# Book Reviews

## The Economics of Intangible Investment

Elizabeth Webster

*Cheltenham, UK, Edward Elgar, 1999, x + 118 pp., £39.95, ISBN 1 85898 858 6*

'Progress' and development require investment and traditionally business arithmetic, collections of official statistics, economic modelling and policy interventions have focussed on investment in 'real' resources: buildings, plant and machinery, power stations, dams and bridges. Having just now perused the preliminary program of the Telecom99 gathering in Geneva, one might be pardoned for thinking that little has changed. The Exhibition will cover 65,000 $m^2$ and display the equipment of the telecommunications and computer industries, but does profitability and sustainable competitive advantage lie not in the buildings and equipment but in knowledge and ideas? *The Economist* argues that 'the value of a business increasingly lurks not in physical and financial assets that are on the balance sheet, but in intangibles: brands, patents, franchises, software, research programmes, ideas, expertise' (12 June 1999, p. 69).

Elizabeth Webster tackles this big question. Looking beyond market ideology, she writes that 'Non-market networks and workplace organisation in concert with the invisible hand make the "whole" surpass the sum of its parts' (p. 1). Opinions will differ about the invisible hand but networks and organization are informational and they pave the way for placing Webster's concerns in the context of the information economy. She acknowledges the advantages from a measurement perspective of a focus on tangible assets and speculates why 'there is now an embryonic and belated recognition of intangible forms of capital in the literature' (p. 2), possibly because of the growth of intangible investments relative to tangible investments or because intangible capital has become more complex. Perhaps this recognition is part of a broader change to which the economics discipline has been responding: a change that has sparked new developments in many parts of the discipline (e.g. micro- and macroeconomics, welfare theory, finance, development economics) and has come to be known as information economics and is a fundamental challenge to mainstream thought.

This slim volume discusses historical and contemporary conceptions of investment and capital and explores the reasons why firms invest in intangible forms of capital. An empirical venture then follows to test whether a trend exists at the level of intangible enterprise investment and capital.

Two methods are used to measure Australian intangible enterprise capital. The first uses stock market data to derive an implied level of intangible capital; the second uses data on the proportion of people who work to produce intangible investment goods, either for sale or for internal use in their own firm. The first would seem to have yielded the tidiest outcomes and to have some confirmation from the second approach. According to the stock market data measure, intangible capital as a proportion of total capital has been rising.

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These are commendable efforts at measurement but there are some problems. The stock market data are used to arrive at a total assets figure from which tangible assets can be deducted leaving a residual that is accepted as an implied measure of intangible capital. While the value of ordinary shares may seem an acceptable and readily available measure, does it represent a valuation of the whole bundle of assets of the firm in question or of the expected flow of dividends plus any potential benefits from takeover bids, capital reconstructions and the like? We need to be told rather more about both the 'Generally Accepted Accounting Principle' that favours adjustment of accounting values of assets and the extent to which these principles are put into practice. Even if the adjustments are made and take account of 'inflation and fundamental factors' (p. 56), the figures for total assets on the one hand and tangible assets on the other are generated by different sets of decision-makers in different processes—one being a market process and the other non-market.

The final chapters explore the implications for micro- and macroeconomic modelling of the investment decision. The need for changes in official statistics to provide the data for research, e.g. measures or indicators of knowledge production, learning and adaptation, follow from Webster's work.

Turning in Chapter 9 to implications for other areas of economics, Webster draws attention to a possible need for new forms of industry ownership because conventional structures may be limiting the size and efficiency of firms. She also raises serious questions about labour market polarization—questions not unrelated to the 'information rich'/'information poor' divide.

These implications hark back to some very old issues about technological change. Historical perspective might be helpful to our thinking about them. One of the central issues raised by Webster's study is organizational change. Monopolistic and imperfect competition theory made the product a variable; now we have to accept that the organization too is a variable. If, however, it is true that organizational development was the main form of technological progress in the eighteenth century [Webster attributes this view to Groenewegen (fn. 9, p. 29)], then the importance of intangible capital is not a new phenomenon. The biggest difficulty currently may be that very few economists think of organization as technology!

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**Economic Organization and Economic Knowledge: Essays in Honour of Brian J. Loasby, Volume I**

Sheila C. Dow and Peter E. Earl (Eds)

*Cheltenham, UK, Edward Elgar, 1999, xxiii + 302 pp., £59.95, US$95.00, ISBN 1 85898 725 3*

The concept of an Austrian Marshallian is not an entirely new one, with George Richardson, for one, being characterised in that way,[1] but the volume under review, the first of two honouring Brian Loasby's contributions to economics and organisation theory, makes this the central organising principle for understanding Loasby's work. The two volumes, the outcome of a conference at Stirling University, comprise what the editors see as 'an integrated whole, rather than merely a sequence of chapters' (p. xi). This should make for a pair of volumes that make a genuine contribution to knowledge.