

The Workplace

A Fact Sheet

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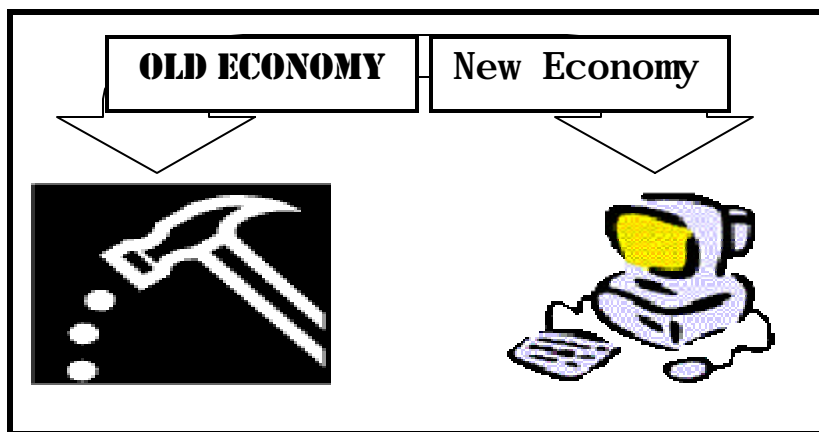
Highlights

- *Changes in the nature of the economy began around 1950*
- *New economy began to emerge between the 1970s and 1990s*
- *Old economy was production based/ new is knowledge based*
- *Education and training are keys for individual success*

What Is The New Economy?

It may be helpful to describe the “old economy” before we talk about the “new economy.” From around 1938 to 1974, the economy was built on a manufacturing base geared toward standardized production. It was organized into stable, hierarchical and generally autocratic organizations. These organizations achieved a competitive edge in the market by making standardized products faster and more economically. They focused on incremental cost reductions and a national marketplace. This is how success and prosperity were achieved in most states. In Alabama, examples of this type of organization could be found in textile and steel mills.

This economic order began breaking down between the mid-1970s and the early 1990s. As this breakdown progressed, both the national and state economies underwent a series of crises. Beginning in the 1950s there was a growing slowdown in productivity and wage growth—



from near 3 percent productivity growth nationwide in the 1950s and 1960s, to less than 1.25 percent through the first half of the 1990s. The crisis in Alabama included both textiles and steel. We lost our competitive edge because other countries were making things faster and cheaper. The cheap labor which had brought industries to the South was being underbid by even cheaper labor in offshore companies. At the same time, Alabama’s workers also began wanting a higher standard of living, wanting cars, televisions, washing machines, better clothes and homes, wanting a chance to educate their children—things that workers in higher wage states could afford. The cheap raw materials abundant in the

The old economy required manual labor; the new economy required science and technology with fewer non-skilled jobs available.

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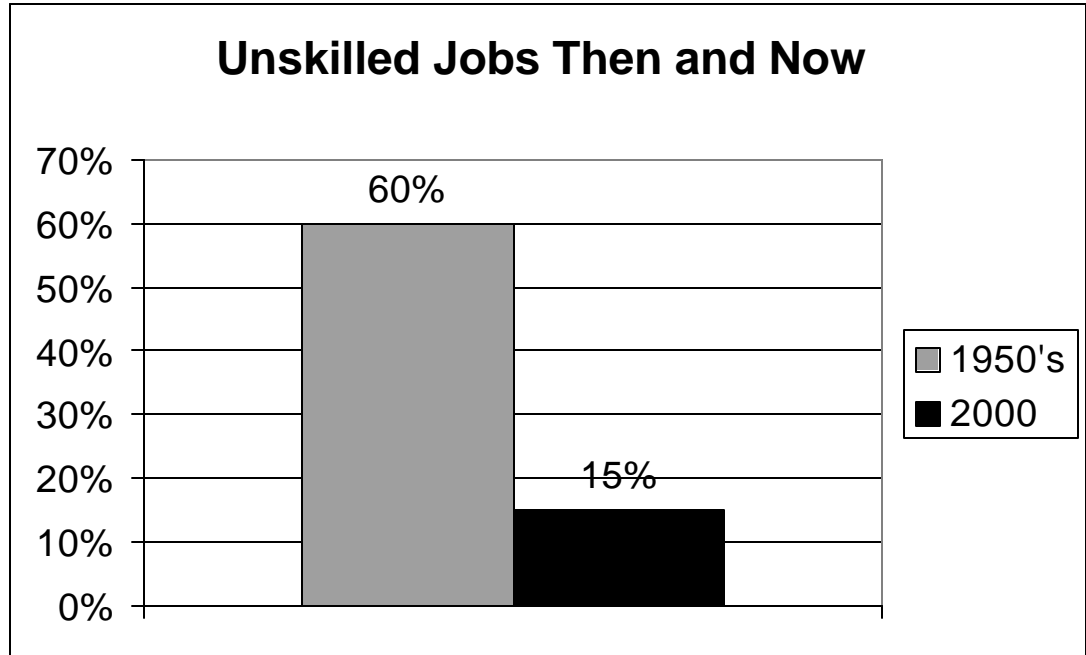


South were being used up and, where they remained in quantity, undercut in price from offshore or tied up in environmental issues. Some urban and most rural areas were particularly hard hit with higher rates of unemployment and outward migration. The crisis is still ongoing for many Alabama industries which are still focusing on speed and quantity for their competitive edge.

The crises we experienced were due to a period of transition from the old economic order to the new one. The new economy is emerging as a knowledge- and idea-based economy. In this new economy, the key to success and prosperity is the extent to which technology can be utilized, quality can be provided, and ideas and innovation can be embedded in all sectors of the economy. For example, 80% of the jobs in America today do not spend time making things, they move things, process things, or generate information. In 1950, 60% of the jobs could use unskilled labor—today only around 15% of jobs can use unskilled labor. The requirement for professionals has held steady at about 20%. The growth has come in skilled jobs, and these jobs require education and training. Real wages (adjusted for inflation) for high school graduates with no technical training are down 18% over the last 18 years. Real wages for persons without a high school diploma have dropped 40% in the last 18 years.

Most of us have seen evidence of change from the new economy such as revolutionary technological advances, high-speed telecommunications, the growing presence and use of the personal com-

puter, imbedded computer technology in the devices of daily life, and of course the Internet. The new economy is not just high technology and the Internet. Work is now being organized around technology and



During the 1950's there were four times as many jobs requiring to job skills as there are today.

evolving with technology rather than using technology to support a static work process. The new economy is about new organizational models as well, emphasizing teamwork and empowerment. It is about flat organizational structures with decision making no longer in the hands of a single boss. Growth among some of these new or reorganized firms is staggering. The term "gazelle firm" refers to companies which are bounding forward in large leaps—firms that have increased annual sales revenue by at least 20% for four straight years. When we talk about new jobs in the United States, around 75% are being created by 350,000 of these "gazelle" firms. Of course, growth is not without risk. About one third of all jobs are either newly added or scheduled for elimination. This is called job churning; it is primarily caused by new technology and increasing competition in the global market. Almost all jobs lost be-

tween 1970 and 1995 in the production or distribution of goods have now been replaced by information oriented jobs.

Where the old economy primarily focused toward local, state and national markets, the new economy has a global focus. Between 1960 and 1997, U.S. imports and exports grew at a rate 1.5 times faster than growth in domestic targeted production.

The new economy has meant a change in how states try to attract business and industry. In the old economy, the factors which drew industry to a state included low taxes, cheap land, abundant low priced labor, adequate natural resources, good transportation and other physical infrastructures. States trying to attract industry provided incentives such as tax breaks, free or low cost land, and other

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business incentives. Two key differences between the old and new economy in terms of how states or communities try to attract business and industry are:

- (1) Infrastructure now emphasizes information flow. Highways are still necessary, but ready access to the “information highway” is essential.
- (2) Abundant low priced labor is not enough.
 - Low priced US labor does not compete cost-wisely with low priced overseas labor.
 - Education is more important than cost to the technology oriented companies of the new economy. For example, in 1950, 60% of the workforce worked in unskilled jobs. In 2000, only 15% of the workforce is employed in unskilled jobs. The percentage of technical jobs has remained steady at around 20%. The unskilled jobs have gone away in favor of skilled jobs.

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Reference:

Progressive Policy Institute (1999), The State New Economy Index.



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