The New Economy in Times of Crisis

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Abstract---This article considers some of the theories and ways in which some modern scientists and economists have claimed that a "new economy" could emerge; the shift from manufacturing to services, technological transformation and flexible labour markets or telework. The advantages and disadvantages of economic change, its benefits and costs, are discussed as people desperately try to balance the pressing demands of work and personal life in times of crisis.

Keywords---COVID-19, crisis, labour market, new economy, wage inequality.

Introduction

Thinking about the three economic actions mentioned above that suggest possible ways of understanding what is really happening to the economy and how it is changing, it is imperative to consider that we live in an increasingly a global economy in the sense that economic activity in different countries is more interdependent and more integrated than it used to be. Secondly, this interdependence is related to the fact that ICTs play a more important role in economic activity today. Thirdly, the nature of work has changed, with new jobs in high-income countries tending to be in the service sector rather than in manufacturing. These changes - globalisation, the increased role of ICTs and the shift from manufacturing to services in the industrialised economies - have been linked to characterize the new economy. In examining these changes, we will find that work patterns have also undergone significant changes during the recent economic crises and especially in the current COVID-19 pandemic.

Literature Review

The shift from manufacturing to services in industrialised economies

In the last quarter of the 20th century, there was a profound restructuring of economic activity in the "older" industrialised countries from manufacturing to services. There are several reasons for this restructuring. First, the long-established industrialised countries, such as Germany, the United States, Japan and the United Kingdom, have faced increasingly intense competition as more countries have industrialised. Second, productivity, or output per worker, has increased in manufacturing industries, allowing fewer employees to produce the same output. Third, many people in richer countries already own a wide range of consumer goods supplied by manufacturing industry but have little time. Thus, there has been growth in personal consumer services, such as tourism, including holidays and fitness training.

Service sector work, however, is much more diverse than manufacturing, particularly in the United States, the United Kingdom and Chile. There are highly skilled and well-paid producer service jobs in information systems, marketing, design and finance, but the majority of workers belonging to different ethnic groups, especially the immigrant community, present different social and economic inequalities.

This restructuring of economic activity from manufacturing to services contributes in part to the rise in wage inequality. In the post–World War II period, employment in manufacturing provided many working–class people, especially men, with the opportunity to earn regular and relatively high wages in industries such as automobiles and
steel. Gains were concentrated rather narrowly around a relatively high average wage and were maintained through unions, which ensured that workers reaped a share of the benefits of productivity gains. Earnings in the service sector, by contrast, are characterised by lower average wages and greater dispersion, i.e., a wider gap between higher and lower wages. There is also a much wider range of employment opportunities in service industries (Harrison & Bluestone, 1990; Siakas et al., 2014; Gangl et al., 2012).

The result of these changes is that a much smaller proportion of the population in the long-established industrialised economies is directly involved in the production of physical goods, whether in agriculture or industry. However, restructuring rarely proceeds as smoothly as some economic models would predict. As the economist Joan Robinson, one of the most important economic theorists of the 20th century, once said, “The real world is not made of plasticine, and neither people nor buildings can be reshaped instantaneously”. Not every company can become a “call center”, although this does happen and people may be unwilling, unable or unwilling to change their skills or abilities.

Globalisation

Economic globalisation can be defined as the increasing interdependence and integration of economic activity in different countries (Thompson, 2000; Kuckertz et al., 2020; Filippetti & Archibugi, 2011). Interdependence means that the production of goods in one country is affected by the production of goods in another. For example, the import of Japanese cars into the UK has affected the British car industry by taking market share away from it. Integration is a closer relationship than interdependence, implying that production processes in different countries are so closely coordinated that they are better understood as parts of a single complex production process. An example is the manufacture of Honda car engines in Swindon, UK, for installation in cars assembled elsewhere.

Economic globalisation has been facilitated by the development of ICT and the recent technological transformation. One result of globalisation assisted by new technologies is that some leading companies, especially in clothing and footwear, no longer play any direct role in the manufacture of the products they sell; Nike, for example, no longer manufactures any shoes. Similarly, many of the best-known clothing brands do not manufacture their clothes because they can make more profit from branding and marketing products. Production takes place in a variety of companies in both rich and poor countries, which are diversely owned and often connected through complex subcontracting arrangements. Each company seeks to minimise risk in the highly competitive and volatile global marketplace. Underpinning these developments has been the evolution of ICTs which, paradoxically, in the case of clothing, some production takes place “offshore” in low-wage countries, but some remains in rich countries. For example, Los Angeles, which is often thought of as the heart of the new US economy, has the largest number of manufacturing jobs in the US: 663,400 in 1997, which is almost 6000 more than Chicago and 200,000 more than the third largest manufacturing city, Detroit (Bonacich & Appelbaum, 2000; Vogelgesang, 2003; Stuckler et al., 2009). These jobs are found both in the new “high-tech” manufacturing industries and in the old-fashioned garment industry, where more than 100,000 workers, many of them recent migrants, work in the growing number of sweatshops.

One of the reasons for the resurgence of the maquiladoras is the increased power of brand-name traders and retailers. Their ability to outsource production to offshore and small local producers allow them to maximise flexibility and thus minimise their own risk, which is especially important given the transitory nature of fashion. It also means that they can exempt themselves from responsibility for the working conditions of producers, although not all do so. These conditions can be particularly desperate due to the global nature of competition. The corresponding downward pressure on wage costs is intensified by fashion uncertainty, leading to long working hours, largely for women, especially in the rush to meet deadlines, and low wages, both abroad and in local sweatshops.

At the same time, the growing economic integration of different countries has increased labour mobility. Many economic migrants to “older” industrialised countries from low-income countries end up working in low-productivity manufacturing, for example, as home-based workers or as homeowners or sweatshop workers in the garment industry or in the low-paying jobs that are expanding in the service sector. Indeed, one of the ironies of globalisation is that while many women workers in Bangladesh are working outside the home for the first time in new garment factories, their compatriots who migrated to London are more likely to find themselves working at home (Kabeer, 2000). Women and minority ethnic groups are often over-represented in all these low-paid activities which are often characterised by part-time work with unsociable hours.

In other industries, such as automobiles, the shift in manufacturing in the UK and the rest of Europe, far from creating sweatshops, has raised incomes and living standards, for example in East Asia. The shift in manufacturing is
not complete; cars are produced in large quantities in the UK and Europe, while they are also made by a largely male workforce abroad.

**Information technologies and technological transformation**

The new economy is much more than a shift from manufacturing to services and the further integration of economies on a global scale. It is also strongly linked to the development of ICTs, which has facilitated the development of new processes and products, especially the 'knowledge goods' described below.

The Internet has increased 'connectivity' or interconnectedness between economies by enabling real-time textual communication and by providing a new medium for disseminating new products and services. For example, ideas can be transmitted around the world much faster than ever before, and product obsolescence is much quicker. The acceleration of communications means that events in one part of the world can very quickly affect the fortunes of people living thousands of miles away. For example, the financial crisis in Southeast Asia in 1998 led to a global restructuring of the microchip industry. This restructuring led to the closure of a company in Sedgefield in the North East of England.

The Internet also allows organisations to take advantage of different time zones and different wage cost zones to save costs. For example, you can book airline tickets or make enquiries at any time, but if you do so at night, your connection is likely to go to a different time zone. In this way, businesses can provide a 24-hour service, without having to pay higher night wages. Small businesses, micro-enterprises and even some traders, as well as multinational organisations, can outsource work globally.

In terms of changing work patterns, the Internet has also facilitated the development of the 24-hour economy. Longer opening and operating hours require flexible working patterns, which in turn allow people to fit paid work around other activities, such as care or education. But, at the same time, they disrupt collective work norms and rhythms.

As the working day becomes more flexible, many paid workers are expected to work long hours to demonstrate their commitment to their organisation (Hochschild, 1997) and to coincide with the working hours of different time zones. In this way, telework and more flexible working have complex and divergent implications for other aspects of life.

Knowledge has always been central to competitive economies, production processes and commodity sales, but in the new economy much more knowledge, intelligence and "style" is embedded in existing products such as cars, cameras and washing machines. Cars, for example, can have electronic windows and windscreen wipers and automatic headlights, which are programmed to respond to rain and light conditions. More significantly, there has also been an expansion of goods that consist almost entirely of knowledge, and for Danny Quah (1996) this represents the hallmark of the new economy. Software is the classic example. The cost of producing the actual physical product, the game or software package, is miniscule. However, the research and development costs of producing it are enormous.

**Understanding economic change**

There is no single obviously correct way to respond to this situation. Three distinct processes seem to be at work: the shift from manufacturing to services, globalisation and the development of ICTs. Changes in work patterns seem to be associated with all three processes. Thinking about economic change in terms of the new economy can be useful in organising new research. Academics and economists whose different understandings tend to see themselves as interpreting the "new economy", just as those whose work we refer to in this section see themselves as debating different understandings of the new economy. It is therefore appropriate to continue to use this terminology. However, it is worth remembering that the term "new economy" can be used to pick out any or all of the three changes taking place in global economic activity. Some of the differences in interpretation may reflect the way economists focus on different aspects of the new economy or simply on economic change.

**The benefits and costs of the new economy**

As well as looking at the behaviors of companies and the industries and markets to which they belong, economists also engage in a different style of research, thinking about what economic change means for the lives of the people involved. Again, there are a variety of different interpretations and ideas, but this time they concern the desirability of economic change. What benefits does the "new economy" bring and what costs, or negative effects, does it impose
on people? In analysing these benefits and costs, different economists will be guided by different priorities and values. Some economists may place more importance on material rewards than on health and happiness. Some may prioritise the welfare of workers over that of consumers.

In the late 1990s, some economists, especially in the United States, emphasised the relationships between "leading" economic indicators such as inflation, wages, productivity and growth. For these economists, such as Alan Greenspan (1998), chairman of the Federal Reserve, what was new about the new economy was the almost unprecedented coexistence of economic growth and low inflation. The combination of "tight" labour markets (where employers have difficulty finding enough workers to fill all vacancies) and thus low unemployment with little pressure to raise wages was also unusual. The coexistence of these factors challenged the conventional economic theory that tight labour markets lead to wage increases and, more generally, that rapid growth will lead to inflation and then to "decay".

There are understandings of the "new economy" that emphasise more lasting changes in the nature and organisation of firms and employment patterns. The development of information and computer technologies is emphasised because they can potentially revolutionise business organisation and thus have implications far beyond the high-tech sector itself. Changes in the composition of the current workforce, such as the increasing participation of women and the development of new and more flexible employment patterns, affect the way in which people can manage their work/life balance. Emphasis has also been placed on the role of the state in creating a deregulated environment, which promotes flexibility in financial markets and labour practices. It is argued that all these changes are deeply entrenched and pervasive and therefore unlikely to be reversed.

The benefits claimed for the new economy arise from the development of high technology and knowledge that offer new products and processes and new forms of high-level employment and opportunities for entrepreneurs. These are some of the real changes that are believed to underlie the unprecedented levels of non-inflationary growth in the late 1990s in the US economy.

In comparison, the negative aspects of the new economy are highlighted by writers such as Richard Sennett (1998) and Ulrich Beck (2000) who link rapid economic change to increased inequality, risk and insecurity, family breakdown, declining fertility and fragmentation of the economy.

Some economists link the positive and negative effects of the new economy. For example, Danny Quah (1996) argues that the positive and negative dimensions of the new economy are opposite sides of the same coin and are part of an emerging digital divide. That is, some of the essential features of the knowledge-based economy that contribute to economic growth also increase economic inequality and put increasing pressure on the work-life balance.

Benefits of the new economy

The benefits claimed for the new economy mainly relate to technological change, productivity and economic growth. Castells (2001) argues that we have entered a new technological paradigm focused on information/communication technologies based on microelectronics. The development of the Internet, in particular, is said to have profound implications for the organisation of economic activity and for productivity growth.

The Internet provides a new means of business-to-business and business-to-consumer communication and facilitates new ways of organising the production, distribution and exchange of existing goods and services. It can reduce transaction and search costs between buyers and suppliers in a wide range of areas and enables the development of new products and services. These developments are arguably the basis for the unprecedented growth of the new economy.

Business-to-consumer sales over the Internet are expanding rapidly, since the onset of the COVID-19 pandemic crisis. The evidence on the comparative costs of Internet sales is mixed. In principle, consumers can save on search and travel costs by comparing prices and buying directly from home. They have immediate access to global markets, which could stimulate competition and generate global efficiency gains. Suppliers would also save on showrooms, but their overall delivery costs could increase as distribution shifts from high-density to low-density routes, i.e., instead of trips from warehouses to shopping centers, more diverse trips from factories to residential areas would be required.

Another potential efficiency gain for producers is that they can target their marketing much more effectively, as it is easy for them to create a profile of their customers, allowing for a form of mass customisation. Thus, by using their electronic databases, built in part by consumers, companies can provide individualised and what appear to be personalised services much more efficiently than through traditional face-to-face contact.

Companies involved in training, marketing and public relations have also started to provide these services through digital tools. These activities have generated a number of new businesses and new jobs. The jobs include the
computer technologies themselves (hardware and software) to manage web-based transactions and have created a whole new range of activities from web-based graphic design, database/web systems management, video installations to programming. Because many of these activities are at the limits of new technologies, it has led to the development of the digital transformation process, especially for micro and small enterprises.

Current literature indicates that one of the reasons why it can be difficult to establish statistical associations between productivity growth and ICTs is that they are general-purpose technologies, so their effects are very varied. E-commerce can potentially increase efficiency, as mentioned above, but the physical delivery of products, when necessary, remains a labour-intensive activity (logistical processes). It is therefore very difficult to collect data that can adequately describe the complex and divergent nature of the new economy.

Changes in the organisation of economic activity also lead to changes in employment at both ends of the labour hierarchy. At the top end, highly skilled specialists in computer programming, systems analysis and web design are employed to set up systems that facilitate transactions on the Internet. At the lower end, people are employed in warehouses and call centres. Thus, the high-tech side of the new economy continues to rely on labour-intensive work in product delivery and all forms of personal services. Aggregate statistics hide these divergent trends.

**The downsides of the new economy**

During the American boom of the 1990s, some economists attributed the paradox of economic growth, rising productivity but stable or only moderately rising wage costs, to the growing sense of insecurity in the workforce. Job insecurity is also emphasised by sociologists such as Ulrich Beck (2000) and Richard Sennett (1998). This section describes some of their arguments because they are fundamental for those who take a critical view of the new economy. Their arguments also contain implications for the social sustainability of the new economy that is emerging especially in the more advanced economies.

**Ulrich Beck argues that in the new economy work at all levels is characterised by insecurity and growing inequality.**

Fernando Flores & John Gray (2000) speak of the "death of the career" and argue that lifelong identities are giving way to "brief habits". They suggest that the lives of connected people are more like collections of short stories than the narrative of a bourgeois novel. All these writers suggest that work in the new economy is organised around projects and is therefore highly fluid or changeable. This is especially true in the high-tech sector, where teams of people with the skills needed for particular projects are built up and then disbanded as the project is completed. People change, or are forced to change, employers and geographic locations frequently. As a result, connections between individuals, companies and communities are fragile. If this view is correct, these processes could undermine the social sustainability of the new economy.

The current empirical evidence for claims of growing insecurity is rather heterogeneous. There is fairly strong evidence of a growing sense of insecurity but, at the same time, aggregate statistics on employment duration indicate little change. In a European study of five countries (Ireland, Norway, Portugal, Sweden and the United Kingdom), a survey of people between the ages of 18 and 30 perceived jobs to be episodic and insecure, even though those in work tended to work long hours (Lewis & Brannen, 2000). Notwithstanding the above, indicators of insecurity have now risen as a result of a series of social, economic and even health crises that exacerbate inequality in both rich and poor countries.

In addition, there is considerable restructuring of economies and enterprises have also shrunk, which may be responsible for the sense of insecurity and "skills obsolescence" or destruction of micro and small enterprises. In these circumstances, employees may be willing to accept low wages in exchange for job security, possibly explaining the coexistence of economic growth and moderate increases in wage costs.

However, data on employment duration may not be an adequate measure of insecurity. Sometimes people are more likely to stay with an employer if they are uncertain about their re-employment prospects. By contrast, in the high-tech sector, short-term contracts may reflect employee strength rather than weakness. That is, what some workers might conceive of as insecurity, an independent contractor might see as the freedom to move between contracts to develop their skills portfolio.

Another disadvantage of the new economy is the emerging duality in the workforce, mentioned in the OECD (2000) quote, and growing income inequality. Well-educated middle-class men are over-represented in high-tech jobs in firms, while women, including some who have recently arrived in the country, are over-represented in the less well-rewarded jobs that provide services more directly to people.
In this area we want to look at an attempt to link some of the positive and negative aspects of the new economy. Danny Quah, an economist at the London School of Economics and Political Sciences, has been studying the new economy for several years. He refers to the new economy as the weightless or dematerialised economy and examines its economic implications and also why it has a tendency to lead to growing economic inequality.

According to the "weightless economy" argument, the fact that the current economic expansion has been free of inflation may be because it puts less pressure on physical resources than previous episodes of rapid industrial and technological change. One reason is that new materials and microcomputers have led to a reduction in the size and weight of goods. For example, we have as much computing power on our desk as would have taken up several rooms in 1980. The argument is that without a huge increase in demand for resources such as raw materials, their prices have not risen dramatically.

However, it is perhaps the nature of "knowledge goods" that has the most profound economic implications. Knowledge goods are infinitely expandable and non-rivalrous, meaning that their consumption by one individual does not reduce the quantity available to another. Thus, as Quah illustrates, several people can use the same word processing package, but not all can eat the same chocolate chip biscuit (Quah, 1999). The weightless form of knowledge goods together with the Internet creates a lack of respect for physical distance and therefore potentially these products also have an infinite global reach.

In theory, knowledge goods create a more egalitarian world (Quah, 2001). Assume that consumption does not reduce the amount of knowledge goods available to other consumers, that knowledge goods are sometimes freely provided and should have infinite global reach, and that they are replicable at almost no cost. In principle, ensuring equal access to them should be easier than ensuring equal supply of physical goods and resources. In reality, however, opposite trends can be observed, with growing inequalities on a global scale and also within countries. Moreover, it is the economic properties of knowledge goods that, paradoxically, contribute to increasing economic inequality.

One of the reasons why people accept rising inequalities, Quah argues, is the increase in social mobility. That is, the poor tolerate the rich because they see a greater opportunity to become rich themselves. However, there are also specific characteristics, including gender stereotypes, associated with the restructuring of economic activity and the work of lower-paid workers that make their chances of becoming rich through their current work remote.

Looking ahead: economic change and social prosperity

Our first impression is that the positive aspects of the new economy seem to be mainly economic, while the negative aspects are largely social. This brings to mind a picture of economic change disrupting established patterns of social life. It also suggests that the increased material well-being that economic growth brings can be bought at the cost of increased threats to health, happiness and security. The general principle that emerges from these thoughts is that human well-being has several different components or dimensions, social as well as economic, psychological or spiritual and material.

However, there are soon qualifications. There is, above all, the danger of over-generalisation, of assuming that everyone wants the same thing. For example, the fragility of communities and the fluidity of relationships may suit some people, perhaps many. Not everyone wants to live their life within a set of permanent relationships or in what can easily be experienced as the suffocating atmosphere of a close-knit community. This is why "flexible working patterns" emerge. For many women with caring responsibilities who have been denied access to good jobs due to traditional assumptions about gender roles, flexibility increases opportunities for paid work.

In this case, it seems possible to identify groups of winners and losers systematically on the basis of employment status, gender, age and other social characteristics. This is not quite the same as recognising differences in personal preferences, such as wanting to be left alone. Taking this thinking further reveals some tensions within the more "economic" positive aspects of the new economy. For example, personalised services through computer ordering are a benefit to consumers, which, in an overall assessment of the desirability of economic change, must be weighed against adverse effects on other economic groups, such as increased insecurity and lower wages for some workers.

Following this line of thinking raises questions about the efficiency gains from the widespread use of ICTs and social networks: who benefits and who should benefit? To what extent do consumers benefit as efficiency gains bring lower costs that could be passed on in lower prices? Should more of the efficiency gains from ICTs be passed on to consumers in this way? The policy dilemma is how to ensure that sufficient ICT cost reductions are passed on
to consumers while at the same time allowing enough to remain as gains to provide adequate incentives for firms to continue to innovate in times of crisis.

Rising inequality introduces another dimension to our thinking about economic change and welfare. It might seem that we can simply say that this is just another situation of winners and losers. Rising income inequality is unfortunate if you work in personal care or in a call center, but it is fine if you are an opera superstar. However, while some people may accept or even welcome inequality as the basis for the aspirations to material success that motivate many people’s lives, others find it unacceptable or unfair. Among them are people whose views on income inequality are independent of their own income position, that is, independent of the outcome of economic activity for themselves. When people are interested in the welfare of other people, they engage in ethical enquiry. Ethics is concerned with questions about what is good for people, what is the good life for a person and how we should live. This includes the question of what economic and social arrangements are desirable and on what basis we should make such decisions. On the other hand, does a sense of social justice suggest that income inequality has gone too far from 2008 to the present, devaluing relatively low-paid but socially valuable work, such as jobs in the personal care sector? This includes the question of what economic and social arrangements are desirable and on what basis we should make such decisions.

Conclusion

Every age and nation define its most pressing economic problems for itself. They emerge from a complex public dialogue, involving ideas and experiences, theories and political pressures. Economists influence and participate in that dialogue, but they certainly do not control it. Are we living through a new industrial revolution driven by digital transformation? Should we be grateful to big companies like Facebook and Apple for their new products or seek to curtail their power? Does more material well-being always make people happier? Do poor countries benefit from international trade and globalisation? Is continued economic growth environmentally sustainable? Assumptions about what is economically possible and desirable influence the answers that politicians and academics give to these questions.

The variety of understandings of the new economy and interpretations of its desirability illustrate how economic theory is both a debate and the public dialogue to which it contributes. The presentation of theory as debate carries the more general message of this article, namely that economic theory is not a fixed body of knowledge but, like all the social sciences, a field of enquiry and contestation. Economists, like other social scientists, develop different and distinctive ways of thinking about the world, or broad conceptualisations within which they work. These different worldviews are influenced by issues that economists consider important. In other words, how economists think depends in part on what they think about, observe and research.

Therefore, as economies and economic issues change, so does the pace of people’s lives, especially in times of crisis.

In this context, over the past 18 months, micro and large corporations and civil society alike have been forced to endure the health and economic shock of the COVID-19 pandemic. Bankruptcy filings by small, medium and large companies have brought drastic changes in business models, and the new economy adds new questions looking ahead to "permanent uncertainty" and the "speed of response of economic and institutional actors to a range of economic and health challenges". In addition, there is a substitution of face-to-face work by teleworking, with the consequent conditions of family overcrowding, where households are not prepared to coexist with maximum labour productivity (Barra, 2021).

References


