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Japan's Low Investment in Intangible Assets

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The Japanese economy is in the midst of a sustained expansionary phase. It has already surpassed the 57-month-long Izanagi boom of 1965–70, which had been the longest period of continuous growth in the postwar era, and a feeling of economic resurgence is spreading in Japan.

When one looks at the economy from a global perspective, though, one sees that a rose-colored future is by no means assured. This is because the rest of the world took bold, dynamic strides during the 1990s to ensure economic growth while the Japanese economy continued to stagnate in the post-bubble “lost decade.”

The United States, for instance, quickly shifted its industrial structure by leveraging the momentum created by the information-technology revolution. It succeeded in raising productivity and has continued to enjoy steady growth since the latter half of the 1990s. Pulled along by a robust US economy, the Chinese, South Korean, and Southeast Asian economies have also been registering strong growth. The expansion of the Chinese economy, in particular, has been remarkable. It has attracted direct investment from around the world with its vast pools of cheap labor and solidified its position as the “factory to the world” since the turn of the century.

“Knowledge Economy”

To survive the wave of economic globalization, industrial nations must remake themselves into “knowledge economies.” The European Union adopted the Lisbon Strategy in March 2000 to transform itself into a more competitive, dynamic knowledge-based society. This EU agenda is designed to ensure economic growth and secure jobs by taking steps toward a knowledge economy.

Japan, too, adopted a “productivity-acceleration program” in April 2007 that calls for the enhancement of labor productivity by 50% over the next five years. Drafted by the Council on Economic and Fiscal Policy (chaired by Prime Minister Shinzo Abe), it is a plan to address the dwindling of the population as the birthrate continues to fall and to achieve economic growth by boosting productivity. It lacks a clear focus, however, no doubt because the authors were unable to narrow down the choice of productivity-enhancing policies with the shift in the industrial structure.

Exactly half a century ago, Massachusetts Institute of Technology Professor Robert Solow introduced the concept of multifactor productivity, which has since been regarded as the rate of technological progress. This is because manufacturing was the leading industry during this time, and R&D activities within that sector were the driving force for technological innovation and productivity enhancements.

Role of Intangible Assets

Recent trends in the US economy suggest, though, that the sector primarily responsible for pushing up productivity is shifting from manufacturing to services. This has prompted broader research into productivity-raising factors other than R&D spending, one of them being the role of intangible assets.

In one sense, R&D investments are intangible assets too, but there has been particularly strong interest in recent years in how computer software, human capital, and corporate reorganization can supplement IT investments in improving productivity.

The puncturing of the IT bubble in 2001 took some air out of the US economy, but it soon rebounded. Many believe that the key to this quick return to growth was the accumulation of intangible assets. The *2007 Economic Report of the President*, published by the US Government Printing Office, ascribes the long-term rise in the country's productivity largely to the role played by intangible assets.

In addition to this heightened interest in intangible assets, attempts are being launched to actually quantify the effect that spending on such assets has on economic growth. In May 2007 the Organization for Economic Cooperation and Development organized a workshop on intellectual assets and value creation, where the results of attempts at quantification in the US, British, and Japanese markets were reported.

A New Business Model

The table summarizes the measurement results for the three nations. As the figures clearly show, investment in intangible assets as a share of gross domestic product is significantly lower in Japan than in the other two countries. Particularly noteworthy is the meager spending on human resources and corporate reorganization, which are major components of economic competitiveness. It cannot be ascertained, though, whether this is really due to the absence of IT-induced investments or to the lack of reliable data in this genre. Further research is needed to clarify this point.

Table Investment in Intangible Assets

	Japan 2000–04 (¥ billion)	United States 1998–2000 (\$ billion)	Britain 2004 (£ billion)
Computerized information	10630	154	19.8
Innovative property	23481	424	37.6
Economic competencies	13356	505	69.3
Total	47827	1085	126.7
Investment in intangible / GDP (%)	9.2	11.7	10.9

Sources: US figures from Corrado C., C. Hulten, and D. Sichel, "Intangible Capital and Economic Growth," *NBER Working Paper No. 11948 (2006)*; British figures from Marrano, M.G. and J. Haskel, "How Much Does the UK Invest in Intangible Assets?" *Working Paper No. 578 (2006)*, Department of Economics, Queen Mary University of London; figures for Japan estimated by the author, et al. Figures are the averages for each given period.

The problem of intangible assets, moreover, is deeply related to the question of business models. In the 1980s Japan used its own business model, centered on manufacturing, to achieve improvements in productivity, and this became the focus of worldwide attention. As the IT revolution has reshaped the industrial structure, though, a new business model capable of meeting the challenges of globalization is being sought.

How should intangible assets be accumulated? This is an issue that must be addressed in any attempts to build a new business model and to enhance the productivity of the economy as a whole.

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