

The New Economy: mirage or miracle?

The economic impact of the widespread application of computing and telecommunications technology will bring great benefits to industries and businesses able to adapt to the “new economy”, says FRANK CICUTTO.

FRANK CICUTTO is managing director and chief executive officer of the National Australia Bank Group. This is an edited extract of his address to the Australia-Israel Chamber of Commerce in Melbourne on 31 March 2000.

Australia and its major corporations have much to gain from the changes commonly associated with the New Economy and are already well placed to do so.

However, these gains will require a collective approach on the part of government and industry that will need to address not only policy and investment needs.

There is also a need to constructively address community attitudes to change and the degree to which the benefits of economic and industry transformation are equitably shared.

THE NEW ECONOMY

I believe we are seeing the latest in a series of impacts from three broad trends — globalisation, major advances in computing and telecommunications technology, and deregulation of trade and financial markets.

These trends have been influencing economic and business shifts throughout the past decade and this has led to much excitement about a new economic era. What has led to recent comments about the emergence of a New Economy has been the extraordinary period of sustained growth and relatively low inflation in the United States. People have suggested that globalisation and technology have combined in the United States and bring

about faster productivity growth, higher profits, higher wages and lower inflation.

From that they have made heroic assumptions. First, that technology will lead to permanent productivity growth; second, that traditional links between rapid economic growth and inflation no longer apply; and, third, that traditional methods of valuing and pricing equities no longer apply.

They have argued that conditions in the New Economy will mostly favour certain industries such as computing, Internet services, telecommunications and media, and not others such as commodities, manufacturing or financial services. This has led to massive movements of equity funds into the so-called “high technology” stocks.

They have also suggested that national economies that are not home to plenty of these high-technology industries will inevitably suffer from low growth.

TECHNOLOGY'S CHALLENGE

Rather than the New Economy, I believe we are simply experiencing the economic impact of the widespread application of computing and telecommunications technology.

The challenge is for the whole economy — both old and new — too harness the gains from this technology.

The difference between today and five years ago is the pervasiveness of the technology and the subsequent impacts, including the rules and principles governing the economies in which these impacts are felt.

So, for me, the issue of Old Economy versus New Economy is less important than the issue of how rapidly countries and companies reap the benefits from globalisation, technology and deregulation.

And in that regard, I believe Australia is very well placed.

The momentum that has been generated by technology advances and the associated start-up of a new generation of companies will continue to build in Australia. Three broad categories of businesses stand to benefit:

- those that provide computing, telecommunications and systems technologies, as well as information content;
- those that can rapidly employ these technologies to improve their current processes and overall productivity; and
- those that both employ the technologies and also act as facilitators or intermediaries for the deployment of electronic commerce.

Australia's major banks are clearly in all these categories and are in the vanguard of industries benefiting from electronic commerce. The key point, however, is that all Australian consumers and all of our industries stand to benefit from the opportunities provided by electronic commerce and technology in general.

An issue for businesses is the need to align their strategies, structure and operating models with the demands of a fundamentally changed operating environment.

There is a massive reweighting of investment portfolios as a result of the surge in interest in high-technology stocks. As yet there does not appear to be any agreed method of valuing or pricing the so-called “dot com” stocks. While that proves a challenge for analysts and investors, I believe the core attributes of favoured stocks will remain the same.

In summary, what is called the New Economy is neither a miracle or a mirage. It is simply the economic impact of the widespread application of computing and telecommunications technology. **J**