New Sources of Growth : Intangible Assets

Scoping the relevance for policy and thinking about the need for better evidence.

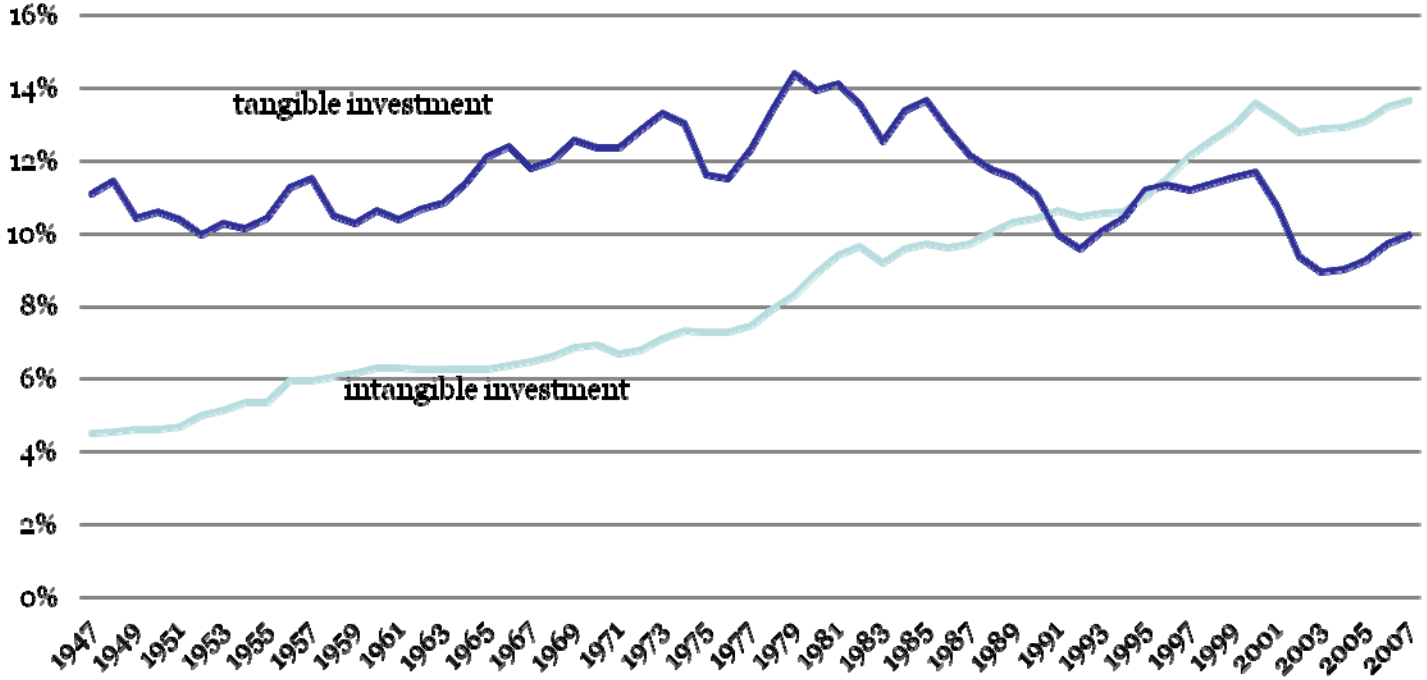
IPTS Steering Workshop on
'Industrial Research and Innovation'
14-15 June 2012

Presentation Overview

- Project context and scope.
- Where does the intangibles literature create new challenges for policy ?

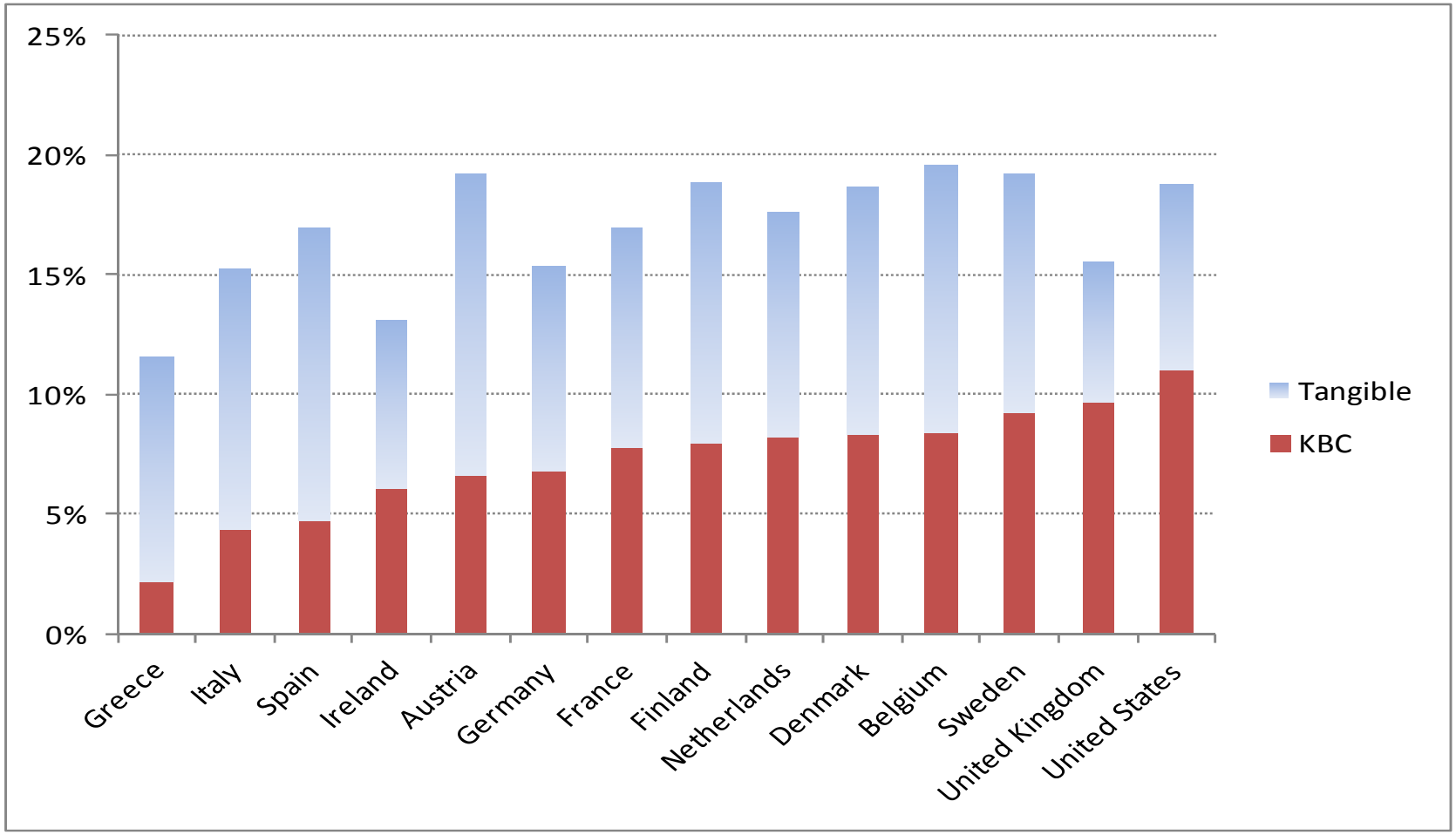
Many advanced economies have become progressively intensive in business investment in intangible assets

Rising U.S. non-farm business investment in intangible assets (% output)



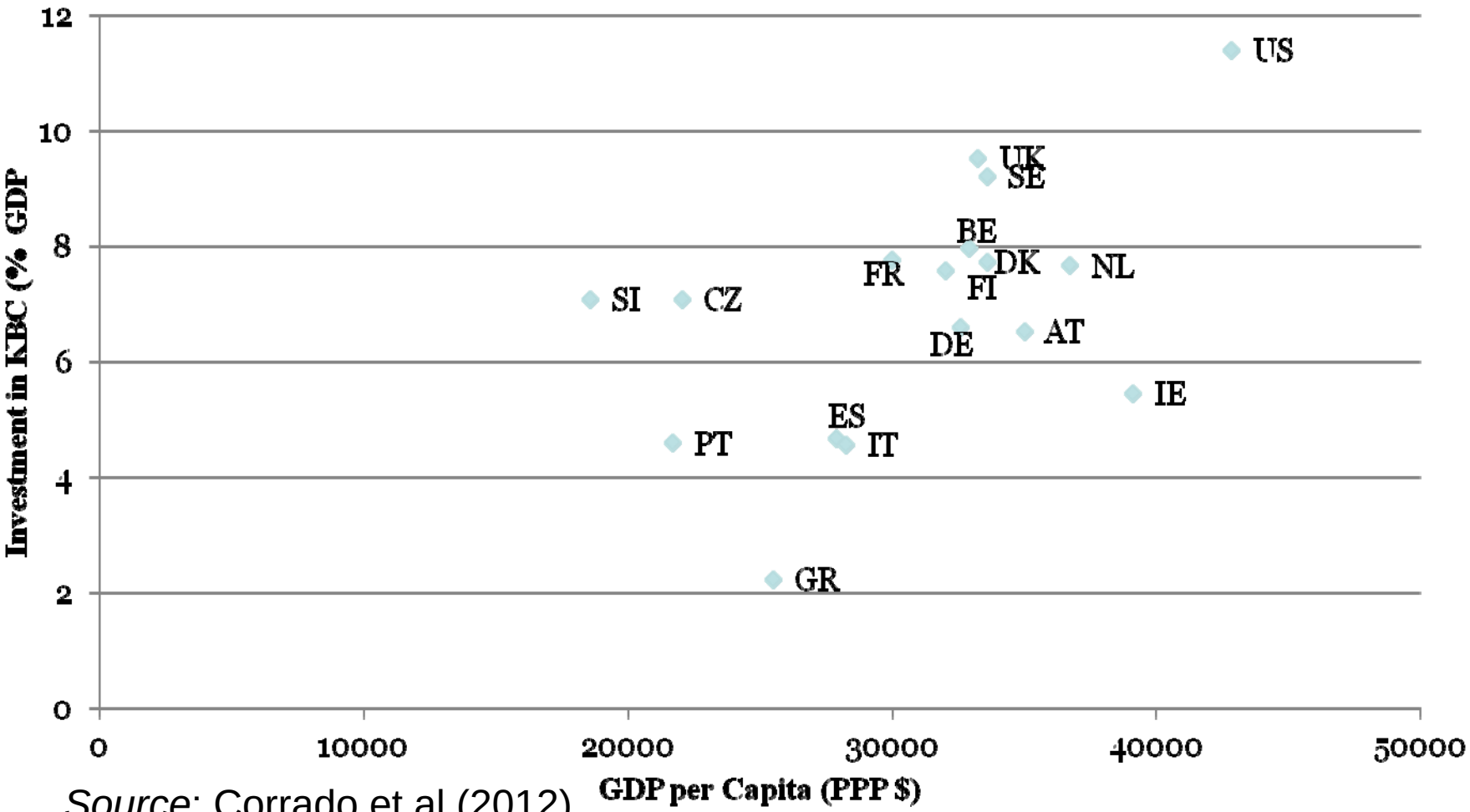
Source: Corrado and Hulten (2010)

Business investment in intangibles (KBC) and tangible capital, 2009 (% GDP)



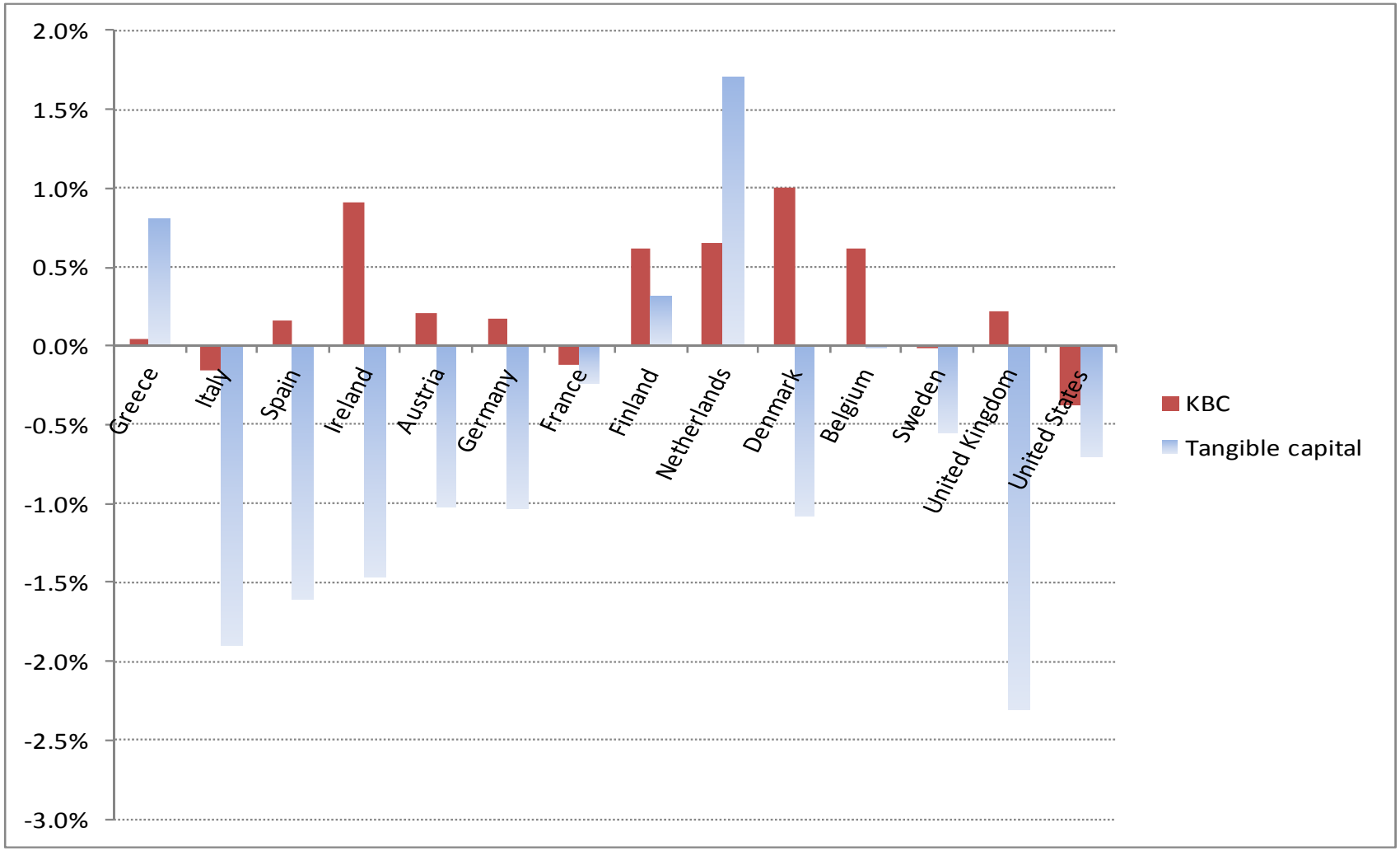
Source: Corrado, C., Haskel, J., Jona-Lasinio, C.and Iommi, M. (2012), Joint database on intangibles for European policymaking – data from INNODRIVE, COINVEST and the Conference Board.

Investment in KBC (share of GDP) and GDP per capita 2009



Source: Corrado et al (2012)

Change by type of business investment, 2006-2009 (percentage points of GDP)



Scoping areas of relevant policy

- Scope the areas of policy relevant to recent research on intangible assets.

- Identify necessary policies that affect intangibles and which are *new*.

Intangible assets have always been important in economic life.
So, we must ask, does the recent research on aggregate investment in intangibles imply a need for new policies ?

Individual Asset Types

Asset Type	Might new policies be needed to affect the level of business investment ?
Software	Unlikely
Databases	Yes
Innovative property	Yes
Advertising/marketing	Unlikely
Organisational change	Unlikely
Firm-specific skills	Unlikely

Individual Asset Types

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-Little evidence of externalities from software investments.
-On the production side – public role in basic research.

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-"Big data" considered a new frontier for innovation and productivity.
-Measurement and methodologies are underdeveloped.
-Policy for 'big-data' has received limited attention thus far.

Individual Asset Types

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Innovative property	Yes
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Firm-specific skills	Unlikely

-Various OECD countries undertaking comprehensive reviews of their IP frameworks.
-IP of growing importance in various industries, while IP systems are themselves under strain.
-Design rights are little examined internationally.

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-At least some spending will be unproductive.
-An element of zero-sum competition.
-Positive externalities likely to be minimal.
-Measurement problems would hinder policy implementation.

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Firm-specific skills	Unlikely

-A diffuse asset – forms of organisational change are so diverse that a policy could eventually entail assistance for all firms.
-However, framework conditions matter.

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[illegible]	Yes
[illegible]	Unlikely
[illegible]	Unlikely
Firm-specific skills	Unlikely

-The goals of good education and training policies – to efficiently clear the market for skills and balance skills mobility and investment – should be pursued even if an economy had no intangible assets.

Framework Policies

Policy type	Might policy design or implementation require modification ?
Macro-economic	Yes – tentatively
Education and training	Unlikely
Labour market	Unlikely
Competition	Yes
Tax	Likely
Corporate finance ---------- (including support for venture capital)	Yes ---------- Unlikely
Corporate reporting	Yes

Framework Policies

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Labour market	tely
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Tax	
Cor ---- (incl venture capital)	
Corporate reporting	Yes

-Household savings may not have fallen by as much as suggested in national statistics.
-The effect on the amplitude of GDP fluctuations over the business cycle. Macro-policy may be insufficiently counter-cyclical.
-A higher degree of uncertainty surrounding estimates of potential GDP and output gaps.

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-The effect on the
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counter-cyclical.
-A higher degree
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Why 'tentatively'?

-Measurement challenges affect the estimates of net and gross changes in savings.
-More evidence needed on cyclicality.

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-Policy needs to ensure that labour market effects on all aspects of innovation are accounted for.
-But justification for some new policy would need evidence of differential labour immobility linked to specific intangibles.

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But a relevant (US) literature on non-compete agreements.

Regional Disadvantage ? Non-Compete Agreements and Brain Drain, Marx et al (2010).
http://www.hbs.edu/units/tom/seminars/docs/braindrain100925.pdf

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C[illegible]	[illegible]
-- (i[illegible] v[illegible]	--
Corp[illegible]	[illegible]

-The rise of intangibles does not require a new competition policy.
-But, the advent of new sectors and business practices involving significant investment in intangibles can pose new challenges for competition authorities.

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--[illegible] (i[illegible] v[illegible]	[illegible] --
C[illegible]	[illegible]

-Taxation affects investment in intangibles in many ways.
-Evidence for framing policy is inadequate. Once available, policies may need to be reset.

Framework Policies

Annual revenue cost from income shifting by US-based MNEs may be as high as USD 60 billion, with half due to transfer pricing of intangibles -related transactions.

Fiscal authorities may be giving unintended levels of tax relief.

Spillover benefits from R&D may increasingly extend beyond national borders - suggests a possible need to adjust rates of domestic tax relief for R&D.

SMEs and MNEs.

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There is recent innovation in using intangibles as collateral/security – and many policies and institutions could affect such innovation.

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Public support for venture capital obeys a rationale unrelated to the volume of investment in intangibles.

But IP frameworks do affect risk-financing outcomes.

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Corporate reporting	Yes

Reforms to corporate reporting may need to be advanced.

Other Policies

Extension, bridging and information services

– Firm-level research on the connections between intangibles, productivity and innovation suggests that benefits might be had from ensuring that bridging schemes also provide access to non-technological services, advice and information (such as in design, marketing, logistics, human resource management, etc).

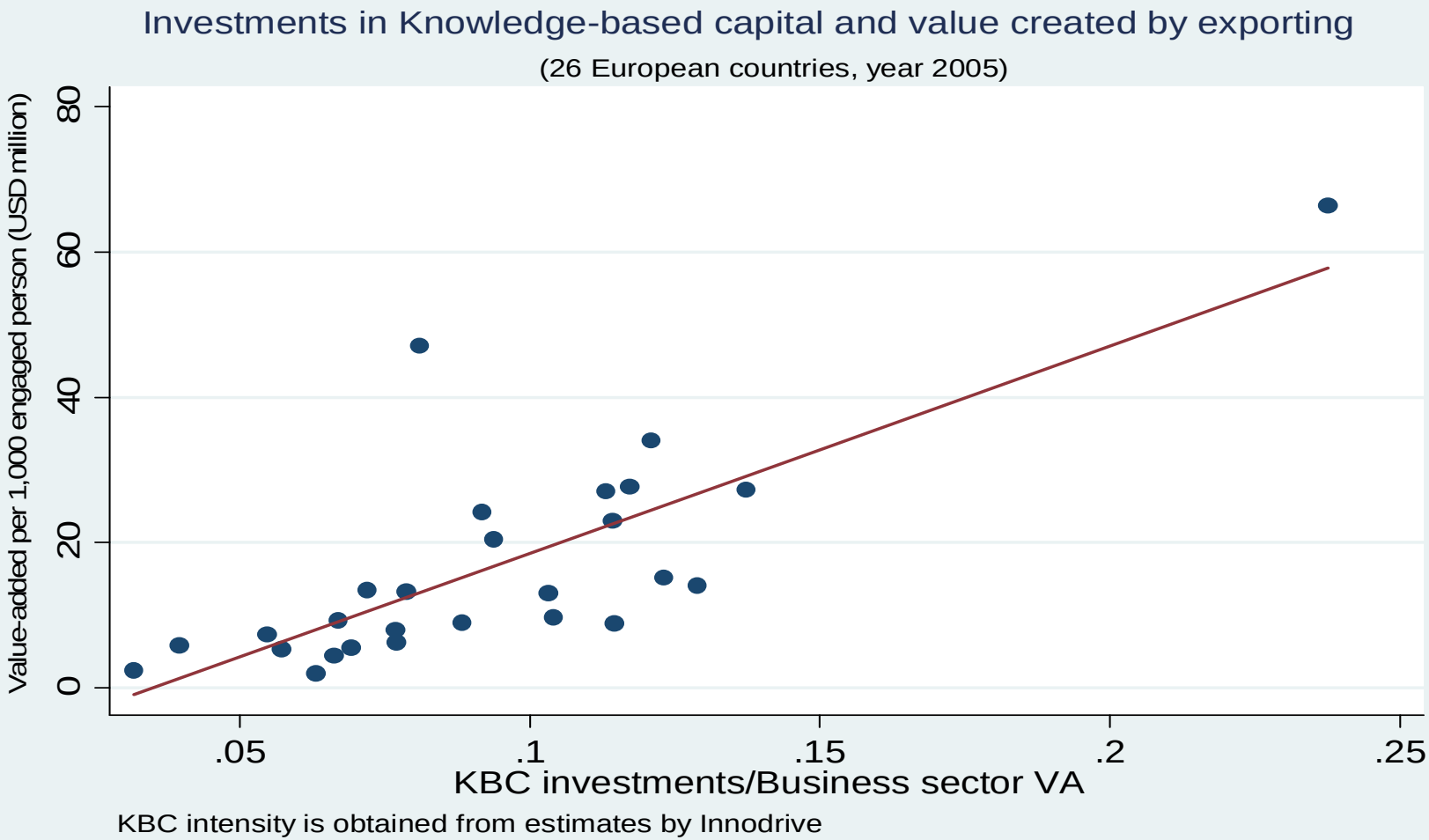
Global Value Chains

- iPod, ‘made in China’, but most of the value accrues to retail/distribution service providers in the US, and to Apple, based on innovations in design, marketing and supply-chain management.

“Our clothes are Italian, French and German, so the profits are all leaving China…We need to create brands, and fast”.

SG, China Industrial Overseas Development and Planning Assoc.

The value in exports is positively related to intensity of KBC investments



Upcoming events + project outputs

- Policy-oriented conference February 13-14 2013.
- Intermediate project findings: see http://oe.cd/kbc

Reports on:

- Measurement of intangibles and their effects on economic growth.
- Improving tax policy for intangible assets.
- Progress in reforming corporate reporting of intangible assets.
- The role of intangible assets in global value chains.
- Developing knowledge networks and markets (KNMs).
- The creation of economic value from new forms of data.
- Synthesis report, with prioritized recommendations for government.

Further information

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