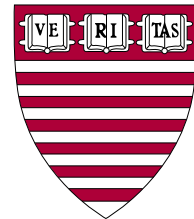


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AND THE NEW ECONOMY**

by
Jeff Madrick

Research Paper R-24
December 2001

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Introduction

The new economy of the late 1990s was an invention of the media and Wall Street, not economic scholars. As *The Economist* wrote in 1999, the stunning American economic growth of the 1990s required a “very big idea” to explain it. The new economy was that big idea.

Some may complain that such grand contrivances—think of ‘the organization man’ or ‘the nuclear family’—are inevitably oversimplifications, and are easy fodder for critics, especially in retrospect. But, in fact, Americans firmly believed in the new economy in the late 1990s. They made personal and corporate investment decisions in the hundreds of billions of dollars based on a loosely formed faith that something unprecedented had happened to the economy. The American business media, Wall Street analysts, and an expanding cadre of consultants and academic experts asserted that this idea was grounded in serious economic and historical analysis.

The broad faith in a new economy ultimately did a great deal of damage. It encouraged investors to pay prices for securities that could not possibly be sustained and resulted in serious losses for individuals. Hundreds of billions of dollars were invested in new ventures that did not bear fruit; the capital was dissipated on state-of-the-art communications systems, high salaries, fancy office furniture, and corporate jets. Meantime, economists wrung their hands in worry over the low level of savings in America.

Most damaging, the nation was convinced by the enthusiastic rhetoric that it had solved its central economic problems. While striking financial progress was made in the last five years of the decade, as wages for all income groups rose strongly, the performance was neither strong enough nor as yet had lasted long enough to compensate for the erosion of the previous two decades—including a relatively poor performance in the first four years of the Clinton

administration. In 2000, when economic growth began to slow down, typical family incomes were only about 5 percent higher than they were at the last peak of economic prosperity in 1989; poverty rates were only slightly lower than in 1989; average wages were still below their 1970s levels; half or more of male workers lost ground as they aged from their thirties into their forties, fifties and sixties.

The evidence presented in this paper will show that the mythology of the new economy reached unusual heights, even by modern standards. The media correctly and often insightfully reported on a variety of important changes in the economy along the way, but the tendency to exaggerate their impact grew intense. By 2000, new economy rhetoric became a frenzy of half-truths, bad history, and wishful thinking.

For the most part, economists did not subscribe to the idea. This in itself does not suggest the idea was wrong. Economic analysis is typically slow to warm to major change, and arguably these days, academic economists are more cautious than ever before. But there was, in truth, little empirical support—at least as yet—for a new economy that was unprecedented in any meaningful way. To take some highlights:

- The rate of productivity growth between 1995 and 2000 was by no means unprecedentedly strong. There were several half-decade long periods of faster productivity growth over the century.
- More important, the rate of productivity growth over the entire business cycle of the 1990s—which is the only acceptable way to measure a trend—was significantly lower than it was in almost all business cycles since the Civil War, with the exception of those in the 1970s and 1980s. The rapid growth of the late 1990s, on which claims of a new economy were based, did not compensate for the slow growth of the early 1990s.
- While most Americans made serious economic progress since 1995 as wages rose, they did not return to the rates of growth of previous eras.
- By the late 1990s, most references to the new economy meant the Internet. Many analyses that claimed an economic revolution was

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underway asserted that the Internet was the heart of fundamental changes in the way business was done. But the direct contribution of the Internet to economic growth was small; e-commerce accounted for less than 2 percent of all transactions in 2000. The economic impact of the Internet was indirect, insofar as it stimulated consumers to buy PCs and subscribe to Internet services.

- Unusual financial factors contributed significantly to economic growth. Most important was the highly valued stock market, which induced high levels of consumer spending, capital investment, and private borrowing. These were certainly not unprecedented phenomena.

This is not to say that there were not important changes in the American economy over the past twenty-five years. In fact, some were indeed unprecedented. Rather, the American economy always changed rapidly and in unprecedented ways. If the economy of the late 1990s was a new economy, then there were new economies repeatedly in America since 1800. The agricultural economy itself transformed from one based on wheat, corn and tobacco to an exuberant one based on cotton, technological advances in the cotton gin, and abhorrent slave labor. The economy changed dramatically with the canals; the large mills of Lowell; the American system of firearms manufacture; the expansion of the railroads and the telegraph; the federal mails; the mass production of consumer goods; the age of big oil and steel; the moving assembly line that made autos so inexpensive; the spread of electricity as a power source of homes and business; the introduction of dozens of new electrical products, including the radio; the development of artificial chemicals and drugs; jet travel; the television networks; and the expansion of the suburbs.

Medical discovery was of equal importance. Pasteur's germ theory changed life as much or more than any technological development. The x-ray machine, small pox and other vaccines, sulfa drugs and antibiotics, fluoridation, the polio vaccine and the seat belt had great consequence on American life.

Claims for the new economy of the 1990s had no such context. If economic analysis was lightly treated in the media concerning these issues, history was almost completely misread. In truth, the new economy was not an economic concept but a social metaphor for the times. It only functioned, however, because people

believed it was true. That is to say, they believed it was an economic concept largely because the media and Wall Street treated it as one—indeed, told them it was one. All societies, it may be argued, require myths to hold them together. But such myths can exact a price. In the case of the new economy, the price has been high.

Overview

This paper will explore how this happened. First, it is starkly clear that the horse that led the cart was the performance of the economy, not economic analysis itself. Among the more surprising findings of this paper is how often the phrase 'new economy' was used to describe various changes in the economy well before the late 1990s. Most of these were interesting and important economic events, but claims that they ushered in a new economy were largely journalistic or marketing contrivances. When the nation's broad economic performance was strong, the claims that these changes marked the early stages of a "new economy" typically grew in number. When the performance was weak, new economy claims almost disappeared.

Only when the economy grew strongly and persistently in the late 1990s did the idea of the new economy at last have staying power. The media, Wall Street and a variety of authors, including a handful of academics, essentially threw the idea of a new economy on the wall time and again until it stuck. As *The Economist* suggested, the economy performed so well that the media, Wall Street and policymakers inevitably had to come up with a concept to explain it.

A second factor in the rise of the new economy as a social metaphor was that the American business press had become highly interpretive, and increasingly conferred on itself the authority of an expert. In an earlier era, the business press sought to explain and interpret events according to a wider range of views based on reporting with experts. Increasingly, it offered a strong point of view itself. As a result, opposing views were often given short shrift and the uncertainty that would accompany any thesis was minimized. The British business media, even though at times with strong and arguably biased viewpoints, adopted tones that were more open to alternative explanations or that admitted to uncertainty.

For all the implicit authority of the nation's business media, including the business sections of general interest publications, the evidence

presented by the media to support a case for a new economy was anecdotal and selective. Rarely were there well-grounded surveys or statistical analyses. In sum, the business media, especially in America, now typically presented conclusive theses with minimal ambiguity even about complex subjects. The new economy became one of these theses. It was increasingly asserted as true by interpretive and expert media. Alternative or less sweeping conclusions were, if occasionally brought up, rarely emphasized.

A third reason for the zealous acceptance of the new economy was that it was good business for the media. Ad pages for high-technology products soared in these years. New publications rose to enormous profitability in months. Eventually, readers and viewers wanted their optimistic convictions reinforced. With stock prices high, and billions invested in new companies, investors in particular wanted optimistic news. The nation, I believe, was disposed to good news. The media read its mood well.

In general, in fact, the new economy was treated almost as if it was a marketing campaign. The banner was the 'new economy.' The tone of articles was exhortatory and promotional. The campaign worked.

Finally, experts with convincing credentials arose to substantiate the points made by the media. Wall Street analysts in particular, often with advanced degrees from impressive academic institutions, were quick to fill the need for authoritative quotes. Eventually, university scholars were also available for most conceivable opinions. A symbiosis between the media and experts developed that bred misleading information. Such information tended to feed upon itself. I would call it a 'symbiosis of misinformation.' The term second industrial revolution was widely adopted in the late 1990s to explain the spread of, and potential consequences of information. Such pronouncements, as noted, were devoid of historical knowledge.

John Maynard Keynes famously wrote that, "Madmen in authority, who hear voices in the air, are usually distilling their frenzy from some academic scribbler of a few years back." Today, it is more likely that men and women hear voices that have nothing to do with any sincere scribbler of an earlier time. Rather, increasingly, they contrive an idea to fit the opportunity and authorities, also sensing opportunity, arise to support the point. There are three categories of such authorities. First, the business media themselves have become self-appointed experts. Second, the media quote authorities with

clear-cut vested interests as if they are disinterested and objective parties. These include Wall Street analysts, consultants and corporate executives. Third, academic and think tank-style authorities rise up to fill the need for authority. The media rarely make clear that these sources, too, have vested interests.



The methodology used in this paper is straightforward. Extensive computer searches were made for articles in the print business media and general interest media with business sections that referred to the new economy or various related words, such as industrial revolution, network economy, information technology and information age. References were tallied and the articles were comprehensively read in search of common characteristics.

In particular, I read almost all the substantive articles in *Business Week*, *The Economist* and the *Wall Street Journal* that were related to the new economy from 1980 to 1999. These articles conveyed a picture of change over time that shed considerable light on the nature of business journalism in this era.

Findings

The most surprising finding of this paper is that the phrase new economy was common since the 1970s. A search of all business print media found that there were nearly 775 references to a new economy between 1985 and 1994, but it was used in many different ways. For example, information technology, by which I mean methods dependent on computerization and computer chips, was often a component of the definition of a new economy even in the 1980s. But it was by no means always a component of such definitions. Indeed, the new economy was often called upon to describe bad times as well as good.

Even by the mid-1990s, the new economy did not solely refer to information technology. Globalization, deregulation, privatization and faith in markets were also often included as components of the definition in these years. More important, when the media referred to information technology as the source of a new economy they were typically unclear about what this meant. It was a fuzzy concept based more on faith in "technological advance" than explicit diagnosis of how it would work. Anecdotes were presented as evidence and analysis was cursory.

Eventually, the new economy had come to mean the Internet and the private intranets of corporations. There were assertions about a weightless, paperless, office-less, and transportation-light society of e-commerce and instant, comprehensive information. The worlds that were imagined read like science fiction. Rarely, were the simple hard facts stressed. For example, the price of computer power fell dramatically, therefore it was far cheaper to use such technology. But this did not mean “the way business was done was changed.”

In addition, business had created a series of very “hot products,” such as e-mail. One of the foundations of every era of fast growth in the past were hot products, such as the sewing machine, automobile, washing machine, and television set. But romantic possibilities were attributed to the Internet and e-mail. They were not simply great products; they became products that had no precedents in history.

By the late 1990s, the number of references to the new economy soared dramatically. What stimulated the interest was not analysis but the surprising strength of the American economy and soaring stock prices. In particular, the Nasdaq average, dominated by new high-technology companies, doubled between late 1998 and early 2000, even when most analysts thought it had already reached extraordinary and even insupportable heights.

The use of the phrase by 1999 was astonishing. It had the characteristics of a feeding frenzy. By this period, the new economy essentially meant the Internet in the media. In 2000, a feeding frenzy turned into something still more extraordinary. The new economy was simply everywhere, and references to it exploded.

Here are the details of the quantitative findings.

Table A: References to the New Economy: All print business press

Year	References
1985–1994	773
1995	325
1996	370
1997	527
1998	1,048
1999	3,215
2000	22,848

Source: Lexis-Nexis Academic Universe

As can be seen in Table A, between 1985 and 1994, there were 773 references to the new

economy, or about 77 a year. In 1995, references to the new economy began to rise dramatically. But only by 1998, when the nation’s economy had kept growing rapidly to the surprise of all economists, and when stock prices rose to extraordinary heights, did references to the new economy truly take-off. They reached more than 1000 that year. By 1999, the feeding frenzy was underway. References tripled to more than 3,000, and in 2000 they rose by seven times to well more than 22,000. It is fair to say that all of America and much of Europe was now aboard.

Breakdowns of references by other classifications reveal precisely the same trend.

Table B: References to the New Economy: the *New York Times*, the *Wall Street Journal*, and the *Washington Post*

Year	References
1985–1994	167
1995	24
1996	36
1997	58
1998	88
1999	237
2000	1,443

Source: Dow Jones Interactive Services, Inc.

There were nearly 17 references a year to the new economy in the pages of three leading newspapers, the *New York Times*, the *Wall Street Journal* and the *Washington Post*, between 1985 and 1994. The number grew in the early 1990s, but rose only slowly until 1997. But by 1998, the enthusiasm was again approaching a feeding frenzy. By 1999, references were ten times what they were in 1995. They leapt to extraordinary heights in 2000—that is, by some seven times over their 1999 level, sixteen times over the 1998 level, and by some 60 times since 1995.

If we turn to the three major news magazines, we see a similar trend.

Table C: References to the New Economy: *Time*, *Newsweek*, *U.S. News & World Report*

Year	References
1985 to 1994	22
1995	5
1996	8
1997	29
1998	21
1999	54
2000	252

Source: Dow Jones Interactive Services

The data essentially speak for themselves. In 1995, there were five references to the new economy for the three magazines. The number of references rose in 1999 to ten times the number, and exploded in 2000 to five times the 1999 number and fifty times the 1995 number.

A similar search of a half dozen European publications of general interest again show a similar explosive trend. The European press was slower to catch on to the concept. In our text analysis, they also treated it more tentatively. But by 1999, the number of references surged and then multiplied in 2000. The new economy was a worldwide phenomenon. While the European treatment of the new economy was less enthusiastic and more nuanced, the rising frequency of references probably reflects how influenced they were by events in the U.S.

In order to picture better the explosive nature of the references to the new economy, we have graphed them. We should not take entirely literally the absolute number of references that computer searches turn up. They include some noise, such as references to “new economy ministers.” They also add and delete publications over time.

The trends of the data, however, are probably dependable. If we index 1995 to 1.0, we can discern a pictorial trend that makes the point clearly. In Figure 1, the number of references rises rapidly to the right by 1999. When we include references in 2000 in Figure 2, we can see how it dwarfs even the rapid 1999 rise. The new economy concept was truly ubiquitous by 1999 and exploded by 2000. It had come to dominate the business press.

The Evolution of the New Economy in the Press

To make clear how frequently and with what degree of variety the term ‘new economy’ was used before the late 1990s, we will take a brief tour of *Business Week* magazine in these years. *Business Week* was probably the leading advocate of a new economy in the late 1990s. It referred to the new economy in article after article and often used the term on its cover. It won several awards for its coverage, including the prestigious Loeb Award. Its leading reporters were highly lauded for their pieces. In informal inquiries, economists and Wall Street analysts typically cited *Business Week* as the most aggressive proponent of the view that a new economy was reshaping America.

In August 1998, the magazine congratulated itself for its coverage of the new economy. “Three summers ago, *Business Week* introduced its readers to the idea that the U.S. economy was undergoing a metamorphosis,” wrote the editor-in-chief. “The New Economy, as we called it, came under sharp fire, mostly from traditional economists . . . But the data, though incomplete, are starting to support the concept of the New Economy.”

Between that editorial and early 2000, the economy performed even better than *Business Week* anticipated, and the magazine had grounds for further self-congratulation. Many publications were equally enthusiastic supporters of the new economy.

But, in fact, the history of the new economy did not begin for *Business Week* in the summer of 1995, as the magazine’s editors implied. Let us return to the summer of 1981. “Perhaps at no time since World War II has the performance of the U.S. economy been more mystifying,” wrote the magazine (6/1/81). “To get a better view of what is really happening, the editors . . . turned away from conventional methods of looking at the economy and examined instead the behavior of each of its five great sectors . . . The result is a restructured economy running by new rule . . . creating a new economy that is more resistant to business cycle downturns and able to absorb large increases in employment.”

This sounds remarkably familiar—yet another announcement of a new economy in which the death of the business cycle had a featured role. It was written in a period in which the economy had temporarily come up for air after several years of massive lay-offs, hostile takeovers, leveraged buyouts, and corporate restructuring. The soaring inflation of the late 1970s was subsiding and interest rates, if high, were returning to a normal range. This is a first clear example of the way in which economic performance motivated the search for a new economy rather than the other way around. *Business Week* wrote that the restructuring underway in those years, involving the first new round of mergers since the conglomerate wave of the late 1960s, could be the source of renewal. Manufacturing was shrinking and being replaced by new technology companies and services. Another source of revitalized growth was said to be the increased investment in energy companies.

That a new economy had evolved resistant to the business cycle, however, turned out to be an unfortuitous claim at the time. *Business Week* assumed that because historically cyclical

Figure 1. New Economy References: 1995–1999

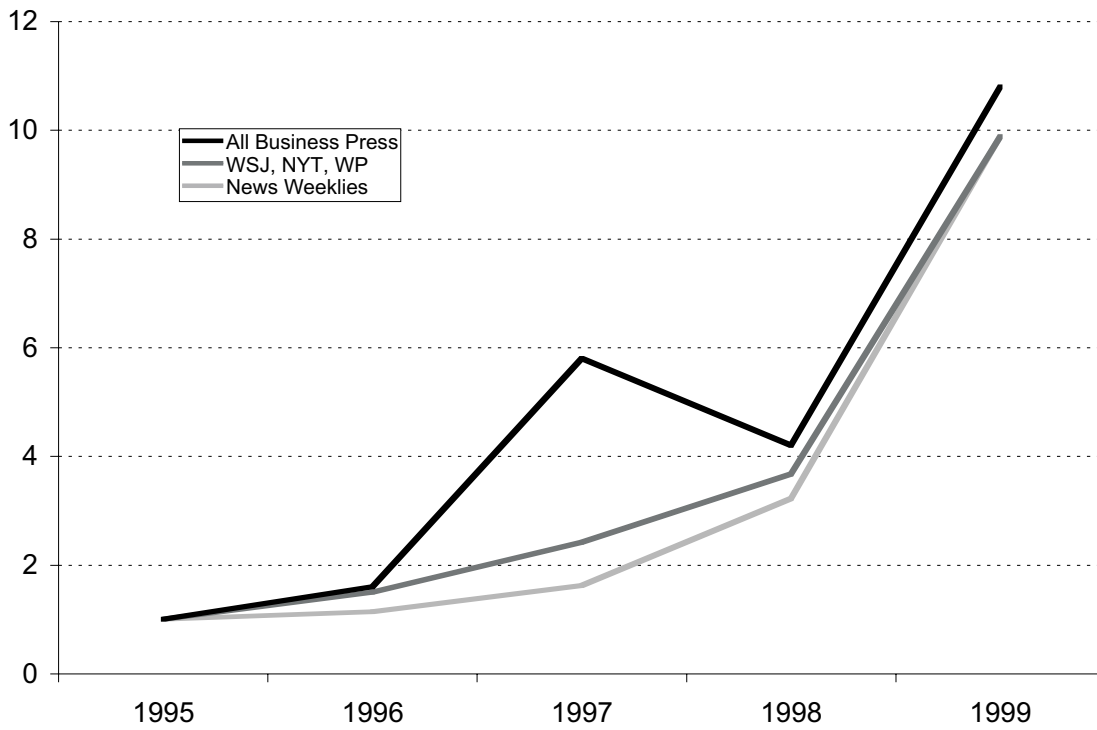
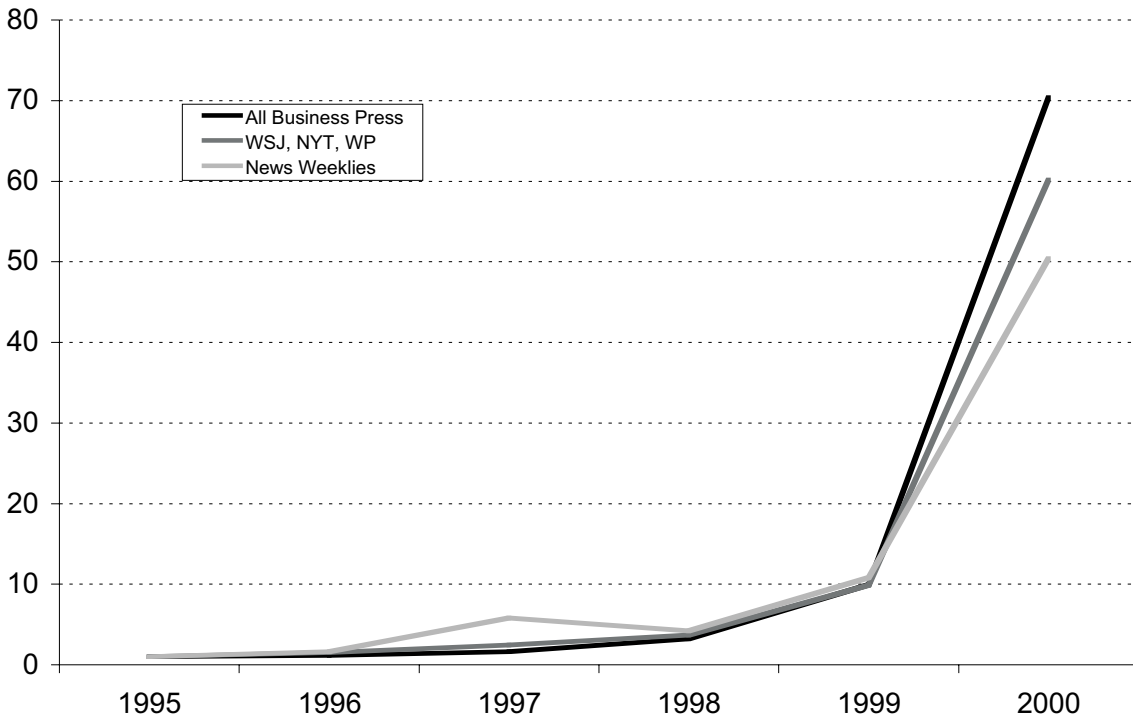


Figure 2. New Economy References Explode in 2000



manufacturing was shrinking, the economy itself would be less cyclical. But the worst recession of the post-World War II period was to begin a few months later.

Let us move forward only a few years to the winter of 1985. The magazine now devoted a special issue to what it called “the most revolutionary economic change in a century—the emergence of a ‘new economy’ (sic) of services and high technology.” To make such a claim (1/21/85), the transformation of the mid-1980s would have had to exceed in importance the coming of the automobile, electricity, the x-ray and antibiotics, the sanitation of American cities, the chemical revolution in agriculture, the telephone, the cinema and television. No matter. History was the enemy of hot journalism.

This was not the new economy of 1981, which *Business Week* said was grounded in corporate restructuring and painful adjustments to high oil prices. The true impetus behind *Business Week*’s groping for yet another exciting explanation was the three years of rapid economic growth following the severe recession of 1982. *Business Week*, like many other publications, sought a way to explain the good news—and if it could be a revolutionary, enthusiastic and highly optimistic way, so much the better. Thus, *Business Week* highlighted the obvious—computerization and more services—and proceeded to call them the revolutionary and unprecedented causes of a new economy. (As we shall see, many other publications did the same thing in these years.)

Two years later, *Business Week* was no longer praising the new economy of services and high technology. To the contrary, the market crash of October 1987 had deflated such optimism. *Business Week*’s November 1987 cover now announced the following: “The New Economy: Say Hello to the Lean Years.” “Five years of borrowing and splurging are over,” wrote *Business Week* (11/16/87) “Sacrifice and industriousness will be the features of the new economy.” Where the hero of 1985 was business, the culprit was now debt. Indeed, it was debt that drove the new economy to its heights in the mid-1980s, the magazine now argued. And manufacturing was making a moderate comeback.

In 1993, *Business Week* put yet another face on the new economy. It used the phrase to describe a U.S. economy that was deindustrializing, that was importing ever-more goods, that continued to lose manufacturing jobs at a frightening pace, and that had experienced stagnating wages for more than twenty years despite the

Reagan tax revolution and the now ubiquitous computer. The focus was the debate over the free trade agreement in North America, known as NAFTA. *Business Week* quoted Theodore J. Lowi, for example, as follows (1/13/93): “Nafta is the Rorschach test of the new economy, the perfect projection of people’s feelings about their economic future.”

Business Week was by no means alone in the facile resort to the phrase over these decades. It is not entirely fair to single it out, but it was a useful illustration. In 1982, a regional issue of the *New York Times* published the following (1/19/82): “With unemployment in New Jersey reaching 9.2 percent last month and the effects of declining interest rates and a sizzling stock market still over the horizon, economists say that there will never be a return to familiar patterns of past decades and that a new economy—its future rooted in high technology—is taking shape. The labor force, they say, is experiencing a trauma that represents the birth pangs of an economy conceived long before supply-side and demand-side economics became familiar, if not widely understood, words . . . A proliferation of service jobs, from selling insurance to cutting hair, has been filling the void (left by declining service industries) that seem, for the present at least, recession-proof. . . . But the real future, the experts say, lies in high technology . . .” No experts or economists were cited to support these views. And the economy, it soon became clear, was already in a deep recession.

By the mid-1980s, there was a growing literature announcing a new economy. The genesis of such ideas seemed to follow a pattern in contemporary America. First, there was a small cadre of what we might call professional futurists. John Naisbitt and Alvin Toffler were leading futurists who early on proclaimed an “information age” of computer-driven change.

A computer search showed a significant upturn in the use of the phrase ‘information age’ in the mid-1980s. Its popularity was directly related to the spread of the computer and, in particular, the affordable personal computer. *Time Magazine* had already named the computer the Man of the Year by 1982. But the ‘information age’ was at least as fuzzy a concept as was the new economy, and its causes were by no means clear. Information was a key component of social and economic advance even in the Middle Ages. The economic historian Carlo Cipolla points out that books were bartered for two cows in the 1200s, when cows meant feeding a family. He goes on to point out that in 1400, the annual

salary of a medical professor could buy at most six books. In a couple of centuries, the price of books fell by more than 99 percent. This was truly an information age.

In the nineteenth century, America's extensive stagecoach mails were a marvel of the world, and they carried newspapers across the country. Beginning in the 1850s the telegraph was the first instantaneous form of communications, and telegraph lines were typically put up along the rail right-of-ways. In the early twentieth century, the telephone, radio and cinema made America a true information-rich society. Television in the 1950s was probably the single most extraordinary source of proliferating information of the century, the Internet notwithstanding.

As usual, analysts in the mid-1980s took hold of the most obvious facts of economic change and ascribed causal qualities to them. In the mid-1980s, these were the advent of the computer and the decline of manufacturing, which was being replaced by services. The computer was obviously an information-manipulating tool. It eliminated much clerical work but also made possible easy categorization of information and eventually instantaneous knowledge of real-time activities, such as consumer buying habits and complex chains of production and distribution.

The decline of manufacturing, in turn, called attention to the importance of services in the economy. In truth, Americans bought more services than manufactured goods by the middle of the twentieth century. Services were also an important component of the great industrial revolution of the late 1800s, as retailers such as the Atlantic & Pacific Tea Co., the railroads, and the mail made services a central component of individual's lives. But in the search for causes of change, services became an all-too-obvious candidate.

Several books were published in these years that received considerable attention. John Naisbitt was already a best-selling author in 1986. Two years earlier, in *Megatrends* (Warner Books), his best seller, Naisbitt spoke of a new economy. "We are changing economies," he wrote, "The industrial-based institutions, practices and companies that are at its core are giving way to new technologies, new ideas and the beginnings of a brand new economy."

In 1985, he and Patricia Aburdene published *Re-Inventing the Corporation* (Warner Books). A highly optimistic account of the future, its theme was "a new economy" based on information rather than industrial might. Its insights in retrospect were fairly banal but nevertheless

correct in broadest perspective. Information was clearly increasingly important in an economy in which the computer made access to it ever cheaper. As services such as healthcare, finance, and marketing became a growing proportion of the nation's Gross Domestic Product, such labor-intensive activities typically required so-called "knowledge workers." These claims were essentially self-evident. But explanations of change were demanded and they seemed to fill the need.

For example, a Canadian technological thinker, Robert Russel, wrote a similarly optimistic tract called *Winning the Future*. He foresaw a less materialistic culture that emphasized quality over quantity. It was, wrote Russel, the second phase of the information revolution. Toffler's entry in this period was *The Third Wave*, which emphasized a "knowledge economy."

In this period, a variety of books that actually had new economy in their title were published. In 1985, a financial planner named Venita VanCaspel, for example, published *Money Dynamics for the New Economy*. Two consultants, Karl Albrecht and Ron Zemke published, *SERVICE AMERICA! Doing Business in the New Economy* (Dow Jones-Irwin). "Just as America experienced an industrial revolution around the turn of the century," they wrote, "so we are now experiencing a service revolution."

Most of these books had some measure of thoughtfulness. One of the better books was published in 1986 by Ronald K. Shelp, a business executive, and former senator, Gary W. Hart, called *Understanding a New Economy*. In fact, it served as a way to launch Hart's presidential campaign. Its main theme was again the transformation to a services economy. While it offered little that was new, and was replete with exaggerations of revolution, it was based in fact. Its principal recommendation was to emphasize education and job training in an economy that increasingly required more sophisticated workers.

Thus, by the mid-1980s, the concept of 'a new economy' was decidedly in the air. Information technology was often a component of the new economy, but in this period the rise of services was more important. One of the correct insights of the period was that services were not all poor substitutes for manufacturing. Some emphasized that such a services economy would largely produce jobs for hamburger flippers. But others correctly argued that it also provided great opportunity in more remunerative areas, such as finance, sales, marketing, accounting, and

management. Wall Street happily reinforced the rhetoric. "The gleam in the president's eye when he talks about a new economy is really being supported," said a Wall Street economist, Allen Sinai, reflecting a widespread view of the Ronald Reagan economy that would soon be sundered (*San Diego Union Tribune*, 2/7/86).

In this period, *Business Week* published the cover story cited above, which as noted emphasized computerization and services. In June 1986, *Fortune* put "America's New Economy" on its cover. "The business cycle has not been repealed, but things look brighter than they have for decades," the magazine wrote. No academic economists were cited to support this contention, but it was clearly catching on. *Business Week*, as noted, made the same claim.

U.S. News & World Report's cover announced "Brave New Economy" around the same time. But the theme was decidedly more ideological. The strength of the economy was attributed to "breaking the back" of inflation. Surprisingly little was made of computer technology in this story. Instead, the magazine stressed a more competitive private sector. "The more muscular economy is the result of some good luck on oil prices, some Washington actions that have strengthened industry's ability to compete and, most important, the success of Chairman Paul Volcker's Federal Reserve Board in breaking inflation," the magazine wrote. "The combination is unleashing the private-enterprise system to do its thing."

The *U.S. News* story was more traditional than most and better grounded in economic principles, if contentious laissez-faire ones. It cited several serious economists, but its basic bent was ideologically conservative. With inflation coming down, it foresaw only good times for the economy.

By 1987, the optimism faded. It was not a new economy after all, the media maintained, but excessive debt that drove the economy to its temporary heights in the middle of the 1980s. *Business Week*, recall, announced the beginning of lean years. By the early 1990s, the new economy had come to mean something decidedly pessimistic. The reason was again obvious. A recession had sent unemployment up, wages down, and the nation's confidence faltered. The new economy was now usually about lost manufacturing jobs and an educational divide that relegated workers that only went as far as high school to poor jobs.

This, indeed, turned out to be a permanent fixture of the American economy. It was, indeed,

new. The gap in pay between those with only a high school education and those with some college inexorably grew. "In this new economy," wrote the Labor Secretary Robert Reich in the *Wall Street Journal* (4/30/93), "those who can quickly identify and solve new problems are at a premium. High-wage, unskilled and semi-skilled manufacturing jobs, meanwhile, are growing scarcer."

The business media succeeded in making the educational divide clear to America, but that this was a new economy was merely a contrivance—an easy hook to hang an idea upon. The concept of a new economy was in the air, however. When Bill Clinton took office, he led a conference on what ailed the economy, which consistently referred to a 'new paradigm.' In this period, America had lost the competitive edge to Japan and Europe. Some traditional liberals used the idea of a new economy as a call for fiscal conservatism—that is, the end of federal budget deficits. This fiscal conservatism was a key plank for "new Democrats."

Why did the term new economy become so widely used even in these early years? In fact, why was the word 'new' so widely applied? I believe it clearly reflected the confusion and disappointment of the times. There were indeed significant changes in the economy beginning in these years. These began with the oil embargo of 1973 and the quadrupling of the oil price. There were long lines at the gas pump, only to be followed by virulent inflation in general and record high interest rates in the late 1970s. Americans had to manage their money by buying new certificates of deposit at the bank or investing in new money market funds; they could not simply leave their money in the bank any longer.

By the early 1980s, federal authorities were prepared to subdue inflation even at a high cost. The recession of 1982 punctured inflation, but at a severe cost in high unemployment rates, a weak employment market, and sagging wages. In the ten years since 1973, there were three recessions, two of which were severe, and wages in particular for male workers were falling on average.

Unemployment remained relatively high in the 1980s and early 1990s, wages performed poorly, manufacturing jobs were lost on balance, the U.S. trade deficit generally soared, and spouses increasingly went to work. Incomes became highly unequal in America as well, and educational attainment became critical. The number of Americans without health insurance rose consistently.

The overriding fact, whatever the causes, was that between 1973 and 1995, the American economy grew at historically slow rates because productivity failed to grow the way it once did. So long a poor performance for productivity—the output of goods and services per hour of work—was not experienced since before the Civil War.

There had been claims for “new ages” and “new eras” often in the past, especially when stock prices soared, such as at the turn of the last century or in the 1920s. Again, there were similar claims in the 1950s. But there was no history of repeated use of the term every half-decade or so to mean something largely different each time.

In fact, America wanted a new economy badly. A new economy implied to the reading and viewing public a return of the good times. The media, with considerable help from Wall Street, were willing to give the public what it wanted. An interpretive press of self-appointed experts could fill its pages with all manner of claims. They were a press that increasingly purged doubt or even rumination from their pages; they had an explicit, authoritative point of view. The press perceived that the demand for certainty among their readership exceeded the demand for accuracy. Increasingly, they found experts with good resumes to reinforce these views.

By the late 1990s, the use of the term new economy took a qualitative turn. There was a growing consensus that the new economy was linked most strongly to information technology. But fuzzy definitions predominated. In an extensive search of newspapers and magazines between 1978 and 2000, the phrase ‘new economy’ was used to describe the services economy, the information age, deindustrialization, wage stagnation, income inequality, deregulation, privatization, the Reagan tax cuts, high levels of debt, small vibrant companies, globalization, and of course computer technology. By the end of the 1990s, the new economy typically meant the Internet, pure and simple.

The True New Economy?

The media made claims to be the first to recognize the true new economy. But futurist authors, as noted, had long before found in computerization a bottomless pit of potential claims for America’s transformation. America’s faith in technological advance lent these claims credibility. In addition, a group of technologically oriented digital futurists, we may call them, waxed poetically on these matters. Nicholas

Negroponte, who published his highly readable *Being Digital* in 1995, led them. Another futurist of importance was Manuel Castells, who published his *The Rise of the Network Society* in 1996. The digital futurists were distinct from the more general futurists. They were more scholarly experts, often teaching at first-rate universities, but their influential works were more acts of speculative insight than grounded in empiricism or strong theory (though the authors would surely disagree). Such works can, of course, be valuable. These books, in my view, were not the first cousins of seminal works, such as *The Wealth of Nations* or *The Origin of the Species* or, in contemporary times, *Silent Spring* or *The Feminine Mystique*, but rather more closely related to the valuable if more casual musings of someone like Marshall McLuhan. They are often acts of faith as much if not more than acts of scholarship.

But by 1995 or so, new economics books appeared on the subject that fused these ideas. An economist, Nuala Beck, published an insightful book in 1995 called, *Shifting Gears: Thriving in the New Economy* (HarperCollins). Her key point was one that was neglected for more romantic ones in later years. She believed economic growth would be stimulated by the rapid fall in the price of computer chips. This, she argued, was the equivalent of the fall in the price of steel and oil in earlier decades. Thus, Beck’s new economy was not unprecedented; it followed in the footsteps of its predecessors.

Beck merged this idea with the rise of knowledge-based services, one of the frequently cited concepts of the previous decade. But this foray into the new economy was at least grounded in serious economic thinking. Beck, in fact, helped start a mutual fund a couple of years earlier called “The New Economy Fund.”

In 1995, the media had not yet arrived at a full embrace of the new economy. In fact, that would take several more years. But as economic growth strengthened, there was a slow transformation of the use of the term. In 1995, the new economy still largely referred to the divided labor market. In an article in *The New Democrat*, Will Marshall, then president of the Progressive Policy Institute, equated the new economy with “changing labor requirements (Jan./Feb. 1995).”

Even in June 1995, *Business Week’s* premier new economy writer, Michael Mandel, was writing about the new economy as if it represented a separate segment of the overall economy defined by where the good jobs were being

created. To Mandel at this time, the economy had new economy industries, "such as entertainment, education, computer services, communications and consulting, which are adding workers at an astonishing clip (6/19/95)." In fact, as late as March 1996, Mandel wrote a piece about economic "angst" that did not mention a new economy. It was a period in which the press was trying to explain why the economy had so many lay-offs, but there was as yet no broad optimism in the air. Economic growth was still relatively slow, and many believed a recession was imminent.

But 1996 was a turning point. The number of references to the new economy did not begin to rise noticeably over 1995, but optimism did. The economy, rather than falling into recession, seemed to be gathering speed. The most important reflection of that optimism was the rising stock market. As early as March 1996, *Black Enterprise* warned its readers that it had better become technologically sophisticated because they would otherwise miss out on "the new economy."

Another strand of thinking had also been developing. It had more validity because it was more empirically based. The way businesses were being managed was changing. This was a bottoms-up analysis rather than a top down one, and it was not only related to information technology. The main cause was intense global competition for markets. Since the 1970s, the number of new products introduced each year had soared. Innovation became a hallmark of business, and a premium was put on creativity. A Harvard Business School professor, John J. Kao, wrote a best seller, *Jamming: The Art and Discipline of Business Creativity* that captured these new themes. "Jamming is a way of managing in this so-called New Economy," he told a *Business Week* interviewer (11/21/96). "Really, when you boil it all down, the New Economy is a banner under which we recognize certain new kinds of asset classes. We recognize the value of ideas; we recognize the value of transforming those ideas in value. We recognize the value of agility . . . Jamming is a skill set for working in the New Economy." Many business consultants wrote books along these lines.

But "jamming" was a necessary consequence of the new economy, not its cause or reason for being. By the end of 1996, *Business Week* gained the confidence to declare in a headline, "The Triumph of the New Economy (12/30/96)." One reason—perhaps the main one—for *Business Week's* confidence was not the pure analysis of

how computers had revived productivity but rather a soaring stock market, which the article noted had risen by 65 percent since early 1995. In truth, productivity itself was only up slightly at this point.

Nevertheless, *Business Week* admirably put itself on the line. It wrote, "The stock market's rise is an accurate reflection of the growing strength of the New Economy." There were two cornerstones to *Business Week's* new economy. The first was globalization and the rise of America's exports. Never mind that imports rose still faster. Second was information technology. Business investment in such technology, the magazine correctly pointed out, was rising rapidly.

Globalization and information technology were the early twin pillars of the new economy for other publications as well. But as the economy strengthened in 1997, globalization took a back seat. Eventually, it was business's willingness to take dramatic investment risks, for example that spurred the new economy, according to *Business Week*.

Most publications were still fuzzier. In 1997, *U.S. News*, for example, published a story with the headline, "The New Economy," which included just about everything: changing labor markets, the Nafta trade agreement and globalization, corporate restructuring, the decline of unionization and of course information technology. "In effect, a second industrial revolution appears to be washing over the land . . ." the magazine wrote.

One problem with the argument was that the economic data did not support such contentions. The famous productivity paradox of earlier decades was that, while computerization spread, the growth of productivity remained slow. At last, in 1996 and 1997, productivity began to rise more rapidly, but it was hardly a revolutionary pace. Many complained that the data were wrong. The value of new services was in particular undercounted, they claimed. In July 1997, *Wired* magazine wrote a glowing cover story of a new economy of reduced costs and digital processing that inspired Wall Street and justified its fondest wishes. The nation was open to fantasy journalism, for fantasy journalism it was.

But even when the federal government ultimately adjusted the data, it turned out that there was not even a small uptick in productivity growth until 1996. Those proclaiming a new economy were forecasting events, not explaining contemporaneous ones. Paul Krugman, an economist then at Massachusetts Institute of

Technology, argued in a widely read piece in the *Harvard Business Review* in 1997 and in *Foreign Affairs* in 1998 against the new economy advocates. Alan Blinder, the former vice chairman of the Federal Reserve, wrote a similar piece in *The American Prospect*. *The Economist*, which was often but not always skeptical of the new economy, wrote in 1997 that, "A new economic paradigm is sweeping America. It could have dangerous consequences (9/13/97)."

The magazine saw the twin pillars of the new economy as *Business Week* did: globalization and information technology. But it was not about to suspend its disbelief. "A strong contagion is spreading across the land: the belief that technology and globalisation promise unbounded prosperity and render old economic rules redundant has infected American managers, investors and politicians with remarkable speed." Increasingly, Wall Street economists such as Allen Sinai and Ed Yardeni of Deutsche Morgan Grenfell, who was increasingly called a "New Economy-guru," provided enthusiastic arguments in support.

America's strong performance did require explanation. Inflation was not reviving, contrary to what economists predicted, even as economic growth speeded up and the unemployment rate fell. But there were other candidates to explain rapid growth. American laborers accepted low wages without protest, which helped raise corporate profit margins. Rapid increases in demand helped induce productivity gains by increasing economies of scale. A high dollar enabled America to import capital even when the nation generated little savings. Speculation in the stock market added demand for goods and services as well as for investment, but it was not grounded in especially rational views of prospects for companies. Private borrowing soared. The price of computer power fell dramatically, making many applications more economic, but it did not necessarily, as noted, "change the way business was done."

The media generally sided with a romanticized view of the new economy. Despite this growing consensus, the new economy defied a consensus definition. This lack of clarity represented the deep-seated confusion about events. The media provided sweeping descriptions of the new economy that seemed to include everything for fear of leaving something out. In 1997, for example, the *Washington Post* offered this version of the factors that "explain why recent events fail to comport themselves to the old patterns (10/11/97):"

"Globalization, which prevents U.S. companies from raising their prices while at the same time offering then new sources of production if segments of domestic economy run out of capacity.

New technology, which has dramatically increased the ability of companies to produce more goods and services with fewer workers.

Deregulation, which has opened many key industries to competition, forcing them to operate more efficiently and creatively.

Restructuring of industries that has concentrated economic activity in fewer, larger and, more efficient firms that reap benefits of scale and specialization."

The American economy strengthened further in 1998 and 1999 and references to the new economy rose rapidly. Now, indeed, productivity was rising strongly and unemployment continued to fall without generating inflation. A new economy was a still more plausible possibility than it was a year or two earlier.

In addition, more serious scholars now joined the fracas on the side of a new economy. Dan Sichel and Stephen Oliner, two Federal Reserve economists who had resisted the new economy, now argued that business had invested so much in high technology in the late 1990s that it could have raised the rate of productivity growth, and therefore economic growth, significantly. Paul David, a highly regarded economic historian, claimed that new technologies of great impact often took a long time to take hold as old technologies were replaced and new ones eventually reached a critical mass. The Commerce Department extolled *The Digital Economy*, in a publication that was widely criticized for its over-simplifications.

The leading economic personage in favor of a new economy, however, was of course Alan Greenspan. He offered little data to back up his occasional contentions, but he argued that information technology could well have made business much more efficient. Such changes, he said, might come along only once or twice a century. (He also frequently suggested the data were wrong.)

More important, Greenspan acted on his convictions, or so it seemed. Beginning in 1997, he either cut interest rates or failed to raise them in the face of more rapid economic growth. The more forgiving monetary policy almost certainly helped stimulate more consumer and business demand. By these years, Greenspan had reached idol-like standards, and his comments, if ambiguous and often contradictory, were

influential. The media could not help but fan the flames.

There was an alternative explanation for Greenspan's looser policies. He did not want to puncture an inflated stock market. As long as inflation itself was tame, he could simply maintain a loose hand on the throttle. And inflation did stay tame. It was seen as evidence of gains in productivity, but it was also subdued by a high dollar, which reduced import prices, reduced inflationary expectations among consumers and docile workers who did not demand higher wages.

To be fair, there were occasional articles that raised skepticism, but such skepticism was rarely sustained, even in *The Economist*, which was probably the most skeptical of major publications. These arguments received short shrift, especially in the American press. Cheaper computer power was making doing business cheaper, a point we have raised a couple of times, but perhaps it was not changing the way business was actually done. Sichel and Oliner did not argue that business was being done differently, for example, only that capital investment in high technology was rising, which could have been and was probably largely stimulated by falling semiconductor prices. Yet, wrote *The Economist* in 1999 (9/21/99): "This not just about a matter of accumulating extra capital. The new economy is about the specific potential of information technology to change the way businesses work and thereby yield a quantum shift in productivity." This indeed was the conventional wisdom; it was not supported unambiguously by the facts.

The "quantum shift in productivity" was still a figment of forecasting imagination, however. As the economist Robert Gordon began to point out, a large proportion of the productivity gains were earned by the makers of computers and related products themselves, not the users of these products, especially if one adjusts for the business cycle. Gordon may yet turn out wrong and other academic observers found examples of many companies that improved productivity when they invested substantially in information technology.

To be fair, the Gordon analyses were widely carried in the business media. But they did not divert the direction of reporting. The new economy was a force in itself, even if it continued to defy simple definition. As late as 2000, *The New Yorker* offered this multi-faceted and fuzzy analysis of the new economy (5/29/00): The New Economy isn't a myth. The massive increase in

computing power since the seventies, the end of the Cold War, the rise of the Internet, and globalization—all these things have had far-reaching effects . . . The New economy has put a premium on the values of networks, and there are genuine differences between the economics of software and the economics of hardware."

The Economist, perhaps in an attempt to clarify the muddy water, pared down its definition in 2000. "The most distinct notion of a new economy defines it as a sustainable increase in the rate of growth in labour productivity—output per worker or worker-hour—as a result of the production or deployment of information technology 10/12/00)." The heck with globalization; now, it was all computer power.

As the American economy strengthened, the claims for the new economy grew bolder and more careless. History, in particular, was mangled. It is worth raising several examples to demonstrate how the media treated history as something that needed little or no verification. You could say just about anything, and just about anything was said. Not merely journalists, but business consultants and celebrity authors joined this circus of imaginative and illogical historical citations.

Consider the famed network economy, cited by *The New Yorker* above and dozens of others. The problem was that networks were hardly new. The first retail chain was a network, which reduced costs dramatically through economies of scale. The telegraph was a network, as were the railroads. Telephones were clearly a network. By the 1930s, we had radio networks; we even called them networks. The most efficient networks of all were, well, the TV networks.

Many analysts used a single illustrative metaphor, including Lawrence Summers, shortly before he became Treasury Secretary, to describe the alleged unprecedented power of new technologies. One fax machine alone is useless, they said, but two such machines multiply the value of each. But one telephone was also similarly useless. The value of television multiplied as it swept through the nation. Selling ten cars reduced the unit cost of each, and of course selling 500,000 reduced the unit cost dramatically. Networks were always the essence of a mass production economy.

The Economist fell prey to one of the more serious and frequent historical gaffes. It argued that, "Electricity achieved a 50 percent share of the power used by America's manufacturing industry 90 years after the discovery of electromagnetic induction, and 40 years after the first

power station was built. By contrast, half of all Americans already use a personal computer, fifty years after the invention of computers and only thirty years after the microprocessor was invented. The Internet is approaching a 50 percent penetration in America 30 years after it was invented and only seven years since it was launched commercially (9/21/00)." But television reached a 70 percent penetration seven years after it became commercial, and it was relatively much more expensive than the PC or an Internet service to the American family. Radio was also a quicker sell than the Internet. More important, what determines the starting point of these technologies? If we date the beginning of the commercial automobile to the development of the moving assembly line, it reached 50 percent penetration within ten years or so—and it was very expensive for the American family even at \$300 for a Model T. To claim that technologies are being adopted more quickly is questionable.

Another favorite claim is that prices never dropped as fast as they did for computer power. In fact, this is probably the single claim that remains true. But prices dropped rapidly in the past for many key goods and services. The price of steel fell by two thirds in twenty years; the price of petroleum products fell by three quarters. The price of reaching a household with a marketing message fell dramatically with the spread of television.

Moreover, prices dropped for the very reason that some argue that Internet revolution is *different*. The argument is that there are high fixed costs but low and even negligible marginal costs when one sells a product over the Internet. This model of business is hardly new. It was the central thesis of mass production. Unit costs fell dramatically as volume increased. These were classic high fixed cost-low variable cost businesses—and they existed probably even before Adam Smith's Scottish pin factories in the 1700s.

One final example is instructive. Analysts seem to believe that this is the first information age. This is hardly true. But here is how simplistic the media can get in its enthusiasm. *The Economist* claimed that the big difference between the Internet and the railroads, another transforming technology, was that the Internet carries information. So, of course, did the railroads. The U.S. mail was carried by railroad and the federal system was the envy of the world. Not only that, one of its most important functions was to bring newspapers from town to town.

Sources of Misinformation

It was as if the media were intent on creating new Old Wive's Tales. What were the sources of these historical tall stories? The first were the media themselves as self-proclaimed experts. Inexpert, perhaps especially in history, they persistently made unjustified claims about it anyway. The second were a group of general authors, who also bent history to their needs. George Gilder, the conservative futurist, claimed in the *Wall Street Journal* (12.31/99) that it was an increasingly weightless economy, as hard goods became less important. Alan Greenspan thought such a claim was also pertinent. But weightlessness, so to speak, was a trend that got underway beginning in the 1800s, as services such as retail chains, large wholesalers, the U.S. mail, and banking were relatively weightless contributors to economic growth. Kevin Kelly, the editor of *Wired* magazine, manufactured dubious aphorisms by the dozens in a widely cited book, *New Rules for the New Economy*, published in 1998. A third group were Wall Street analysts. Mary Meeker, a highly influential analyst, was quoted in *U.S. News* (4/3/00) that, "Stocks for a new industry have never risen this quickly, and a new industry has never emerged this quickly." Fourth were academic scholars who were increasingly willing to be flippant about the so-called new industrial revolution. "Not since the Industrial Revolution have the stakes of dealing with change been so high." wrote one professor in the *Harvard Business Review* (May/June 2000).

Such big but also simple ideas grabbed the attention of the reader. They exploited as well his or her desire to hear only good news, especially a reader was also an investor in stocks. But, finally, the new economy was simply good business for the media. The value of ad pages bought to promote Internet services rose by 183 percent in 2000 over 1999 to nearly \$280 million. As can be seen in Table D below, high-technology advertising in general in 2000 increased by 49 percent at the *Wall Street Journal*, 34 percent at *Business Week*, 86 percent at *Fortune* and 83 percent at *Forbes*.

If the media occasionally ran stories that were skeptical of the new economy, they simply seemed to provide a cover for waxing enthusiastic in the rest of their coverage. Only the crash of high technology stocks in 2000, and later the slowing of the economy and the uptick in the unemployment rate, cooled the rhetoric. Throughout 2000, even as the stock market began to slide, the media defended the new

Table D: High-Technology Advertising Revenues

Publication	Total Dollars (Millions)	Percent Increase (1999–2000)
The Wall Street Journal	\$434.8	49.4%
Business Week	216.0	34.4
Fortune	141.9	86.1
Forbes	111.8	85.3
USA Today	109.3	29.8

Source: Business Week

economy valiantly. *The New Yorker*, as noted, insisted in early 2001 that, “The New Economy isn’t a myth.” This reflected the conventional wisdom of the moment. *The Economist* published a piece in the fall of 2000 about, “How information technology can boost economic growth (9/21/00).” It argued that the true new economy would probably only flower once the Internet was fully exploited. But as of 2001, commerce over the Internet was less than 2 percent of all business transactions in America. Surely, the Internet did not produce the rapid growth and productivity gains of the late 1990s. What it did do was something more banal but very important: it was a hot product, like the television or washing machine that people simply wanted. So they bought PCs and hooked up to Internet services in huge numbers. This has always been why economies grow, but it is not the romantic stuff of a new economy.

By 2001, there were reaction stories. Some claimed that the new economy was indeed a myth. But the media still maintained a loyalty to its brainchild, even if recession was imminent. *Business Week* started writing about “new economy recessions.” *The Wall Street Journal* asked about “New Economy-style growth recessions.” In the first few months of 2001, there were fewer references to the new economy than in 2000 but still vastly more than the number of references in 1999. It would take more to kill this idea than the high-technology crash.

The Impact of Rhetoric

All social metaphors reflect a deeper-seated set of values and ideas. In my view, “the new economy” was a particularly effective social metaphor, however. It conveyed both enthusiasm and a sense of revolutionary change. After two decades of poor economic results, revolution, especially one without cost, was highly desired. Moreover, I think that people believed only something as sweeping as a revolution could raise them from stagnation. So a revolution, the

media, Wall Street, and politicians determined to give it to them. The phrase was always repeated on the cable-TV financial programs.

Alleged revolutionary change had one other advantage. When such revolutions occurred in the past, they were hard to discern. Few understood the far-reaching changes of the new industrial age in the late 1800s, for example, when it was occurring. So lack of an empirical basis for claiming a new revolution was underway was not a deterrent; indeed, it could be construed as proof that it was occurring.

The concept of a new economy justified speculative stock prices. In fact, it promised miracles. A new economy meant that historical precedent was meaningless. It also induced enormous business investment in high technology, including Internet services that were ill founded. Corporate executives leaped into these new technologies so as not to be left out. Many of these were not carefully reasoned decisions. New economy rhetorical enthusiasm simplified their decisions.

This paper cannot demonstrate this empirically. In trying to discover the impact of rhetoric, however, the new economy would be an ideal case study. It would be useful to survey both individual investors and corporate executives to see what a new economy meant to them. Questions could be framed in a way that would reveal how the idea influenced their actions.

But in my view, the most damaging impact of new economy rhetoric was on public policy. By 2000, the nation had only begun to make up for the erosion in the standard of living over the preceding two decades. Male wages were still historically low. Families, on average, were working much longer. Both income and job insecurity were up. Incomes were adequate to buy food, clothing and electronics goods, which American business made with astonishing efficiency, but incomes fell much further back compared to the key goods and services of contemporary times: housing, education, healthcare, drugs, public transit and child care.

In the swirl of new economy rhetoric, these issues were ignored. New economy rhetoric was of a piece with two quasi-religious economic beliefs. One was what George Soros and others call market fundamentalism, which argued that unfettered markets could fairly and efficiently distribute almost all goods and services. The second was what I call technological determinism. This suggested that as long as technology advanced, economies would grow.

Thus, new economy rhetoric implied that America had solved its central economic problems. In the case of the new economy, rhetoric reflected the needs and values of the nation, but it also fostered them. America did not seek to do what it had done in the past to support economic growth. It did not create new institutions for a new economy, such as daycare or new educational programs. The media's irresponsible devotion to the concept of a new economy seriously affected public policy.

Reform

The business media did a lot well. It called attention to the many changes of the last twenty-five years of the century. It consistently explored themes about income inequality, educational needs, flexible manufacturing, fiscal and monetary policies, the accuracy of data, and even productivity. It reported the views of dissidents with responsibility. It occasionally published pieces that questioned even the new economy. Some writers were diligent skeptics. In general, the business media were far more sophisticated than they were in the 1960s, or even the 1970s.

But in sum, they did not provide a counterweight to the simplistic new economy rhetoric. American business journalism in particular was susceptible to sweeping conclusions and the minimization of uncertainty. These are means to gain readers, but they inevitably distort matters. The new economy was the ultimate distortion. In this paper, I could have listed a dozen

different definitions of the new economy as late as 1999 or 2000. Everyone knew what the new economy was, and yet no one did. It was what you wanted it to be. This was not journalism, it was marketing.

I am dubious about reform. The objective would be to return to a journalism in which it was not required to have a strong point of view in every story and in which discussion of new ideas can be temperate rather than charged. How do we get there?

One path is to do just what we are doing. We can continue to criticize. I think it would be useful to hold a conference on journalism's use of the new economy. These issues should be aired, and as many as possible should be called upon to explain themselves, criticize us critics, and vent their own frustrations.

But second, there is need for a different kind of publication. There is no equivalent of *The Economist* in America. *The Economist* is rightly criticized for a strong and often disguised conservative point of view. But it does two things that American publications often do not. It presents many sides of an issue, with full recognition that answers cannot always be known. And it also presents long and thorough analyses of these issues. There is no popular publication in America that addresses serious issues in such detail.

In truth, the business media in America goes mostly unchastened. It swings with conventional opinion time and again, presents its sources as if they are objective, and has increasingly reflected the views of the relatively privileged.

Was there a multiplicity of voices heard in America on this subject? There were examples of non-consensus reporting, but these were not emphasized. Certainly, there was little non-consensus reporting on TV. In sum, the American business media spoke with one voice. No. In fact, it shouted. It shouted the words, "a new economy is here to make us well again." A nation with so much trust in the future, listened too well.

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