

# EUROPEAN POLICY BRIEF

## PUBLIC POLICY AND INTANGIBLES



Globalinto – project allows novel firm level analysis based on new data about the importance of different types of intangibles other than R&D investment. The new methodologies based on occupational data capture the occupational organisational capital produced by management, but also technical investments that do not fall under formal definitions of R&D. These types of intangibles are typically not included in standard accounting data or in surveys.

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## INTRODUCTION

GLOBALINTO (“Into” means enthusiasm in Finnish) aims to develop and refine measures of intangibles at the micro level and amongst others as part of global value chains at the macro level and to use these measures to analyse the causes of the productivity slowdown and how productivity growth can be improved. We will work in co-operation with the National Statistical institutes towards the goal of integrating improved statistics into sustained, official statistical production. This will also ensure that the development of new methods to measure intangibles are promptly available in innovation design and growth promoting policies.

This work will utilize a wide range of data sources (including data on firm activities, R&D and innovation, ICT, employee occupations and education, input-outputs, and primary data collection from a pilot intangibles survey) to measure intangibles in both the private and public sector. Taking into account the difficulties in measuring intangibles at the micro level based on existing data, GLOBALINTO will also develop and conduct a survey of intangible investments and digitalisation under Covid-19, with the goal of improving parameters used in measurement of intangibles.



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## EVIDENCE AND ANALYSIS

## Concepts and Analysis

Intangible assets have long been an important component of the world-wide economic systems. Intangible assets increasingly account for the major share of firm total value. Firms increasingly owe their value not only to the greater sophistication and higher productivity of their production systems, but also to product and process innovations, and to assets such as brands, reputation, quality, and trained personnel. Thus far, this change is not sufficiently reflected in policy making, which, with the possible exception of R&D focused policies, is still primarily geared towards supporting the growth of tangible assets. There is no coherent policy or institutional framework for the development and deployment of intangibles as a category per se. While there are numerous individual policy instruments and a variety of institutions responsible for supporting the build-up and use of intangibles, an overarching institutional and policy approach is missing.

Our analysis indicates that the main reason for the lack of an overarching institutional and policy approach is the dual nature of intangibles. On the one hand, firms see control of intangible assets as essential to gaining competitive advantage and may underinvest if this control is uncertain. On the other hand, from a systemic point of view, individual ownership of intangible assets can limit the 'intangibles commons': the sharing and exchange of intangibles that is indispensable for growth and innovation for the economy as a whole. There is a tension between the growth of intangibles controlled by the firm and the intangibles commons. Firms with greater ability to appropriate the benefits of their intangibles investments can limit the growth of intangibles commons; and vice versa, the growth of the intangibles commons at the expense of the firm may lead to underinvestment in intangibles.

Current policy making is strongly influenced by concerns about private sector under-investment in intangibles that is due to market failures. The costs of investing in intangibles gives rise to negative externalities. Smaller firms usually lack the requisite resources needed to invest in intangibles. Lack of adequate resources also means that they may find it more difficult to litigate ownership of intangible assets. On an aggregate level, this can result in under-investment in intangibles by the private sector; mainly because the investments by the leading firms do not compensate for the declining investments by laggards. Under-investment in intangibles can also result when larger firms prefer to gain control on intangibles by acquisitions of smaller firms rather than investing directly in intangibles. This is exacerbated by firms focusing on extracting maximum rents from existing intellectual property rather than investing in further innovations. Such rent seeking can lead to more investment in legal services, but do not add to the productive capacity of the economy.

Concerns with under-investment in the private sector are not balanced out by greater attention to policies that support the intangibles commons. Further, current policy, institutional, regulatory and financial incentive frameworks that support the intangibles commons are mainly geared towards the build-up of new knowledge and technology that can be protected by formal legal systems, and to a lesser extent the provision of skills, with little thought given to intangibles such as the organizational capital, which is important for firms to be able to access the intangibles commons and absorb knowledge from it. In sum, the various market and system failures we observe based on the characteristics of intangibles lead to an underinvestment and under-exploitation of intangibles. This is at the core of a multi-faceted justification for policy

interventions to build up and utilise intangibles in firms and across the economy and public sector in the new economy of intangibles.

## POLICY IMPLICATIONS AND RECOMMENDATIONS

We ask for a new policy perspective which must be based on the recognition that firm's rights to appropriate rents on their intangibles investments and robust intangibles commons are dynamically interdependent: the growth of one facilitates the growth of the other. Our analysis points to the following areas in which there is a need for policy discussion development:

Firstly, new institutions, policy coordination mechanisms and policy portfolios are needed in order to better reflect inherent tensions between the propertisation of intangibles and maintaining healthy commons.

Secondly, while there is an elaborated portfolio of research, development, and innovation (RDI) support measures for individual firms and public sector research organisations as well as for RDI interactions across innovation systems, more systemic support for other components of intangibles is needed.

Thirdly, since there are significant differences between tangible and intangible assets, the institutional framework underpinning the policies for growth as well as the political and administrative organisations implementing those policies have to change to accommodate the different characteristics of intangible assets. Consequently, policy makers also have to develop new measurements and knowledge bases to design, implement and monitor the new policy framework.

Fourth, policy makers should also reevaluate the social policies currently in place, which are again geared toward an economy based on tangible capital. Changing definition of jobs with technology requires a different approach to education, training, and social safety nets.

## RESEARCH PARAMETERS

This policy brief reports results from an extensive literature review of the current policies on intangibles and from data on firms and their employees in the entire economy in Finland, Denmark, Norway and Slovenia linked with CIS innovation surveys. Unique linked employer-employee datasets are used to apply new methods to derive intangibles from register data such as innovation-related occupations. Newly constructed global value chain data covering developed countries including all EU countries and including intangibles from intangible producing industries will further show how performance of intangibles is related to participation to trade and vertical integration needed. We are also declaring first results from our European wide survey on intangibles and Covid-19 in spring 2021.

## PROJECT IDENTITY

**PROJECT NAME** GLOBALINTO (Capturing the value of intangible assets in micro data to promote the EU's Growth and Competitiveness).

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University of Ljubljana – UL – Ljubljana, Slovenia  
University of Manchester – UMAN – Manchester, The UK  
University of Paris-Saclay – UPSUD – Paris, France  
University of Vaasa – UVA – Vaasa, Finland

**FUNDING SCHEME** Provide details of the specific funding programme.

Example: Horizon 2020 Framework Programme for Research and Innovation (2014-2020) , Societal Challenge 6 – Europe in a changing world: inclusive, innovative and reflective societies", call YOUNG-2015, topic "Lifelong learning for young adults: better policies for growth and inclusion in Europe".

EU Horizon 2020 Framework Programme (2019-2022), TRANSFORMATIONS-14-2018: Supply and demand-oriented economic policies to boost robust growth in Europe – Addressing the social and economic challenges in Europe, a continuation to FP7 INNODRIVE project ([www.innodrive.org](http://www.innodrive.org)) that developed the Innodrive-methodology in measuring intangible assets at the firm level. In 2013, Horizon2020 NET4SOCIETY chose Innodrive among the seven SSH projects in FP6 and FP7 that had a considerable impact – not only on research but also on policy, society or economy.

**DURATION** February 2019 – April 2022 (39 months).

**BUDGET** EU contribution: 2 973 000 €.

**WEBSITE** [www.globalinto.eu](http://www.globalinto.eu)

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## FURTHER READING

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