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INNODRIVE

Intangible Capital and Innovations: Drivers of Growth and Location in EU

Key messages of Innodrive

- GDP in the EU27 area is 5.5% higher after including all intangibles.
- Intangibles are an important element in market valuation of the companies and the source of future growth across European countries.
- Countries with less tangibles invest more in intangible capital showing an indication of the degree of transition towards the knowledge economy.
- Countries are specialised in R&D capital (Nordic countries), economic competences (the UK, Belgium, Hungary, Slovakia) or in other types of intangibles.
- Economic competence in particular is one of the key drivers of growth, accounting for three times more investment than investment in R&D.
- Intangible capital is agglomerated in metropolitan areas: the greater Helsinki area accounts for 49% of all intangibles in Finland; the London City-Region 41% of UK intangibles and the top-ten regions accounting for 48.3% in Germany.

Countries specialise in different type of intangibles

All countries with traditionally high rates of R&D (such as Sweden, Finland and Germany) rank above average in terms of their investment in intangibles (Figure 1). However, many countries that are not R&D-intensive rank highly due to investment in economic competence (managerial capital, branding and market research): the UK, Belgium, Hungary and Slovakia. In addition Sweden, Czech Republic and France are intensive in other type of intangibles: training, architectural design, new financial products, non-scientific R&D capital and databases and software. The share of new intangibles in GDP not currently included in the national accounts increased in European countries by around 1 percentage point during the ten-year period from 1995 to 2005.

Total tangible and intangible investments are fairly evenly distributed throughout Europe (Figure 2). Norway, Czech Republic, Sweden, Belgium and Malta rank as the top countries in the half of countries with business intangible investment intensity between 13%-20% of GDP. Other countries have total private investment share hovering around 10% of GDP. Countries with less tangibles invest more in intangible capital showing an indication of the degree of transition towards the knowledge economy.

Intangibles generate growth

Innodrive has also evaluated company-level intangible capital in six countries. The total share of intangible capital-type workers is typically around 18%, while the type of activity differs from one country to another. Nordic countries are intensive in R&D capital and fairly poor in organisational capital (in management and marketing). The large countries – the UK and Germany – are rather intensive in organisational capital and have relatively less R&D capital.

The expenditure-based approach gives only a partial picture of the value of intangibles when they are owned by the firm and employees are not fully compensated for the value of intangible production. Indeed, the performance-based approach increases the relative importance of organisational investment, which is also supported by its impact on the market value of Finnish-listed firms.

Intangibles have positive spillovers and are agglomerated in metropolitan areas

In an analysis of regional effects in Germany, Finland and the UK, company-level productivity is also shown to be strongly related to firms' own intangible capital as well as to regional intangible capital, suggesting positive regional spillovers. Productivity is highest in firms that also have considerable human capital. There is a need to be clear about the distinction between human capital and intangibles: intangibles enhance the profitability of economic activity while human capital is owned by the employee and capitalized in wages. Organisational capital, i.e. the competence of management and marketing workers appears to be the most clearly related to productivity growth.

Intangibles are agglomerated, with the greater Helsinki area accounting for 49% of all intangibles in Finland; the London City-Region 41% of UK intangibles. In Germany intangible capital is more dispersed, with the top-ten regions accounting for 48.3% of the German total.

The Innodrive team

Innodrive is a three-year project financed by the European Commission's 7th framework programme. Partners are the University of Vaasa (coordinating institute, Finland), Centre for European Policy Studies (CEPS), National Institute of Economic and Social Research (NIESR, the UK), German Institute for Economic Research (DIW), Statistics Norway, Institute for Economic Research (IER, Slovenia), Research Institute of the Finnish Economy (ETLA), Economic Institute of the Academy of Sciences (Czech Republic), Libera Università Internazionale degli Studi Sociali Guido Carli (LUISS, Italy).

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Project webpage including data to be released
www.innodrive.org

Figure 1: Intangibles as share of GDP (%) 2005: EU – 27 countries (and Norway)

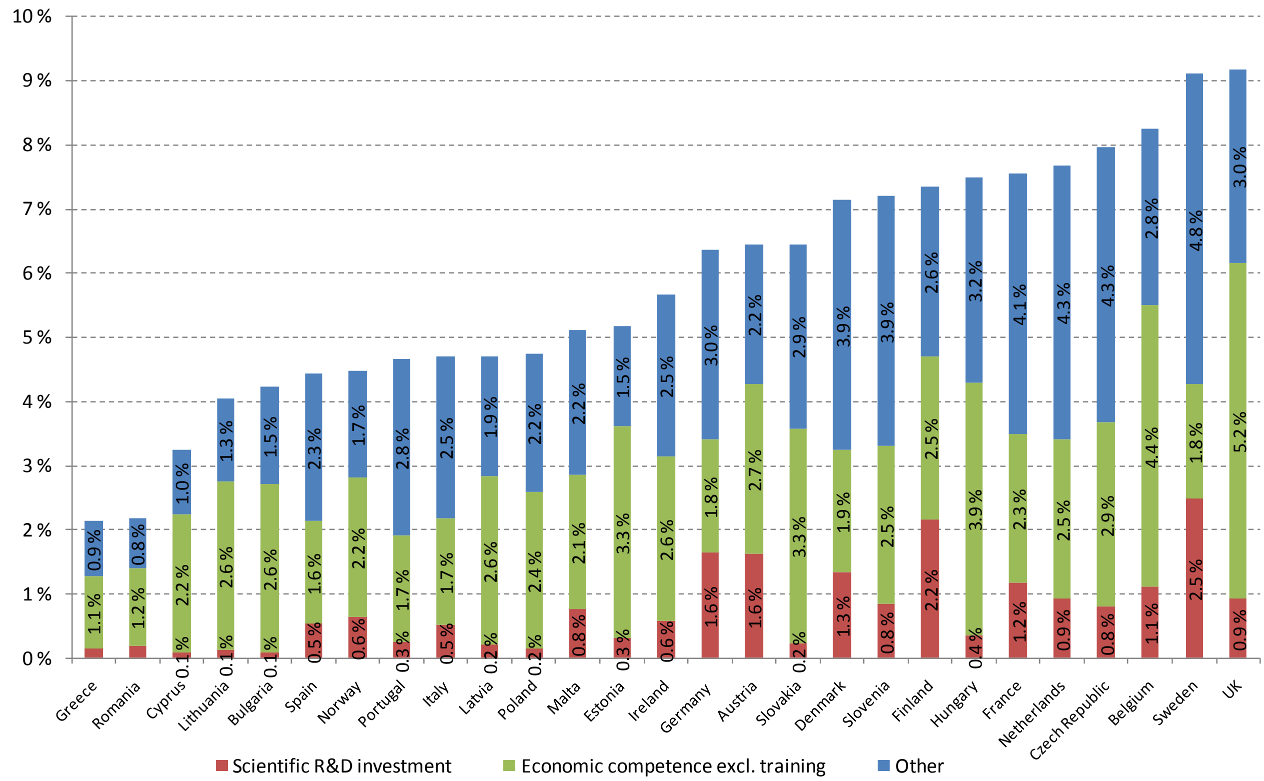

Figure 2. Tangible and Intangible Investment *as share of GDP (%) 2005: EU – 27 countries (and Norway)*