

The Political Economy of the Service Transition.

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This comprehensive edited volume is an extremely important and long overdue contribution to scholarship on the implications of the rise of the service and knowledge economy for advanced (post)industrial democracies. It is certainly not the first to study the rise of the service economy or the implications of new social risks for welfare state policies. But it is nevertheless important because it approaches the topic from a particular perspective, which is rooted in the “Varieties of Capitalism” school of thought (see Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, 2001), in which the service sector had been strangely absent for a long time.

There are 10 chapters, including a substantial introduction by editor Anne Wren, which are roughly divided into two sections (determinants and outcomes of service-sector expansion). The introduction provides a solid foundation for the rest of the volume by highlighting two developments whose implications for contemporary economies are not yet fully understood: the rise of information and communication technology (ICT) and increasing trade in high-level services such as consulting and finance. The core argument of the introduction (and the volume as a whole) is that “national experiences of the transition [to the service economy] will vary depending on

their political-institutional structures” (p. 2). The editor argues that the expansion of high-skilled and tradable services is crucial in maintaining competitiveness and could potentially be a way out of the trilemma of the service economy identified in Torben Iversen and Wren’s “Equality, Employment and Budgetary Restraint: The Trilemma of the Service Economy” (*World Politics* 50 [no. 4, 1998]: 507–46), which theorizes a three-way trade-off among employment growth, low equality and low public spending.

Wren identifies two possible routes to a high-skilled service economy: The first is a private route (e.g., the United States), which is characterized by high levels of inequality at the higher end of the income distribution, which both sets a strong incentive to invest in high-level skills and increases the individual willingness to incur significant private costs, for example, tuition fees. The second route is a public—or one could say Scandinavian—route, which combines strong public investments in education with expansion of services in the public sector, predominantly education and other social services. Continental European (or Christian democratic) countries are the contrasting third route, depicted as lagging behind the others with regard to service-sector expansion and growth.

The private and the Scandinavian routes show a potential way out of the Iversen/Wren (1998) trilemma (this is elaborated in detail in the chapter by Wren, Mate Fodor, and Sotiria Theodoropoulou, as well as in the chapter by Ben Ansell and Jane Gingrich). In both, employment growth in the service economy is strong (compared to the Christian democratic states). In the liberal world, public costs are held at bay because a large share of educational investments is privately financed. Still, Wren argues that the expansion of high-skilled services does not increase overall levels of inequality, because high-income earners will demand more services at the low end (“trickle down” effect, p. 28). In the Scandinavian world, inequality is even less of a problem, and the public costs are moderate because they are concentrated on investments in human capital formation, not consumption or transfers, as in the original Iversen/Wren trilemma.

The “three worlds” metaphor is picked up in the majority of chapters that follow the introduction, which mainly agree that the conservative or Continental European states mostly lose out compared to the liberal and Scandinavian welfare states. The overall structure of the volume is relatively loose. Individual chapters follow up on specific topics raised in the introduction and may sometimes even contradict one another, as Wren herself acknowledges (pp. 44–46). It is impossible to summarize all chapters in a short review such as this. Instead, I want to highlight common topics and themes.

The first is training and education. The chapter by Iversen and Soskice argues that public investments in

training are a crucial complement to union strategies of wage moderation and wage bargaining coordination in order to promote both competitiveness and equality, even though they may result in higher real exchange rates. Karen Anderson and Anke Hassel provide a comparative analysis of the vocational education and training (VET) systems of the Netherlands and Germany and argue that school-based forms of VET are more effective in ensuring a successful transition to the service economy. Ansell and Gingrich reveal that the expansion of the service sector was accompanied and conditioned by an expansion of university education. The interplay between educational and wage-bargaining institutions shapes patterns of service-sector expansion.

A second common theme is gender politics. The chapter by Moira Nelson and John Stephens finds that public-sector employment has promoted the integration of women into labor markets, in particular in the Scandinavian states. Torben Iversen and Frances Rosenbluth argue that the rise of the service economy has changed the bargaining position of women in the household because it opened up new opportunities in the labor market. Also because of high divorce rates, women increasingly demand social services such as child care and therefore move to the left politically.

A third topic is the study of individual preferences for redistribution. Wren and Philipp Rehm argue that the increase of trade in services leads to lower support for the welfare state in exposed sectors because workers are worried about competitiveness. Lucy Barnes shows in her chapter that individuals with less leisure time are also less supportive of redistribution because they are less willing to support the necessary increases in taxation.

The chapter by Philip Manow, Kees van Kersbergen, and Gijs Schumacher does not fall easily within one of the three broad topics, but it is a very important contribution nevertheless. It argues that more attention should be paid to the role of agricultural interests in the transition to the service economy. Thus, the decline of agricultural employment in the immediate postwar period posed less of a challenge to the welfare state than the transition from the industrial to the service economy in the 1970s and 1980s.

The Political Economy of the Service Transition benefits from the fact that most of the contributors have been working together for a long time. The introduction and the chapters coauthored by Wren serve as important anchor points holding the project together. It is, however, unfortunate that some of the material is not entirely new but has been published elsewhere (and some of the data in individual chapters are unnecessarily outdated). The volume would also have benefited from a separate chapter on the European Union as a key promoter of the liberalization of services, as well as some discussion of the

Southern and Eastern European cases. A significant downside of the project is that it does not discuss the implications of the current economic and fiscal crisis in greater detail, but it does raise some questions about the core claims. The policy prescription proffered in the introduction is to invest in college education and expand high-skilled services. The crisis revealed that this growth model may be much less sustainable than assumed by Wren. The current debate about rising inequality in the United States and many other countries also shows that the “trickle down” effect from high-skilled services to the low end does not work in practice. The crisis revealed the benefits of maintaining a strong manufacturing sector.

Also, the ICT revolution can lead to occupational upgrading within existing sectors. Contrary to the volume’s main argument, employment levels in Christian democratic Germany grew during the crisis, and most of this dynamic came from the manufacturing sector, not high-end services.

In sum, this volume makes an impressive and long-overdue contribution that will substantially broaden the analytical perspective of comparative political economy by taking more seriously the complex dynamics of the service economy. In this respect, it provides a convincing outline of a new and ambitious research agenda for the coming years.