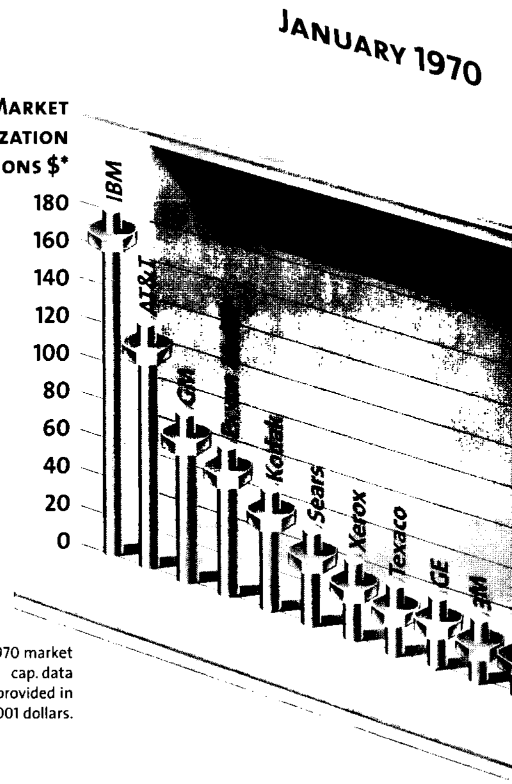
Hey, we know tech and phone stocks have really taken a beating in the last year. But step back a little, and you'll see how much the markets are still betting on the success of the New Economy. We've compared the top 20 corporations at the beginning of 1970, as measured by stock market capitalization, with the top 20 at the beginning of March 2001.

Back in 1970, Big Oil and heavy manufacturing (GM, Ford, 3M, DuPont) dominated the list. Thanks to our good buddies the Saudis, the oil patch has hung in there. But the auto and chemical companies are gone. Meanwhile, information technology (Microsoft, Intel, Cisco, IBM), drugs (Pfizer, Merck, Glaxo, J&J) and telecommunications (Vodafone, NTT, SBC, Verizon) have become towering presences.

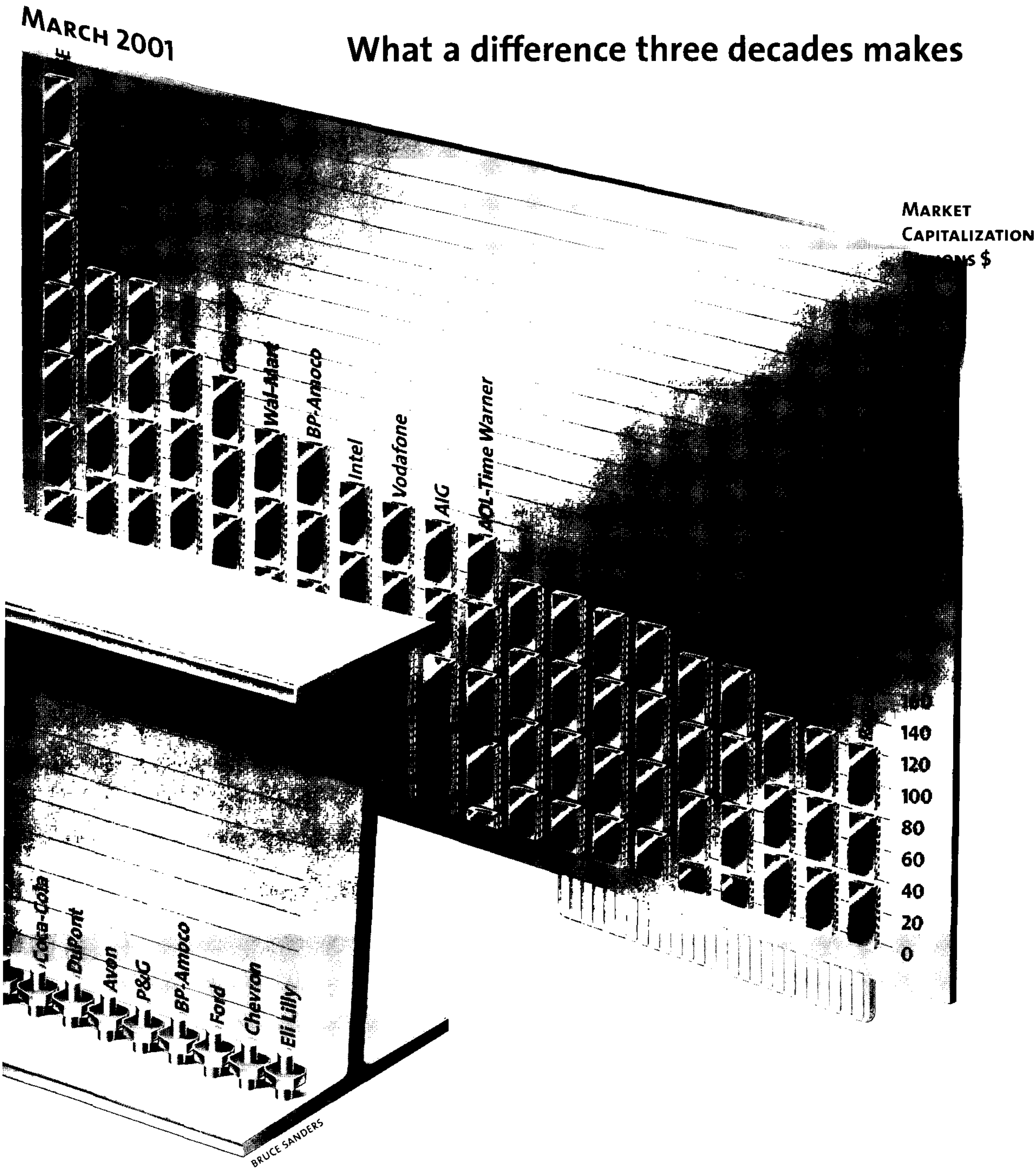
That doesn't mean the economy has marched in lockstep. The securities markets reflect expectations more than they do realities. And while most of the growth of the last 30 years has been in what might loosely be called intellectual capital-based services, an awful lot of value-added is still in making stuff you can touch.

Perhaps the more profound insight to be extracted here is that Old Economy nuts-and-bolts businesses are so hemmed in by competition in global markets that nobody can make a killing. By contrast, New Economy industries are more likely to be in winner-take-most markets – places where being first and/or best with The Next Big Thing can be worth tens or even hundreds of billions of dollars.



*1970 market cap. data provided in 2001 dollars.

What a difference three decades makes



BY ROB NORTON

The most startling feature of the economic policy debate during the presidential election of 2000 and of the current debate over the United States budget is the Democratic Party's unwavering support for sustaining the federal budget surplus.

From the July Democratic National Convention (when Al Gore beat back a series of attempts by the liberal wing of the party to call for increases in social spending and to deemphasize fiscal restraint), through the ensuing election campaign (when Gore repeatedly warned against "squandering the surplus"), to today's debate over President Bush's plan to cut tax rates, the Democrats' primary domestic-policy aim is to preserve fiscal responsibility and future budget surpluses.

To say that the Democratic Party's position wasn't ever thus is to understate the case. The idea of balancing the budget – let alone running a surplus – is historically associated with the Republicans. Especially in the post-World War II decades, when Democratic policy making was influenced by Keynesian economists (and Republican policy making was informed by economists who were most easily described as anti-Keynesian), the idea that a balanced budget was inherently virtuous was seen as reactionary and anachronistic. Discretionary fiscal policy, in the postwar Keynesian view, held that budget deficits were generally acceptable, and should be used as a tool to boost federal spending to achieve the high-priority goal of full employment.

If anyone needed proof that balancing the budget was the wrong way to go, they were reminded of the last time the fiscal house was kept in order for an extended period of time: the prelude to the Great Depression, from 1921 to 1930. Indeed, the idea of balancing the budget was ridiculed by the ascendant generation of Keynesians as "Herbert Hoover economics."

So how did the Democratic Party morph from its traditional embrace of fiscal profligacy to its laser-like focus on budget balance, and how did the Republican Party lose its preeminent position as the party of rock-ribbed fiscal rectitude? Or as put more colorfully by Robert Reischauer, former director of the Congressional Budget Office and now president of the Urban Institute, how did we arrive at the current state of "policy cross-dressing?"

CROSS DRESSING REVEALED

There are at least three explanations. The first reflects a sea change in the views of academic economists. Through the 1960s, Keynesians ruled academia. Although the great English economist never directly recommended defi-

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