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HAWK Talon
Monthly Hawk100 Insights May 2013

Adding Intellect to the Economy.

Bureau of Economic Analysis to include intellectual property in GDP.

In March, the US Bureau of Economic Analysis (BEA) changed how it defines and presents the national income and product accounts (NIPA), such as Gross Domestic Product (GDP)—the standard measure of economies—to reflect "intellectual property products."[1]

Private Investment.

BEA plans to show intellectual property products as nonresidential fixed investments a part of the private investment component of GDP. BEA will present three lines of intellectual property products:

1. Software,
2. Research and development (R&D), and
3. Entertainment, literary, and artistic originals.

Soft where? BEA presently shows software together with "equipment" in its GDP reports. Bundled software will still be embedded in equipment while BEA will reclassify software sold or licensed separately under the new intellectual property products segment in future presentations.

Is her beauty fit for a boardroom wall?
SOURCE Wikipedia.

Need to research and develop measurement. BEA has not shown R&D as a segment of GDP previously. Introducing R&D into the measure of GDP opens a number of measurement challenges. Ideally, R&D should be valued at the present value of expected future benefits. As R&D benefits are not readily observable, BEA will guess at R&D activity using surveys of expenditures within the private and public sectors. BEA will then interpolate survey data and apply material judgment to adjustment the data for reflecting R&D ownership, depreciation, and prices. The resulting measure of R&D will resemble the international guideline definition of R&D as "creative work undertaken ... for the purpose of discovering or developing new products, including improved versions or qualities of existing products." BEA guesses that by recognizing R&D, it will raise GDP by about 2%.

More art than science. BEA purports that applying systematic processes to expenditure data can reliably measure and value entertainment, literary, and artistic originals (we collectively call these "art" for simplicity). BEA seems to suggest it could value art based on input costs (for example, paint, brushes, canvas, and frame for a painting). Using this thinking, oversized art that ubiquitously adorns boardroom walls could be more valuable than Mona Lisa's smallish 30x20." Beauty—and thus value—is in the eye of the beholder, and beauty cannot be reliably estimated from input costs. Valuing entertainment, literary, and artistic originals is more art than science.

Intellectually Skeptic.

Intellectual property products have real value and may be rightly recognized within national accounts. However, we are skeptical of the methods that BEA intends to use in measuring their value. The BEA methodology widely relies on assumption, estimation, and judgment to value intellectual property products. We believe BEA gnomes will find the temptation too high to use those assumptions, estimates, and judgment to manage GDP measures toward a desired outcome. The measures are likely to be a tool to mute negative coverage that could follow otherwise dismal economic reports.

[1] "Preview of the 2013 Comprehensive Revision of the National Income and Product Accounts," *Survey of Current Business 93* (March 2013)

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