

Greenspan: Economy Based on Knowledge Overtakes Economy of Stuff

While the notion of the knowledge economy has steadily gained currency among many economists, theorists and capital managers, its relevance to national economic policy has remained uncertain. In September, however, for the first time, the individual most responsible for the well-being of the U.S. economy publicly supported the concept that corporate and economic valuation are heavily based upon a combination of intellectual capital, technology and evolving know-how.

During a speech in Grand Rapids, Mich., Alan Greenspan, chairman of the Federal Reserve, told the Gerald R. Ford Foundation and a local university: "The quintessential manifestations of America's industrial might earlier this century—large steel mills, auto assembly plants, petrochemical complexes and skyscrapers—have been replaced by a gross domestic product that has been downsized as ideas have replaced physical bulk and effort as creators of value. Today, economic value is best symbolized by exceedingly complex, miniaturized integrated circuits and the ideas—the software—that utilize them. Most of what we currently perceive as value and wealth is intellectual and impalpable."

Greenspan argued that technology has generated macroeconomic value not only through technology product sales, but also as an aid in the enterprise-wide process of getting the right information to the right person at the right time.

"The remarkable, and partly fortuitous, coming together of the technologies that make up what we label IT—information technologies—has begun to alter, fundamentally, the manner in which we do business and create economic value, often in ways that were not readily foreseeable even a decade ago," Greenspan said in the Millennium Lecture Series speech. "Before the advent of what has become a veritable avalanche of information technology innovation, most twentieth-century business decision-making had been hampered by dated and incomplete information about customer preferences in markets and flows of materials through a company's production systems.

"...the remarkable surge in the availability of real-time information in recent years has sharply reduced the degree of uncertainty confronting business management," he continued. "This has enabled businesses to remove large swaths of now unnecessary inventory and dispense with much programmed worker and capital redundancies."

Technology and knowledge redefine how businesses operate, changing the notion of what business is.

Economic choke point

Greenspan alluded to the emergence of information intermediaries and e-commerce as positive developments in making companies-and the larger economy-more efficient and thus more productive: "Intermediate production and distribution processes, so essential when information and quality control were poor, are being bypassed and eventually eliminated," he said. "The proliferation of Internet Web sites is promising to alter significantly the way large parts of our distribution system are managed."

Greenspan even noted how these capabilities have lead to opportunities based on customer relationship management and one-to-one marketing strategies. "The explosion in the variety of products of many different designs and qualities has opened up the potential for the satisfaction of consumer needs not evident even a decade or two ago."

According to Paul Strassmann, a leading expert on knowledge valuation and a personal and professional associate of Greenspan, the Fed chairman is acutely aware of the economy's growing dependence on knowledge and knowledge-based processes. "Alan Greenspan sits at the throttle of the knowledge economy, and he understands it," said Strassmann. "He sits on top of the throttle at the choking point, which is interest rates."

Strassmann (see "Ticker-Tape Charade," this issue) explained the relationship between knowledge valuation and interest rates, which Greenspan as Fed chairman is responsible for setting. "The problem is that knowledge assets are extremely volatile. They can go up or down in a matter of weeks, largely based on interest rates," Strassmann said. "During exuberant periods, knowledge assets can be richly valued. If knowledge assets don't produce the \$10 billion in gains that a firm expects, their valuation can quickly go down to \$100 million."

Strassmann appeared before federal and congressional committees earlier this year to testify on the topic of increased U.S. productivity being attributed to technology and knowledge assets. His report to the Board of Governors of the Federal Reserve appeared as a book titled *Information Productivity* (The Information Economics Press, July 1999).

On the bubble

Ironically, though, Strassmann has been the main dissenter of Greenspan's, and others', opinion that technology is behind the unexplained boost in America's productivity during the past few years.

Strassmann attributes the gains to Greenspan himself, as well as to former Secretary of Treasury Robert Rubin. But, argues Strassmann, Greenspan is too clever to take credit because he knows he will also get the blame if the economy takes a fall. "My guess is that we're coming to an end on the euphoria of economic expansion," Strassmann predicted. "Greenspan knows this whole thing is the result of very smart financial management. My take is that Greenspan is now saying, 'It's the new knowledge economy and computers, so don't blame me.' "

"We do have a knowledge economy, with increased premiums put on intangibles," Strassmann concluded. "And one of these days it's going to burst."

To keep the boom going, Greenspan advised in his speech that educational institutions and companies seek to fuel the new economy by providing opportunities for continual learning. "A crucial challenge of education is to transform skills and intelligence into wisdom-into a process of thinking capable of forming truly new insights," he said.-Warren Karlenzig

http://www.destinationcrm.com/km/dcrm_km_article.asp?id=144&ed=11%2F1%2F99