



# Intangible investments and the economic downturn

The World Conference on Intellectual Capital for Communities, Fifth Edition  
**Session 1: Intellectual capital, economic growth and crises**

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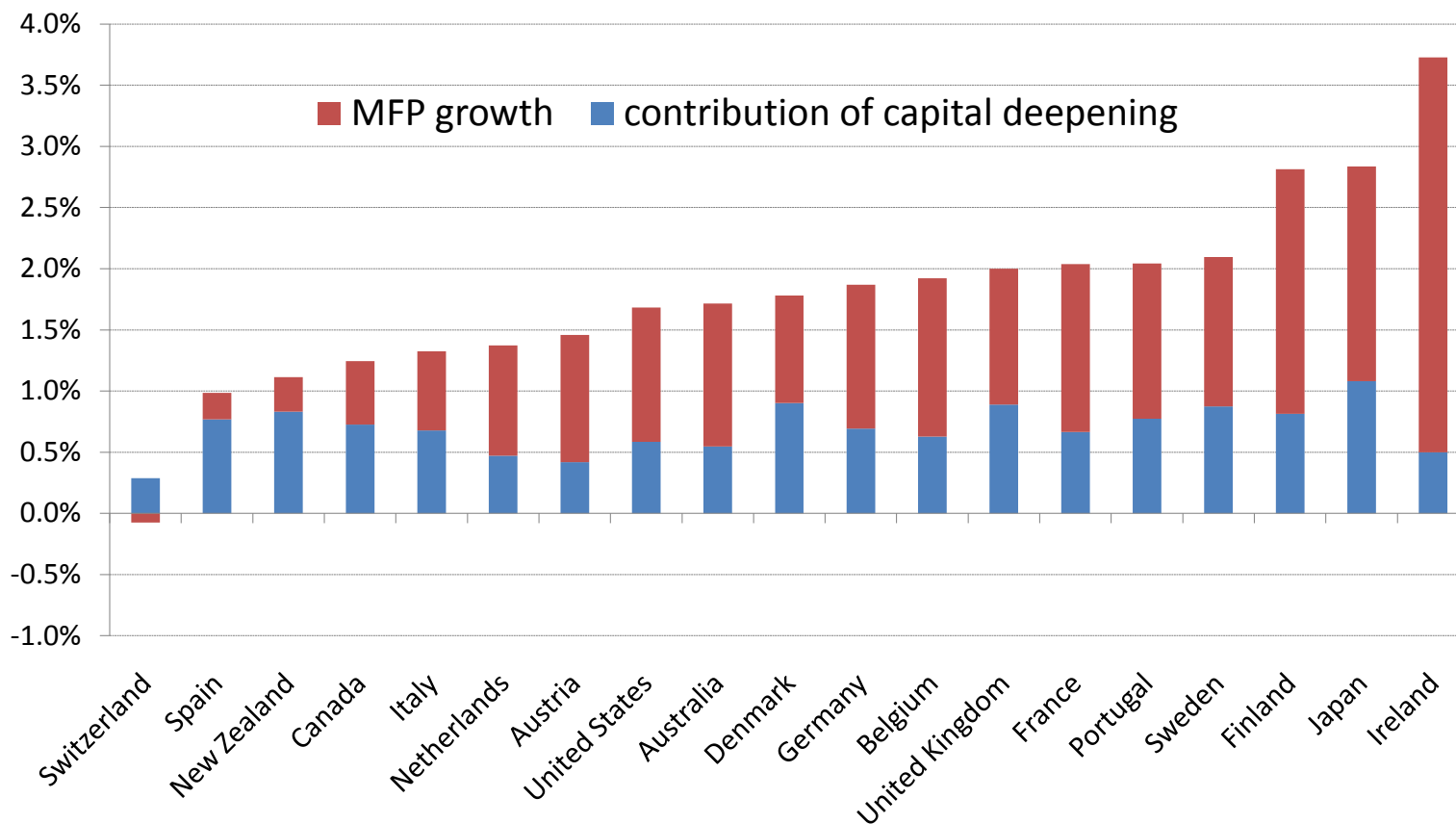
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# Outline

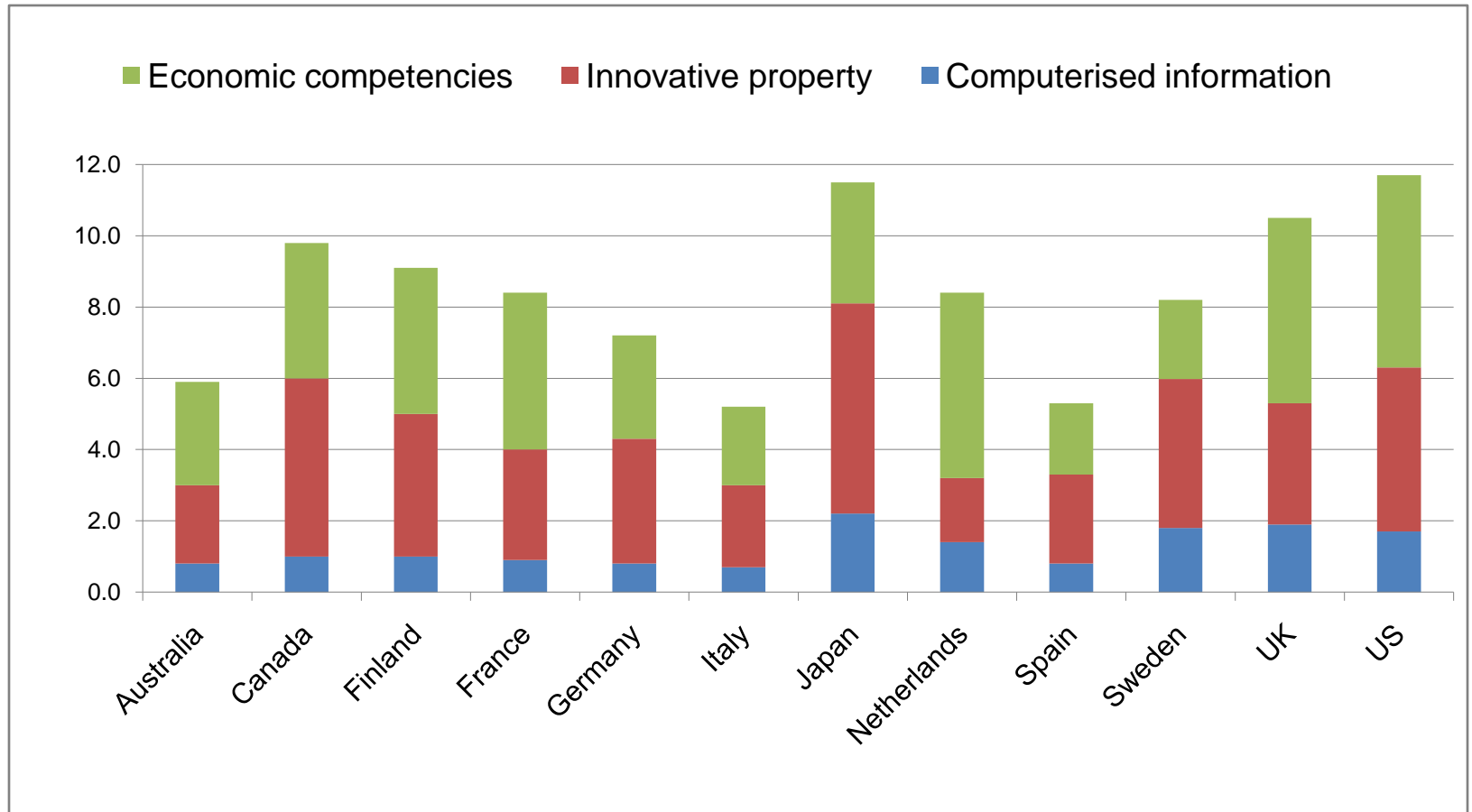
- What do we know about intangibles?
- How might crisis affect on intangibles?
- What could policy do for intangibles?

# *Economic growth is more than tangible capital deepening. Intangible investments matter.*

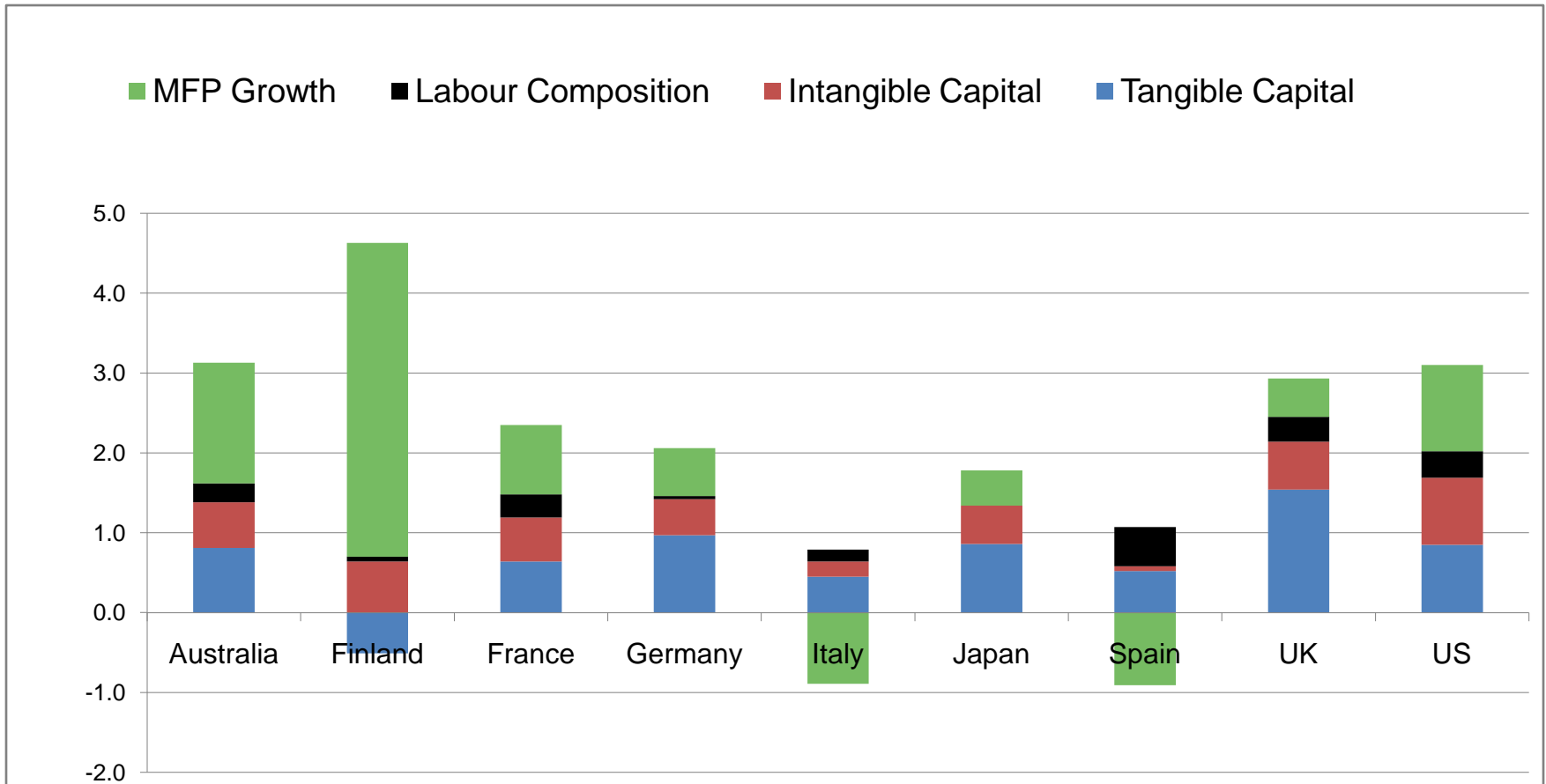
Labour productivity growth, 1985-2006



# Business sector invests heavily on Intangibles...



*... to the magnitude comparable to  
 that on tangible capital.*

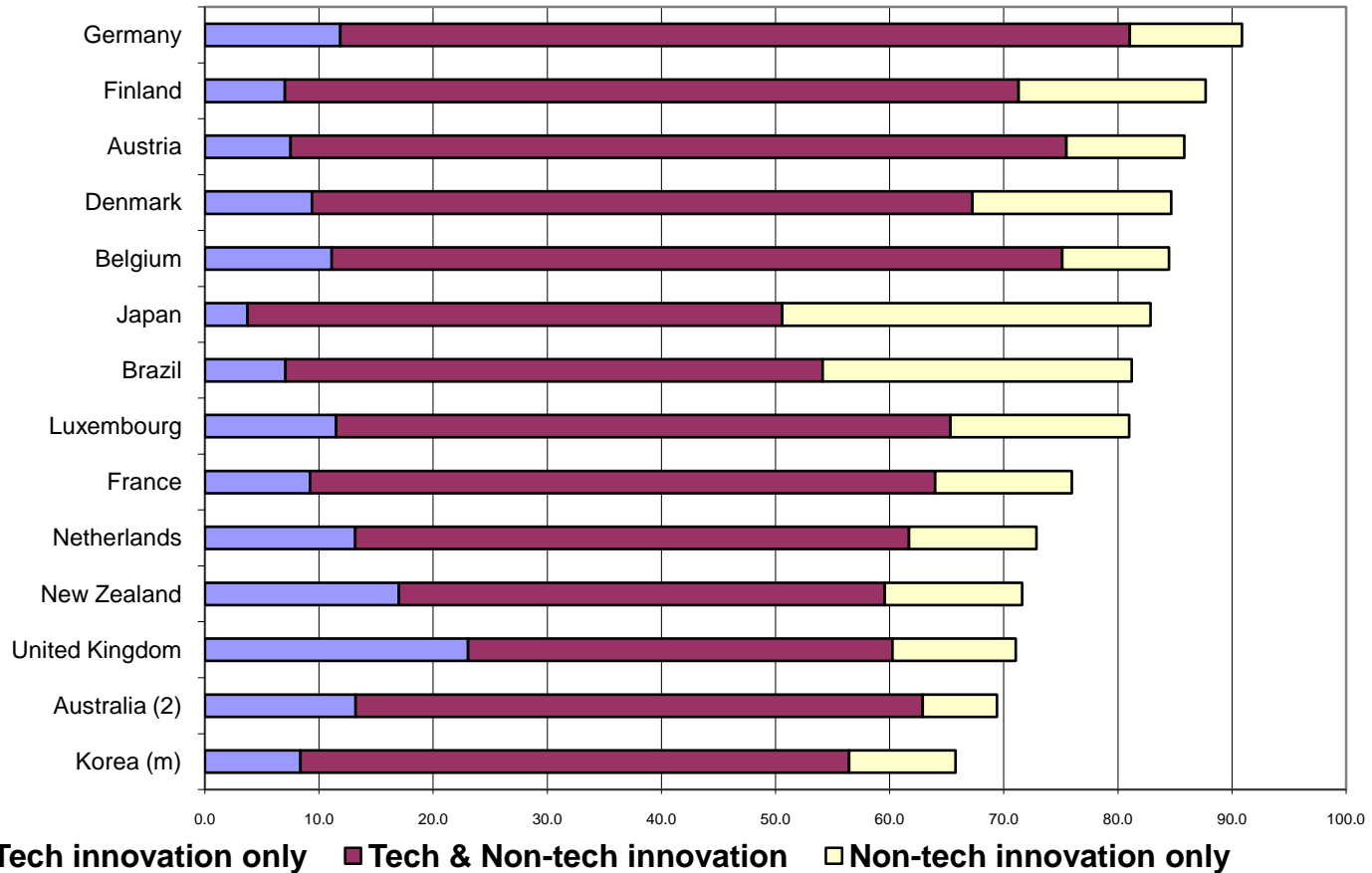


# *Intangible investments are for various asset classes...*

- Proprietary Knowledge  
= Formal (incl. patent, copyright...) + Tacit Knowledge
- Relational Capital  
= B to C / B to B + Co-Innovation
- Human Capital  
= Capacity × Commitment / Animal Spirits
- Organisational Capital  
= Structure + Culture

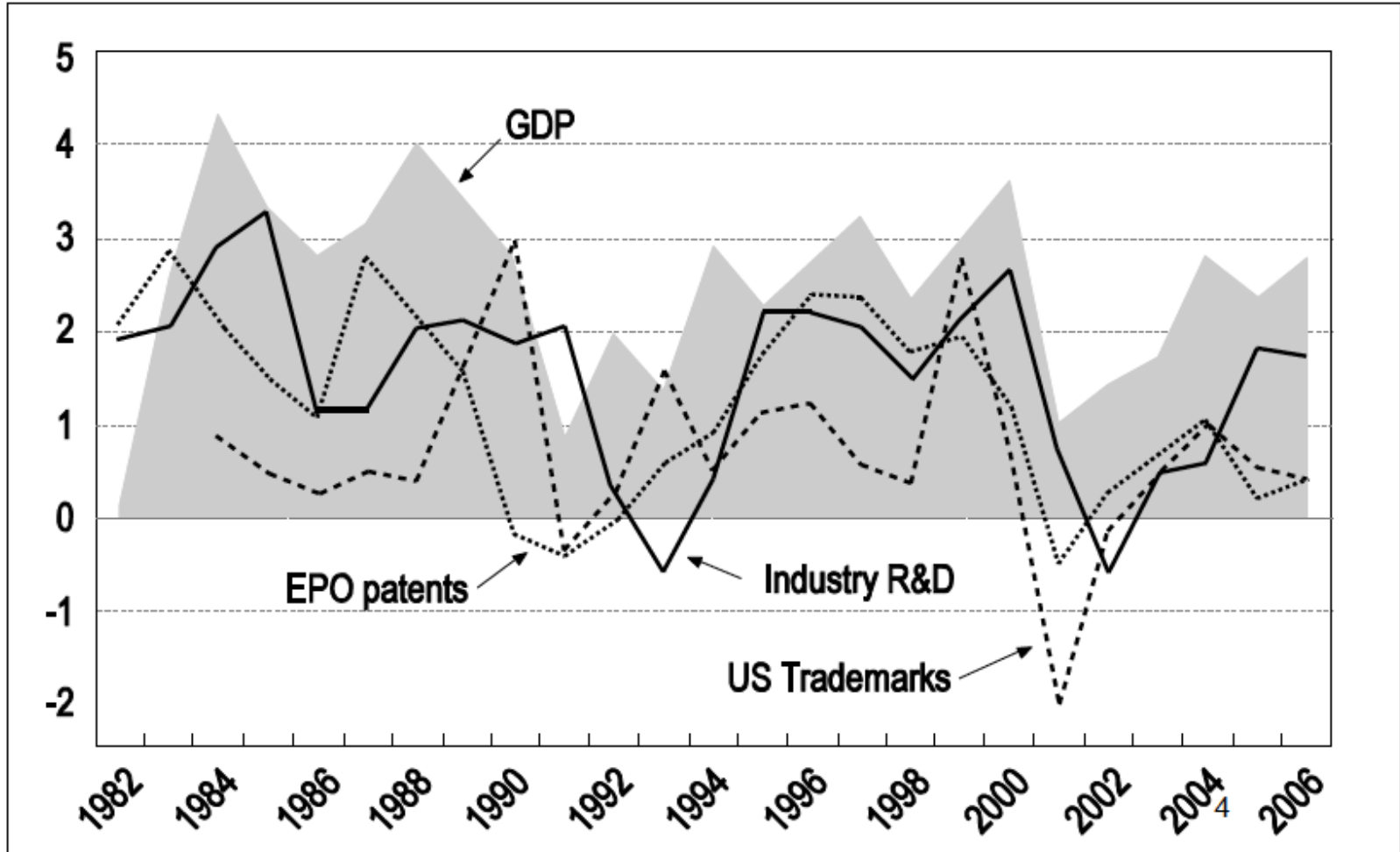
*... and often worked in combination.*

## Technological (product/process) Innovation & Non-Technological (Marketing/Organizational) Innovation,



Source: OECD Innovation Micro-data Project

# *Intangibles in Crisis: procyclicality of Intangible investments*

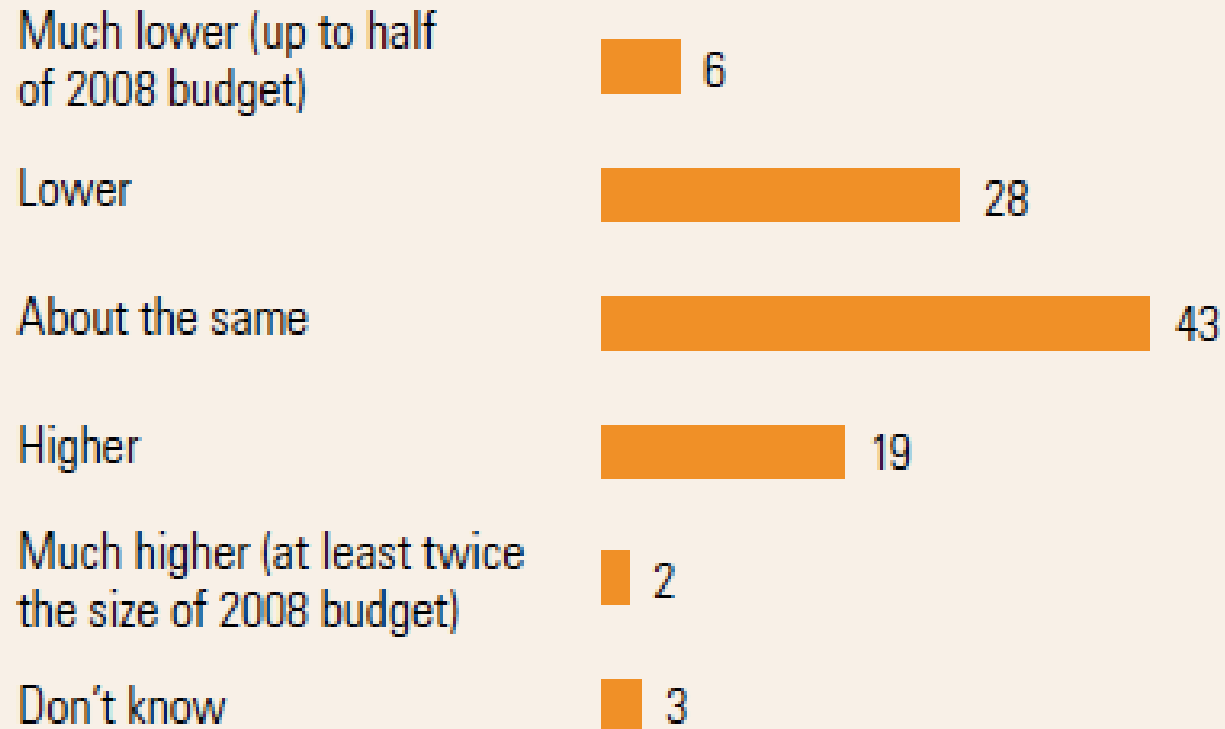




# *Firms are reluctantly cutting their budget in the current downturn.*

*How does your 2009 R&D budget compare with your 2008 R&D budget?*

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## *Intangibles and the crisis (2): threats*

- Credit crunch increases barriers to entry
- Collapse of venture capital investment in the US during Q4, dearth of IPOs
- Collapse in world trade, risks to global value chains – a source of knowledge exchange
- Sharp drop in R&D expenditure in major MNEs at Q4; further reductions announced in large companies for 2009.
- Possible erosion of human capital
- Government budgets under pressure; limited room for counter-cyclical public R&D

## *Intangibles and the crisis (3): opportunities*

- Creative destruction: New business models and new technologies, often emerge in downturns
- Opportunity for firms to purchasing technology rather than making it – alternative exit for smaller firms
- For government, an opportunity to implement policy changes that can strengthen the contribution of intangibles to a sustainable recovery

## *Governments are addressing long-term aspect (incl. intangibles) in their rescue packages...*

- Many stimulus packages contain measures designed to bolster intangible investments – R&D, incentives for green innovation, smart infrastructure, etc. (... also support established firms and industries).
- The crisis offers an opportunity to implement policy changes that can strengthen recovery and move to stronger, cleaner and fairer growth.

*... and should do so beyond the  
crisis for sustainable growth.*

## 1. Capture “Dark Matter” for our economy

Intellectual Capital is larger than tangibles in its magnitude and influence, but poorly measured.

→ **Improve our measurement** of national accounts-, regional-, sectoral- and firm-level ICs. Incorporate it in empirical analyses and policy discussion.

- depreciation/obsolescence, deflator/(hedonic) pricing  
= risks and dynamics
- capital/assets and management  
= idiosyncrasy of corporate strategy
- positive/negative spill-overs  
= linkages and dynamics
- innovation as intermediate variables?

## 2. Nurture and manage intellectual capital wisely

It works in idiosyncratic combination by firm/sector/region.

- **IC framework** and common **taxonomy**. (cf. WICI)
- **Balanced incentives** throughout IC asset-classes.

Open and collaborative innovation:

multiple input and output channels / ICs reside in network

- Create **Market for Knowledge**

information asymmetry

collaborative instruments (flexible IPR system operation)

financial incentives for initial demonstration

### **3. Animate people !**

Behaviour, mind-set, and communication matters.

Firms and people must be animated to be innovative/creative.

#### **→ Open and mobile**

- cross-cultural / cross-disciplinary expertise
- open mind for global reach

#### **→ Success stories**

OECD Strategic Response:

<http://www.oecd.org/dataoecd/33/57/42061463.pdf>

OECD Innovation Strategy:

[www.oecd.org/innovation/strategy](http://www.oecd.org/innovation/strategy)

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