

# Intellectual Capital for Communities in the Knowledge Economy Nations, Regions, Cities and Emerging Communities

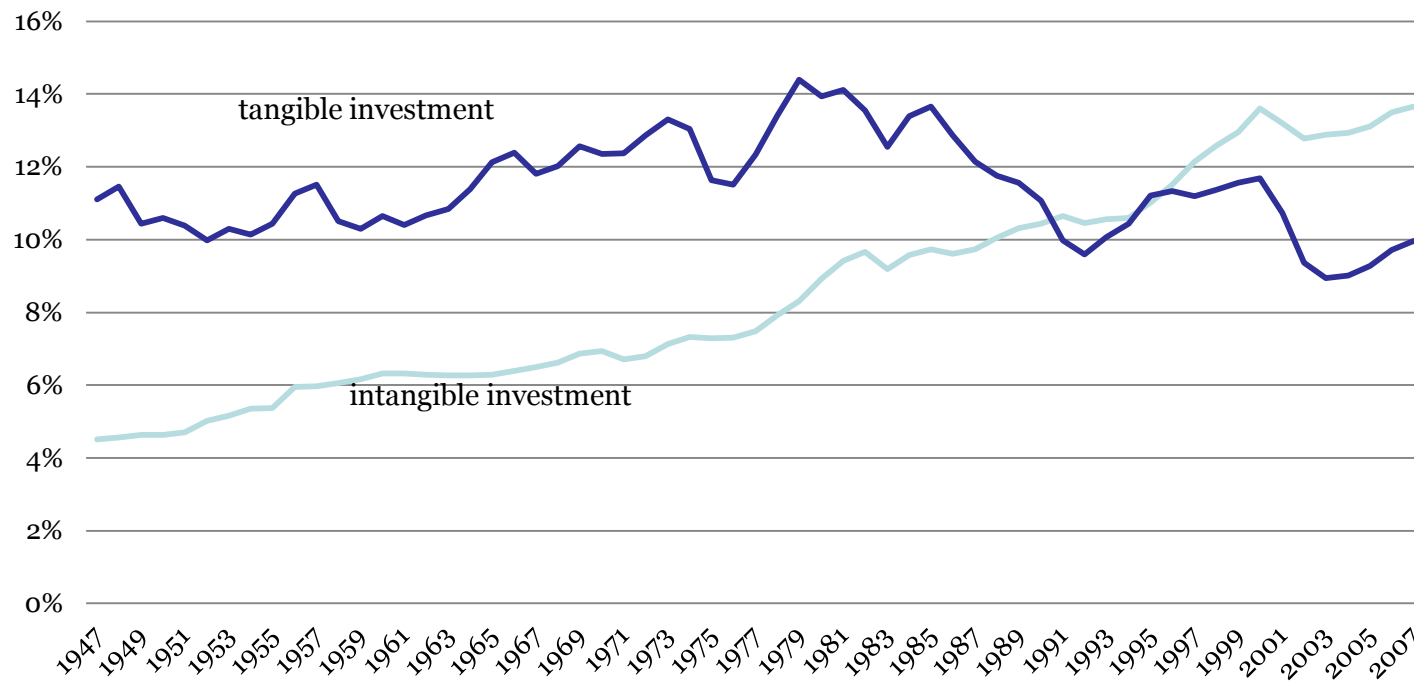


# Presentation Overview

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

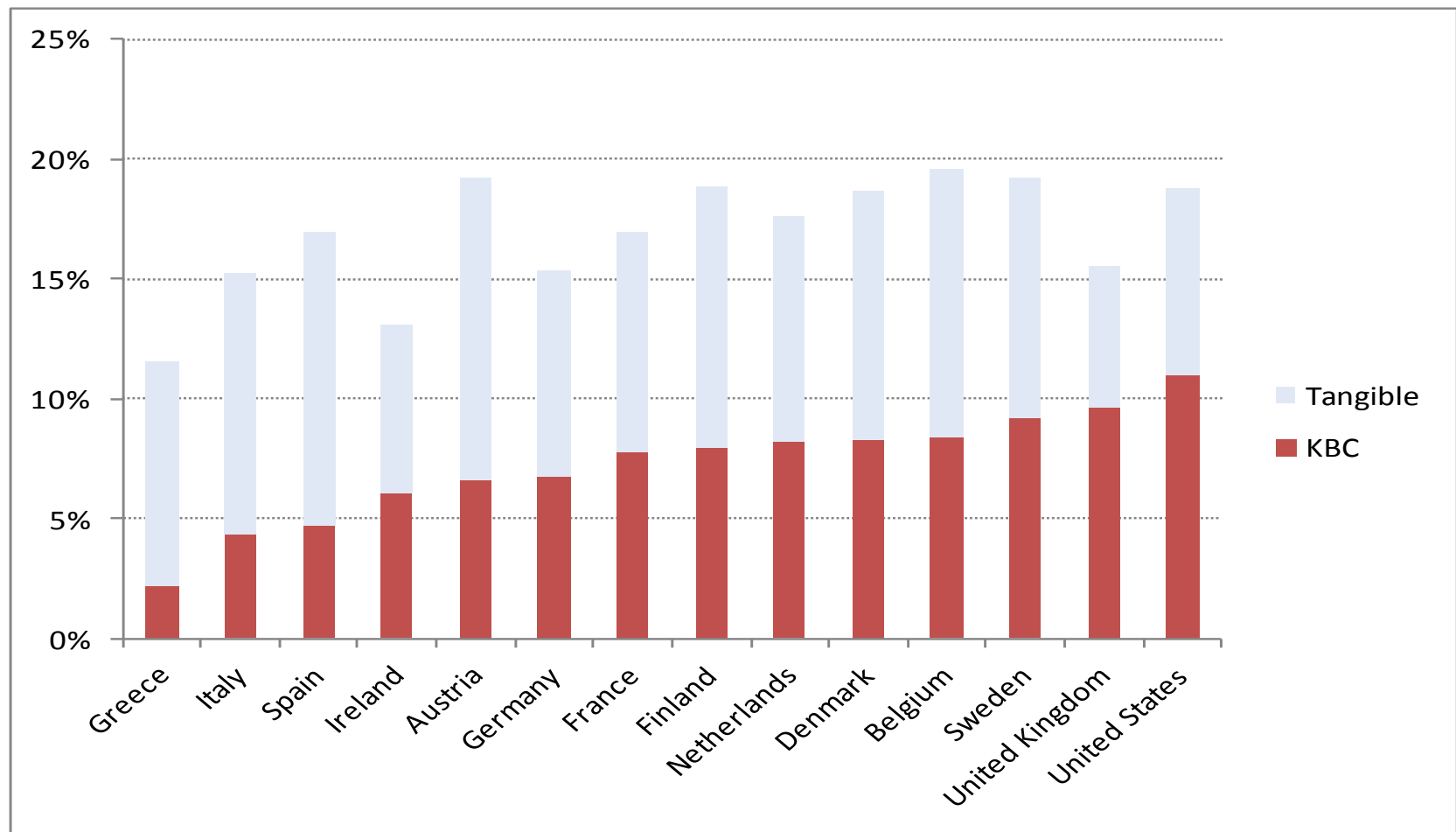
# Many advanced economies have become progressively intensive in business investment in intangible assets

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



Source: Corrado and Hulten (2010)

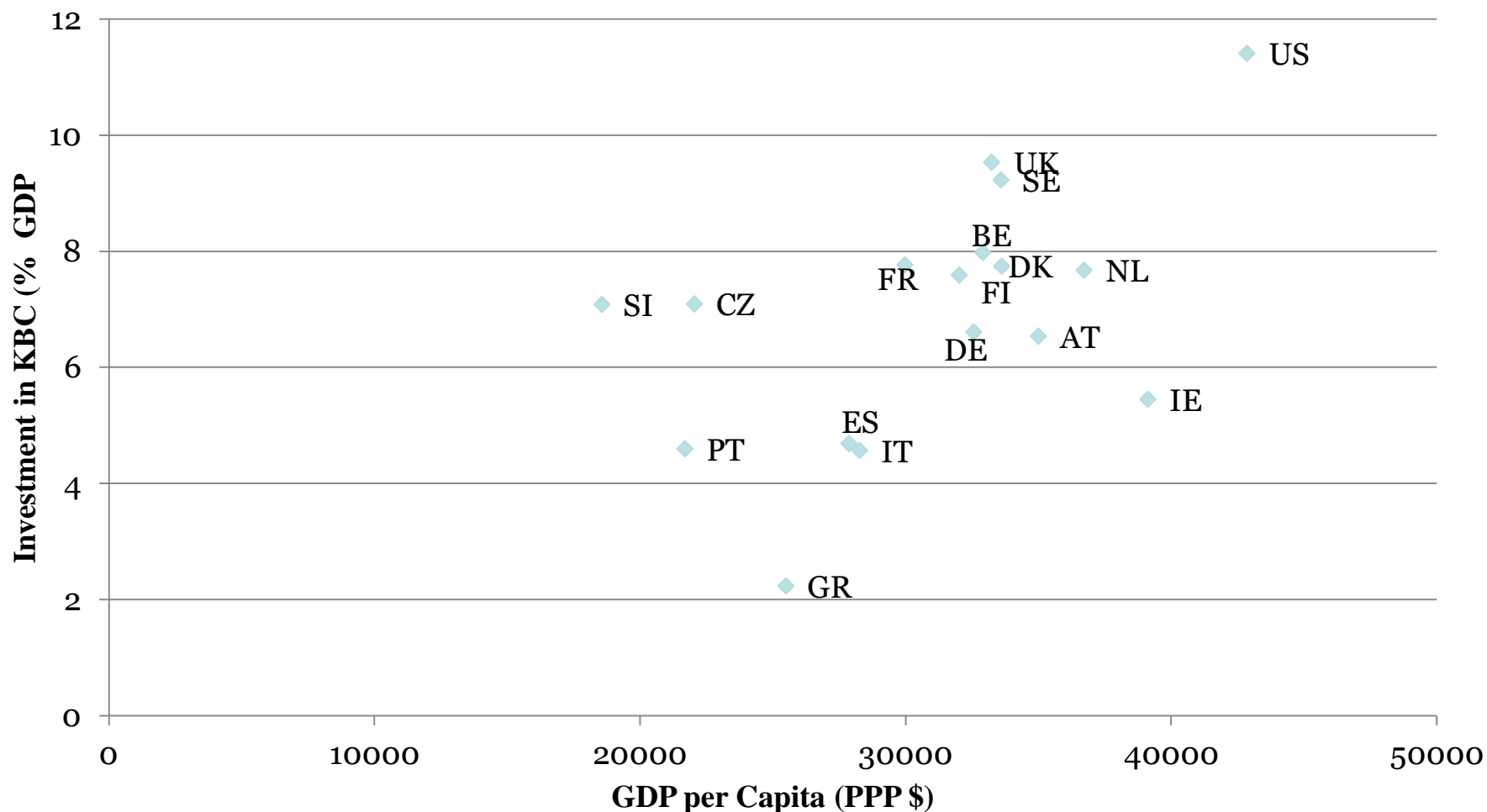
# Business investment in intangibles (KBC) and tangible capital, 2009 (% GDP)



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.

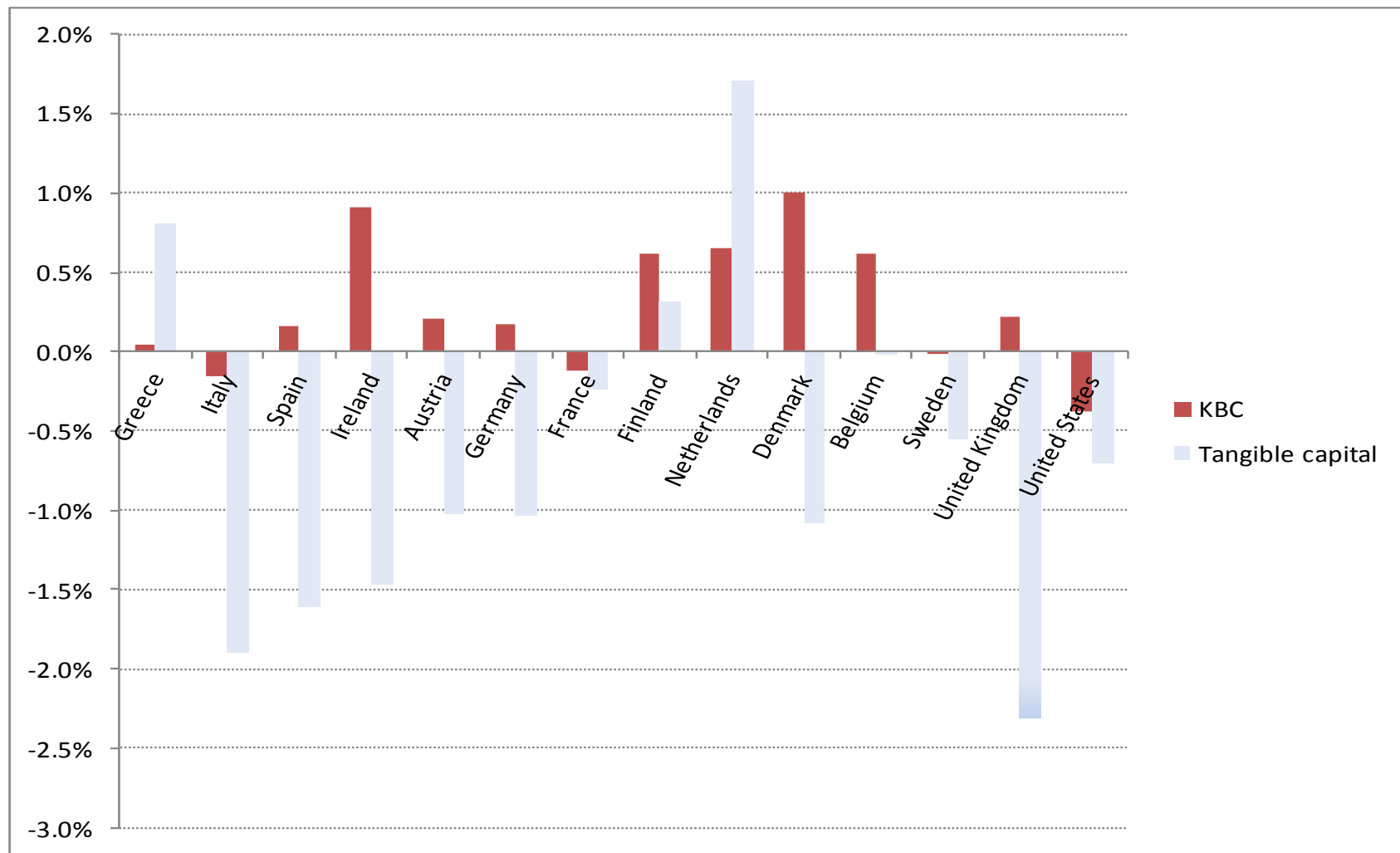


# Investment in KBC (share of GDP) and GDP per capita 2009



Source: Corrado et al (2012)

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



Source: Corrado et al (2012)

# The project's areas of focus – to recap:

- **Competition policy**
- **Tax policy**
- **Intangible assets and global value chains**
- **Economics and policy of personal data**
- **Corporate reporting**
- **Improving measurement**
- **Knowledge networks and markets (KNMs)**

## 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 <u>new</u> 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

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

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

# Individual Asset Types

Asset Type	Might <u>new</u> policies be needed to affect the level of business investment ?
Software	Unlikely
Databases	Yes
Innovation	Yes
Advertising	Unlikely
Organisational change	Unlikely
Firm-specific skills	Unlikely

-“Big data” considered a new frontier for innovation and productivity.  
 -Measurement is underdeveloped.  
 -Policy for ‘big-data’ has received limited attention thus far.

# Individual Asset Types

Asset Type	Might <u>new</u> policies be needed to affect the level of business investment ?
Software	Unlikely
Databases	Yes
Innovative property	Yes
Patents	Unlikely
Copyrights	Unlikely
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.

# Individual Asset Types

Asset Type	Might <u>new</u> policies be needed to affect the level of business investment ?
Software	Unlikely
Databases	Yes
Innovative property	Yes
Advertising/marketing	Unlikely
Org	Unlikely
Firm	Unlikely

- 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.



# Individual Asset Types

Asset Type	Might <u>new</u> policies be needed to affect the level of business investment ?
Software	Unlikely
Diffuse	Yes
Industrial	Yes
Acquired	Unlikely
Organisational change	Unlikely
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.

# Individual Asset Types

Asset Type	Might <u>new</u> policies be needed to affect the level of business investment ?
Software	Unlikely
Databases	Yes
Human capital	Yes
Physical capital	Unlikely
Organizational capital	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	Yes
----- (including support for venture capital)	----- Unlikely
Corporate reporting	Yes

# Framework Policies

Policy type	Might policy design or implementation require modification ?
Macro-economic	Yes – tentatively
Education and training	Unlikely
Labour market	Unlikely
Corporate governance	<p>-Household savings may not have fallen by as much as suggested in national statistics.</p> <p>-The effect on the amplitude of GDP fluctuations over the business cycle. Macro-policy may be insufficiently counter-cyclical.</p> <p>-A higher degree of uncertainty surrounding estimates of potential GDP and output gaps.</p>
Tax	
Corporate governance (including venture capital)	
Corporate reporting	
Corporate reporting	Yes

# Framework Policies

Policy type	Might policy design or implementation require modification ?
Macro-economic	Yes – tentatively
Education and training	Unlikely
Labour market	No
Corporate savings	Yes – tentatively
Tax	Unlikely
Corporate governance	Unlikely
Corporate reporting	Yes

-Household savings as suggested in national accounts  
 -The effect on the business cycle counter-cyclical.  
 -A higher degree of potential GDP and venture capital)

## Why 'tentatively'?

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



# 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	<div> <p>-Policy needs to ensure that labour market effects on all aspects of innovation are accounted for.</p> <p>-But justification for some new policy would need evidence of differential labour immobility linked to specific intangibles.</p> </div>
Corporate	
----- (including venture	
Corporate	

# Framework Policies

Policy type	Might policy design or implementation require modification ?
Macro-economic	Yes – tentatively
Education and training	No
Labour market	No
Competition	Yes
Tax	Yes

- 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.

# 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 tax	<div data-bbox="198 968 1410 1216"> <p>-Taxation affects investment in intangibles in many ways.</p> <p>-Evidence for framing policy is inadequate. Once available, policies may need to be reset.</p> </div>

# 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.

-Taxation affects investment in intangibles in many ways.

-Evidence for framing policy is inadequate. Once available, policies may need to be reset.

# Framework Policies

Policy type	Might policy design or implementation require modification ?
Macro-economic	Yes – tentatively
Education and training	Unlikely
Labour market	Unlikely
<p>There is recent innovation in using intangibles as collateral/security – and many policies and institutions could affect such innovation.</p>	
Corporate finance	Yes
----- (including support for venture capital)	----- Unlikely
Corporate reporting	Yes



# Framework Policies

Policy type	Might policy design or implementation require modification ?
Macro-economic	Yes – tentatively
Education and training	Unlikely
Labour market	Unlikely
<div>There is much collateral – a lot of IP frameworks do affect such investment.</div>	<div>Public support for venture capital obeys a rationale unrelated to the volume of investment in intangibles.</div>
Corporate finance	
----- (including support for venture capital)	----- Unlikely
Corporate reporting	Yes

# 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	Yes
Corporate reporting	Yes

Reforms to corporate reporting may need to be advanced.

## 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).

# Upcoming events + project outputs

- Policy-oriented conference February 13-14 2013.
- Intermediate project findings:  
<http://www.oecd.org/dataoecd/24/3/50338315.pdf>

## **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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