

THE KNOWLEDGE ECONOMY

Linnik Juliana, *group E* - 53

The knowledge economy is a term that refers either to an economy of knowledge focused on the production and management of knowledge in the frame of economic constraints, or to a knowledge-based economy. In the second meaning, more frequently used, it refers to the use of knowledge technologies (such as knowledge engineering and knowledge management) to produce economic benefits. The phrase was popularized if not invented by Peter Drucker as the title of Chapter 12 in his book *The Age of Discontinuity*.

The essential difference is that in a knowledge economy, knowledge is a product, in knowledge-based economy, knowledge is a tool. This difference is not yet well distinguished in the subject matter literature. They both are strongly interdisciplinary, involving economists, computer scientists, software engineers, mathematicians, chemists, physicists, as well as cognitivists, psychologists and sociologists.

Various observers describe today's global economy as one in transition to a "knowledge economy", as an extension of an "information society". The transition requires that the rules and practices that determined success in the industrial economy need rewriting in an interconnected, globalized economy where knowledge resources such as know-how and expertise are as critical as other economic resources. According to analysts of the "knowledge economy", these rules need to be rewritten at the levels of firms and industries in terms of knowledge management and at the level of public policy as knowledge policy or knowledge-related policy.

A key concept of the knowledge economy is that knowledge and education (often referred to as "human capital") can be treated as one of the following two:

- A business product, as educational and innovative intellectual products and services can be exported for a high value return.
- A productive asset.

It can be defined as "The concept that supports creation of knowledge by organizational employees and helps and encourages them to transfer and better utilize their knowledge that is in line with company/organization goals".

The initial foundation for the Knowledge Economy was first introduced in 1966 in the book *The Effective Executive* by Peter Drucker. In this book,

Drucker described the difference between the manual worker and the knowledge worker. The manual worker, according to him, works with his hands and produces goods or services. In contrast, a knowledge worker works with his or her head not hands, and produces ideas, knowledge, and information.

The key problem in the formalization and modeling of knowledge economy, is a vague definition of knowledge, which is a rather relative concept. For example, it is not proper to consider information society as interchangeable with knowledge society. Information is usually not equivalent to knowledge. Their use, as well, depends on individual and group preferences - which are "economy-dependent".

Commentators suggest there are various interlocking driving forces, which are changing the rules of business and national competitiveness:

- Globalization — markets and products are more global.
- Information technology, which is related to next three:
- Information/Knowledge Intensity — efficient production relies on information and know-how; over 70 percent of workers-in developed economies are information workers; many factory workers use their heads more than their hands.
- New Media - New media increases the production and distribution of knowledge which in turn, results in collective intelligence. Existing knowledge becomes much easier to access as a result of networked data-bases which promote online interaction between users and producers.
- Computer networking and Connectivity – developments such as the Internet bring the "global village" ever nearer.

As a result, goods and services can be developed, bought, sold, and in many cases even delivered over electronic networks.

As regards the applications of any new technology, this depends on how it meets economic demand. It can remain dormant or make a commercial breakthrough.

The knowledge economy has manifold forms in which it may appear but there are predictions that the new economy will extend radically, creating a pattern in which even ideas will be recognised and identified as a commodity.

Gladchenko O.R., *EL advisor*