



Intelligent re-design

With some predicting recession for 2008, it is time to speak out about the value that IP can bring

"Energy and persistence conquer all things"
Benjamin Franklin

St Louis, Missouri, 18th January 2008: When economies turn south, so does ideology. Private capitalism preaches the virtues of the free market except when tight credit and plunging consumer confidence beg for public assistance. The American administration, the longtime cheerleader of Western capitalism, has suddenly dispensed with free market corrections in favour of a US\$145 billion government hand-out to counter the collapse in housing and consumer credit. That sum is equal to one year's worth of Iraqi counter-insurgency or 40% of the US national R&D budget. And speaking of R&D, just what sort of ideological re-alignment will be needed by the intellectual property community to weather what some see as the deepest recession in the last 60 years? My advice: speak up. Silence may be golden in good times, but in hard times it just loses more gold.

Intellectual property can be a reliable counter-cyclical to fluctuations in a free market because, among other things, the economic value of intellectual property is a political creation. Intellectual property is a monopoly right which makes it a powerful economic asset. But it is an indeterminate asset because FASB and IASB are loath to put a value on IP until it is market traded. So intellectual property, more often than not, is a potent yet silent off-balance asset. How do we make it valuable? Speak up!

Two cyclical trends have conspired to make the present global downturn the perfect economic storm of this generation. One is the precipitous rise in global energy costs. The other is the equally precipitous decline in American homeowner equity. The first effect gives credence to the successful globalisation of the world economy as Third World industrialisation now competes toe to toe with the First World in demand for global energy reserves. The second effect proves how successfully the global financial system and monetisation can export credit risk from the naked speculation in the value of

another tangible, which is real estate. Both point at the limiting and deleterious effects of tangibles-driven economics. It is time to speak up and remind the world that nearly 90% of stock equity is composed of intangibles. And it is time to do something with intangibles that provides current economic support in difficult times.

With the prospects of oil remaining above US\$75 a barrel, the last economic barrier has been lifted from the large-scale development of alternative energy technologies that harvest renewable resources of wind, sun and water. There are myriad US patents to renewal energy solutions. Nearly 1,000 US patents describe various novel aspects of wind energy harvesters. These are local, proprietary opportunities, most of which require the manufacture and application of new apparatus, which, by the way, are tangible capital assets. Less than 3% of the price of a barrel of oil pays for wages used to make it available. If the cost of capital assets such as wind farms replaces the cost of oil, the labour content to harvest the free cost of wind itself increases to over 30%. The protections of intellectual property can ensure that re-investing in alternative energy is secure against predations of rogue competitors. These are local solutions to global problems, if the intellectual property community will just speak up.

Intellectual property can provide an intelligent re-design of economies, but only if IP managers will speak up and dispel myths and false conventional wisdom. The first myth is that intellectual property is only the province of intellectuals. No doubt that it takes a bright mind to discover the novel and reduce it to practice, but this myth has bred a pernicious elitism that limits the search and creation of novel improvement to, and for, people with IQs north of 130. IP professionals need to craft simple messages of how intellectual property reaches out to the many, not the few. If an intellectual property opportunity isn't reducible to simple explanation that can be spread to the masses, it may not be a solution for these times.

A second myth is that industrial development (eg, the making of things in substantial quantities) only belongs in the

environment of low local wages and weak regulations. Intellectual property is a virtuous monopoly that rewards innovation with protections from the predatory aspects of free market capitalism. Consider the description of an earlier monopoly: "It has spared no expense in finding, securing and utilising the best and cheapest methods of manufacture. It has sought for the best superintendents and workmen and paid the best wages. It has not hesitated to sacrifice old machinery and old plants for new and better ones." The words were spoken by John D Rockefeller a century ago, in testimony before the US Congress on how Standard Oil became the world's largest and most successful monopoly. It runs counter to conventional wisdom because it extols the virtues of highly developed economies as the seed stock of next-generation manufacturing. It also explains how the temporary monopolies of proprietary intellectual property ought to fuel growth first in the developed world. In doing so, it relieves pressure on existing commodities, such as oil, that serve emerging economies in their evolution towards prosperity.

Modern capitalism has revisited in spades the older Riccardian notion that capital must suppress labour in the quest for profits. We ignore, at our peril, the fact that three-quarters of economic growth descends and derives from consumption by consumers, who are themselves wage earners. Consumption is driven in large part by home ownership, the equity of which is coincidentally the capstone of consumer wealth. The key for the IP community is to speak up and identify the opportunities for proprietary economic growth that reward capital with greater profit in a way that is consistent with higher wages. We can do this – otherwise the risk is that there will be blood.

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