

After the New Economy

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After the New Economy, by Doug Henwood, is a timely book in the best tradition of broad-minded, trenchant and critical commentary on economic life. In the United States, writing of this sort is uncommon, in part because of the highly professionalized nature of economics as a discipline. Commentators on the economy have to work hard to establish their legitimacy and, justly or not, are often quickly dismissed as “economically illiterate” or “ignorant of Economics 101” by accredited economists, who guard their turf fiercely. Even paid-up members of the AEA can find their credibility questioned when they venture into the public sphere, as Paul Krugman and Joseph Stiglitz have discovered in the past few years. Scrutiny is stricter when the message is unorthodox. This makes Henwood a rare fish — a writer whose economic analysis is both well-worth reading and (sometimes grudgingly) acknowledged by the gate-keepers as well-informed.

The conventional wisdom of the late 1990s was that the New Economy was an unprecedented miracle about to transform us forever. The conventional wisdom after the party ended and the recession and scandals began was that it had all been “a mix of collective folly and outright criminality.” Henwood insists it was neither. From the first page he argues that the New Economy circus emerged “from the innards of the American economic machinery,” as something that capitalism brought forth from within itself, and not for the first time. Though he doesn’t say it directly, he also wants to get across the idea that, in Marx’s phrase, “Capital is a social relation of production.” This is just the conviction that — exotic financial instruments, global capital flows and the complexity of modern market economies notwithstanding — the world of money is rooted in concrete social relationships between people. A capitalist market economy is not a neutral system governed by immutable laws of nature. Rather, even the powerful forces of supply and demand work within institutional contexts and cultural conventions. More than simply distortions or impediments to the workings of the economy, these contexts help constitute what the market is, and play a vital role in deciding how the social product is distributed, who gets exposed to the risks of economic life, and what positions are

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available within the social structure. There is substantial room for political choice — and political conflict — on each of these dimensions.

The best way to bring out this point is to take a comparative approach. The first three chapters of *After The New Economy* take the tenets of '90s rhetoric and confront them with evidence first from official data about the U.S. and then from studies of other countries. The trends in real wages, poverty rates and the occupational structure go a long way towards deflating the grandiose claims of unprecedented economic transformation that were thrown around in the late '90s. The biggest changes have all been in the direction of greatly increasing inequality in the distribution of income and wealth, to a degree not seen since the late 1920s. Growth in the middle of the income distribution has stagnated. From 1973 to the late 1990s, the only income group that did not experience a decline in real wages was the 90th percentile of the distribution and above. Those in the lower half of the income distribution had the hardest time. Martina Morris and Bruce Western (1999, 628) summarize the broad trends and the explanatory challenges they bring:

The key finding, however, is that earnings inequality has been growing among virtually all groups. Even among white men employed full-time, year-round, the group that has traditionally enjoyed the highest wages, most generous benefits, and greatest protection from cyclical downturns, the trends of wage stagnation and polarization have been marked. This leads to a set of research questions that breaks out of the usual “wage-gap” framework and begins to address the general issue of changes in labor market dynamics.

The chapters on Work and Income are largely descriptive, but well worth reading as they incorporate a lot of material that doesn't get discussed much in the U.S. context. There's a good discussion of the relatively low income mobility of families. Henwood also presents data from the Luxembourg Incomes Study showing that the U.S. has the smallest middle class and largest proportion of poor people of any of the advanced capitalist democracies. (This excludes Russia: others are welcome to make the case that Russia is a functioning capitalist democracy.) Now that the tremendous polarization of income and wealth is incontestable, “inequality optimists” often claim that the supposedly high rates of mobility in the U.S. make the issue moot. Drawing on Peter Gottschalk's work, Henwood offers a vigorous rebuttal of Cox and Alm (1999), a common source for claims that American society is highly mobile.

A second line of argument in these chapters focuses on the rapid increase in measured productivity since the late 1990s, which has widely been supposed to be the (much-delayed) payoff from improvements in information technology. Henwood argues that this increase is largely explained by large changes within high-tech sector that are not reflected in other industries. He is also skeptical of the productivity numbers themselves: the value and productivity of computers and other bits of information technology is very difficult to measure. The appropriateness of

the “hedonic pricing” methods used in official statistics is a difficult question that I am not in a position to answer here. But confidence in the numbers is partly a function of one’s belief that markets behave more or less according to neoclassical ideals. There is an analogy to the labor market: if you believe at the outset that wage rates reflect the marginal productivity of workers, then you will likely believe that systematic differences in pay are due to differences in skill rather than, say, employer discrimination. Similarly, *a priori* confidence in the rationality of managers and the discipline of market competition will make you more likely to accept the many statistical compromises that have to be made when quantifying the contribution to productivity of a new Dell with Microsoft Office installed.

A different way to approach the question of skills and information technology is via change in the occupational structure. Occupational shifts are easier to measure than productivity. Henwood shows that very few of the fastest-growing occupations during the 1990s were the kind of exciting, autonomous, “frictionless” info-tech jobs that were supposed to be in everyone’s future. He criticizes a typical example from the 1990s, Robert Reich’s (1991) claim that knowledge-intensive occupations staffed by “symbolic analysts” were the hot new trend. Henwood has little trouble showing that, although some cool new occupational positions undoubtedly exist, the fastest growing categories do not fit the New Economy image. They include food preparation and food service workers, computer support specialists, office clerks, truck drivers, nurses and nursing aides. Some of these jobs do involve intensive use of computers, but usually not in the ways suggested by the phrase “symbolic analyst.”

Speculation about the macro-sociological consequences of new technology is not new. Daniel Bell’s work on the rise of Post-Industrial society (Bell 1973) is an example from thirty years ago. Writing right at the transition away from the “golden age” of post-war capitalism, Bell argued that a new kind of society was emerging based on the increasing centrality of theoretical knowledge to the economy, the growth of a “knowledge class” of scientists and engineers, and a move from manufacturing to services. The rapid diffusion of computers in business and then homes from the ’70s onward led the negative label of “post-industrial” to be replaced by a positive one, the “information society.” Management guru Peter Drucker coined the term “knowledge worker” even earlier than Bell, in the 1960s, describing much the same set of occupations as Bell identified with post-industrialism. Reich’s symbolic analysts can be seen as the next waypoint in this conceptual migration. The latest move, coincident with talk about the New Economy, has been an emphasis on intellectual capital, flexibility, knowledge and skill under the concept of the “creative worker.”

Richard Florida’s *The Rise of the Creative Class* (2002) is a recent, best-selling version of this thesis. Florida argues that U.S. society now stratifies into four main occupational groups: the agricultural, working, service and creative classes. The creative class includes a “super-creative core” of “people in science and engineering, architecture and design, education, arts, music, and entertainment . . . [whose] job is to create new ideas, new technology and/or new creative content”. Besides

these occupations, the creative class also includes “a broader group of *creative professionals* in business and finance, law, health care and related fields. These people engage in complex problem solving that involves a great deal of independent judgment and requires high levels of education or human capital” (Florida 2002, 8). Florida’s creative class comprises about 30% of the workforce. About 12% of workers are in his “super creative core”.

Florida uses Standard Occupational Classification (SOC) codes to derive the classes. The super-creative core includes all computer and mathematical occupations, for instance. Some of the occupations in this group — ones with many workers in them — can only be tentatively classed as “super creative.” For instance, SOC code 15-1041 is “Computer Support Specialists.” Unlike the many food service, retail and care-related occupations (such as orderlies and home care aides) that have been on the rise, tech support is right in the IT sector. And in comparison to picking strawberries or flipping burgers, it’s not a bad job. But it’s not very creative, either, as you mechanically navigate a tree of questions to isolate problems and then read out the pre-written answers. The work of writing software is often not much better. While computer programming is often thought of (usually by people over 50) as high-tech, interesting work, nerd culture is full of terms expressing anxiety about monotonous and deskilled programming jobs. It’s not much fun being a code monkey in a cube farm (Daisey 2002).

Henwood follows up his survey of these trends with a discussion of the debate on globalization. This chapter is quite different from the others in the book, as it is less a summary of what we know about the global economy and more a rear-guard action against various wings of the anticapitalist movement that Henwood disagrees with. Like all good Marxists, Henwood has a clear-eyed appreciation of the real and potential benefits of capitalist markets, and no wish to revert to what Marx called “the idiocy of rural life,” with all the back-breaking drudgery that it entails. So he has little time for “de-linking” from the economy or bucolic communitarian utopias or self-imposed cultural isolation. The main targets of this chapter are Ralph Nader (“a man who seems proud of his (locally produced) hair shirt”), the Malthusian enthusiasms of Deep Ecologists, ecofeminist Vandana Shiva and activists David Korten and Kirkpatrick Sale. Henwood is particularly irritated by their attitude to culture:

Who needs literacy, really, wonders Sale, when what we’re reading is of little “merit”? Civilization, says Sale, is a “catastrophe,” and he longs for its “collapse.” This is snobbery, elitism and despair masquerading as radical critique.

Henwood’s view of the cultural and economic benefits of a global culture is much closer to Tyler Cowen’s (2002) than these globetrotting antiglobalists. On the other hand, he has plenty of critical things to say about the culture of capitalism. In his discussion of capital markets in the following chapter, he complains that

the cultural elasticity of profit isn't what it used to be. Shakespeare died rich, said Keynes, the beneficiary of one of the great bull markets of all time, the greatest the world had seen before the American 1920s. The American 1980s and 1990s were a massive bull move; we got "Friends."

There's no contradiction here: you can think "Friends" is a waste without believing the solution is the abandonment of literacy. He makes similar distinctions throughout in the book. Henwood derides "the nationalist fantasies of antiglobalizers," for example, but favors a strong role for the state in governing the market. One of the main tasks of the book is to remind American readers that a polarizing, unfettered market and authoritarian central planning are not the only choices available. People need reminding of this in a public sphere where many commentators insist that the domestic branch of the U.S. state is the epitome of "big government."

The American state *has* expanded a great deal in one area since the 1970s: Prisons. The rise in rates of incarceration, particularly amongst unskilled black men, has largely been a consequence of changes in sentencing policy rather than crime rates and has had a significant effect on patterns of employment, as prisoners are taken out of the job market in the short term (and not counted as unemployed) and ex-convicts find it much harder to find work in the long term (Western 2002). In the United States, the prison system is a significant labor market institution in a way unknown in any other advanced capitalist democracy. Differences in unemployment rates often ascribed to European labor market rigidities appear much smaller when the prison population is taken into account (Western and Beckett 2000). Henwood mentions the prison system only twice, and it's a pity he did not have the space or inclination to discuss it further. In many ways it's exactly the kind of transformation in the structure of economic institutions that the book is all about.

The brief conclusion of the book brings out a theme that pops up occasionally in the earlier chapters. At times, Henwood writes like a straightforward social democrat, arguing for strong welfare provisions and a stable bargain over wages and profits. ("There's no great mystery to making the poor less miserable and the middle more secure. You start with unions, add vigorous antidiscrimination programs, and finish with a civilized welfare state.") Elsewhere, he's happy to use the language of class warfare when describing the increasingly important role of the Federal Reserve from Paul Volcker's tenure onward. But by and large he confines his own general aspirations for a better world to throwaway lines here and there. We've already seen that he has no time for the anti-developmental utopias of some anti-globalization activists. He also slams "theoryheads," especially ex-Marxists like Manuel Castells (1996), for embracing the hype about the weightless, information driven society of the future. Mainstream economists — the "professional optimists" — are too willing to believe in the benevolence of the market and the wonders of the productivity boom. And of course the whole book is an attack on New Economy talk in general, particularly in the business press and from ideologues like George Gilder. So, in one sense, the book is an exercise in pouring

cold water on utopias wherever Henwood finds them. But it's also an effort to reclaim that language for the left. Why, he asks, "did The System's publicists need the utopian story?"

If all challenges to capitalism were dead, why did we hear so much about democratization and the overturning of hierarchy? ... Fine. If a little hierarchy-overturning economic democratization is such a good thing, then why not more?

The reason that Henwood hates New Economy talk so much is that its market populism is ersatz anarcho-socialism. The democratization of ownership through shareholding, the proliferation of fulfilling, creative work directed by autonomous workers, the elimination of corporate hierarchies, and above all the transcendence of the material world of production through the power of technology: this is Marx's dream filtered through the pages of *Business Week* magazine. This connection, ironically, might help readers who are otherwise allergic to the language of class conflict to see why Henwood's exposure of the New Economy's empty rhetoric is on target.

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