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Intellectual Capital for  
Communities  
In the Knowledge Economy

# Intellectual Capital for Communities in the Knowledge Economy Emerging Worlds, Growing Intangibles



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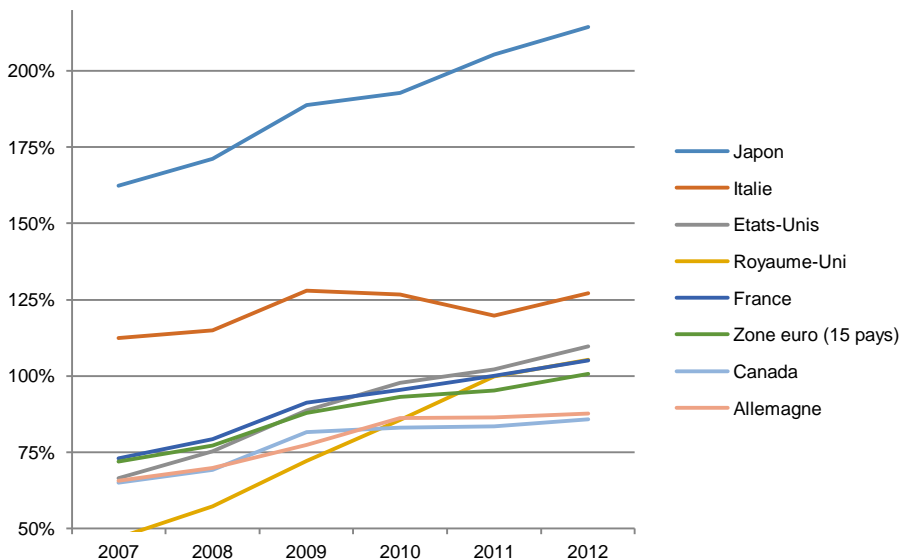


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## Intangibles of the public sector and the impact of recession packages

Xavier Timbeau

# Crisis has triggered consolidation



- **Fall in taxes receipts, automatic stabilizers**
- **Increase in public debt due to increase in public deficit, but also direct increase in public debt (“socialization” of private debt)**
- **Consolidation is complex because of multiplier effect**
  - **Cutting down transfers has large multiplier effect**
  - **Increasing taxes is somehow less harmful (but brings high damage in the future through distortion)**
  - **Cutting down other expenses may have long term effects**

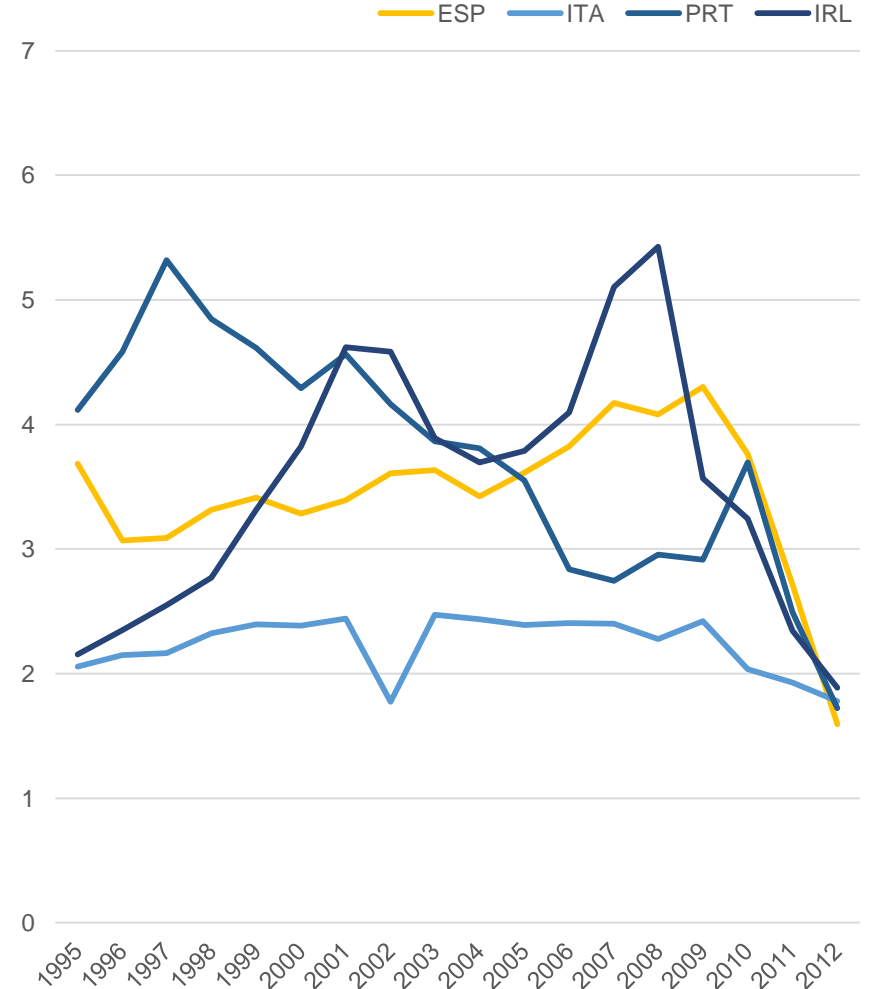
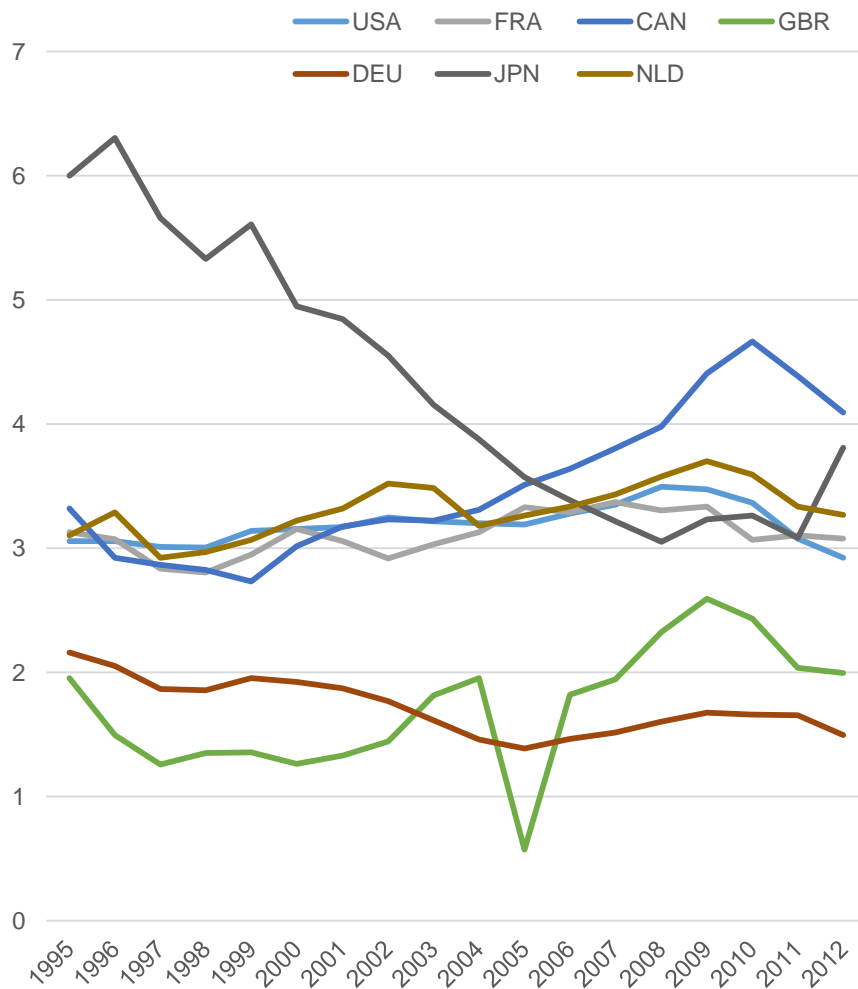
# Consolidation has been huge

## Fiscal impulse (structural deficit evolution)

% GDP	2010	2011	2012	2013(p)	2014(p)		Cumul 11-12	Cumul 11-14
<b>Germany</b>	1.4	-1.4	-1	0.1	0		-2.4	-2.3
<b>Austria</b>	0.7	-1.5	-0.3	-0.6	-0.3		-1.8	-2.7
<b>Belgium</b>	-0.1	0	-1.5	-0.5	-1		-1.5	-3.0
<b>Spain</b>	-1.4	-1.5	-3.4	-2	-1.1		-4.9	-8.0
<b>Finland</b>	1.3	-0.9	0	-0.8	-0.7		-0.9	-2.4
<b>France</b>	-0.6	-1.9	-1.3	-1.8	-0.8		-3.2	-5.8
<b>Greece</b>	-7.6	-5.5	-3.9	-3.9	-2.1		-9.4	-15.4
<b>Ireland</b>	-4.2	-1.5	-1.8	-1.9	-1.8		-3.5	-7.2
<b>Italy</b>	-0.6	-0.2	-3.1	-1.4	-0.7		-3.3	-5.4
<b>Netherlands</b>	-1.1	-0.4	-1.4	-1.7	-0.7		-2.1	-4.4
<b>Portugal</b>	-0.3	-3.7	-3	-2.1	-1.9		-6.7	-10.7
<b>EA 11*</b>	-0.3	-1.3	-1.9	-1.1	-0.6		-3.2	-4.8
<b>USA</b>	-1.1	-1.1	-0.9	-1.6	-1.6		-2.0	-5.2
<b>GBR</b>	-2.2	-3.3	-0.9	-1	-1.1		-4.2	-6.3
<b>Japan</b>	0.5	0.2	0.6	1.9	-1.3		0.8	1.4

Sources : National accounts, OFCE forecasts and calculations, spring 2013

# In some countries, public investment has been slashed



# It's an inter temporal question

- **Fiscal Multipliers change over time**
  - Depending on economic conditions multipliers can be high or low
  - Composition of fiscal consolidation plays a role
  - Multipliers effects are high and positive for transfers in liquidity trap, may be negative in normal times in the long term
- **Public investment have long term multiplier effect**
  - Because it is a supply side channel, or, because it has a positive yield in the long term
- **Decisions today may have a long term effect**
  - This is the way to define value for something
    - $W = \int e^{-\rho \cdot t} \cdot U(C) \cdot dt ; C = f(K_{tangible}, X_{others})$
    - $p_x = \frac{\partial W}{\partial X}$  is the shadow price for  $X$
    - Modifying  $X$  is modifying future path for utility, therefore modifying welfare
  - Interest rate may not be market rate, because market rate may be inefficient dynamically
    - Overlapping generation models shows that market rate is not pareto optimal, on general grounds.
- So, we face a complex dynamic problem, and what we do is...

# Basic accounting is misleading

- **Calculate public deficit and public debt**
  - Which is OK, even if some may be accounted differently
  - Focus on gross debt (which is wrong, an old european mania)
- **Is a partial view**
  - Priority to cash analysis, short term bias
  - In a time of despair, political equilibrium increase the short term bias
    - Even truer in a time of panic
    - Operations like we sell assets to have cash to pay monthly bills are looked as reasonable
- **Which has been denounced since a long time (Eisner 1981, Kolutkoff 1992)**
  - Should include assets, in fact all assets including non market assets (various contributions)
  - Should be complemented by intergenerational accounting
- **Correct theoretical accounting should**
  - Present an extended balance sheet for the public sector
    - Debts, including implicit debts (i.e. contingent liabilities)
    - Market assets (question : which valuation : fair value, market value ?),
    - Non market assets (harder question, which valuation ?), among which intangible assets
  - Accept a soft accounting practice
    - Prices and values are to be revisited each time future is changing
    - Future projection, hypothesis (discount rate, policy rules) are important, so is debate

# Some are doing it already

- **Generational accounts**
  - More research oriented than annual analysis
    - Lots of controversy on hypothesis
- **Fiscal councils**
  - Office for budget responsibility in UK
  - Congressional Budget Office in the USA
- **Inclusive or comprehensive balance sheet (green accounting)**
  - Valuation of shadow prices is a complex (impossible?) issue
- **Genuine Saving (published until 2006 by World Bank)**