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Plenary session 1: Innovation, key factor for economic growth.

The contribution of intangible capital to competitiveness, productivity and growth: A pan European study.

By

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The work to be presented is part of the COINVEST project supported by the European Commission. The project aims to understand the contribution of intangible investments to innovation, competitiveness, growth and productivity in Europe. Such a project is vital to help European Union policy formation and to deepen understanding of some of the most crucial questions facing EU economic policy. The reason is simple. Currently, (almost all) intangible investments are either not measured, or are treated as an intermediate input into production so they are assumed to produce no durable assets for firms or economies. Does this matter? In practice, most knowledge investments involve intangible spending. The Lisbon Agenda aims to make the European Union "the most competitive and dynamic knowledge-driven economy by 2010". Thus, we are in the position of having little data or measurements to back this policy aspiration. This project sets out a method and collects the data required. Some knowledge investment is counted as such in the key economic measures such as GDP (eg software). However, R&D and other knowledge investment (like investment in human capital via training, investment in reputation capital, investment in organisational capital etc.) are all treated as day-to-day expenses, not investment. Thus, under current conventions, investment and GDP in an economy whose businesses spend one Euro more on almost all knowledge investment is the same as an economy whose businesses turn up their air-conditioning.

Based on Corrado, Hulten and Sichel (2005), the work to be presented deepens the measurement methods commonly used in the literature and leads a comparative dynamic study covering several European countries. We collect data on a wide range of knowledge investment, at macro and micro levels, incorporate these into macro and micro performance measures and thus greatly improve our understanding of knowledge-driven economies and firms and policy. This work is the first handled at the European level that is based on comparable methods and data. The project is divided in four parts. The first part defines spending in intangibles that could be accounted for as capital due to their characteristics. The second part details measurement methods used to evaluate intangible capital in line with national and international accounting standards. The third part presents time series data and a growth accounting work to evaluate the contribution of intangible capital to factor productivity and growth. The final part focuses on specific issues on innovation covered at the micro level.

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