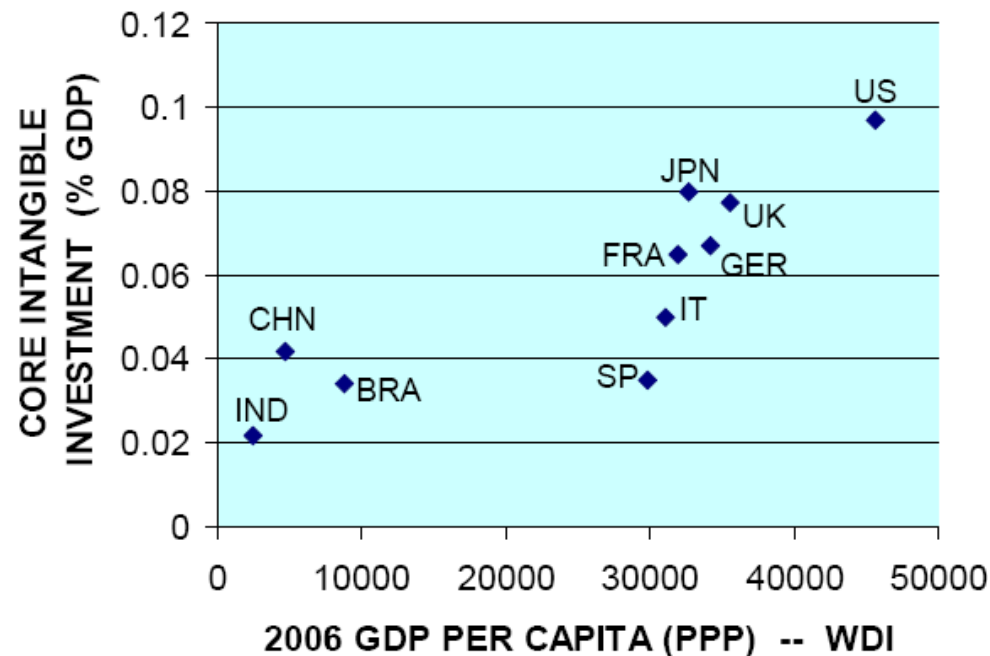
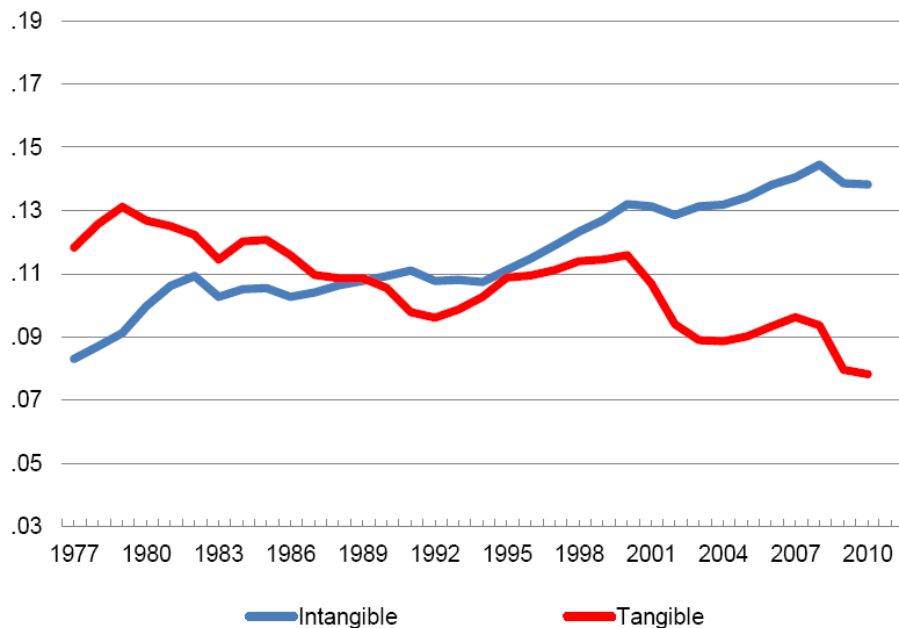


Why the policy interest in KBC?

Figure 1. U.S. Business Investment Rates, 1977-2010
(ratio to business output adjusted to include new intangibles)



Charles Hulten -- Stimulating
Economic Growth Through KBC

What is KBC?

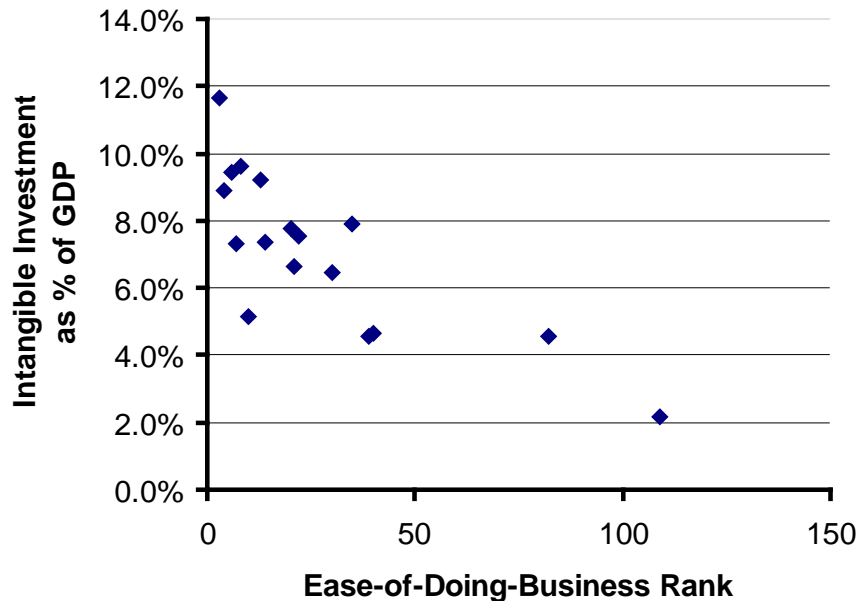
- firm-specific intangible capital produced within firm to support firm's long-run business model
- existential investments that define firm's capabilities: its information system, intellectual property, and economic competency
 - KBC more than formal R&D - innovation is more than invention
- information platform from which individual “applications” are launched
 - KBC not incremental or current output oriented

How to Harness Correlation

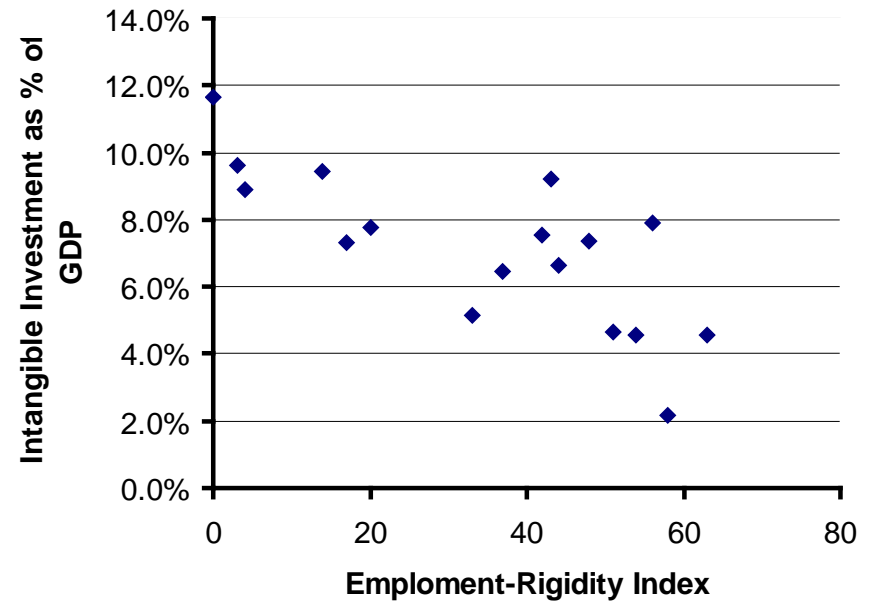
- Richard Fisher: if you want to increase private employment, persuade people who do the hiring
 - need to look at policy from firm's standpoint
- CEO surveys identify as challenges
 - innovation, human capital, flexibility, customer relationships, corporate brand & reputation
 - macroeconomic uncertainty, government regulation
- Implications for KBC Policy
 - diffusion as important for firm innovation as new science/technology
 - exploit non-STEM components of KBC
 - reduce perceived barriers

KBC and Business Climate

**Intangible Investment Rate
Compared with World Bank Ease-of-
Doing-Business Rank 2006**



**Intangible Investment Rate
Compared with World Bank Emploment-
Rigidity Index 2006**



Race against the machine

- KBC-induced GDP growth does not necessarily increase employment or living standards
- Worker redundancy and “hollowing out” of wages induces regulatory backlash
- Problem is to find ways to harness KBC to stimulate growth while minimizing impact on workers
 - Education and training
 - Support for labor-intensive sectors
 - Support for new business formation