e-World revisited

A winning strategy: rush the Internet

How successful is the e-world today? Arising from the wake of erroneous projections and dashed entrepreneurial dreams, the e-world patient passed its annual physical exam with flying colors. Despite some transitory ailments, the patient was never near death, although the doctors were myopic and timid. While US e-commerce was projected to reach a whopping $1.3 trillion in 2003 by the more sanguine business watchers, actual figures, according to Forrester Research, tallied $2.4 trillion. The total for consumer e-commerce, while it is not as astonishing, given a 1999 estimate of $108 billion, still impresses observers at $95 billion. Worldwide, $3.9 trillion worth of e-commerce is anticipated this year.

Productivity has enjoyed a profitable symbiotic relationship with e-business growth. Using the Internet to respond to demand and supply of products and to communicate instantaneously with suppliers and customers, business could stand to gain $450 billion per year by 2005. That $450 billion in gains and savings by business has the potential to add $4,500 annually to the average US household's income.

People were obsessively negative about e-commerce in the past few years because they failed to identify the culprit that was bursting the e-business bubble—human nature's resistance to change and the learning curve required when introducing new technology. Cisco's CEO John T. Chambers believes it takes four to six years to realize fully productivity gains from new systems. Chambers estimates that productivity increases will reach as high as 5% annually, with the effect of doubling the US standard of living in 14 years. A recent study by MIT/University of Pennsylvania economists has suggested that the payoff from technology investment comes in five to seven years, implying that today's high productivity is the result of late-1990s investment. Federal Reserve Bank Chairman Alan Greenspan often warned analysts not to underestimate the learning curve required to implement new technologies productively; all the while he never doubted technology's longer-term contribution to productivity. So, perhaps, it is inaccurate to call the 5.7% increase in productivity for this year's April-through-June quarter "surprising." We should have expected this robust performance based on earlier heavy investment in technology.

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The potential of the Internet is being exploited in a variety of ways that benefits employer, worker, and the general population. Companies have been quick to gain from a worldwide workforce without adding employees to the permanent payroll. A sticky R&D or production problem can be posted on the Internet, soliciting the attention and expertise of professionals around the world. The person who solves the problem receives a one-time payment. Some payments by pharmaceutical company Eli Lilly have been as high as $100,000.

Academic institutions have turned to the Internet to increase income and sometimes to avoid closing their doors in the face of bankruptcy. Many have had to increase productivity to stay afloat. By using the Internet for core courses, Ohio State University reduced their cost by 31%. The University of Georgia reduced costs and increased productivity by putting all of its first two years' curriculum online. The University of Central Florida, faced with a doubling of enrollment and flagging state support, added courses that met once a week with the remaining work done online.

More than 2,000 universities offer e-learning classes, and enrollments are growing by 33% per year and expected to hit 2.2 million by 2004. The most popular programs target 30-year-olds hoping to build a career or upgrade skills needed on the job. The most successful of these is the University of Phoenix, with a profit of $31.8 million in 2001. The school, a pioneer in online education, enrolls 133,660 students, making it the largest private university in the USA. Enrollment increased by 70% last year.

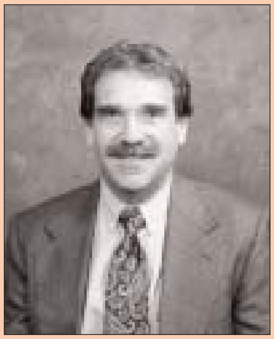
Hospitals are producing sophisticated online video presentations of surgeries accompanied by audio and background music. At $30,000 per live online broadcast, the cost has prevented most hospitals from employing this dissemination technique, but the training potential for doctors in rural areas or developing countries is considerable.

A new "nation" has been established thanks to the vibrant e-economy. People now talk of "eBay citizens." And why not? Some 30 million people will negotiate $20 billion in transactions over eBay, surpassing the GDP of all but 70 of the globe's nations. The eBay nation mimics your traditional nation-state with education, police, banking, economic, and political systems. This offers a fascinating model when contemplating future socio-economic organization.

The party is on the house

The US economy has sustained itself during recent down times because of the capacity of consumers to spend despite high unemployment—most recently at 6.2%. (Some economists say that the unemployment rate is closer to 10% if forced part-time work and discouraged workers who have left the workforce are taken into account.) Consumer spending rose 2.5% in 2002 to $6.4 trillion, representing two-thirds of all US economic activity. Higher consumer spending defies logic until you calculate into the formula unprecedented refinancing of homes. Refinancing stuffed $200 billion into the pockets of consumers last year. The average cash-out per home was $27,000. As a result, homeowners on average now hold less equity in their homes than at any other time.

•••••• by Michael Manson



Pension promises

When is a promise a promise? Almost never when it comes to workers' pensions and benefits. That is why the US government created the Pension Benefit Guaranty Corporation (PBGC). When private companies fail and cannot meet their obligations to workers, the government partially offsets losses to employees through the guarantee fund. That was an acceptable solution as long as the PBGC itself remained financially sound and demands on the organization's funds were reasonable. But the rash of giant corporation failures has drained the resources of the PBGC and it is not certain whether it can stand up to the financial strain. The following gives some idea of the immensity of the problem. General Motors is underfunded by $29 billion in its pension obligations, contrasted with a $19 billion market capitalization. Delta Airlines is $4.4 billion underfunded, with a market capitalization of $1.3 billion. Many other large companies face similar daunting circumstances. Reneging on pension and benefit obligations is and will dominate lab or negotiations for the foreseeable future. The quality of life of the retired American worker hangs in the balance.

Michael Manson had a long and close association with the APO when he was the Assistant Director of the East-West Center's Institute of Economic Development and Politics in Honolulu. He helped to initiate a number of collaboration programs between the APO and the East-West Center. Manson also served in the Asian Development Bank, and was Director of Communications with the State of Hawaii's Department of Business, Economic Development and Tourism. He is presently an educator, and a regular contributor to this column.