

# 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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# Financialisation and financial crisis: vulnerability and traumatic shock

By Jérôme Creel, Paul Hubert, Fabien Labondance

Since the mini-crash that took place in the Shanghai stock market in August, financial instability has resurfaced in the markets and the media and, once again, the link with financialisation has been evoked. The Chinese crisis resulted from a combination of real estate and stock market bubbles that were fed by the abundant savings of a middle class in search of high-yield investments. It feels like we've gone back almost ten years when what is considered the excessive financialisation of the US economy – with abundant savings from the emerging countries enabling the build-up of widespread US consumer debt – is treated as the cause of the financial instability and crisis that was triggered in the summer of 2007.

Is there really a link between, on the one side, increasing indebtedness and the great variety of financial investments, and on the other, volatile stock prices and a deterioration in

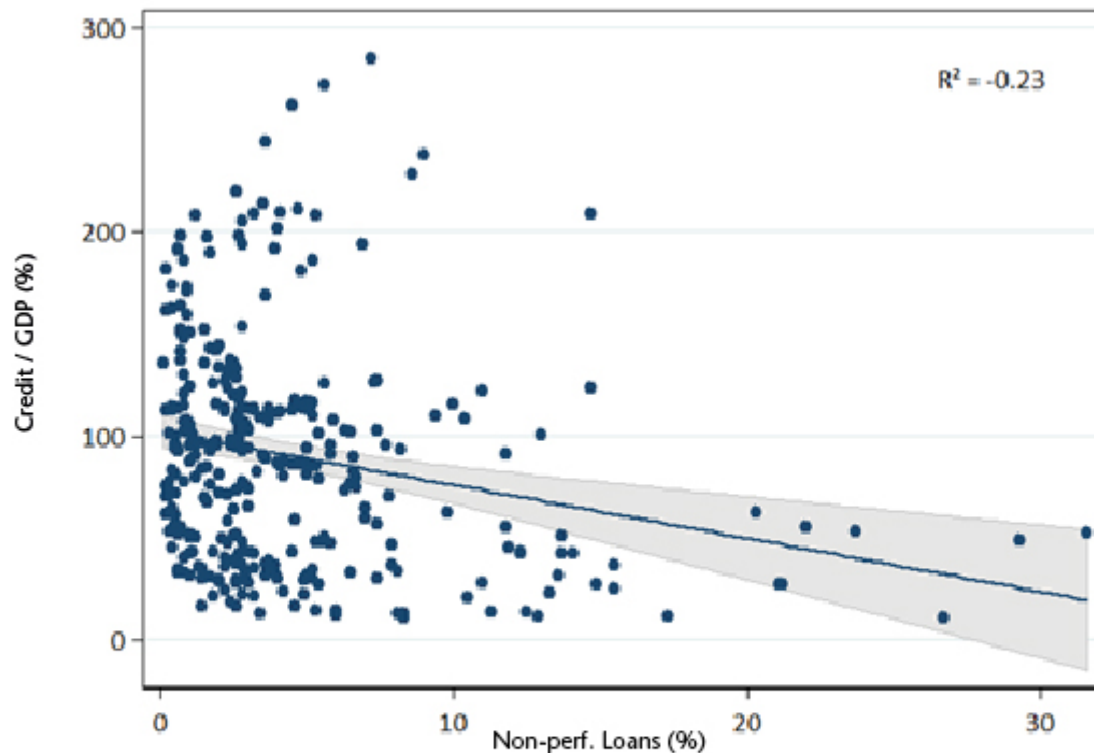
the quality of bank loans? And if there is, what is the direction of the dynamics: from financialisation to financial instability, from financial instability to financialisation, or both at once? A rise in indebtedness could well lead to increasingly risky lending to agents who wind not being able to repay them, which would then lead to a financial crisis: this is one possible case. The occurrence of a crisis would change the behaviour of households and firms, causing them to reduce debt: this is the second case, in which financial instability reduces the financialisation of the economy. Depending on which is the case, the public policies needed differ. In the first, we need to monitor the degree of the economy's financialisation and target, for example, a maximum ratio of bank credit to GDP in order to prevent the rise and bursting of speculative bubbles. In the second case, there are two possibilities: to treat the causes, and thus to monitor the quality of loans to households and business so as to ensure the proper allocation of capital in the economy; or to treat the consequences by supporting productive investment to annihilate any rationing of credit.

In the course of the debate on the links between financialisation and financial instability, and on the consequences to be drawn in terms of public policy, the European situation is interesting for two reasons: the European Union has set up a system for monitoring external imbalances, including financial ones, from 2011, and a banking union since 2014. In a recent [working paper](#), we look at this debate for several groups of countries in the European Union over the period 1998-2012.

At first glance, the relationship between these two concepts is not easy to demonstrate, as can be seen in the graph below. It shows a scatter plot that for each year and for each European country gives the levels of financialisation (approximated here by the share of credits / GDP) and of financial instability (approximated here by non-performing

loans). The correlation between these variables is -0.23.

**Figure. Financialisation and financial instability**



Note: Non-performing loans, or bad debt, expressed as a percentage of total loans granted by banks.  
Credit/GDP: total amount of bank credit expressed as a percentage of GDP.

Source : Creel et al. (2015) based on GFDD databases.

We test the two typical cases discussed above. We call the first case the vulnerability effect. As financialisation develops, it engenders a sort of euphoria that leads to granting loans that are increasingly risky, which fosters financial instability. This hypothesis derives from the work of Minsky (1995) [\[1\]](#). We simultaneously test the potentially negative relationship between financial instability and financialisation, which we call the trauma effect. The very occurrence of financial instability as well as its impact encourages economic agents to take less risk and to shed debt. Our estimates show that the link between financial instability and financialisation is not uni-directional. Contrary to what is suggested by the simple correlation coefficient, the sign of the relationship is not the same when looking at the effect of one variable on the other, and vice versa. Both the



vulnerability and the trauma effect have been at work in the European countries. A macro-prudential policy intended to monitor the policy on granting bank loans, in terms of their volume and quality, therefore does indeed seem necessary in Europe.

We also tested the possibility that these effects are non-linear, that is to say, that they depend on reference values. The vulnerability hypothesis depends both on the level of financialisation (the higher it is, the stronger the relationship) and on time. This last point shows us that the positive relationship between financialisation and financial instability shows up at the moment of crisis for countries that are already heavily financialised. Finally, in the countries on the EU periphery [\[21\]](#), long-term interest rates and inflation rates greatly influence the financial instability variable. Consequently, it seems that for these countries there is a need for strong coordination between banking supervision and macroeconomic surveillance.

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[\[11\]](#) Minsky H. P. (1995), "Sources of Financial Fragility: Financial Factors in the Economics of Capitalism", paper prepared for the conference, *Coping with Financial Fragility: A Global Perspective*, 7-9 September 1994, Maastricht, available at Hyman P. Minsky Archive. Paper 69.

[\[21\]](#) This group consists of Spain, Ireland, Italy, Greece, Portugal and the countries from the Eastern enlargements in 2004 and 2007. The establishment of this group is explained in the working paper.