Intellectual Property in the National Accounts

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The measurement of intangible assets resulting from the performance of R&D, and intellectual property (IP) in general, poses special challenges for national accounts. The current international standards treat IP in the same way as other capital assets. In particular, IP depreciates as time passes, and although it is accepted that IP does not suffer wear and tear like other assets, it is assumed that services are provided with a characteristic of quantity. The paper argues that this is wrong. Obsolescence – the reduction in demand due to the technology being supplanted – is considered to have a real character, beyond the reduction in price due To reduced demand for a set of unchanging services. The paper sets out arguments against this model, proposing a return to the pre-1993 SNA treatment. Then, payments made for the IP were licence payments for access to the asset – these payments were known as royalties. The common practice of multinational enterprises (MNEs) of registering patents in low tax jurisdictions, so that service payments are recorded between users and offshore economies and profits scored accordingly, at present results in large and potentially transient changes to measures of GDP. It is proposed that a return to the pre-1993 treatment of IP as non-produced, and with no associated payments for real services, would resolve the issue. The payments would again be characterised as income transfers, and appropriately reflect the large flows of money into an economy, as income to the new "resident". But GDP would be unaffected, both in nominal and real terms – nominal as IP is not produced, but discovered (invented), and real in that the obsolescence experienced has no material equivalent change – it reflects only a price change due to reduced demand. Amongst other issues discussed is the identification of "development " as a natural and inherent part of Research and Development. The character of development is agreed to be production of prototypes, but this in itself is not production of the IP – it is production which enables the usefulness of the IP to be assessed, and the underlying IP to be reviewed and adjusted. This is an argument for including all the research and development and marketing costs necessary to bring the original concepts to the market in an accessible form, and this would include unsuccessful as well as successful development if these can be linked to a single final capital asset. So valuation of pharmaceutical products would include costs of all relevant clinical trials. The paper will not attempt to provide practical solutions to all the many challenges, but by posing key questions on current standards for measurement, it will point the way ahead for refinement of the international standards .