How New is New Economy? A Flow of Funds Perspective: the 1997-1999 Italian Evidence

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1. Introduction[1]

New economy(NE) is a term which is by now in the common use of economists, social scientists, practitioners and businessmen.
It is then natural to investigate the possibility to give a precise definition of the same term even if, in the same time, it is easy as well to recognise the difficulty of the task.
In fact, according to some economists (Ferri *et al*., 2000) NE is more a journalistic than a scientific term. This is perhaps the key to explaining the different meanings of NE.
Fully assuming the risk of an oversimplified scheme we try to lead the different interpretations of the term to few distinct definitions referred to effective real economies.
Because the perspective of this paper is exquisitely macroeconomic, we confine our scheme to the macroeconomic views of the term:

1) NE may be identified with the American economy of the second half of the 90's characterised by a pervasive inoculation of Information Communication Technology (ICT) in the old economy. The macroeconomic impact of this fact would be a new *golden age* (the previous one was that of 50's and early 60's) characterized by high and repeated growth rates of productivity for which, in spite of increased employment and high levels of demand of households for consumption and firms for Investment, Price Level stability has been guaranteed [2]. Moreover as it happened in the years of high development of 50s and 60s, also in the 90s the degree of openness of national economies increased and international trade has become much greater in size (see Lera Lopez *et al*., 2001).

2) According to magazine *The Economist*, during the last years of the Clintonian era the same thesis of *golden age* would have an extreme, odd and completely misleading version: the massive introduction of ICT in all processes of production, both of services and goods, would have involved such increases of productivity to nullify the economic cycle and to loosen the constraints of economic laws in a decisive way. In this new *golden age* theorised by the zealots of NE, narrowing profits, huge deficit trade balance joined by very high dollar and the

[1] We are beholden to Alberto Varia e Fabrizio Galassi of the Research Centre of Unioncamere Roma for data processing of the Company accounts and for the precious help given us in the interpretation of some results especially for the Tecnost data.
[2]" It seems almost too good to be true…. This spectacular boom was not built on smoke and mirrors. Rather, it reflects a willingness to undertake massive risky investments in innovative information technology, combined with a decade of retooling U.S. financial markets, governments, and corporations to cut costs and increase flexibility and efficiency. The result is the so-called New Economy: faster growth and lower inflation"(Business Week, 2000).

rising exposure of American Banks towards every day more fragile Latin American Countries, do not represent relevant reason for worry.
Fortunately the last extreme version of *golden age* is counterbalanced by some punctual and statistics based work. The *core* of these number crunchers view of NE is the recognition of the U.S.A. *golden age* as outlined *sub* 1). In the same time the extent of the same macroeconomic features of that framework is sharply reduced. Productivity, Current Account deficit and propensity to Save are the focus of this far more prudent macroeconomic view of NE:

a) According to the Bureau of Labour Statistics, increases in productivity have been 2.6% in 1999 and 2000. The figure is surely remarkable but different from 3.4% as previously estimated for the same two years;
b) The size of Current Deficit is unsustainable (see Godley *et al*., 2001);
c) The structure of the Balance of Payment is the other aspect of the habits of Saving/Expenditure of U.S.A. Households. The negative Savings propensity of American Households explains most of the deficit and at the same time confirms its structural character (see Maki *et al*., 2001).

3) Also in Europe we can speak of NE, but in a very different meaning from the U.S.A. In Europe the use of ICT has been pervasive and as a consequence of the change in Industrial Organisation has been deep. In spite of this we can hardly speak of a *golden age* in the old continent. In the 90's with some important exceptions (Ireland *in primis*), GDP growth rates have been modest, Unemployment has persisted near 9%, and Investment has not been able to absorb the produced Saving. (EEC Current Account of the 90's has been always positive) [3]. Italy shares entirely this last definition of NE. Without sharing the macroeconomic conditions of U.S we have been witness of three facts:

a) The massive introduction of ICT in some processes of Production both of services and goods (as example of the first we remember the rising importance of financial and banking services "on line", and of the second the FIAT establishments of Melfi and Cassino in the south of Italy);
b) The sudden birth of several ICT companies, a part of whom has been quoted in the Stock Exchange (Numtel is the index of Italian ICT quoted corporations);
c) Deep and repeated changes of property order of Telecom Italia, the corporation that, for sales, represents the hub of ICT.

On the basis of the great impact ICT had on the industrial organisation of European Firms but also on the lack of a macroeconomic framework similar to that of the U.S.A., in Europe and Italy NE is intended overlapping with ICT industry[4]. Another way of resuming this more narrow macroeconomic view of NE is that a pervasive inoculation of ICT in new and more traditional industries, like for example textile, is a necessary but not sufficient condition of a *golden age* macroeconomic framework (Iammarino *et al*., 2001).
At least this is the operative definition used by Research Centre of Unioncamere, the Association of Italian Chambers of Commerce, in a recent paper (see Unioncamere, 2000). In fact, according to this work ICT-NE is identified with 11 branches, making resort to the

[3] There are signs that the process of change has started. With growth picking up in Europe,…financial markets are being rebuilt to support innovation, and there is more willingness to take risks…. Nevertheless, the process of shifting to a fast-growth track is still in its early stages in most of the world. Europe is at least two or three years behind the U.S. (see Business Week, 2000).
[4] "A large number of observers have recognized in the cluster of the digital economy a revolution that can be compared to, if not the most important one, the 2nd industrial revolution of 1860-1900. In a more enthusiastic outlook, Internet takes bodily form of Unbounded Prometheus [Landes, 1978] of the socio-technical paradigm"(Garrone, Mariotti, 2001, p. 8).

ATECO91 classification[5]. The choice to identify NE with ICT and this with a precise whole of industrial branches has a strong operative meaning. It becomes in fact possible to focus on precisely the purpose of our quantitative analysis – companies of the same branches – of whom we have the respective File of Company accounts. On the basis of this administrative source of information we proceed to reconstruct the macroeconomic flows, following a Flow of Funds (FOF) approach. In this paper we enlarged the above definition to the 17 following branches:

DL30000 Construction of office machines, computers;
DL30010 Construction of office machines;
DL30020 Construction of computer and systems;
DL32202 Construction of telecommunication device;
G051641 Wholesale trade of typewriter and calculating machines;
G051642 Wholesale trade of office equipments;
G052481 Retail trade of office machines;
I064200 Telecommunication;
K072000 Informatics and related business;
K072100 Computer installation and consulting;
K072200 Software supplying and computer consulting;
K072300 Electronic data processing;
K072400 Construction of database;
K072500 Computer maintenance and repair;
K072600 Other business related to informatics;
K072601 Telematics and robotics services, computer graphics;
K072602 Other services related to informatics.

The paper is organized as follows.
In the first section we present our data and FOF methodology. In the second we give details on the particular FOF framework used in this work. In the third we supply the FOF Statements for Italian ICT and Mechanical Industry.
Following a case control strategy, we have chosen to compare our ICT analysis with a classical old economy industry, the Mechanical, which has been the flywheel of growth of Italian economy in the last four-five decades. In the conclusion we try to answer to the question posed in the title of the paper.

2. Data and our methodology

Data for our research are represented by the administrative File of Company accounts of Cerved, which is the largest and most accurate data bank of Company accounts for Italy[6], suitably processing from the statistical point of view by Unioncamere. The same File, is limited by an institutional criterion concerning the juridical structure of firms. It includes in fact only companies. With the aim to avoid a partial and misleading interpretation of the importance of this File we add that these firms represent the bulk of all Italian industry. In fact in 1997, on the basis of data reported in Unioncamere, 2000 (Tav. 1 Sezione 1, p. 26), the ICT companies employ 79.3% of the entire Italian ICT workforce. The data contained in the

[5] The ATECO91 classification is used by Istat, the Italian Statistical Institute and is closely derived from NACE Rev.1 Classification.
[6] We refer to the File obtained from the Cerved with the reclassification of the Official Company accounts deposited at the National Business Register managed by Chambers of Commerce. For any descriptions of the difficulties met in the passage from the administrative archives to the statistical one see Toscano (2000).

Cerved file have been integrated with the data of REA/Excelsior information system File by Research Centre Unioncamere[7].
We have considered all Company accounts of the ICT and Mechanical (Branch Dk29, Construction of machines and mechanical device) companies in operation in the triennium 1997-1999. Starting from these three universes we have formed the two panels (one for ICT and the second for Mechanical respectively of 15,053 and 11,276 companies) with basis 1997[8].
Using the Income statement of the Company accounts we can reconstruct the Production and Distribution Accounts which overlap with the homonymous National Accounts obtained on the basis of the ISTAT annual survey on the Gross Product called "Sistema dei Conti delle Imprese (SCI)".
By means of Balance sheet of Company accounts we are able to supply a FOF analysis which partly overlaps with European System Account (ESA), in others it is quite far from it.
As it is known the FOF approach is used mainly by Central Banks and starting from the early work of Copeland it has been enriched by a huge literature.
From the point of view of our work the FOF approach has several advantages with respect to the Financial Account of ESA:

a) it is not organized according to different Financial Tools but through broad aggregates, rich of immediate economic meaning like *Lending, Hoarding and Borrowing*;
b) it supplies a rich analysis of the *Sources* and *Uses of Funds* financing both Capital formation and Current expenditure, combining real and financial flows of Income account and Balance sheet which, on the contrary, remain always separate in the ESA.

3. ESA Accounts and the *Sources and Uses of Funds* framework

Starting from the first part of the Income statement of the Company accounts we are allowed to produce directly the Production and Distribution Accounts whose balances overlap with ESA. Our Production Account has the following structure:

Statement 1- The Production and Distribution Account

Uses	**Resources**
External Services	Production
Purchase of goods	
Lease obligation for capital goods and rents for buildings	
Changes of stocks of raw materials	
Different charges	
Value Added	
Labour Cost	

[7] In particular, REA, the Repertory of Economic and Administrative information about enterprises enrolled in the National Business Register, represent a major step for the Italian economic-statistical system as a whole. In particular, REA, which contains the simplified version of economic and statistical data stored in other administrative archives, provide full and trustful information for each enquiry. For information on REA state of art, see Gagliardi (2000).
[8] We have not included in the analysis the companies in liquidation or with Production equal zero.

It is worth to mentioning that by means of this decomposition some aspects of Industrial Organisation become more clear: for example through the item External Services we can measure the importance of the externalisation of a part of Production.
We now leave the Income statement to consider the Balance Sheet of Company accounts. We work on this part of the Company accounts for:

a) aggregating the quite numerous items in very few aggregates;
b) taking the differences of two subsequent years;
c) reordering these differences in *Real and Financial Sources and Uses Statements* whose balances are equal in absolute value.

Statement 2 - Assets and Liabilities

Uses	**Resources**
Material Assets	Debts
Intangible Assets	Net Worth
Stocks	
Financial Assets	
Money	

Statement 3 - The Flow of Funds

Uses	**Resources**
Intangible Investment	Borrowing
Fixed Investment	Saving
Changes in stocks	
Lending	
Hoarding	

On the basis of this second statement some aspects of FOF approach result in a very neat way:

- Investment and Saving are extracted from Company accounts by means of a patrimonial approach;
- the choice between acquiring financial activities or holding deposits is equivalent to the alternative between lending financial resources to other Sectors or preferring liquidity (*hoarding*).

Some remarks are necessary about our patrimonial approach in calculating Investment and Saving:

- Investment is obtained as difference of stocks reckoned at historic prices;
- because the same stocks are yearly net of depreciation, the Investment too is net;
- Saving is obtained as the difference of two other stocks: net wealth in two consecutive years. Because Material and Intangible activities are net of depreciation, Net Wealth is net too. Consequently, in our procedure, not only Investment but also Saving is net of depreciation.

Through these aspects our Capital formation statement is different from ESA where (in the same Account) Investment and Saving are gross of Depreciation. The difference concerns also the way by which we make net the flows. In our approach depreciation is the business depreciation which is reckoned on Capital goods at historic prices[9].

[9] It is worth to remember that since 1968 the same approach is used for companies by the U.S. Department of Commerce.

Statement 4 - Real Sources and Uses of Funds

Uses	**Resources**
Intangible Investment	Saving
Fixed Investment	*(dL)*
Changes in Stocks	
(dL)	

Statement 5 - Financial Sources and Uses of Funds

Uses	**Resources**
Lending	Borrowing
Hoarding	*(dL)*
(dL)	

Because in statement 2 and 3 stocks and flows of Uses and Resources are equal in their sum, the balances of the two statements are equal but with opposite sign.
If we combine the Real and Financial Statements we go back to Statement 3 which describes clearly the sources used for Capital formation, Lending and Borrowing:

Statement 3' - Real and Financial Sources and Uses of Funds

Uses	**Resources**
Total Investment	Saving
(dL)	*(dL)*
Lending	Borrowing
Hoarding	*(dL)*
(dL)	

In this last statement Total Investment is the sum of: Intangible Investment, Fixed Investment and Changes in stocks. The two items of balancing (*dL)* compensate each other. This statement includes the Sources for F*inancial and Real* Uses. Because the *real* resources so far considered in the previous statements are those used for Capital formation, but not for current expenditure, we have also to consider this last important component. We have then to create a complete statement of Sources and Uses with regard not only to capital formation and portfolio composition but also to the financing of current production. According to this purpose we go back to the Income statement by whom we obtain the Net Income Statement. Differently from what happens in the Production Statement in this case Sources are given by Production and Extraordinary Operations. This last item includes revaluation of Financial Assets and increases of Capital. Subsequently we combine it with *Statement 3'*.

Statement 6 - Net Income

Uses	**Resources**
Current expenditure	Production
Net Income (= Change of Net Wealth = Saving)	Extraordinary Operations

Statement 7 - Real (Capital and Current) and Financial Sources and Uses of Funds

Uses	**Resources**
Current Expenditure	Production
(Net Income = Saving)	(Saving)
Investment	Borrowing
Lending	
Hoarding	

One of the most important advantages of this statement is the degree in which the available sources supplied by Production are used for real purposes (current outlays and Capital Formation) or alternatively for Lending to other industries and Sectors and Hoarding. The same statement gives also information about the degree of financial deepening of the considered industry. In the case of zero borrowing-lending-hoarding, the industry uses all its sources for current outlays and Capital formation and vice versa.

4. ICT and Mechanical Production and Distribution Statements since 1997 to 1999

Table 1: Production account for New Economy in 1997,1998 and 1999 - At current prices (*billion of €*)

Uses	**1997**	**1998**	**1999**	**Resources**	**1997**	**1998**	**1999**
External Services	13.15	15.86	21.61	Production	57.94	65.12	75.63
Lease obligation and rents	1.98	2.29	2.60				
Purchases of goods	17.18	18.38	21.13				
Changes in stocks of raw materials	-0.28	0.01	-0.06				
Different charges	1.98	2.00	1.80				
Value Added	23.93	26.58	28.55				

Source: Research Centre Unioncamere

Table 2: Distribution Account for New Economy in 1997, 1998 and 1999 - At current prices (*billion of €*)

Uses	**1997**	**1998**	**1999**	**Resources**	**1997**	**1998**	**1999**
Labour Cost	10.85	11.2	11.86	Value Added	23.93	26.58	28.55
Gross Operating Margin[10]	13.08	15.38	16.69				

Source: Research Centre Unioncamere

Table 3: Production account for Mechanical in 1997, 1998 and 1999 - At current prices (*billion of €*)

Uses	**1997**	**1998**	**1999**	**Resources**	**1997**	**1998**	**1999**
External Services	13.46	14.49	14.72	Production	68.52	71.75	72.56
Lease obligation and rents	1.03	1.09	1.19				
Purchases of goods	34.11	36.26	36.19				
Changes in stocks of raw materials	-0.14	-0.31	-0.18				
Different charges	1.62	1.33	1.00				
Value Added	18.44	18.88	19.65				

Source: Research Centre Unioncamere

Table 4: Distribution Account for Mechanical in 1997, 1998 and 1999 – At current prices (*billion of €*)

Uses	**1997**	**1998**	**1999**	**Resources**	**1997**	**1998**	**1999**
Labour Cost	12.31	12.46	12.7	Value Added	18.44	18.88	19.65
Gross Operating Margin	6.13	6.42	6.95				

Source: Research Centre Unioncamere

[10] We use the expression "Gross Operating Margin" as a translation of the Italian Margine Operativo Lordo (MOL) , defined as difference between Valued Added and Labour Cost.

The information content of these statements is quite rich and can be summarised in the following points:

a) In the triennium for both sectors the Production shows a rising trend. Nevertheless the average yearly growth rate is clearly higher in ITC (14.25% against 2.90% of the Mechanical). As a consequence in 1999 the level of the Production of ITC, is, for the first time, in the considered period, higher than that of the of Mechanical sector.
b) ICT is a richer branch than Mechanical. From the Production Account we have that the proportion of Value Added on Production in the three years for ICT is 0.41, 0.41, and 0.38 while for the old economy branch the same ratio is respectively 0.27, 0.26, and 0.27. The difference is not light but massive: more than 10 percentage points. The two branches are then characterised by different Industrial Organisations. Using the Production Account it is easy to detect the source of the difference: a far higher proportion of intermediate goods in the Mechanical (more than 20 percentage points) which is not counterbalanced by the lower weight of Services. The impact of the purchases in the Mechanical sector is very high, about 50%.
c) The Labour Cost shows a light increase during the three years (+9.3% for ITC and + 3,2% for Mechanical). The structure of Labour Cost reveals as well a strong difference between the old and NE. The quota of Labour Cost in the ICT is much lower than in Mechanical: 0.45 against 0.67 in 1997, 0.42 against 0.66 in 1998 and 0.41 against 0.65 in 1999. The high profitability of ICT can perhaps supply a rational explanation of the speculative euphoria of the last years.

5. From Stocks to Flows

5.1. Real Sources and Uses

The respective Sources-Uses Statement reproduces the peculiarities of Capital formation with clearness.

Table 5: ICT Real Sources and Uses Statement in 1998 and 1999 – At current prices (*billion of €*)

Uses	**1998**	**Entire panel 1999**	**Panel minus Tecnost 1999**	**Resources**	**1998**	**Entire panel 1999**	**Panel minus Tecnost 1999**
Intangible Investment	-0.05	0.20	0.18	Saving	2.85	25.57	9.46
Fix Investment	-0.49	-0.24	-0.23				
Changes in Stocks	-0.03	-0.32	-0.31				
DL	3.42	25.93	9.82				

Source: Research Centre Unioncamere

Table 6: Mechanical Real Sources and Uses Statement in 1998 and 1999 – At current prices (*billion of €*)

Uses	**1998**	**1999**	**Resources**	**1998**	**1999**
Intangible Investment	0.05	-0.02	Saving	2.40	1.55
Fix Investment	0.44	0.26			
Changes in Stocks	-3.49	-4.51			
DL	5.41	5.81			

Source: Research Centre Unioncamere

Both industries have an excess of Saving on Investment. The result is not surprising given the high relevance of the two industries in the Italian economy, and the excess of Saving on Investment of the overall Italian economy in the same years[11]. But if in 1998 Saving is almost the same in the two industries, in 1999 Saving decreases lightly in Mechanical and increases about nine times! in ICT. As we shall show this is only in part the simple result of high profits.
Fix investment and Change in stocks are both negative in ITC. Only Intangible investment is positive in 1999.
Because Fix investment is negative in considerable size (0.49 and 0.24 billion of €) ICT suffers a relevant reduction of its stock of real capital.
The Saving/Investment of Mechanical is quite different. Even if below Saving, Fix investment remains positive for both years.
Stocks decrease in both industries. In Mechanical the decrease is particularly intense and it has the effect to more than counterbalance the positive considerable Fix Investment.

5.2. The Real and Financial Sources and Uses

The differences among Italian New and old economy about Capital formation is put in evidence as well in the Financial statement whose balance is the same in absolute value of the Real Sources and Uses statement.
Because the FOF procedure has the advantage of combining Real and Financial flows, we have omitted to supply separately the Financial statement combining this immediately with the Real statement.

Table 7: ICT Real (Capital and Current) and Financial Sources and Uses Statement in 1998 and 1999 – At current prices (*billion of €*)

Uses	**1998**	**1999**	**Resources**	**1998**	**1999**
Total Investment	-0.56	-0.36	Saving	2.85	25.57
Lending	7.69	46.77	Borrowing	4.66	21.91
Hoarding	0.39	1.07			

Source: Research Centre Unioncamere

Table 8: Mechanical Real(Capital and Current) and Financial Sources and Uses Statement in 1998 and 1999 – At current prices (*billion of €*)

Uses	**1998**	**1999**	**Resources**	**1998**	**1999**
Total Investment	-3.00	-4.26	Saving	2.40	1.55
Lending	2.99	1.10	Borrowing	-2.36	-3,29
Hoarding	0.05	1.42			

Source: Research Centre Unioncamere

This choice is particularly useful in putting in evidence the importance of finance for ICT:
- the much more abundant resources (Saving and Borrowing) available to the ICT with respect to Mechanical (as a whole €7.51 billion against € 0.04 billion in 1998 and €47.48 billion compared with €-1.74 billion 1999);
- The strong importance of Lending for ICT above all in 1999. In both years ICT borrows heavily (more than is Saving in 1998 and a little less in 1999) but it lends even more. It is mainly in Lending that the same industry conveys its excess of Saving on Investment and the sources obtained through Borrowing. At the contrary Borrowing of Mechanical is

[11] With regard to this aspect refer to Ferrari et al. (1999b).

negative, perhaps in consequence of its high leverage[12]: 3.3 and 2.8 in 1998 and 1999 against 1.5 and 1.2 of ICT in the same two years. Accordingly to this its Lending is much more modest than ICT's.

5.3. Introducing Current Sources and Uses

Until now we have focused on Capital formation and its financing. Nothing has been said about the financing of current expenditure, necessary for the everyday transactions of companies. This kind of information is supplied by the total uses and Sources statement: Real (Capital and Current) and Financial Sources and Uses. We are not able to supply immediately this statement. In advance we have to introduce in fact the Net Income Statement.

Table 9: ICT Net Income Sources and Uses Statement in 1998 and 1999 – At current prices (*billion of €)*

Uses	**1998**	**1999**	**Resources**	**1998**	**1999**
Total Costs	62.10	68.38	Production	65.12	75.63
Net Income	2.85	25.57	Extraordinary Operations	-0.17	18.32

Source: Research Centre Unioncamere

Table 10: Mechanical Net Income Sources and Uses Statement in 1998 and 1999 – At current prices (*billion of €)*

Uses	**1998**	**1999**	**Resources**	**1998**	**1999**
Total Costs	69.26	70.84	Production	71.75	72.56
Net Income	2.40	1.55	Extraordinary Operations	-0.08	-0.18

Source: Research Centre Unioncamere

We are now allowed to produce the total Sources and Uses where Saving appears in both the sides and can be elided.

Table 11: ICT Real and Financial Resources and Uses Statement in 1998 and 1999 – At current prices (*billion of €*)

Uses	**1998**	**Entire panel 1999**	**Panel minus Tecnost 1999**	**Resources**	**1998**	**Entire panel 1999**	**Panel minus Tecnost 1999**
Total costs	62.10	68.38	67.82	Production	65.12	75.63	75.58
Investment	-0.56	-0.36	-0.36	Borrowing	4.66	21.91	5.27
Lending	7.69	46.77	14.06	Extraordinary Operations	-0.17	18.32	1.71
Hoarding	0.39	1.07	1.04				

Source: Research Centre Unioncamere

Table 12: Mechanical Real and Financial Resources and Uses Statement in 1998 and 1999 – At current prices (*billion of €*)

Uses	**1998**	**1999**	**Resources**	**1998**	**1999**
Total costs	69.26	70.84	Production	71.75	72.56
Investment	-3.00	-4.26	Borrowing	-2.36	-3.29
Lending	2.99	1.1	Extraordinary Operations	-0.08	-0.18
Hoarding	0.05	1.42			

Source: Research Centre Unioncamere

[12] The leverage is defined as ratio Debt/Net Wealth.

The statement puts in evidence that, on the whole Mechanical uses the total amount of its sources for Current expenditure without any room for Lending and Total investment (Stocks included).
On the contrary ICT channels 89.2% in 1998 and 59.0 in 1999 of total sources for Current Production and the remarkable Residual , especially in 1999 for Lending. The much more importance of Finance in NE respect to the old industry might not result more evident!
The comparison of ICT statements between 1998 and 1999 reveals a strong increase of all flows. Among these, it is the size of Saving in 1999 which is particularly large.
This anomaly of Saving's increase becomes stronger checking the balance of Net Income Statement. On the basis of the Account we are able to verify that the strong increase of Net Profit is not the result of a much higher level of Production but of Extraordinary Operations.
We have then deepened our analysis pointing out a very important outlier: Tecnost a company of northern entrepreneurs. Through this company the most important financial and economic operation of Italy in the 90's takes place. It is the share raid of Telecom Italia the previous Italian monopoly of Telecommunication.
Telecom Italia is in fact first privatised and successively share raid by a group of Industrialists of North Italy. Then acquired, Telecom Italia is absorbed by Tecnost.
The new property increases the volume of production (and costs as well), borrowing but in particular launch a great increase of capital by whom a huge amount of resource: €16 billion, the equivalent of a Finance act of Italian Government of the same years.
In our FOF approach this very important financial operation is a shift of Saving from resident and foreign families and firms to Italian ITC.
It is important to underline that this saving is not used for Investment but for acquiring financial assets i.e. Lending.
Comparison of our total resources statement with and without Tecnost reveals the great relevance of this financial operation.

6. Conclusions

We are now allowed to give a well-grounded answer to our question: how new is the NE?
There is one important aspect about whom NE is not different from the old: the excess of Saving on Investment. As we know this is a structural aspect of all the macroeconomic framework not only of Italy, but also of ECC, and opposite to the US.
Analysing the components of Capital formation in ICT we have negative value of Fix Investment in both the years: respectively one quarter and half billion of € in 1998 and 1999.
In the Old Economy Fix Investment is positive in both years and non negligible: little less than half a billion € in 1998 and a quarter of billion € in 1999.
To this we have to add negative change of Stocks in both the sector either in 1998 or 1999.
Three aspects are on the contrary the chief new features of NE:

a) Value Added

ICT is characterised by a very high Value Added content, much more higher than Mechanical: in the triennium for 1000 € of production there are, on an average, 398 € of Value Added in ICT against 268 € of Mechanical.

b) Income distribution

Labour content of ICT is much more lighter than Mechanical: For 1000 € of Value Added Labour Income, on an average, amounts to 658 € in Mechanical and 429 € in ICT.

How we know from economic history (see Landes, 1978) high Value Added content and strong profitability as well are characters of new industries like for example Steel industries and then Chemistry in Germany in last two decades of the 19th Century.

c) Finance

ICT borrows heavily. (In 1998 its borrowing is a little less than two times its Saving). Given its low Investment NE channels this excess of Saving and Borrowing on Investment for Lending. On an average in the two years, Current expenditure for every day production absorbs in fact the 70% of its sources against 99.3% of Mechanical.
Differently from Mechanical, where Borrowing is negative and all resources are used for Current Production, ICT has Finance in its *core*. On this aspect ICT looks not only as Service but almost as banking industry.
Continuing with economic history examples, new economy looks much more likely to Italian Banking and Wool industries of 1300, where the entrepreneurs were also half bankers and the bankers half entrepreneurs (Origo, 1992).

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