Chapter 2
Growth of the Digital Economy

EVOLUTION OF THE DIGITAL ECONOMY

As pointed out in the previous chapter, the concepts ‘digital economy’, ‘information economy’, ‘information society’ and ‘knowledge society/economy’ are inextricably intertwined and are often used interchangeably. However, the concept ‘information society’ is increasingly being seen as a unifying term. In defence of why this is so, Schienstock et al. (1999) have argued that the notion of an ‘information society’ is presented as a strategic aim meant to overcome current social stagnation. The central argument is that the information society would create and secure millions of new jobs; guarantee economic competitiveness; bring ecological advantages; intensify democracy; and revolutionize our ways of living and working with the help of new communication technologies.

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In 1962, Machlup was instrumental in studying information society in the United States. He coined the concept ‘knowledge industry’ and made significant contributions to information economy research. Martin (1997) defines an information society as a society characterized by rapid growth in the use of information - a society in which quality of life and economic development depend largely on information and its exploitation, the increasing use of computers, the commoditisation of information, e-commerce, and the use of technology for community development. To Deutsch (1983), information societies are national economies in which more than half of the workforce is employed primarily in information-oriented occupations, and in which the net product of these activities is greater than half of the Gross National Product (GNP). In the OECD countries, all gainfully employed individuals who produce, process and distribute information, or maintain the apparatus for its preparation and mediation, are information workers.

The belief that knowledge in its different forms is the engine of economic progress is growing; essentially, an economic system not based on knowledge is not possible. This is because in the current economic climate, a firm’s access to know-how is perceived to be the main determinant of its growth. In the UK for instance, a knowledge-driven economy is considered to be one in which the generation and exploitation of knowledge play the predominant role in the creation of wealth (Department of Trade and Industry, 1999. In such an economy, everyone has access to large amounts of information anywhere, anytime and in various requisite formats. Moreover, in such information economies, knowledge is perceived to be the most important determinant of the standard of living, more even than land and labour. Unlike the industrial economy where machines dominated productivity, in today’s economy it is information that defines society, with intellectual content the dominant source of value across jurisdictions.

In an information economy, the processing and exchange of information and knowledge are at the core of its activities. The US economy, for example, has been performing well because it has been driven by revolutions in Information Technology (IT), which have affected growth, employment, inflation, and productivity. Underlying factors propelling growth in this new economy include technological innovation, e-commerce and digital transformation, higher education and IT skills, open trade, and a balanced budget. The vast amount of information made accessible via the computer caters for the process of knowledge accumulation by networking all sources of knowledge, thereby facilitating the globalization of knowledge (The New Economy Task Force, 1999; Margherio, 1998). As in the US, in Europe the growth of the information service sector is largely attributable to the region’s industrial transformation.
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