



# Athena Alliance

Exploring the promise and pitfalls of the global information economy

*Competitiveness Revisited . . .*

## **Info Age: Recast Issues Demand New Solutions**

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The United States economy has entered a new era. But it is not exactly the period of ease and prosperity that we were led to believe it would be. This new economy is one of relentless change and competition. We are on a new treadmill. While the industrial economy demanded higher and higher levels of productivity to drive down costs, this information economy demands more and more innovation.

If the industrial age was driven by machines and natural resources, this new innovation age is being driven more and more by people and intangibles. Foremost are worker skills and know-how, innovative work organizations, new business methods, brands, and formal intellectual property such as patents and copyrights. Our economy increasingly runs not just on technological advances, but also on ways of expanding consumer choice through more customized products, more individualized service, and greater attention to aesthetics in order to respond to changing consumer tastes.

In this economy—the Information, Intangibles, and Innovation Economy (I-Cubed Economy)—the rules have changed. But public policy has not caught up with the changes. Many have been putting forward policy solutions to deal with our current economic challenges, although most often they have simply recycled proposals left over from the 1980s. Few are looking at what the economy has become in the past 20-30 years.

One notable exception has been Senator Joseph Lieberman, who has proposed creating a bipartisan commission to tackle this new competitiveness challenge. Like the President's Commission on Industrial Competitiveness (Young Commission) appointed in 1984 by Ronald Reagan, this new group's mandate would be to re-think the problems and provide new solutions. The Young Commission created a bipartisan agenda for responding to the competitiveness challenges of its time. This new commission would be charged with updating that consensus and altering it to meet the realities of our rapidly changing world.

The task does not promise to be easy. Twenty years ago, the U.S. faced global competition in goods and loss of domestic manufacturing firms; now it faces the fusion of manufacturing and services and the opening to international competition of services sectors once thought immune to such challenges. Then, the operating issues were quality and productivity; now they are customization, speed, and responsiveness to customer

needs. Then, a key concern was creating a flexible and educated workforce; now, in addition, we must foster an educational enterprise that can provide the constantly changing skills required in a knowledge- and information-intensive economy. Then, the main financial challenge was reducing the cost of capital; today's equivalent challenge is unlocking the value of underutilized knowledge assets and ensuring the efficiency and stability of the global financial system. Then, the policy problem was raising awareness of the importance of international trade; now it is crafting policy appropriate to an increasingly globalized and interconnected economy.

In the 1980s our focus was on individual firms and industries; now we must find ways of sustaining networks of firms and of adopting new business models. Finally, these problems and challenges, as well as myriad new ideas and technologies, are rapidly sweeping across the domestic and international economy. Their speed requires that U.S. industry, both manufacturing and services—as well as the suppliers of financial, scientific, and human capital—have the capabilities and resources necessary to prosper and grow in this new environment.

<u>Then:</u>	→	<u>Now:</u>
Manufacturing	→	All sectors of the economy under competitive challenge (fusion of services and manufacturing)
Quality	→	Customization, speed and responsiveness to customer needs
Productivity & technological innovation	→	Innovation – broadly defined Not just technological, not just new products Design (aesthetics) New business models
Awareness of importance of trade	→	Management of globalization
Skills and flexibility of the workforce	→	Constantly changing skills
Cost of capital	→	Efficiency and stability of financial system Increase access to capital by unlocking value of underutilized knowledge assets

Not only are the issues different, but the competitors are different. Then, it was Japan and the Southeast Asian “tigers.” Now it is the populous nations of India and China as well as new challengers from Eastern Europe. All of these nations are rapidly developing their intangible assets and gearing up their innovation processes.

A key task for the proposed commission would be to understand the new role of intangible assets. Information and intangible assets power our innovation process. That process combines both formal research and informal creativity to yield the productivity and improvement gains needed to maintain prosperity.

American firms and workers lead the world in creating and using intangible assets. But the increasing global competition means we must continue to develop our I-Cubed Economy. No American need be left behind in this new era of intangible-based global competition.

It will take new solutions, however. Simply more investment in high-tech and education is not the answer. We need to focus on upgrading and changing *all* our production systems to make them more creative and innovative. Innovation is everyone’s business. Creativity is essentially problem-solving. And everyone is a problem-solver. We are solving problems from the moment we wake up in the morning until we close our eyes at night--and our brain often continues even in our sleep.

Despite the rhetoric that “our people are our most important asset,” we have yet to unleash the creative, innovative power of our work force. Companies still see workers as a fungible cost—a cost to be minimized by utilizing lower-paid overseas labor or by eliminating overtime pay.

Part of the problem is our accounting system, which still hasn’t figured out a way to count workers as assets rather than expenses. What gets counted as an asset attracts investments. What gets counted as an expense is cut.

Thus, this new commission that Sen. Lieberman proposes would have its work cut out for it. It must go beyond the vision of the past 20 years—while not neglecting its unfinished business, some of which still merits our attention—to create the vision for the next 20 years.

We know that economic success can come from harnessing information, knowledge, and intangible assets. Leading U.S. companies have proven that they can leverage their innovative capacity, new business models, brands, and intellectual capital for economic gain. The challenge facing our government leaders is to help translate that activity into benefits for all. Let us hope that Lieberman’s commission can create a framework for ensuring future American prosperity in the new I-Cubed Economy.