Executive EDGE

HAS THE NEW ECONOMY BEEN CHASING ITS TAIL?

Stephen Roach, Morgan Stanley's chief economist, is convinced that the reason for the 2001 stock market crunch is not just the collapse of the techology sector, but also overreliance on technology in other businesses.

Roach argues that companies overinflated their information technology budgets in the past two years as a result of widespread fears of Y2K bugs. Roach argues that the capital outlays that came to 9 percent in the fourth quarter of 1999 should not have been raised to 21 percent in the first quarter of 2000. His essential point is that increases such as this, in a field where machines become rapidly obsolete, are unsustainable. The benefits of technological upgrades do not offset the costs.

Furthermore, in an environment where the stigma of a company profit warning is eroding through sheer prevalence, a decrease in technology spending is going to create ripples, according to Roach. In the 1990s, productivity growth more than doubled to an annual average growth rate of 2.4 percent, and even Alan Greenspan attributes part of the boom to the manufacture of IT equipment. With CEOs slashing technology budgets, there is a risk of creating a feedback loop, where lower demand for computers depresses overall productivity growth. Lower productivity hurts the overall economy, companies make less money, they have less to spend on IT, and the cycle continues.

Despite a gloomy forecast, it is unclear if this pattern will materialize. It hinges on the theory that the use of IT does not generate sufficient new capability and efficiency to justify the cost. This is a difficult question to answer, considering that the debate still goes on over whether a simple washing machine actually saves more time than hand washing. A survey by PricewaterhouseCoopers found that Internet-savvy companies increased productivity 13.4 percent compared with 4.9 percent of those that didn't. And although IT budgets have rolled back from the crest of 31.4 percent, year-end spending was still 10.7 percent, indicating that CEOs haven't given up the faith.

From Anna Bernasek, "Buried In Tech," Fortune, *April 16, 2001, pp. 51-52.*

HEALTH BENEFIT PLANS NEED REHAB

Is it worthwhile for employers to provide employee benefits to help their workers deal with substance abuse issues? In a time when overall expenditures on mental health and substance abuse lag behind overall health care, and when more and more of that particular burden is being shifted onto the taxpayer, employers should bear in mind several facts when making health care decisions.

Substance abuse is a chronic condition. A round of treatment is unlikely to effect a permanent cure, and expecting such a result is unreasonable. Long-term remission is a much more practical goal, especially in view of the fact that people treated for diabetes, hypertension, or asthma relapse more frequently than substance abusers.

Substance abuse is not somebody else's problem. Substance abuse is not limited to the poor and unemployed—studies show that in 1991, 54 percent of cocaine users had full-time jobs, and by 1995 that figure rose to 65 percent.

Abuse treatments are extremely cost effective. A 1994 study showed that the health care claims that arose from a substance abuse problem were about $550 per month greater than if the same person had received treatment for the underlying cause. An untreated substance abuse problem can also increase other costs. Dependent medical and mental health benefits, worker's compensation and disability claims, and losses incurred by decreases in worker attendance, productivity, and product quality all can arise from ongoing substance abuse. State programs have shown savings of $6 to $7 in medical, legal, and welfare costs for every dollar spent on abuse treatment. Nor is it practical to simply fire an abuser because of an addiction—in the current labor market, estimates range that it costs companies anywhere from $10,000 to two years' salary to replace lost employees and all their skills.

Benefit programs are often under attack from other sources. With the recent scrutiny of managed care plans, it should come as no surprise that HMOs are quite eager to buy into the myths and misconceptions to place barriers between costly therapy and those who need it. Managed care makes money by reducing the level and amount of treatment, which can be crippling to any serious treatment of chronic disease. Treatment centers are in fact scaling back the level of service they provide because they know so much of what they offer is unlikely to be approved by HMOs.

From Jeffrey C. Merrill, MD, "Substance Abuse: Myths and Realities in the Corporate Sector," Business & Health, *January 2001, pp. 31-36.*

Illustration by Chris McAllister

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