After the New Economy

By Doug Henwood

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Summary by Graham Wilson

WHY HAVE I CHOSEN TO SUMMARISE THIS BOOK?

Several reasons.

1. I was about to attend a conference on The New Economy, and I wanted to understand a little more about the phenomenon.

2. The phrase has crept into popular use over the last five or six years, and yet I find people using it in very different, and not entirely consistent, contexts.

3. Personally I've grown bored of superficial 'how to' books and prefer those that give a more profound insight into the world of work and people.

4. My public speaking work is very much about challenging myths and this book certainly does that.

While the book is clearly written with an American focus, much of what it says applies throughout the West, and certainly to the UK.

WHO IS DOUG HENWOOD?

Henwood is a professional journalist. He edits the US periodical "Left Business Observer", has written one other book, and hosts a weekly radio programme in the US. His reputation is for preaching counter revolution to the disciples of high tech!

SO WHAT IS (OR WAS) 'THE NEW ECONOMY'?

The New Economy is quite hard to define in a sentence. Between 1996 and 2001, the finance sector largely, led politicians, economists, journalists and others to believe that we were experiencing the positive benefits of a prolonged period of economic change. This image included massive corporate expansion on a global scale, dramatic levels of technological development (including hitherto unheard of realms such as the human genome and biotechnology generally), a focus on the meaningful nature of work (including the spirituality at work, work-life balance, inner leadership and other movements), the long awaited productivity impact of the computer revolution, enhanced personal quality of life (as a consequence of knowledge replacing menial service which in turn replaced manufacturing and manual labour), flexible networks replacing rigid organograms and so on. There was even optimistic speculation that new technology would mean an end to AIDS and global warming.

By March 2001, when the US was clearly in a recessionary phase, the New Economy was 'old hat'. From September 11th 2001, attention moved dramatically from the wonderful New Economy to the state of permanent alert against terror.

THE UTOPIAN IDEAL OF WORK

Regardless of which side of the Atlantic you were on, between 1996 and early 2001 you could hardly open a newspaper or watch TV without hearing about the "New Economy". It seemed that, after a long wait, the computer revolution was finally paying off, unleashing forces of innovation and wealth creation. Rising incomes, more interesting work and an end to slumps were the positive economic payoffs. Politicians, journalists, and business commentators all latched on to this upbeat message.

It's tempting to read much of what is written about the New Economy in an almost ideological fashion. Enthusiasts' claims look like defences of capitalism against some of the classic criticisms of it:

- Do you feel capitalism is too controlling? No, it's spontaneous!
- Is it too in-egalitarian and exploitative? No, it overturns hierarchies!
- Is it vulgar, brutal, de-skilling and mercenary? Quite the opposite, it's creative and fun!
- But it must be unstable? No, that's just its amazing dynamism at work!

All of which is a way of saying that the New Economy appeals to utopian impulses in these largely anti-utopian times. It would be nice if organisations could be made non-hierarchical, work be made spontaneous and fun, and everyone be cut in to a share of empowered ownership*. But these things are unlikely to happen under existing capitalism.

[* In practice, the ownership issue is more complex, as the bulk of institutional investment is by pension finds, so in theory employees do 'own' most large corporations, but in practice, this ownership is outside their direct influence and the investment may not be in their own company, so we could describe it as passive, and certainly disempowered, ownership.]

THE SAD REALITY

If we are in the early stages of the technological revolution promised by the New Economy, we are certainly not distributing its benefits in the form of a lighter workload.

Americans have to work increasingly hard to make ends meet. While average incomes have risen considerably during the past half-century, the amount of work necessary to earn those incomes has risen dramatically. In 1947, a worker paid the average manufacturing wage had to work 62 weeks to earn the median family's income. By 1973, it would have taken 74 weeks; while in 2001 it would take 81 weeks.

So, despite the fact that overall productivity is up more than three-fold over the past 50 years — and productivity in manufacturing up more than five-fold — the average worker has to work six months longer to make the average family income. Inevitably, there has been a dramatic rise in the number of households depending on more than one income, and there has been a massive social impact.

International comparisons confirm this picture of what Henwood describes as a 'work-house' economy. Americans put in more hours per year than workers in Western Europe; only workers in East Asia spend more time on the job. And American workers don't produce as impressively as people think. Workers in the Netherlands, Germany, France and Italy all produce more in an hour than US workers. Americans come in barely ahead of workers in Ireland and Sweden. Nor has the recent growth in US productivity been all that impressive; of a list of 17 developed countries the US comes in last in productivity growth between 1973 and 1996. It's only over the latter part of the 1990s that the US moved ahead.

PRODUCTIVITY

US productivity growth since 1997 has been hailed as a miracle, and while this recent upturn can't be denied, it's hardly without precedent or associated difficulties.

Firstly, the 'miracle' is claimed on the basis of just a few years of evidence. And from those, ideologists have made quite extraordinary claims for the superiority of the US economic model — characterised by wide wage disparities, a limited welfare state, a financial system that is volatile on a daily basis, and an unregulated and lightly organised labour market.

While productivity growth in the late 1990s is strong, it is certainly not unprecedented over the past 50 years. In fact, instead of looking like a revolution, recent productivity growth is actually less impressive than during the days of rotary-dial Bakelite telephones. And the recent productivity burst looks a lot like early productivity bursts of roughly the same magnitude and moving largely along with the trend in the actual/potential GDP ratio.

A longer-term view of productivity also suggests more cautious conclusions. Productivity growth overall in the 1990s was just below its 110-year average. Taken separately manufacturing productivity growth was strong, a rate exceeded only by that of the 1920s. But the gap between overall productivity growth and that in manufacturing leads to an interesting conclusion: productivity growth outside manufacturing is underwhelming to say the least. Considering that computers and communications technology are supposed to transform knowledge work similar to the way various generations of automation have transformed factory work, and given that pundits have been preaching the gospel of the service sector for two decades, this is a surprising outcome.

INNOVATION

Closely related to the productivity argument is a claim made by proponents of the New Economy about innovation: essentially that we live in a time of unprecedented new product development.

This is a remarkable claim. The development of the telegraph, for example, reduced the time needed for communication across oceans and continents from weeks to seconds. Similarly with railways, motor cars, radio, television, antibiotics, telephones, electricity, jet travel, plastics, even indoor sanitation. While the number of new products may be larger than ever in absolute terms, the pace of innovation may actually be slower. Many such claims suggest that the people making them haven't researched the hard data behind the claim, or their claims appear to be quantitative but are actually subjectively based. For example, it is claimed that vast improvements in cars dramatically reduced their effective price, but in fact, the technological improvement in cars early in the 20th century was probably greater than it was at the end of the century as they were so new to the market place. Besides there are far more variables involved than merely price.

THE CONTRIBUTION OF INFORMATION TECHNOLOGY

While a lot of attention has been paid to the role of technology in improving the quality of products and lives, less has been paid to its downside.

Customer satisfaction with airlines, banks, stores, hotels, phones and PCs has declined steadily since 1994 and the number of consumer complaints more than doubled. The complaints are mainly about areas where information technology was supposed to be working wonders: inaccurate information, slow (or no) response time and poor training of customer service representatives.

Perversely, information technology is largely responsible for this state of affairs: firms identify who their good customers are and pamper them, leaving the rest on hold listening to New Age Muzak.

Companies sell data about customers' history to other companies, meaning that you can be slotted into a pigeon hole before you even walk in the door and certainly as you log-on to your internet account. This aspect of the productivity revolution is probably welcome to managers and shareholders, but judging by consumer feedback it is not to too many other people.

Trying to quantify the contributions of computers to economic growth is probably a symptom of statistical fetishism at its most advanced. A lot less energy should be devoted to such imprecise and dubious pursuits and a lot more to asking the kinds of qualitative questions that economists rarely ask.

- Have computers actually enriched our lives?
- While music may sound better, and movie films look better, are the songs and films of any higher quality other than in the technical sense?

Computers have made some of our jobs more interesting. But for lots of people, like the US's five million telemarketers, the computer means sitting in a cubicle and having your output monitored by the boss.

Computers have allowed financiers to develop complex new financial instruments and trade them at lightning speed, which is good news for the principals, but is it good for the rest of society?

The net has allowed people around the world to make contact with each other in completely unprecedented ways, but computers have also allowed governments to spy on us and marketers to profile us in unprecedented ways. A gain for human possibilities and a simultaneous loss.

Sadly, the New Economy rhetoric puts forward eye-catching statistics of questionable accuracy to obstruct any serious discussion of the broader political and cultural issues. As Henwood puts it: "Economists shouldn't get away with that."

EQUALITY AND POVERTY

One of the supposed benefits of the New Economy is a new egalitarianism. The theory says that, dynamic markets, rather than protective welfare states, have toppled old hierarchies and 'democratised' wealth.

In fact, the distribution of income in the US in the early 2000s is about the most unequal it's ever been.

- In 1980, the richest fifth of Americans had incomes about ten times those of the poorest fifth. In 2001, the richest fifth had incomes over 14 times that of the poorest fifth.

- In the 1980s real incomes at the middle and lower levels were actually falling; in the late 1990s, they were heading up, but not as rapidly as those in the upper brackets.

There are several reasons for this. At the top end, there's been a tremendous increase in elite compensation - so called 'fat cat salaries'. The strength of the stock market between 1982 and 2000 greatly expanded the income of the very rich. Meanwhile labour incomes themselves have become more unequal. From the mid-1970s to the mid-1990s, real hourly pay for the bottom third of the pay distribution fell, pay at the middle was pretty flat but pay at the top rose!

"Boom" is the word commonly used to describe the US economy between 1995 and 2000. This was an appropriate description if you owned stocks or ran a Fortune 500 company. But the median US household was actually slightly better off in 1998 than it was in 1989. In fact, the most important economic achievement of the mid-1990s was to recover the income losses of the early 1990s. Income growth at the middle was fairly robust late in the decade, but the recession undid most of that work, bringing median incomes in 2001 to a level just 6 per cent above that of 1989. Poorer households — those in the bottom 20 per cent of the income distribution — still didn't recover to 1989's level until 1997, and as of 2001 they were less than 5 per cent higher than 12 years earlier.

How anyone can describe this as a significant improvement beggars belief. The New Economy was sold to us as a leveller, creating riches for all. In reality it's meant riches for some. A recent study by the Organisation for Economic Co-operation and Development (OECD) of the internal economies of Canada, Germany, the UK and the US found that Britain's poverty performance during the early 1990s was the worst of the four, with 38 per cent of the population experiencing at least one spell of poverty (defined as an income less than half the national median) over a six-year period, compared with 28 per cent for Canada, 26 per cent for the US and 20 per cent for Germany.

A standard response from pro-New Economy lobbyists to these statistics of poverty and inequality, is to appeal to the 'upward-mobility' that is supposedly characteristic of American life. Actually the OECD study shows that both the US and British poor were more likely to stay poor for a long period of time: almost half of all people who were poor for one year stayed poor for five or more years, compared with 30 per cent in Canada and 36 per cent in Germany.

Despite claims of great upward mobility in the US, 46 per cent of the poor rose out of poverty in a given year, compared with 45 per cent in the UK, 53 per cent in Germany and 56 per cent in Canada. And of those who did manage to get above the poverty thresholds, 19 per cent of Americans were likely to go back under the poverty line, compared with 16 per cent in Germany, 10 per cent in the UK and 7 per cent in Canada.

US low-wage workers have the slimmest chances of getting out of poverty. Of all low-wage US workers in 1986, 39 per cent were unemployed five years later, 34 per cent were still low-wage and 27 per cent were working at an above low-wage job. In most other countries, twice as many were able to rise out of low wages.

THE WELFARE STATE

Why does the US have such a polarised income structure? The answers are simple: the largest low-wage labour force in the First World and the weakest welfare state. The wage issue is straightforward: it's an empirical fact that the gaps between the well paid and poorly paid are wider in the US than just about anywhere else. The welfare state issue is more controversial.

For 20 to 25 years, conservative politicians have argued that redistributionist measures have done nothing to reduce poverty or have made things worse, because they encourage laziness and dependency. That argument was the theory behind the end-of-welfare legislation of the Clinton Administration.

Sadly, this isn't substantiated by practical experience elsewhere. Only policies that take from the rich and give to the poor flatten the income distribution and reduce poverty. Listed in descending order of interference with market incomes there are three groups of countries: the social democratic (Scandinavia); the corporate (most continental European countries); and the liberal (the predominantly English-speaking countries). Liberal countries interfere least with market incomes, and they have the highest poverty rates and most in-egalitarian income distributions; social democratic countries occupy the other extreme; and corporate states fall in between. Roughly speaking, the liberal countries saw the largest rise in poverty between 1980 and 1990, the social democratic ones saw the least and the corporate ones came down the middle.

AFTER THE NEW ECONOMY?

So what comes next? There are no easy answers, as much of this process by which one set of economic rules gets usurped by another, is merely fuelled by rhetoric. However, in recent years a small number of movements have begun to emerge; those concerned with work/life balance, anti-capitalism, and anti-imperialism. Twenty years ago, the supporters of these movements were branded hippies, drop-outs, thugs, spongers, and druggies. Today, when we witness their efforts, we discover that their membership is drawn from the very people who are providing the fuel for the institutions that they seek to turn-around. They tend to be either young people, who share few of the values of the previous generation, or older ones who slaved for the old order, and now question its appropriateness from retirement. Whatever the next brand of economic theory we hear next, this population is going to have far more influence as each year passes. While the New Economy didn't achieve a revolution from within, this body of people are going to grow in number and influence until they do achieve radical change.

New York City, for example, was able to build the second-largest tech start-up ecosystem in the United States in just one decade with a focused plan to attract tech companies and develop local talent. The tech sector in New York now accounts for over 300,000 jobs, and in 2019 New York was ranked second globally for start-up output.Â Policy makers could also consider investing in programs that ease the transition to the new reality. Programs that ease labor dislocation, including job matching and reskilling, will be crucial for building the workforce of the future. Existing state programs like New Yorkâ€™s Workforce Development Initiative and Ohioâ€™s TechCred might be considered for scale up to create regional talent pipelines to meet demand as new types of jobs emerge. If the economy is growing, that generally means more wealth and more new jobs. It's measured by looking at the percentage change in gross domestic product, or the value of goods and services produced, typically over three months or a year. But the IMF says that the global economy will shrink by 3% this year. It described the decline as the worst since the Great Depression of the 1930s. Although it said that the coronavirus has plunged the world into a "crisis like no other", it does expect global growth to rise to 5.8% next year if the pandemic fades in the second half of 2020. ...Â Travel companies also said that bookings from the UK had "exploded" after the government announced current restrictions will be eased. World Economic Situation and Prospects as of mid-2020. United Nations New York, 2020. World Economic Situation and Prospects as of mid-2020. * i. Against the backdrop of a raging and devastating pandemic, the world economy is projected to shrink by 3.2 per cent in 2020. Under the baseline scenario, GDP growth in developed countries will plunge to â€“5.0 per cent in 2020, while output of developing coun-tries will shrink by 0.7 per cent. The projected cumulative output losses during 2020 and 2021â€”nearly $8.5 trillionâ€”will wipe out nearly all output gains of the previous four years. The pandemic h New economy is a buzzword to describe new, high-growth industries that are on the cutting edge of technology and are believed to be the driving force of economic growth and productivity. A new economy was first declared in the late 1990s as hi-tech tools, particularly the Internet and increasingly powerful computers, made their way into the consumer and business marketplace. The new economy was seen as a shift from a manufacturing and commodity-based economy to one that used technology to create new products and services at a rate that the traditional manufacturing economy could not match. Key