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The New Economy: facts, impacts and policies[☆]

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Abstract

The world economy is undergoing a fundamental structural change driven by the globalization of business on the one hand and by the revolution in information and communication technology on the other. The New Economy is the superior economic structure that is expected to arise as an outcome of these two forces. The papers in this special issue attempt to assess the significance of the New Economy, to estimate its impacts on economic growth, location of production and on income and wealth inequality, and to evaluate its prospects for economic development. Policies for promoting the New Economy are also discussed. © 2002 Elsevier Science B.V. All rights reserved.

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1. Introduction

In the late 1990s, many business leaders, investors, journalists and politicians became firmly convinced about the fact that the world economy is undergoing a fundamental structural change driven by both globalization and the revolution in information and communication technology (ICT). The superior economic struc-

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ture expected to arise as an outcome of these two forces was coined the ‘New Economy’ in the business press. The argument was simply that a business firm, an industry or an economy which is able to successfully utilize these global trends would eventually outperform its rivals. And, indeed, the casual evidence for the New Economy was strong. The stock market boomed, powered by ICT and ‘dotcom’ companies. Productivity and economic growth as well, took off in the United States. As a consequence, even average Americans warmed up to the idea that there really is a New Economy. According to an opinion poll conducted in March 2000, 57% of them believed that the United States has entered ‘a new kind of an economy’ that is ‘significantly different from the industrial economy’ (Business Week, 2000).

Given the interest shown by the policy-makers worldwide, it is surprising to find how scant the research on the impacts of the New Economy really is, especially outside the United States. Even the definition of the concept is rather vague. As Cohen et al. (2000) point out, the ongoing transformation of our economy has been given many names: a ‘post-industrial society’, an ‘information society’, an ‘innovation economy’, a ‘knowledge economy’, a ‘network economy’, a ‘digital economy’, a ‘weightless economy’, and an ‘e-economy’. They all have their merits in emphasizing the different aspects of the structural change but are also vulnerable to misinterpretation. For example, the economy has always been driven by knowledge and innovation. Therefore, we prefer the term New Economy as it is the one generally adopted in the business and financial press.

2. A definition of the New Economy

In its original meaning, the New Economy is a well-defined concept. As mentioned above, it was coined by the business press to mean two broad trends in the world economy that have been under way for some time (Shepard, 1997). The first is the globalization of business. Simply explained, this means that, after the collapse of socialism, capitalism is spreading around the world. Markets are being introduced, and trade and capital flows are being deregulated. International trade and investment now play a greater role in each country’s economic policy than 15–20 years ago.

The second trend is the revolution in information and communication technology. Its driving forces are rapid improvement in the quality and sharp decline in the prices of ICT equipment and software, the convergence in communication and computing technologies and the swift growth in network computing. The ICT revolution has been going on since the invention of the transistor in the late 1940s.

But given that computer prices have been declining at rapid rates for the past 50 years, what makes the late 1990s so different from the earlier periods that the use of the phrase ‘New Economy’ is justified. Three explanations can be given. Firstly, a technological breakthrough seems to have occurred in the mid-1990s in

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