Capitalism without Capital: The Rise of the Intangible Economy. *By Jonathan Haskel* and *Stian Westlake*. Princeton: Princeton University Press, 2018. xii + 265 pp. Illustrations, figures, tables, notes, references, index. Cloth, $29.95. ISBN: 978-0-691-17503-4.
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Reviewed by Baruch Lev

Full disclosure: During the past twenty years I spent a considerable amount of time researching, consulting, and lecturing on a broad spectrum of intangibles issues. I sincerely doubted that a new book would surprise me with unfamiliar information and insights about intangibles. But *Capitalism without Capital* did just that. As I turned the book's pages I kept learning new things and thinking about intangibles from new perspectives. What a delight.

Intangible assets are, like all other assets, sources of future value. But, unlike conventional assets (plant, machinery, inventory), they lack a physical embodiment. You can't drop or kick them. Intangibles include patents and trademarks, software and information systems, brands and original designs, artistic products, and organizational capital—that is, companies' systems, processes, and incentives that enable them to create value, like Amazon's and Netflix's customer recommendation algorithms. Intangible assets create most of the profits and value for business enterprises nowadays. Tangible (physical) assets are mostly commodities—available to all competitors—and hence unable to create substantial value. Drug and biotech companies prosper by their patents, brands, and highly trained workforces, while their factories and laboratory equipment at best enable the intangibles in value creation. Intangibles are ubiquitous in every sector and industry, not just high tech. Coca Cola's major asset is an intangible (brand). Recent estimates suggest that the U.S. private sector's annual investment in intangibles surpasses $2 trillion (yes, trillion), or roughly double the annual investment in tangible capital. All this is quite widely known, and yet, *Capitalism without Capital* provides an original and insightful discussion of the intangibles phenomenon that dramatically transformed the business models of the corporate world.

At the outset, Jonathan Haskel and Stian Westlake state the book's objectives as follows: "Our central argument in this book is that there is something fundamentally different about intangible investment, and that understanding the steady move to intangible investment helps us understand some of the key issues facing us today: innovation and growth, inequality, the role of management, and financial and policy reform" (p. 7).

Therein lies the major difference between this book and prior books and research papers on intangibles: *Capitalism without Capital*'s uniqueness and major contribution is in extending the analysis of intangibles to a broad spectrum of important and currently hot social and economic issues—low productivity and the consequent secular stagnation, the rise of inequality, the challenges of financing intangibles facing businesses and nations, corporate management in the intangible economy, and related public policy issues. A truly impressive spectrum of problems and questions.

The authors accomplish this feat by first focusing on the unique attributes of intangibles, the "four Ss": *scalability* (intangibles, like software, can be used over and over in multiple places at the same time, while machines cannot); *sunk costs* (it is hard to reverse the investment and sell intangibles, like R&D); *spillovers* (it is relatively easy for competitors to benefit from another company's intangibles; all smartphones look like the iPhone); and *synergies* (intangibles are worth more when combined with other intangibles). Haskel and Westlake then use these four attributes to explain the various social and economic issues and puzzles they explore. For example, rising income and wealth inequality is linked by the authors to intangibles' scalability and spillovers: "So, in a world where intangible investment is very important, we would expect to see the best firms, firms that own valuable scalable intangibles and that are good at exacting the spillovers from other businesses, being highly productive and profitable, and their competitors losing out" (p. 130). In a similar manner, intangibles are linked to productivity, deficiencies in corporate financial reporting, fiscal incentives, and challenges in managing intangibles. At times, the linking seems somewhat speculative (are intangibles' spillovers really a major contributor to inequality?), but the discussion is always thought provoking.

The book is peppered with enjoyable nuggets, like the Beatles' contribution to CT scanning; interesting cases; and very instructive boxes explaining important concepts, like the measurement of productivity or inequality. It's a fun-to-read book.

I highly recommend *Capitalism without Capital* to business executives, investors, economists, finance and accounting scholars, and public policymakers in the social and economic areas. The book can also serve as a useful supplementary text in economics, strategy, and college technology courses.

Baruch Lev is the Philip Bardes Professor of Accounting and Finance at the Stern School of Business, New York University. His recent book (with Feng Gu) is The End of Accounting and the Path Forward for Investors and Managers *(2016).*

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