

BEA Expands Coverage of Intellectual Property Products

- Expenditures for research and development (R&D) and for entertainment, literary, and artistic originals provide long-lasting service to the businesses, nonprofit institutions, and government agencies that use them.
- These expenditures have many characteristics of other fixed assets—ownership rights can be established and they are long-lasting and used repeatedly in production processes.
- As part of its 14th comprehensive revision of the national income and product accounts that will be released beginning on July 31, BEA will record expenditures for R&D and for entertainment, literary, and artistic originals as fixed investment. These expenditures will be grouped with expenditures for software into a new investment category “intellectual property products.”

Why is BEA making this change?

- Currently R&D and entertainment, literary, and artistic originals are recorded as intermediate inputs used up during the production of other goods and services. As a result, the contribution of these important innovative activities to economic growth and productivity is difficult to measure.
- By recognizing R&D and entertainment, literary, and artistic originals as investment, the contribution of these components to growth can be measured. In addition, BEA’s statistics will be more consistent with international guidelines and comparable with those in other countries.
- BEA already recognizes capital investment in other intangible assets such as software and mineral exploration. Information from the National Science Foundation on R&D spending and information on movie, TV, literary, and music production and sales allowed BEA to develop estimates of investment and consumption of fixed capital (CFC)—a measure of depreciation—for these important intangible assets.

How will this change affect BEA’s accounts?

- The dollar level of GDP will increase to reflect recognition of spending on R&D and on entertainment, literary, and artistic originals by businesses and nonprofit institutions serving households. Federal and state and local government consumption expenditures and gross investment—which is also included in GDP—will increase by the amount of CFC on the newly recognized R&D investment. Spending on R&D will be reclassified from consumption expenditures to investment within the sector.
- The dollar level of private and government CFC will increase to reflect the depreciation of the newly recognized assets in the capital stock.
- Measures of corporate profits and proprietors’ income will reflect the net effect of removing these expenditures from operating expenses and adding the depreciation of these assets to operating expenses.

For more information, go to www.bea.gov/gdp-revisions.

