chicago School economists. The classical economist would not have supported the new theoretical direction which embraces financial speculation, or income from unearned income, that is from shares, rent, housing and real estate speculations. The major part of the total wealth created on paper by the Western world after the Second World War has come from these activities. For the classical economist unearned increment was defined as added value, at the end, as a result of population growth and the value created by others. As such it was considered unfair, even a parasitic form of income that was necessary to tax to control. More worryingly, we can now see that it does not lead to a long-term competitive advantage for nations, but to economic decline.

Another problem with unearned income is that it leads to passivity. Those who live by it do not have to do much work to provide for themselves. It is income not subject to much competition. This has led to a growing feeling of injustice in society. It has been noted as a possible reason for the initiation of revolutions, among others by A. Smith. Recent research has confirmed this in the world of international relations (Smith, 2008). In the US, the tension that existed due to unearned increment was early noted by both Thorstein Veblen and Henry George (Niman, 2010). Then, at the beginning of the 20th century it all became quiet around the problem as debt was confused with growth. This is reflected in the small number of scientific articles published on the subject. As a phenomenon or mechanism it is just as real, with the only difference that it only seems to surface in times of economic crisis. This could be seen recently in the US during the Wisconsin protests where workers complained about the injustice of increased economic burdens and with the current Occupy Wall Street movement.

ARGUMENTS AGAINST A LARGE SERVICE ECONOMY

In this section we (I) present a number of reasons for why a strong focus on the service economy does not lead to a long-term competitive advantage. Services are a vital part of our economy, but there are good reasons to keep them as secondary emphasis.

The first reason is that a strong emphasis on services leads away from production. Countries, regions and cities which think that services is the basis of future economic growth have given less attention to their production companies, rearranging their incentives, and restructuring education. The effect has been that production companies find it increasingly difficult to compete at home, adding extra reasons for them to reallocate, in

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addition to already higher labor (BrE: labour) costs. Western countries today are realizing the need to change this development, for example, they have to reconstruct their school system, which often means taking back ideals that were left earlier and for the wrong reasons. We now see once again a stronger focus on mathematics, the natural sciences and engineering education in many Western countries. These are countries which used to be leading in the production economy, but which have been largely surpassed by their Asian competitors today. Two such examples are Germany and Sweden.

Secondly, the shift does not acknowledge the fact that much service economy is related to production. That is, good service providers are also often production providers. They are good at services because they are good at production, since services often come together with products. It is difficult to keep up with the development of a service if you are not also producing goods as every product today include an increasing number of service components. Most of the service employment turns out to be production-related. If we take the production elsewhere the services will risk evaporating or going off-shore.

Thirdly, services are more easily copied than we tend to think. This is also a reason to develop services in conjunction to production. Production companies would have a better chance of defending their market positions vis-à-vis competitors because products are generally more difficult to copy.

Fourthly, in the West we have often been lulled into thinking that we are smarter than the rest of the world, and that this is the reason why we can focus on service, while others need to focus on production because they are less developed, less advanced. In fact the opposite is more often true; service in general corresponds to a lower level of education. Production demands more education to stay up-dated, not less. The erroneous conclusion builds, to a large extent, on a misconception, namely that “knowledge work” is the same as service work. The term “knowledge economy” was popularized by Peter Drucker in his book

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The Age of Discontinuity (Drucker, 1968). In the book "knowledge economy" was not seen as being opposed to production, but as different to both production and services (p. 263). The knowledge worker is seen as different from the manual worker. "Knowledge has become the central "factor of production" in an advanced, developed economy" (p. 261). "Economists still tend to classify the knowledge industries" as "services"" (p. 261). Instead, it has by itself become the primary industry. Drucker also makes a sharp distinction between knowledge and science. Science in a book is mere information or data. It only becomes knowledge when it is "applied in doing something" (p. 269). Thus, what matters for the knowledge economy is whether or not information is applicable. It makes no difference between production and services.

The fifth reason, services often build on a notion of easy money leading the Western World away from a long and hard-earned tradition of honest work. Why sweat in a factory when you can run a hotel? And what better if you can finance that hotel by extended credits and loans? The focus on services has fooled generations of Westerners into thinking that there are such things as a free lunch, making people less willing to work and make the necessary sacrifices. The negative consequences this mechanism has had on other parts of Western cultures should not be underestimated.

The sixth reason, the service economy has legitimized the creation of a huge financial industry built on debt, which again has been much of the cause of the boom and bust cycles we have seen during the past hundred years. As such the strong service economy rhetoric has blinded our critical sense about what it takes to build a strong, competitive economy. The thinking and the rhetoric has been that because an economy built on services is good, therefore the services provided by the financial industry must be beneficial too, all in the name of "greater liquidity".

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The seventh reason, the service economy is used as an argument for sustainable development, which is not necessarily the same as economic growth. It is also forgotten that a sustainable development must first of all be supported by new and better products. We can get rid of our petrol-fuelled vehicles by, for example, creating electrical cars. The CO2 emission problem may be solved by making petrol more expensive, but it does not solve the original problem, which was to get from A to B. The sustainable development argument in itself is most excellent (Stahel, 1997), but it should be realized that it does not always lead to economic growth. Instead it often leads to an overbelief in the notion that everything green is also better for business because it is better for the environment. That is not always true, especially not in the short run. The present economy is not sustainable with regard to its per capita material consumption, and as a consequence we as individuals must consume less of all scarce resources, but the route to this path goes by the substitution of old products to new ones. An extended civil service may be environmentally sustainable, but is not economically sustainable. HEC and the civil service are financed mostly through taxes, which have to be increased when the service economy grows, putting more pressure on production and exports to increase efforts.

Some critics have pointed out that many of the studies on localized clusters? especially before the 90's focused more on production than on service (Coe and Townsend, 1998). On the other hand, this is as could be expected, since most of the growth in services did not come from back office functions and other examples frequently used in articles, but from increases in HEC costs. The service economy rhetoric has been systematically supported by a long row of academics and politicians, but their weight is not reflected in the majority of scientific articles. Service economy as a topic gives 1.808 hits in the Web of Knowledge database over scientific articles. Production economy gives 6.381. Most of these articles are in economics. There are 46.000 articles on service as a topic, and 76.000 on production. Of these 1.163 come from China Academy of Science, followed by Harvard at 663 articles. On services Harvard is nr 1 with 876. While China Academy of Science is not even on the list, which is a strong indication as to what extent services are seen as a competitive advantage by the Chinese. It is also worth noticing that articles for and against the production economy is related to the time when these were written. Many of the articles in favor of the reliance on the service economy were written just before the .com bubble broke in the late 90's, that is in bullish times. In the same way, we see an increasing number of articles in favor of production economy after China was officially recognized as a world economic superpower, just during the past few years (bearish times).

The eighth reason, the production economy is a victim of a trick of association. The Service economy is seen as more in line with the current political agenda which builds on ecology and a sustainable development. We have been led to believe that services are superior because it leads to less pollution, like in the development of green economics. As such it is often seen as more advanced, thus superior to production, revoking images of clean offices instead of old, filthy factories. Thus, the service economy has become a symbol of the advancement of our societies in the spirit of the scientific revolution, on our journey from factory workers to knowledge workers. At the next stage production is associated with the non-knowledge based economy found in the developing world. This again revokes images not only of industrialization, but also of colonialism. Thus the service economy is associated with de-industrialization and de-colonialism, that ends with modern-day democracy. The production economy becomes associated with all of its opposites, in the end half-demonized, a victim of the story-telling processes by which public opinions are formed. When academics do not criticize these stories they become political realities and lead to real societal reforms. This mechanism seems to be a part of the nature of our modern democratic system as influenced by the mass media.

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The ninth reason, the focus on services before production shifts our worries from the long term to the short term. As the reliance on services is more prone to be replicated in other countries this means that an economy built predominantly on services is more vulnerable to competition. An economy, for example, built on tourism has less of a long term competitive advantage, even though the weather may be good, year after year. The step to becoming a banana republic is often shorter than we think, as overreliance on tourism is easy money and tends to halt technological development. Spain, Italy and Greece are countries in Europe which have suffered economically from these sectors. Tourists also tend to shift to other places, e.g. with better airplanes people suddenly decide to go to Vietnam and Thailand. In itself tourism is a valuable income, but with overreliance it becomes a threat.

The final argument is political. The idea that a competitive advantage of nations was sought through the means of production was perceived to be too Marxist for the new generation of pre-war economists. With its emphasis on (the mode of ? the type of ?) production the Chinese model can still be seen as a form of Marxism or more precisely Materialism in its strategy for economic growth, but also in its structure of ownership. What separates the failed USSR model from the Chinese one is first of all found in the way labour (Br.E) is organized. The former system was de facto built on Nepotism, hiring according to loyalty, the latter on Meritocratic ideals, hiring according to performance. In the end these theoretical differences make a big difference.

A MATERIALIST PERSPECTIVE

There is still much to be said for the Materialist, if not always Marxist, analysis of wealth production. Long-term wealth is still being created from the refinement and value added to raw materials. The sale of products generates wealth, which in turn provides for better education and ever higher output of production. The critical role of production and means of

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production can be seen in China's willingness to purchase raw material from all over the world, e.g. recently by the purchase of Elkem in Norway by China National Bluestar Group Co. Ltd. (Bluestar), to gain access to much needed silicon, or more directly by their purchase of Volvo Cars to increase the learning curve for quality production in the automobile industry. Similar strategies are also pursued by China in Africa and South America (raw materials and food production). Following Marxist logic, what we produce determines what we can consume, which determines our standard of living. There is still much to be said for a Materialistic analysis of our economic systems. Real competitive advantage is still found by working with materials, as opposed to states built more on idealism (Europe) and spiritualism (Middle East). Advances in our standard of living go through a range of material inventions, one leading to the other. The communist block was simply not a very successful materialist society. Marx's analysis of dialectical materialism, later called historical materialism, the account of history as a row of materialist inventions has only been confirmed, and should not be confounded with the Marxist experiment in his name. Marxist societies have proven to be poor, exactly because their core has not been Materialist, but idealist (Pagano and Rossi, 2009). Marx's materialist and productive forces are the strongest evolutionary engines shaping our world. The result of the production mechanisms is what decides which direction our societies and social life take. In this respect the Chinese model has still a Marxist core, even though it is more governed by old Confucian ideals. We could also say that this is a materialist perspective. The new Chinese expansion does not follow the logic of Western geopolitical thinking (conquering nations by force to control their resources), but of geoeconomics (controlling foreign resources by trade). Put together we could call this strategy geoeconomic materialism by which is meant an efficient national system of production and wealth creation whereby a country gathers parts and resources from anywhere

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in the world, puts them together as products and sells them where they bring the most profit to increase their own standard of living.

A certain service economy is productive, but the Western world has developed too much of it, to the point where it has become parasitic on the overall economy, making it vulnerable and at worst, as we have seen in the financial sector, downright self-destructive.

This may not have happened if economists had taken a more critical approach to the study of social life. Instead the tradition of critical theory slumbered within the new brave social sciences in the decades following the Second World War. Ideas like the myth of the service economy grew much as a consequence of the doctrine of positivism whereby the direction society and the social sciences was recommended to take was never seriously questioned. In countries where the new faith did not get a strong grip, like in Germany and Japan, the production economy also survived.

Looking back it could be said that the service economy was in part a New Class argument (Dilas, 1957), by letting the growth in the public sector count as economic growth after the period of de-industrialization, in the 60s and 70s. The GDP measure was simply adapted to fit a new political reality. The problem was that the new calculation distorted economic reality by which nation states become competitive in the long run, by ignoring that money in the end must come from the production of goods and from exports and that government spending comes mainly from taxes. To a large extent as a result of this unfortunate strategic choice the competitive advantage of the Western world slipped into the hands of Asia at the turn of the 21st century.

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Formulas 1 and 2

$$GDP = C + Inv + G + (eX - i)$$

$$GDP = (Cp + Invp) + (Cs + Invs)/2 + (G - m) + (eX - i)$$