

## OPINION

# Recognizing the emerging 'Third Way'

By William E. Halal  
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**Y**ES, there is a Third Way between capitalism and socialism. Although President Clinton and Prime Minister Blair have proposed a definition of the Third Way in response to the global crisis of capitalism, their concept needs to be fleshed out.

Today's knowledge economy is making cooperation the very source of wealth creation, and so the Third Way is a powerful new blend of free-market competition guided by working partnerships among business, labor, government, investors, and the buying public. Our studies show that most business executives agree with this emerging concept of "corporate community."

The Information Revolution is overthrowing today's economic system as surely as the Industrial Revolution overthrew the medieval economic system. Just as the assembly line shifted the critical factor of production from labor to capital, the computer is moving the critical focus from capital to knowledge.

The revolutionary aspect of this shift in economics is that knowledge behaves differently from capital. Capital consists of tangible assets – factories, land, money, etc. – that are limited and can only be used for one purpose. But knowledge is a fluid, intangible asset that can be transferred easily and its value *increases* when shared.

Ray Smith, the former CEO of Bell Atlantic who is often called the "Father of the Information Age," explains: "In the Information Age, wealth is a function of information, vision, and other properties of the mind. Unlike capital, knowledge can't be used up. The more of it you dispense, the more you generate."

For instance, roughly 90 percent of the market value of Information Age companies, like Microsoft, consists of patents, software and the genius of employees – far exceeding the value of physical assets.

This new economic reality makes cooperation – rather than cutthroat competition alone – efficient. A few years ago, people scoffed at the idea because cooperation was considered nice but impractical, a pious wish of bleeding heart liberals. But remember that the conservative ideal of unleashing the power of free markets was also considered naive before communism fell.

Cooperative communities of shared interests are gaining ascendancy because the time for this idea has come. That's why heads of state intent on developing a more harmonious and productive form of market economy have been elected in London, Paris, Berlin, and Rome. In the business world, powerful trends are moving in the same direction – not out of altruism but because collaboration increases economic value.

The most obvious example is the wave of alliances being formed among business firms to pool technology, markets, and other assets – for instance, the alliance between Microsoft and Intel provides the software and hardware used in most personal computers. Why all this sudden cooperation, even among fierce competitors? These intangible assets represent various forms of knowledge fundamentally, and their combination creates new entrepreneurial possibilities.

The same collaborative trend is taking place with employees, customers, government, and investors. For decades, business was urged to collaborate with employees but little changed. Now, just about every company tries to "empower" its workers, and about 70 percent have some form of profit-sharing because it is widely understood that cooperative labor-management relations are essential to remain competitive.

have rejuvenated US cities and states, such as Indianapolis and Pennsylvania. Italy has become famous for the productive collaboration of small business firms under the guidance of local governments. Singapore is a choice business location because its government provides the most sophisticated information infrastructure in the world.

Cooperation could even alleviate the global crisis caused by today's lightning-fast flows of speculative capital. Warren Buffet and other large investors achieve well-above average returns year after year with minimal risk by providing "patient" capital – a long-term investment that allows a company the benefit of engaging in somewhat risky projects that offer long-term potential. Rather than dart in and out of an investment, they form a working partnership with the company that helps ensure success.

We've surveyed hundreds of corporate executives on this issue – more than 80 percent say they strive to collaborate with these "stakeholder"

groups. Business managers accept the reality that economic success requires unifying the interests of their partners, labor, the public, governments, and investors. Think of it as a "corporate community" in which each of these constituencies benefits by contributing to their common success.

The Saturn Corporation and many other progressive companies have amply demonstrated that this concept works.



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Companies also know that they must forge a trusting bond with customers – "relationship marketing." Dell Computer's Web site wires buyers directly to the production line, thereby eliminating salespeople, inventory, and retail stores to deliver customized PCs at rock-bottom prices. The skyrocketing price of Dell's stock highlights the power of using information technology to make the client a working partner in creating value.

Business-government partnerships

If business encourages this form of working community, the economy works better and the role of government no longer needs to focus primarily on regulation, high taxes and expensive social services which burden economic growth. As Mr. Clinton and Mr. Blair have said, government should now strive to enable and lead this self-organizing economic system.

Just as the collapse of communism demonstrated the stifling effects of socialism, today the global financial crisis reveals the destructive effects of laissez-faire capitalism. The economic laws of knowledge require a new vision that integrates the creative destruction caused by markets with the social harmony of cooperation – call it "democratic enterprise." Cooperation without markets is too cozy – it's "cronyism." But a market without community is too chaotic. Democratic enterprise offers a viable Third Way that blends markets and cooperation to offer everyone a better way of life.

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