New Economy, Old Economics

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Once again, our cover story highlights the ways in which new technology is changing how we produce goods and conduct business in many sectors of the economy. This time, the focus is on manufacturing. We have discussed technology, change, and related "new economy" topics so frequently in recent issues that you may be wondering what more I could possibly say about these subjects. Well, it occurs to me that this issue may provide a particularly good opportunity to reflect on the impact of the current wave of technological change on my own profession, economics.

Does the information revolution require changes in the way economists go about their business? I don't simply mean as users of information technology. Our productivity certainly is enhanced by advances in the methods we use to acquire, process, and disseminate information. But I have something more fundamental in mind. In the popular press, there have been assertions that the old rules of economics no longer apply in the new economy. The traditional laws of supply and demand, it is sometimes said, are giving way to the laws of cyberspace, where buyers and sellers find, negotiate with, and compensate one another in ways they never could before. Consider some of the developments in business-to-business e-commerce. Online marketplaces allow sellers to participate in more and widely dispersed markets. Will such capabilities change the way market prices are determined and make our old models obsolete?

I would suggest that rumors of the death of the laws of supply and demand are greatly exaggerated. Technology makes it easier for market participants to communicate their bids and offers and to access information on the bids and offers of others. Still, the higher the price that producers expect to receive for their goods, the more goods they will be willing to sell. And, when buyers expect to pay a higher price, they will generally buy less. These are the fundamental forces that continue to drive the determination of prices. By speeding the dissemination of market information, e-commerce makes it easier for buyers and sellers to determine prevailing market conditions. In this way, information technology may be making the actual performance of markets look *more* like the models in economics textbooks.

Of course, economists will always need to be aware of how market processes are accelerated or otherwise altered by changing technology. Our cover story notes some of the advances in the management of manufacturing enterprises that allow companies to have shorter production runs, fewer inventories, and more flexible processes. There is some evidence that such improvements have changed the behavior of inventories at the aggregate level. Traditionally, inventories served as an important leading indicator of the condition of the economy as a whole. Now, and in the future, we will need to understand how changes in inventory behavior affect the ability of inventory data to serve as an indicator. But this is something we can do with the standard tools of economic theory and statistical analysis.

So, while the information technology revolution is certainly having a dramatic effect on the economy, its effect on economics is more moderate. It indeed has given us a fascinating phenomenon to study, but it does not require an overhaul of our basic ways of studying and thinking about markets. The old economics seems up to the task of studying the new economy. And it's a good thing, since I'm too old to go back to school.

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