

THE **NEW** BAZAAR

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EPISODE 31: THE INTANGIBLE ECONOMY

STIAN WESTLAKE ON RESTARTING THE FUTURE

CARDIFF GARCIA: Hi, I'm Cardiff Garcia. And this is The New Bazaar. Coming up on today's show.

STIAN WESTLAKE: Maybe what actually happened was that these technologies came into being for totally different purposes, and they were kind of harnessed, they were taken up by this all-devouring demand in the economy for intangibles.

CG: Stian Westlake on restarting the future.

Today's episode is about something that you might have noticed just by looking around you, especially if you're old enough, like me, if you grew up before, you know, the 2000s or so. So much of the global economy in the last three or four decades has digitized, obviously, but that's only part of the story. A lot of the economy has also shifted away from material things and towards ideas and relationships and things that are harder to categorize and identify, but still very, very real.

These are intangibles. Things like data, design, personality, research, ways of expressing ourselves. The importance of all these things has grown and it's been reflected in, for example, the investments that businesses have made. More money now goes to branding and R&D, training, software. And it also goes to the tech that we love to use for pleasure and for work. Today's episode is all about the profound and subtle consequences of this shift.

And it's also about why the economy and society have lagged behind it. Our guest, to explain it all is Stian Westlake. Stian and his co-author Jonathan Haskel wrote a book a few years ago called *Capitalism Without Capital*, which chronicled that trend towards the intangible economy. And now they have a new book out, it's called *Restarting the Future*, which is about how people and businesses and policy makers can finally catch up to the trend and harness it to make the world better. We cover all that and more in today's chat with Stian, here it is.

Stian Westlake, welcome to The New Bazaar.

SW: Hi, thank you for having me.

CG: I am super excited to talk about this topic, because this is something that I've noticed about, like, the world that I exist in, in other words, the space that I move in, um, that it has become more intangible. I spend so much time staring at a screen, a lot more than I did when I was a kid. And I want to begin by just establishing that this is a real thing. In other words, beyond just my own personal observation and others', you know, anecdotal observations, I want to establish that this is something that we actually see in the evidence. So can you just kind of take us through a quick tour that establishes that this really is a thing that's been happening over the last few decades?

SW: Yeah, that, I mean, this is a really good question because in some ways the kind of rise of intangible capital is the most obvious thing in the world. We kind of see it all around us, but I think what's interesting is to see how we can actually measure that and prove the point. And this really comes from a program of research that's been going on for at least 20 years. So, you know, traditionally economists have measured tangible capital, have measured machines, plants, vehicles, and that has been a big project.

You know, there's been sort of decades of business surveys going through accounts, all this kind of heavy lifting that gets done at national statistical bureaus to measure this stuff. And going back into the late '90s, some economists thought, hang on, there's a lot of computerized information, a lot of branding, a lot of marketing, this stuff has durable value in the same way that machines do, maybe we should start measuring it. And so a group of economists, including people like Carol Corrado at The Conference Board started to think, how can we work this out?

So they started doing surveys. They started looking at the amount of money that businesses were spending on things like R&D, things like software development and so forth. And they gradually built that into the kind of framework that economists were using to measure tangible capital. So this is kind of the results of a 20 to 30-year research program. The big part of it now is a piece of work called INTAN-Invest. And what that basically showed was that every year, the amount of money being spent by businesses on this kind of intangible capital, things like R&D, software, data, developing brands, is now around 15 to 16% of GDP.

And, um, I guess what's particularly interesting, there was a point in the early 2000s where it came to exceed, it's been steadily growing, and it came to exceed the amount that we've always been measuring as invested intangible capital. So there's a kind of move where we've moved from an economy of predominantly things that you can touch and feel consist- capital consisting of that, to an economy where all this intangible stuff, the things that you can't step your toe in, now represents the majority of business investment.

CG: That had to be quite an eye-opening moment for you when that actually happened. In other words, this moment where you realized that intangible, capital intangible stuff, the money going to it had actually exceeded the money that goes to stuff that you can actually feel, to factories, to machinery, to equipment and things of that nature. Uh, how, how did you react to it when you realized, oh my God, it's actually bigger now?

SW: It's kind of incredible, isn't it? It's, um, it's true to that life experience that you were describing that this, this does seem to be what an increasing number of people do at work.

CG: There is a quote that I really like from early in the book, Stian, and I just wanna read it here, share it with our listeners and then get your thoughts on it. Here's what you write, "Sometimes a future that in retrospect seems inevitable was at the time a close-run thing, and sometimes a future that seems desirable and likely does not happen at all." So I just wanna ask, was it inevitable that there would be this shift towards the intangible economy? And what do you think drove it?

Was it that that's just the way that technology itself evolved and it made that shift towards the intangible easier? Or do you think this was driven by what people wanted? That they wanted to be able to send information to their colleagues really easily, that they wanted to be able to, you know, watch YouTube videos of the monkey becoming friends with the rabbit and they wanted these great telecoms things that they could use for work. What do you think are the primary factors that drove this trend?

SW: So it's a super interesting question. I guess one bit of evidence is it looks like intangible capital has been growing for a really long time. So, you know, this predates Facebook, but it predates, predates the worldwide web. It predates the internet. It even, the growth of intangibles as far as we can see, even predates the invention of the semiconductor in the kind of 1940s and '50s. Um, so when, the longest datasets we can put together makes it look like this is a very long and steadily growing trend, which my immediate reaction to it is, well, maybe this is just something that, that societies do more of as they get richer.

So as you said to, to the extent that this has to do with expressing ourselves, to do with building thicker, social networks, more sophisticated and complex businesses, that might be a function of it. The thing that's really interesting, you talked about, you know, is this driven by technology? And that, you know, I think of Marc Andreessen's, uh, prediction that software would eat the world in this connection. But, um, one interesting way of looking at this is maybe the connection works the other way around. Maybe what actually happened was that these technologies came into being for totally different purposes.

And they were kind of harnessed, they were taken up by this all-devouring demand in the economy for intangibles. So I give a case in point, the first business computer was, um, developed in Britain by a company called, uh, the Lyons tea shop chain. The Lyons teashop chain was kind of the McDonald's of 1940s and 1950s Britain, where you'd go, where war weary Brits would go and buy tea and cake. They basically built the first business computer.

And what they did was they took the machines that were being used to break Nazi codes in World War II. And they said, well, you know, we've gotta pay all these, um, largely women who serve tea at the teashops. And they used this to replace a lot of the functions of their enormous payroll department. So it's a kind of interesting story

of it wasn't so much that the tech was harnessed, it was excerpted into serving the needs of this increasingly information rich economy. And I see lots of stories like that. So I think probably what we're seeing is a more complex economy demands these connections and the tech is brought in to service it rather than the tech giving rise to the change.

CG: Yeah. See, and I love that. And there's a couple of different threads we could pull from there. One is this idea that as the rich world perhaps continues to satisfy its physical needs, that it allows the space for these other ways of doing things and that also satisfies what people want. Uh, and that there's just more time, there's more leisure, there's more just material wealth that's already been created. And so people can kind of just like diversify the range of activities that they can engage in. So let me stop and just ask you about that. Does that seem like it's a meaningful part of this story as well?

SW: I think that's really true. I think, you know, we see, if we think of some of the goods and services people demand in an advanced economy, they are often created products. They want video games, they want more sophisticated movies. They want movies that tie in with their video game, that tie in with merchandising and all of those things represent things that require a lot of intangible investment.

CG: The other thing I wanted to ask about was this idea that activities that used to be counted as leisure now exist as things that you can get a job in. So for example, you know, somebody who would sort of sit around in a cafe or in like one of those salons that used to get together and discuss all kinds of intellectual things. Well, now you have think tanks, now you have a huge media ecosystem. You have podcasters, you have, you know, magazines and you have things online and all kinds of other activities people do for money now.

And it seems like that is such a strange and interesting and fundamental shift in the economy over the last century that a lot of us don't really give much thought to, but it's a real trend and it happens quite quickly. And to, you know, share some of my own experience, 10 years ago I was an economic and finance blogger, which was a job that hadn't even existed as a job 10 years before that. I'm now an economics podcaster, which was a job that also barely existed 10 years ago. These are things that I think a lot of us would do for leisure anyways, they now exist as actual work.

And it's interesting to think about this in the context of intangibles, because what I do now is an extremely capital light business. And I think this applies to a lot of things that also exist as jobs now that like I said, in the past were leisure. What do you think?

SW: Yeah, I think that's, I think that's very true. And I guess what we particularly see is that the more people do jobs like this, the more synergies there are between, the more interactions there are. So we see bloggers referring to one another, we see creatives creating opportunities and crossed media tie-ins. And I think if we think about, well, where is the capital in this?

If someone creates some kind of creative masterpiece, now the fact that there is an ecosystem around that, makes these things more valuable. So kind of, to, let, to, let's get specific. If we think of something like, uh, the, the Marvel Cinematic Universe.

CG: Oh, no. [laughs].

SW: Are we not a, you know, this is something that once upon a time was kind of a very niche, existed in one art form and, you know, had kind of what, I guess we would now call a fandom, but it was kind of quite niche. We're now looking at a world where you go from graphic novels or comic books through to movies, through to video games tie-ins. And all of those things mean that the underlying intangible, if you like, the underlying creative asset is kind of vastly valuable because it can be repurposed in so many ways.

CG: I love that as an example, uh, not because I'm a fan of the Marvel movies, in general, I'm not, if I'm being 100% honest with you. But I love that as an example, because we've seen how much money all of those movies make and how quickly they've also replicated, right? I mean, it's a fascinating thing to consider, and it's something where a lot of people in film worry that it has squeezed out a lot of other kinds of movies being made, because these are such attractive properties to make because they, they are basically Box Office guaranteed.

You know, so that also, I think, says something about intangibles. The fact that something that works can then be scaled up immensely and it can really come to dominate, uh, a certain genre, a certain scene, a certain, you know, part of the economy, right?

SW: That's totally true. And there's a kind of an analogy between say the Marvel properties, which, you know, have this incredibly oversized role in the world of cinema at the moment, to something like Uber's algorithm. You know, you can get an Uber in almost any larger or medium size city in the world because the algorithm and the business model scales as well. And we see this a lot in intangibles, which is why intangible-based businesses that get the formula right can get so very big and be so very valuable.

CG: Do you worry that this shift towards the intangible economy represents a kind of giving up of more, faster, better progress in the material world? Because I can see that there are all kinds of benefits from the shift towards intangibles, but it's not like the job is done yet in the material world. You know, I'd love to be able to construct a home for a lot cheaper and better and faster with great new technological innovations.

And on top of all that, I think we're seeing now in the aftermath of the pandemic, that a lot of people still do want physical products. A lot of spending has shifted in that direction and it's caused a lot of problems that we haven't figured out better ways to scale up the production of those goods. Uh, so yeah, do you think this represents a kind of giving up, uh, of progress in the material world? Is that something that you worry about?

SW: So I think this is a, this is a concern a lot of people feel when they think about an intangible economy, because as you say, they think about Facebook and they think about kind of movie studios and they think about jobs that kind of sound fun. But you know, when push comes to shove, they're not the things that kind of keep the lights on in civilization. But I think that's a kind of mistaken way to think about intangibles because actually, if we look at really viable businesses that are making physical stuff, they are without exception, really good at intangibles as well.

And, um, something that is kind of often in our minds here in the UK and in Europe generally, are the kind of manufacturing companies of Germany, which, you know, have this kind of incredible reputation around the world as being the manufacturing champions. They make great stuff. They create great middle class jobs. Everyone is sort of slightly envious of their industrial structure. They call them the Mittlestand, the middle business of Germany.

And what's really interesting, you look at these businesses that are really physical, they are not full of kind of fashionable trendy, Uber or Facebook employee-type people, they're very practical businesses. But the reason they are so good at what they do is because they absolutely nail R&D. They absolutely nail product design, their supply chains, I mean, it's a lesson to anyone who tries to compete with a really good German manufacturing company, how nailed on their supply chains are. And if you're talking B2B, say machine tools, for example, their relationships with customers are second to none.

So there's a sense in which, if you want to be really good at these things, for example, if you want to fix, to take your example, a building, if you wanna make using prefabricated buildings that will solve the housing crisis, the way to do that is through solving some of these intangible problems.

CG: Yeah. I mean, I could definitely see how those two things would align. In other words, that you need to get the intangibles right in order to also get the tangibles right. Uh, can you say more about that relationship? Because it also seems like it might be mistaken to just consider intangibles in any kind of isolation, these two things, you know, feed off each other, right?

SW: Yeah, that's, that's absolutely right. So I mean, the difference that we're seeing in the economy is not that tangibles are no longer important, it's just that the relative shift has changed, so that more capital is intangible. And it means that for more and more businesses that are based in tangibles, you're having to think more about the other parts of it. So I find it fascinating to see when industries shift to intangibles being important.

And one industry that I'm kind of interested in at the moment is the used car selling industry. Both in the US and in the UK, we've seen it where it looks like we might be in a period of massive disruption with kind of Carvana in the US, and there's a kind of a Carvana, a clone in the UK called Cazoo.

CG: Can you explain what, what that means though? Those companies, those processes that you just described?

SW: Yeah, let me do that. So the traditional model of, um, you know, there's a lot of money in used car sales. And the traditional model of car dealerships are they're pretty regionalized. They, they feel like a very old economy business. They're, they're not the kind of thing you would think of if you were thinking of kind of knowledge economy workers. And they're certainly a long way away from Hollywood Studios or Silicon Valley tech companies. They often have pretty underdeveloped IT systems. And, you know, there, there is the, the kind of raw sales skills matter a lot.

CG: And you don't think of it as a fun experience to go and buy a used car, it has that, you know, connotation.

SW: You, you think of it as purgatory, it seems, it feels pretty grim, doesn't it? And I guess what's interesting, what's been changing, what Carvana, what Cazoo in the UK have been trying to do is to say, let's roll this up. Can we deliver a standardized experience, which is done at scale, which leverages technology much more? Which, you know, in some ways takes out the human element, but as you said, the human element in buying a new car is not necessarily a pleasurable human element. And, um, those two businesses have kind of achieved meteoric success recently.

And it feels like one of these things where the, if we wanna call that the kind of intangible version of these car business, it's been trying to break through for a while. They've been various attempts to do this roll up. And they've kind of, uh, failed against the kind of the unstoppable object of the, the entrenched nature of the used car industry. But it looks like this has now changed, and it fascinates me to see how, in a number of industries, whether we're talking about, you know, there's obviously been huge changes in the restaurant industry recently for the same reason, how one by one, we're seeing a move from, in these quite tangible industries, a move from a model where the tangible is pretty predominant and actually intangible assets don't make much headway, to suddenly the shift comes and then the industry very significantly changes.

CG: Yeah, those are great examples. And another simple one, uh, one that has become so dominant, a company that's become so dominant now that we hardly think of it in these terms anymore, is just Airbnb. The ability to stay at a completely different place in a completely different physical environment than you could in the past, not because of some change in the physical world, but because of the introduction of these intangible technologies that made it possible to do that. But which radically changes your experience of the physical world of the space that you specifically move in.

SW: Yeah, that's very true. And I think if I'm, I mean, if you're thinking about this, obviously most businesses are kind of, most people out there are probably working in existing businesses. I think the really interesting examples are companies like Domino's Pizza, for example. So Domino's, you've got a business that was, that is,

it's kind of a legacy business if that's not a rude way of describing it. But Domino's absolutely nailed an online model. They've got a fantastic app.

They've created vast amounts of shareholder value in the last 10 years. And I guess in some ways, they offer a role model to companies that have kind of grown up in the tangible economy as to, you know, you don't have to get disrupted by Airbnb or Deliveroo or Just Eat or whoever you can. There is a, uh, there, there are success stories for the incumbents.

CG: Yeah. They've worked on the technology a lot. And I gotta say, I think their pizza's underrated. I think a lot of people in New York, especially, are snobs about the pizza they eat because you can get a great slice in so many different places.

SW: Yeah.

CG: And so they kinda look down at just ordering from Domino's. I think their pizza's actually really good and they make it very simple to interact with them.

SW: Yeah, Domino's slice is not it to be, is not to be snared at, it's, uh, it's, it's an okay pizza.

CG: Yeah. I'm not getting paid anything by them, by the way, I wanna just be clear, this is not, this was not paid advertising. That is just my opinion, though I would take money from Domino's if they wanna send me some. So if anybody's listening here, uh, send it on in.

Um, yeah, no, those are, those are great examples. And Stian, in your book, you draw the connection between this shift towards intangibles and what you describe as the, "Great economic disappointment." Which is this idea that there have been some really problematic trends in the economy over the last couple of decades.

So there's been rising inequality. There's been a productivity stagnation and a slowdown generally in economic growth. So what do you see as the connection between intangibles and their increasing importance and these other more problematic trends? Can you sketch that out for us?

SW: Yeah, so I think, uh, uh, from our point of view, there's been, there is a, an underlying feeling, both of among kind of people who are deeply into economics and people who are affected by economics, but not, not particularly interested in it intellectually, that since the early years of the 21st century, the economy has not been delivering what people wanted it to. As you said, one of the very crude measures, that is economic growth, economic growth is lower than it's been before. And that has been manifesting itself in disappointing wages and so forth.

But I think some of these things are the things that economists often don't think about very much, but really weigh on ordinary people's minds when we think about the economy, like the kind of feeling that, to come back to what we were saying

earlier that, why do people not do real jobs anymore? Why is there an economy that's full of, uh, what the anthropologist, David Graeber would call bullshit jobs? Why have, you know, seems to be, people are moving paper around and kind of just having meetings with people? That doesn't feel like how people should really lead their working lives.

And at the same time, I think you also alluded to the, the, the rise of inequality. And obviously this has been something that people have been acutely aware of, but the fact that there's been this rise, huge rise of inequality, both of income and of wealth and of social status as well. This kind of feeling that this gulf between metropolitan elites and people who are considered to be left behind. And I think our argument is that all of these things can be traced back to the fact that the economy has changed in this major way.

The fact that we are moving from an economy based in capital that works in one type of way to capital that works in another type of way, but our institutions, whether that's our financial system, our competition, our tax system, our government generally, has not really kept up with it.

CG: Yeah. Stian, I'm gonna be totally honest with you here. I don't really buy the thesis about bullshit jobs, all right? From David Graeber or, or maybe it's more accurate to say that I buy half the thesis. So I can buy that people feel alienated from the work or that they don't recognize the importance of their work. They don't really see why their work is meaningful, but that's quite different from actually arguing that the work itself is in fact meaningless. I don't quite buy that and I, I get this argument a lot from my lawyer friends who say they work all the time and they don't really see why the work that they do actually matters.

And what I tell them is like, yeah, but if you were to get rid of all the lawyer jobs, or if you were to just get rid of a lot of the legal work that they do, that there are, in a counterfactual, a lot of problems that would come with that. But we don't get to live through those counterfactuals, so we don't see it. But I don't quite buy this idea that it means that those jobs are in fact meaningless. And I suspect, though, that there is a connection here between this thesis and what I just laid out and the shift towards intangibles. Uh, can you get into that a little bit?

SW: Well, I think you're completely right there. And when I, you know, my interpretation of this bullshit jobs idea is that the kind of jobs that you need more of in an intangible economy, because intangible capital is especially valuable when you combine it in the right ways. If you think of something like the iPhone, it's basically a product made by combining R&D, design, the business networks of the App Store, all these kind of things. So because intangibles are really valuable when you combine them and because they're quite hard to assert claims over, you know, you have things like copyright, intellectual property law, it's harder to show that you own an idea than that you own say, a factory or a vehicle.

That creates a lot of roles whose job is to either bring ideas together or assert rules about where they should be owned so that people are willing to continue to invest in

them. And you know, if I think back to the kind of original David Graeber expression of bullshit jobs, a lot of what he was saying is these jobs don't feel like they're making anything in a traditional sense. And that is because a lot of useful productivity in an intangible economy is about combining things that already exist. It's about making sure that, you know, we properly assert claims over things. And as you say, if those didn't, those things didn't happen, there would be, a lot of value that currently gets created, wouldn't get created.

CG: I wanna ask about fragility, um, and its relationship to the rise of the intangible economy. What do you mean by that word, economic fragility?

SW: So, um, there is a kind of, I think correct perception that we face as a society, a lot of big societal, potentially existential threats. COVID hit while we were writing this book, that felt like a pretty big existential challenge. Obviously we all live in the shadow of bad things are happening and are going to happen to the climate. And I think kind of no one was necessarily expecting the size of the shock that's happened to Ukraine, but it feels like these, these kind of big existential or societal shocks are happening more. And um, I think what we found interesting, let me, let me use COVID as an example.

In the early days of the pandemic, there was, there was a kind of popular mood that said that the problem is that we don't have the right stuff to deal with this reaction. I dunno if you remember, there were these, there were, there, in the very early days, there was a lot of publicity around the fact that China had built these huge emergency hospitals in very short order. And there was this question, you know, can the, is the decadent west that is only good at producing Marvel movies and technologies, could we rise to this challenge? Surely we couldn't produce this. In the UK there was a huge worry about, could we build or buy enough ventilators quickly?

We thought we would need thousands of ventilators. And, you know, we actually, you know, the UK is no longer the workshop of the world, we're stuffed, we can't make these kind of things. So there was this really big focus on physical stuff and a feeling that kind of rich countries that were no longer good at this kind of thing were gonna get totally, um, were gonna get totally left behind and COVID would hit us particularly badly because of that. But I think what's really interesting is if we look at how the COVID pandemic developed, it turned out that all the things that were really important to get right, and all the things that when you didn't get right, that really, you know, caused a lot of suffering and, and death were what you could call the intangibles.

So for example, the ability to set up track and trace system so that you could monitor the pandemic. You know, this is about software, it's about data, it's about processes of people working in, in offices. It's not fundamentally about building a factory or building a bunch of ventilators. Similarly, the, the kind of the social technology of persuading people to take these non-phar- non-pharmaceutical interventions, whether that's mask use, whether that's getting vaccinated, all of those kind of things prove to be really, really important.

It struck me as a really interesting lesson that when a crisis hits there is often this worry of thinking, well, you know, is it stuff that will save us and is the fact that we are no longer this kind of robust stuff making society, the problem? And I think we found that actually, no, it's the opposite. It's actually, what really matters is processes. I think you also see this when we look at some of the issues about dealing with the environment and the climate crisis. So again, when we think about how do you create a low carbon or zero carbon society? Our thoughts immediately go to, um, power stations to really big, heavy infrastructure.

But I think what we found in the UK is that actually once you've got technologies doing things like phasing out coal uses, I don't wanna say it's easy. It wasn't easy for the UK, but it was the part that has been done so far. If you look at the stuff that certainly we are finding really, really hard, the first thing is energy R&D, how do you develop really, really good energy technologies that, that can be deployed? But then also it's a bunch of intangibles related to deploying and use of some of these technologies.

So how do you decarbonize home heating? You know, in the UK, most people heat their homes with natural gas. We have a huge system for that. There is a, an ongoing desire to retrofit that, so you kind of have to put in place a program to change housing, to restructure things. But the hard thing there is again, intangible. This is about systems and processes and getting them in place, not about the difficulty of, you know, swapping out a natural gas driven power station for a wind farm.

It turns out that even a kind of, uh, even a decadent society like the UK is pretty good at building big, you know, huge windmills and things like that. The hard thing is the very human, very social business of going into people's houses and persuading them to fit an air source heat pump, or trying to change their gas supply for something else.

CG: I'm also interested in discussing the relevance for these very intricate supply chains that go into making, especially very sophisticated products, but all kinds of supply chains. We are seeing now that for example, if there is a problem in one part of the supply chain, it can slow down the production of a product and that can lead to higher prices. But those supply chains themselves have been quite incredible innovations over the last couple of decades. And to put them in place, you really do need a tremendous grasp of logistics. You need great data and software to oversee the whole thing.

And I suppose that also leads to the kinds of vulnerabilities that we're witnessing now, but they've also had some tremendous benefits. And I wanna make sure that we get both sides of this right. So what do you think is the real relationship between the shift to intangibles and the rise of these very dense networked supply chains that go into making some of the products that we all love to, that we all love to use every day?

SW: So I guess to start with, a supply chain, a, a sophisticated supply chain is an example of a, of a valuable piece of intangible capital. So whether we're talking about Apple and its manufacturing, supply chains, its relationships with, with, with its suppliers or a company like Zara, for example, a fast fashion, uh, supplier that can use its supply chain to very quickly bring new products to market. Those things, those kind of privileged relationships, the expectation of future business and as you say, the knowledge and data and software that underpins it, those are intangible assets, even if you're very unlikely to see them appear on a balance sheet.

Um, I think there's an interesting question again, to kind of pick up on your, your question about fragility, has the shift to these kind of supply chains, to what extent has it increased fragility? Because we know, you know, on some level there is a certain greater vulnerability to some types of international disruption, but then on the other hand, very often these supply chains are very agile. They often have a lot of resilience built into them and a lot of opportunity to move around.

And in some sense what's been amazing is that despite all the craziness of the last few years, to a great extent, products have continued to appear on the shelves in stores and things like that. So I definitely don't wanna be in the camp of people who think that complex supply chains are a big source of additional fragility. But the flip side, is they are a source of enormous value for companies that do them well.

CG: Yeah. There's another kind of fragility that I'm interested in here as it relates to intangibles. And it has to do with businesses and specifically reputation, which itself can be a kind of intangible and can be something of value. So if you imagine a company that is very closely associated it with its founder, and maybe that founder has a great reputation, and that is something that contributes to the value of the firm. And then it turns out that somebody finds, you know, footage of something from a long time ago that casts the founder in a problematic light, or there are reports that the founder once engaged in some terrible behavior, suddenly the reputation is gone.

And then a lot of the business' own value is gone if people start to shun it or boycott it. And so it seems like it's possible that the shift towards intangibles also makes businesses more fragile, which may not be a terrible thing by the way. Um, you know, you want a very dynamic economic environment, you want some companies to be coming up, uh, all the time and replacing the companies that are dying, that's actually, actually a good thing. But, uh, that seems to be a consequence of the intangible economy. Uh, is that right?

SW: I think you're right. And I think you see in an economy that's based on intangibles that the nature of competition changes. So if we think of a kind of very true additional kind of late 20th century model of competition, you would expect to see, you know, companies rise and fall but they rise and fall quite slowly. Your definition of good competition would be quite a lot of players in a given market. You'd expect there to be a lot of, of return to the mean. So, you know, for companies doing well in year one, in year five, you'd expect maybe things won't be going so well for it.

Now, I think all of that changes in an intangible economy. Because these intangibles are so scalable and 'cause they work very well together, if a company's doing well, it can have a really meteoric rise. But this is where what you were saying I think is really important that sometimes that when the meteoric rise ends and when something goes wrong, and that may not be something as kind of dramatic as the founder turns out to have, have, have done something terrible in his or her past, it could just be that something weakens that customer goodwill is undermined. No one wants to use Facebook anymore 'cause it's for old people or whatever the change in the market is, that, um, companies can fall very quickly as well.

And so you see a kind of model of competition that is a bit more like, I think biologists talk about punctuated equilibria when they talk about evolution. So, you know, for 65 million years or whatever, the dinosaurs are supreme and then whack, they're all gone. And I think, I guess what, that then becomes relevant to, if you are worried about what should competition policy look like? That would suggest that rather than sitting there and looking at the ratio of how many people are in each given market and so forth, actually, what you should be really worried about is that there is still the level of, as you said, market dynamism, where new contenders can emerge. But you might very well see what looks like monopoly behavior for kind of periods in between that.

CG: Oh, that's quite interesting. Let's actually talk about competition policy and specifically, there's the worry that over the last few decades, uh, you know, some individual companies have come to dominate big parts of their economic segments, uh, or a few companies have come to nominate. And there's a lot of different competing explanations for why this might be. Some of it has to do with, uh, what I think, you know, critics of this trend would call anti-competitive behavior. Uh, but there are also perhaps more natural explanations that also account for it.

And you offer one of those in your book, which has to do with the rise of the intangible economy. So how do intangibles lead to more concentration? And then give us a sense of how the influence of intangibles also means that the solution for that is a little different, and our very understanding of the, of the issue is also quite different.

SW: So if we look at businesses that use a lot of intangibles, um, we know that when you've got some valuable intangibles, when you've got a really powerful algorithm or a powerful brand, for example, you can scale that very rapidly across a large business, which makes it easier to build big businesses and harder to compete against them. And I mean, one thing that we also see, intangibles have what economists would call spillovers. If you invest in an intangible, you can't be sure that you'll get all the benefit.

And one thing that we've noticed is that really good intangible based companies are pretty good at keeping the spillovers of their own investments themselves and also getting the benefits of their competitors' spillovers. And in business schools, they'll call this open innovation, which sounds like a kind of lovely word because it's, isn't it great to be open? But of course actually, if you're on the sharp end of it, it sucks, it's

terrible. Anyway, um, all of those things mean that you would expect leader firms to do well and to do better.

And indeed, there's been a lot of research from people like the OECD, the international economics organization, that has shown that the gap between leader and laggard firms has grown very significantly in the last 20 or 30 years. As you said, there are a lot of people who've been worrying about this from a competition policy point of view. And one of the very prominent explanations that you hear from this, from very distinguished economists like Thomas Philippon. And I think to a great extent, this is a big policy direction on the part of the EU and the US government at the moment. Part of the ex- the explanation that you hear from them is, well, this is because we've taken our foot off the gas when it comes to competition policy.

We have just moved to a policy that is more tolerant of these monopolists, and that is not in the interest of consumers. So some of the things that we see at, um, the FTC, some of the things that we see, uh, Margrethe Vestager doing in the EU are very much saying, well, we've gotta reverse that. We've gotta go back to the future and strengthen competition policy in traditional ways. And as you said, our explanation is slightly different from that. We would say that, well, this is just a function of the fact that the capital these businesses own has changed in its nature. The fact that intangible capital is more likely to generate these kind of quasi monopolies, but as we just said, that they're also more likely to suddenly vanish.

So the first observation I think that we'd make is that, that is probably a sign that the problem has not been created by competition authorities taking their foot off the gas, it's just that the dynamic has changed. And a bit of evidence for that, if you break down this kind of gap between the leader and laggard firms by industry, one of the things that we've revealed in the book is that you get the, the leader, laggard gap is much bigger in the most intangible intensive industries. So that to us, is a sign that intangibles are at least an important part of the problem.

Now, again, if you sort of say, okay, so what do we do as a result of that? The answer would be, well, I think one thing that everyone is concerned about and we should do more on is to say, how do you make it so that the next generation of challenger firms can grow? How do you make sure there's good access to venture capital? How do you make sure that they're, we, cracking down on anti-competitive practices that are designed to drive out new entrants? All of that is, is really important.

It probably means that we should be less focused on breaking up incumbents because actually, you know, their time will, their time will come. What matters is making sure that the next generation of attackers is there. And I guess more fundamentally, it challenges this narrative of saying that things have changed because policy has changed, actually what's happened is the nature of these businesses has changed. And even if policy stays the same, we need to take a different approach.

CG: So that's one area where you've cited the failure of institutions just to keep up. In other words, that competition policy has to be kind of rethought for a world in which a greater and greater share of investment is going towards intangibles, and in which intangibles just make up a bigger part of the economy. I want to talk about another institutional failure that you write about, which is patent laws. And the ways in which new kinds of innovation can be so quickly patented in ways that, you know, might stifle potential competitors from also emerging because it is so hard to get around those patent laws. Nobody wants to get sued, essentially.

SW: So this is a real challenge and the issue with whether it's patent laws or copyright laws, any kind of, um, intellectual property laws.

CG: Yeah, IP laws.

SW: ...IP laws, is that you want to hit a sweet spot. And the reason you wanna hit that sweet spot is on the one hand, as you say, if you have no intellectual properties, uh, intellectual property law at all, you get into trouble in an intangible economy because intangible assets tend to spill over. Very few people would be willing to create creative works to design software, to design, to do R&D behind new products, um, to develop new drugs at great expense if there were no laws against copying them entirely.

I mean, in some ways that is the sort of, um, it's trivial, but it's kind of important. But the flip side is because these intangibles also have synergies, because they're especially valuable when you combine them together in the right ways, if you're in-intellectual property laws are too strict, if they favor rights holders too much, it becomes almost impossible for new people to combine them in different ways. And let me give an example. So I am a big Spotify fan as are kind of millions of people around the world. Spotify relies on being able to combine a bunch of intangible assets. One of which is music rights, because obviously Spotify don't own the rights to the kind of millions of songs on their platform.

It's also software and it's also a bunch of community and business relationships with their customers and with, with, with artists and so forth. Now, when Spotify started off, I don't think it's a big secret to say that rights holders did not like Spotify. They thought that the existence of this platform was really bad news for them. And they went to great lengths to, uh, I wouldn't, I, probably not fair to say they tried to stop Spotify, but they did things that were not helpful for Spotify's business model. And, um, the fact that Spotify managed to pull through that and to come up with a model that just about worked, created a lot of value, was really good for consumers.

Certainly good for me. I really enjoy being a customer of Spotify. And, um, what I've certainly heard from the Spotify founders is that if intellectual property law had been even stricter than it was, they just would've been closed down before they were able to find those deals. And we see this in quite a lot of areas. So you want an intellectual property law that is strong enough that creators don't get ripped off. But at the same time, it's gotta be flexible enough that the next generation, people who want to combine into assets in the right way are able to do that.

CG: It's funny because you mentioned earlier that spillovers are a very important part of the intangible economy and that when companies invest in intangibles, it tends to have all of these spillover effects for the rest of the economy, including effects that can be capitalized on, like taken advantage of by other businesses, that there are all these different kinds of societal benefits. And now we're discussing how IP laws, uh, can kind of stifle that sort of investment and that sort of ability of other businesses to take advantage of those spillovers.

And the reason I say that's funny instead of tragic, even though it's both, uh, is that the original name of this very podcast was gonna be Spillover Effect, but we, we did not name it Spillover Effect because there is some other podcast out there, a very small one that barely updated, that also as that name.

SW: Wow.

CG: Or rather it's The Spillover Effect. And we were just gonna call ourselves Spillover Effect. And essentially our lawyer said don't risk it, all right? Because you never know what'll happen later because that is close enough that, uh, yeah, you might, you might get sued, who knows? Um, I doubt it but-

SW: Totally. And there's a chilling effect there. And I mean, you know, this is, this is so, you know, the, the, and you can see in a similar way, this could crack down on really significant, uh, innovations.

CG: Yeah. In this case it was just a podcast name.

SW: But, but even so.

CG: But, but, but it's a good example of how it could work, you know? Uh, and we love The New Bazaar, like we, we came up with that afterwards, but that was originally gonna be of the show, was gonna be Spillover Effect. And we were stifled by, um, essentially an institution that is designed to prevent spillover effects, so there you go.

SW: Exactly.

CG: Irony everywhere. [laughs]. Um, should the government invest more money itself, more taxpayer money in research and development and other intangibles?

SW: So short answer, I think they should. I think the rationale here comes back to what we were talking about earlier, these spillovers. So we know that research, particularly early stage research, but actually a lot of research often doesn't, the benefits often aren't captured by the company that makes them. So, um, classic example is kind of a, this nice story of British industrial decline as well, is, um, EMI, the Beatles record label. They, in the 1960s, were awash with cash partly because the Beatles made so much money. Um, and they tried to spend it on internal products, which is obviously what conglomerates did in the 1960s.

And one of the projects they spent it on, because they weren't just a recording label in those days, was they spent it on inventing the CT scanner, the kind of medical device that, that, that, that, that can look into you and, and find things wrong with you. And, um, the project was run by this kind of classic British boffin, who'd been a kind of computer guy in the second World War. Um, he ended up winning a Nobel Prize and getting a knighthood and all these kind of establishment honors. The device has obviously transformed medicine in a whole range of fields. Sadly, EMI made no money at all from this product and EMI shareholders saw absolutely no benefit from this.

Um, the market was almost immediately, um, taken over by General Electric in the US and Sieman in Germany. And, uh, EMI kind of became famous for the Sex Pistols and music and nothing else after that. But it's a, it's a, it's a great story of, of spillovers. And if you rely on firms to make these investments, a lot of them will look at these kind of, the suckers at EMI and say, well, you know, we don't wanna go down that route. We, and therefore at a societal level, you'll get underinvestment. And the rationale for why governments spend money on researchers, spend money on, in some countries, tax credits for companies that do R&D is basically because they say, well, if we want more R&D, we will have to pay for it ourselves.

CG: And I want to close by talking about a big macroeconomic trend that you described in the book, and which you only realized when you started doing the research for this pair of books that you wrote along with Jonathan Haskel, which is this, I'll just quote you, here's what you're write, "Much of this shift has happened already with the result that more business investment is intangible than tangible. And the growth of intangibles has begun to slow, which in turn has slowed down economic growth."

This is fascinating because we've described a world in which we're moving more towards the immaterial, towards intangibles. But also, companies seem to be investing not less in those intangibles, but the growth of their investment has started to slow. And that's had big effects for the overall economy simply because the economy itself has become more intangible. What do you think is going on there?

SW: So this was a real surprise for us. So we wrote the first book in 2017, and we were just seeing glimmers of this in the data, 'cause the data is quite slow to be validated. And so when we wrote the first book, we just thought, let's ignore this 'cause it's a weak signal. And five years later when we were writing the second book, we looked through the debt and we're like, goodness me, actually, it does look like in many countries, this growth rate of intangibles has begun to slow particularly since the global financial crisis.

You can see an immediate translation from that to lower economic growth as a whole because it lowers, it lowers economic growth directly 'cause you're investing less and it lowers less because there are fewer spillovers. So what economists call total factor productivity, the kind of magic smoke that makes economic growth happen is, is, is, is, is lower as well. And um, this is really alarming. We're seeing it in this country, we're seeing it in the UK and it's deeply troubling because economic growth is so

important. But I think what we, what we, our diagnosis of this is that the old institutions kind of get you so far.

And you know, for example, venture capital is a very good financial institution for developing tech companies that focus a lot on intangibles. And places like California, Israel have had great venture capital sectors that have driven investment in intangibles in particular bits of the economy, especially, you know, software, internet, tech. But the wider set of institutions, the wider set of institutions for financing investment, for providing, for example, public subsidy for investment, for making sure that competition law works effectively, all these things that we've been talking about, um, for the most part, there's not been a lot of focus on developing those and making sure those are right for the intangible economy.

And we think that what we're seeing in the UK where this growth rate has been going on for a few decades and then has kind of mysteriously leveled out is a sign of what happens when your institutions are not keeping pace with the demands of the intangible economy. And we think that's a, this is a kind of a, a big, any citizen or any policymaker should be really worried about this.

CG: Yeah. Last question, even acknowledging the ways that these institutions have lagged behind the trend, I'm just kind of curious to know if the trend has made you more hopeful, more optimistic about the future, now, that you've been able to identify it so clearly and to see the kind of transformative ways that it's affected all of us, uh, yeah, are, are you hopeful for the future because of this? Uh, how has that kind of changed your outlook on, well, everything in life?

SW: So this makes me, I gotta say this makes me optimistic and you know, I am, I, I would reject the view that says, well, you know, this is an economy based on not real stuff, it's fake or it's, uh, you know, the jobs are bullshit or whatever. I would say, this is a sign of an economy that is evermore interconnected where people are working together, are producing more expressive content, more emotionally resonant, more significant things. And where production is increasingly, uh, taking a form of things that aren't physical or aren't solely physical, which in a world where we're worried about carbon emissions and we wanna save the planet is also really important.

So I think the intangible economy could be, I mean, it holds the key to growth, but it's also, potentially, holds the key to more satisfying and humane innerlives and to a more healthy environment. So from that point of view, I'm a big optimist about it.

CG: Well, there's so much more in the book, uh, that we just couldn't get to, but which I would, uh, I would really encourage our listeners to check out, things like, you know, the effects on globalization, the effects on finance and monetary policy. Uh, there's so much in there, venture capital, uh, the role of capital markets, how to fix capital markets to make this work. Um, it's, uh, it's really, really fascinating and an important subject matter. So Stian Westlake, thank you so much for the chat. This was great.

SW: Thank you.

CG: And that's our show for today. You can find links to the book by Stian and his co-author Jonathan Haskel, it's called *Restarting the Future*, in the show notes for this episode.

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