

Cross-Country Income Differences Revisited: Accounting for the Role of Intangible Capital

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Paper Abstract: This paper develops a new intangible investment database that is consistent and internationally comparable for a set of 60 economies over the period 1995-2011. I find that over time a growing share of total investment consists of intangible assets, rather than investment in tangible assets, like machinery and buildings. Across countries, the level of economic development of a country is positively associated with its investment intensity in intangibles. By including intangible capital as an additional factor of production, this paper finds that we can account for substantially more of the variation in cross-country income levels. Depending on the assumptions regarding the output elasticities of factor inputs, the observed differences in intangible capital can account for up to 16 percentage points of the cross-country income variation.