

WhatTheyThink?

Effects of Digitization, the “Haves and Have-mores” and Not the “Haves and Have-nots”

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January 28, 2016

Two topics caught my eye this past week. The first is that digitization is now characterized as the “haves and have-mores” and not the “haves and have-nots.” The latter may be referring to Venezuela's economic problems with high inflation and shortages of goods.

Multinational consulting firm McKinsey has released a report about the effects of digitization. “Digital America: A tale of the haves and have-mores” is available for a free download as an executive summary or as a full report.

Digital technologies have penetrated our industries so much that the gap is described as the “haves” and “have-mores.” The media industry, of which we are a part, is considered one of the “haves,” benefiting from the high productivity the technologies offer. They say “Workers with the most sophisticated digital skills are in such high demand that they command wages far above the national average.” We have seen this, especially in the advertising and public relations industries that have increased their number of workers, and their average wages, while traditional categories such as publishing and printing have declined.

McKinsey says that “the information- and communication-technology sector, media, financial services, and professional services are surging ahead, while others have significant upside to capture.” Among the sectors lagging behind are the health care industry, despite many initiatives in the ACA and other programs. Others are construction and hospitality. While computerization has grown significantly for administrative and planning functions in these markets, delivering the services require physical labor, which are harder to digitize, of course. The hospitality industries are probably in for a wave of digitization, especially in food services, where many restaurants have introduced at-table ordering and payment in an attempt to minimize labor costs. Rising minimum wages provide incentives for more software investment. Just like amazon.com turned us into a nation of order entry clerks, something similar is about to happen in restaurants, especially fast food and casual dining.

This commentary from USC has some more insights into the McKinsey report.

Be Careful What You Ask For: You Might Just Get It

Venezuela, a model for aggressive socialism and nationalizing much of its economy, has a big problem: inflation. The International Monetary Fund has forecast that inflation will rise to 720% in 2016.

The country stopped reporting inflation data in 2014. Government ministers are complaining about alarmism about the country's economic condition. Many goods are in short supply, but these are blamed on the profiteering of hoarders who do not like the socialist stance of the government, and its price and currency controls. The collapse in oil prices has cut off significant revenues that would otherwise support the socialist model that many believed was a model for others.

The Cato Institute has Venezuela on its troubled currencies list and shows an official exchange rate in the range of 6.5 Bolivars to a US dollar, while the black market rate is about 835. "Slight" difference!

Black market prices and exchange rates are usually a better reflection of true economic conditions because they are the result of free exchanges of two participants, even if those free exchanges are illegal. Prices are signals to the market about the nature of supply and demand, and encourage participants to produce more or less or to buy more or less. Price controls prevent this critical information from reaching market participants, which makes it impossible to understand the true nature of demand and the costs required to address it. Nationalized industries have little incentive to quickly respond to marketplace conditions, so problems tend to fester and intensify pressures on governments and create unstable political climates.

International business is a difficult area for businesses, and risks are often difficult to quantify, but their presence is obvious.