

# The dilemmas of immaterial capitalism

By [Sarah Guillou](#)

**A review of: Jonathan Haskel and Stian Westlake, *Capitalism Without Capital. The Rise of the Intangible Economy*, Princeton University Press, 2017, 288 pp.**

This book is at the crossroads of the debate about the nature of current and future growth. The increasing role of intangible assets is indeed at the heart of questions about productivity gains, the jobs of tomorrow, rising inequality, corporate taxation and the source of future incomes.

This is not simply the umpteenth book on the new economy or on future technological breakthroughs, but more fundamentally a book on the rupture being made by modes of production that are less and less based on fixed, or material, capital and increasingly on intangible assets. The digressions on an immaterial society are not new; rather, the value of the book is that it gives this real economic content and synthesizes all the research showing the economic upheavals arising from the increasing role of this type of capital.

Jonathan Haskel and Stian Westlake describe the changes brought about by the growth in the share of immaterial assets in the 21st century economy, including in terms of the measurement of growth, the dynamics of inequality, and the ways in which companies are run, the economy is financed and public growth policies are set. While the authors do not set themselves the goal of building a new theory of value, they nevertheless provide evidence that it does need to be reconstructed. This is based in particular on the construction of a database – INTAN-invest – as part of a programme financed by the European Commission and initiated by the American

studies of Corrado, Hulten and Sichel (2005, 2009).

By immaterial assets is meant the immaterial elements of an economic activity that generate value over more than one period: a trademark, a patent, a copyright, a design, a mode of organization or production, a manufacturing process, a computer program or algorithm that creates information, but also a reputation or a marketing innovation, or even the quality and / or the specific features of staff training. These are assets that must positively increase a company's balance sheet; they can depreciate with time; and they result from the consumption of resources and therefore from immaterial or intangible investment. There is a broad consensus on the importance of these assets in explaining the prices of the goods and services we consume and in determining the non-price competitiveness of products. These assets are determining elements of "added value".

However, despite this consensus, the measurement of intangible assets is far from commensurate with their importance. Yet measuring assets improperly leads to many statistical distortions, with respect to: first, the measurement of growth – because investments increase GDP – second, the measurement of productivity – because capital and added value are poorly measured – and finally, to profits and perhaps also the distribution of added value if intangible capital is included in expenditure and not in investment. The authors show in particular that the increasing importance of intangible assets can explain the four arguments underpinning secular stagnation. First, the slowdown in productivity could be the result of an incorrect valuation of intangible added value. Furthermore, the gap between the profits of companies and their book value could be explained by an incomplete accounting of intangible assets that underestimates capital, in addition to the slowdown in investment despite very low interest rates. Finally, the increase in the inequalities in productivity and profits between firms is the result of the

characteristics of intangible assets, which polarize profits and are associated with significant returns to scale.

Awareness of the measurement problem is not recent. The authors recall the major events that brought the experts together to deal with the measurement of intangible assets. They cover up to the latest reform of the systems of national accounts that enriches the GFCF of R&D, including the SNA, 2008, in particular the writing of the *Frascati Manual* (1963, 2015), which lays the foundations for the accounting of R&D activity. But even today it is not possible to account for all intangible assets. This is due in part to the fact that there is still some reluctance in corporate accounting with respect to integrating intangible capital insofar as it has no market price. So while it is simple to book the purchase of a patent as an asset, it is much more difficult to value the development of an algorithm within a company or to give a value to the way it is organized or to innovative manufacturing processes, or to its internal training efforts. Only when something is traded on a market does it acquire an external value that can be recorded, unhesitatingly, on the asset side of the balance sheet.

Nevertheless, the challenge in measuring this is fundamental if we believe the rest of the book. Indeed, the increasing immateriality of capital has consequences for inequalities (Chapter 6), for institutions and infrastructure (Chapter 7), for financing the economy (Chapter 8), for private governance (Chapter 9) and for public governance (Chapter 10).

The stakes here are critical because of the specific characteristics of these immaterial assets, which are summarized in the “four S’s” (Chapter 2): “scalable, sunkedness, spillovers and synergies”. This means, first, that immaterial assets have the particularity of being able to be deployed on a large production scale without depreciating (“scalable”). Second, they are associated with irrecoverable expenses, that is, once the investment has been made it is

difficult for the company to consider selling the asset on a secondary market, so there is no turning back ("sunkedness"). Next, these assets have "spillovers", or in other words, they spread beyond their owners. Finally, they combine easily by creating "synergies" that increase profitability.

These characteristics imply a modification of the functioning of capitalism, which we are all already witnessing: they give a premium to the winners, they exacerbate the differences between the holders of certain intangible assets and those who are engaged in more traditional activities, they polarize economic activity in large urban centres, and they overvalue the talents of managers capable of orchestrating synergies between immaterial assets. At the same time, the prevalence of these assets requires modified public policies. This concerns first, the protection of the property rights of these intangible assets, which are intellectual in nature and difficult to fully appropriate due to their volatility. Even though intellectual property rights have long been established, they now face two challenges: their universal character (many countries apply them only sparingly) and achieving a balance (they should not lead to creating complex barriers that render it impossible for new innovators to enter, while they should be sufficiently protective to allow the fruits of investments to be harvested). Moreover, spillover effects need to be promoted by ensuring a balance in the development of cities and the interactions between individuals, while also creating incentives to the financing of intangible investments. Bank financing, which is based on tangible guarantees, is not well suited to the new intangible economy, especially as it benefits from tax advantages by deducting interest from taxable income. It is therefore important to develop financing based on issuing shares and developing public co-financing. More generally, the public policy best suited to the intangible economy involves creating certainty, stability and confidence, in order to deal with the intrinsic uncertainty of risky intangible investments.

What emerges from this reading is a clear awareness of the need to promote the development of investment in immaterial assets, but also a demonstration that the growing immateriality of capital is giving rise to forces driving inequality. This duality can prove problematic.

More specifically, three dilemmas are identified. The first concerns the way intangible investments are financed. The highly risky nature of intangible investments – because they are irrecoverable, collateral-free and with an uncertain return – calls for investors to take advantage of diversification and dispersal. And yet, as the authors show, what companies in this new economy need are investors who hold large, stable blocks of shares so as to be engaged in the company's project. The second dilemma concerns state support. It is justified because these have a social return that goes beyond their private return and, in the face of shortfalls in private financing, public financing is necessary. However, corporate taxation has not yet adapted to this new sources of wealth creation, and states face growing difficulties in raising taxes and identifying the taxable base. Furthermore, states are competing to attract businesses into the new economy through fiscal expenditures and subsidies. The third dilemma is undoubtedly the most fundamental. This involves the contradiction between inequalities, whether in the labour market (job polarization [\[1\]](#)), in the goods market (concentration) or geographically (geographical polarization), which are caused by the rise of intangible capital, on the one hand, and on the other hand the need for strong social cohesion, trustworthiness and human urban centres that provide favourable terrain for the development of the synergies and exchanges that nourish intangible assets. In other words, the inequalities created affect the social capital, which is detrimental to the future development of intangible assets.

It is in the resolution of these dilemmas that this new capitalism will be able to be in accord with our democracies.

[1] See Gregory Verdugo: [“The new labour inequalities. Why jobs are polarizing”](#), *OFCE blog*.

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# How to read the Alstom case

By [Jean-Luc Gaffard](#)

The situation of Alstom has hit the headlines since the company executives announced their intention to sell the energy branch to General Electric and to carry out a restructuring that strongly resembles a unit sale. The government reacted strongly to what it saw as a *fait accompli*, seeking another buyer, namely Siemens, with a view to creating one or more European companies in a sector considered strategic, along the lines of Airbus – before it came round to the General Electric solution, which in the meantime had improved in terms of both the amount paid for the buy-out and the arrangements for the future industrial organization. These events, important as they are, should not obscure the more general fact of ongoing deindustrialization, which is taking the form, among others, of the break-up of certain large companies, and which is resulting from inconsistencies in the governance of what French capitalism has become today.

Deindustrialization is generally attributed either to competition from countries with low wages, and thus to excessive labour costs, or to insufficient innovative investment, and thus to a lack of non-price competitiveness. The solutions sought in terms of public policy oscillate between reducing wage costs and supporting R&D, usually with

little regard to the conditions of corporate governance. The emphasis is on the functioning of both the labour markets, with the aim of making them more flexible, and the financial markets, which are considered or hoped to be efficient, without really taking into account the true nature of the company. But a firm is part of a complex network of relationships between various stakeholders, including managers, employees, bankers, customers and suppliers. These relationships are not reducible to market relations encumbered with imperfections that generate poor incentives and that need to be corrected so as to ensure greater flexibility. They are part of more or less long-term contractual commitments between the various stakeholders in a company, which are exceptions to the state of pure competition, even though they are essential to the realization of the long-term investments that bring innovation and growth. The duration of these commitments is in fact the foundation for the average performance of the companies, the structuring of the industry and ultimately the industrialization of the economy.

Alstom's troubles, following on the heels of the difficulties encountered by other firms like Pechiney and Rhône Poulenc that are no longer on the scene, reflect this organizational reality. With sales barely equal to one quarter of the figure for Siemens and one-fifth for General Electric, the size of the company and its various activities has been judged by its leaders to be largely insufficient to meet the demands of competition. With the agreement of the European Commission, the State already had to intervene back in 2004 to recapitalize the company so as to avoid bankruptcy. It then faced the obligation to hive off certain activities and cut jobs drastically. Today, the only way ahead is to carry out a new restructuring, with the hope of saving skills and jobs by integrating them into a larger, more efficient entity while absorbing the accumulated debts. This cannot take the appearance of a final break-up that benefits one or another of the competitors who managed to develop the right strategies,

far from the recommendations of those who fawned over what was once called the new economy. In this case, the beneficiary will be General Electric. This ultimate solution is taking place due to Alstom's inability to benefit in the recent or earlier period from the longer-term financial commitments that would have allowed it to implement an effective growth strategy.

This disappointment, on the heels of numerous others, reveals the inconsistency that has befallen French capitalism between the organization of its industry and of its financial system, which was criticized back in 2012 in a book by Jean-Louis Beffa (*La France doit choisir*, Paris: Le Seuil). The new financial model, inspired by the Anglo-Saxon model, no longer seems to respond to the needs of mature enterprises engaged in activities with investment needs that are substantial and long term and which are subject both to performance cycles related to fluctuations in demand and to the constraints of the innovation process. The ensuing lack of commitment was bound to lead to break-ups, but it would be wrong to equate this to an increased modularity of industrial production resulting from the introduction of new information and communication technologies and which would be valued by the financial markets, as the head of Alstom seemed to think in the late 1990s when advocating a company without factories.

Under these conditions, a recovery in production cannot take place through the invariably one-off specific interventions of the public authorities aimed more or less explicitly at creating national or European champions that are, after all, not very credible. What is needed are structural reforms to deal, not with the rules on market functioning, but with modes of governance, and in particular a revision of the way the financial system is organized.

These observations are developed in greater depth in ["Restructurations et désindustrialisation : une histoire française", Note de l'OFCE, no. 43 of 30 June 2014.](#)



