No Risk $\Leftrightarrow$ No Growth

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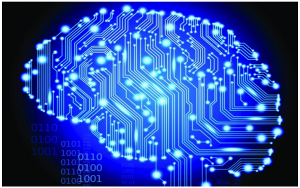
The Intangible Future is Here

A Driving Vision

Eyeing the Future



Historical Prescience

A New Crop of Applications

Adoption of Knowledge Based Capital

- How to stimulate adoption of intangibles (knowledge based capital) in Europe?
- Does finance play an important role?
- Is the European financial system up to the challenge?

Economics of Intangible Capital

- Intangible assets are not rival in use
- Once an idea exists, it is not scarce
- The best idea receives large share of revenue/profit
- The share of income going to labour and traditional capital decreases
- Uncertainty concerning sales, profits, and jobs increases
- Intangible assets are difficult to tax
- Intangible assets may be a substitute for traditional capital
- Intangible assets are difficult to finance

Incentives for Adoption of Intangibles

- Costs
  - Availability of (digital) infrastructure
  - Availability of skilled workers
  - Availability of *financial capital*
- Benefits
  - High uncertainty of outcome from combining intangibles in production chain
  - Ability to scale labor and *reallocate capital* conditional on outcome

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Evidence from Research

- Share of intangibles in total investment continues to rise (although it remains difficult to measure)
- Dispersion and volatility of firm productivity, sales, and job flows increase with ICT (Bartelsman, Hagsten, Polder, 2016)
- Resource allocation to risky/productive activities is lowered by labor market frictions (Bartelsman, Gautier, de Wind, 2016)
- Intangible investment is higher in markets with strong productivity enhancing reallocation (Bartelsman, van Leeuwen, Polder, 2016)
- The 'silver lining' of productivity enhancing reallocation was lower in recent crisis owing to credit constraints (Bartelsman, Lopez-Garcia, Presidente, 2016)
- Large volume of findings on this topic in OECD Future of Productivity (2015)

What can the financial sector do to boost growth

- Direct financing of intangible investments in NFC
  - Intangibles are generally less collateralizable then tangibles
  - Regulation of banks reduces ability to finance increasing demand for intangibles
  - Continued work needed on EU capital markets; co-financing and leveraging with public funds helps
- Indirect effects of financial intermediation through reallocation
  - Finance exit of zombies, finance catch-up of laggards, finance growth of leaders
  - Ensure that regulation of financial sector does not hamper required resource reallocation from traditional banks to new financial firms/products needed to finance intangibles

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What can Economists do to boost growth

- Kill the Mantra:
  - To some, Structural Reform may mean any policies that improve the functioning of the economy.
  - To many others, it has become a synonym for 'austerity', corrupt politicians, low wages, rising inequality, social dysfunction
- Find evidence on how things work and on 'what works', ie which policies actually achieve which goals
- Discuss 'tradeoffs' fairly: winners and losers, gains in one area vs losses in another
- Try to assess how changes in economic environment may change position on tradeoffs
- Challenge policy makers to be clear (to voters) about their goals

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What can Policymakers do to boost growth

- Clearly state to voters what their policy goals are
- Embrace experimentation with policy to learn how to achieve goals
- Evaluate (using ex-ante protocol) whether policy works
  - Evaluation requires experimental design, and data gathering
- If policy does not work, adjust, or find other policy (don't attach name of politician to particular reform....)

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