Nine Myths About The New Economy

Almost everyone now agrees that the U.S. economy has undergone fundamental changes in the last 15 years, whether or not they refer to these changes as constituting a New Economy. However, too often the discussion on either end of the political spectrum has been driven by inaccurate assessments and selective choices of data—in short, by New Economy myths.

For many on the left, the New Economy represents a new threat to economic justice and social cohesion. These New Economy pessimists emphasize—and exaggerate—the downsides of the New Economy, while underestimating the benefits. They blame technology and globalization for downsizing, stagnant wages, growing inequality, and environmental degradation. Sometimes this leads to internally contradictory positions. They claim that if companies install technology, workers are laid off, but if companies don’t install technology, they are milking profits and not reinvesting to raise wages. Pessimists correctly point out that economic change creates losers as well as winners, but their preferred solution is too often to slow or stop the processes of change. Thus, they prescribe trade protection, top-down regulation, and spending on outdated industrial-era bureaucratic programs. Their "land of milk and honey" is made up of large organizations with stable employment, stable markets, and stable competition, which are unrealistic expectations in the context of the fundamental trends in the New Economy.

For many on the right, the dawn of a digital era automatically means the twilight of government. These New Economy optimists emphasize—and exaggerate—the upsides of the New Economy, while overlooking its problems. While viewing it correctly as an era with great possibilities for growth and creativity, some on the right seek the elimination of virtually all regulation of technology, oppose government funding of research and development (excluding defense), and argue that government should simply "get out of the way," a stance that leaves Americans to fend for themselves during a difficult, often wrenching transition. Their "land of milk and honey" is made up of small firms and individual entrepreneurs in dynamic markets; higher income inequality that encourages hard work; a vastly reduced role for government, including reduced roles in technology, education, and skill development; and little effort to expand the winner's circle so that all Americans share in the benefits.

New Economy Pessimists' Myths:

**MYTH #1** The New Economy has facilitated the dramatic deindustrialization of America.

**REALITY** Manufacturing has not disappeared, it has been reinvented. Between 1987 and 1996, inflation-adjusted manufacturing output in the United States increased 27 percent. But because of investments in technology, training, and new forms of work organization, U.S. firms were able to improve productivity even faster, which meant that manufacturing employment declined by only 1.4 percent.

**MYTH #2** In the New Economy, globalization and corporate greed have combined to produce stagnant wages for most American workers.
REALITY Slow growth in real wages is a result of slow growth in economy-wide productivity.

While income inequality is linked to technological change, immigration, and the decline of unionism, total wage income in the economy is tied to productivity growth. From 1963 to 1973, business productivity grew 35 percent while wages grew 31 percent. Between 1985 and 1995, productivity grew 9 percent, while wages grew only 6 percent.\textsuperscript{48} Without faster productivity growth, faster wage growth is impossible. Some argue that wages have stagnated because corporate profits grew. In fact, if all of the increase in the share of national income going to corporate dividends went instead to wages, the latter would have increased only marginally faster between 1978 and 1997-20 percent instead of 16 percent.

MYTH #3 In the New Economy, most new jobs are low-wage jobs.

REALITY Low-wage jobs are growing, but higher-wage jobs are growing even faster. Between 1989 and 1998, high-paying jobs grew 20 percent, while low-paying jobs grew 10 percent. Middle-paying jobs showed no growth.

MYTH #4 Technological change kills more jobs than it creates.

REALITY Technology changes the composition of jobs and raises productivity and incomes, but it does not raise the natural rate of unemployment. On the contrary, the dynamic New Economy has reduced unemployment rates to a 25 year low. New technologies (e.g., tractors, disease resistant crops, etc.) spurred the decline in agricultural jobs. However, as food became cheaper (American consumers spend less of their income on food than any other nation) consumers spent their increased real income on other things (e.g., cars, appliances, entertainment), creating employment in other sectors. The 30-year low for unemployment after the wave of corporate downsizing and technology introduction makes it clear that technology doesn't reduce the total number of jobs in the economy. As new information technologies begin to raise productivity growth rates, this same positive dynamic will continue, leading to higher incomes, not fewer jobs.

MYTH #5 Corporate reengineering has meant the downsizing of large numbers of middle class, managerial jobs.

REALITY In the last nine years, three million new managerial jobs have been added (14.8 million in 1989 to 18 million in 1998).\textsuperscript{49} Despite the fact that New Economy organizations flatten hierarchies, the New Economy spurs greater demand for more managers who focus on quality, innovation, design, marketing, and finance.

New Economy Optimist's Myths:

MYTH #1 The U.S. economy is in the midst of unprecedented economic boom that began in the early 1980s.

REALITY Growth in per capita GDP, productivity, and wages since the 1980s have lagged behind growth rates in the 1960s and early 1970s. While job growth was stronger in the 1980s and 1990s than in the 1960s and 1970s, productivity and per-capita GDP grew about half as fast.
MYTH #2 Income inequality is not a serious problem.
REALITY Between 1980 and 1996, real incomes went up 58 percent for the wealthiest 5 percent of American households, but less than 4 percent for the lowest 60 percent. Household income inequality has increased and has made it more difficult for many Americans to achieve the American dream. The strength of America's economy has historically been that most Americans have felt that they can prosper if they get an education, work hard, and play by the rules. If this compact is broken, our social fabric will start to disintegrate.

MYTH #3 The dispersing tendencies of the New Economy mean the death of large corporations and the twilight of government.
REALITY Large corporations and government are reinventing themselves and still play key roles in the economy, to say the least. Because information technology lets firms reach larger markets and take advantage of economies of scale, the average size of firms in the New Economy is growing, not shrinking. Moreover, just as the Internet did not mean the end of large companies like IBM, it also does not bode the end of government. Rather, it creates a requirement that governments re-engineer themselves to be faster, more flexible, and smarter.

MYTH #4 In the New Economy, a significantly growing share of the workforce are self-employed entrepreneurs.
REALITY Entrepreneurs represent about the same share of the workforce as ever. Between 1975 and 1994, self-employment as a share of total employment remained level at approximately 8.7 percent (10.6 million workers)—an all-time low.