

Policy Snapshot

Policy-relevant findings from selected EU research projects

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EU policy priority Smart Growth

Research focus Service economy, indicators & intangible assets

Featured projects

COINVEST, IAREG, INDICSER, INNODRIVE,
SERVICEGAP

Summary

This is the inaugural issue of a document series exploring links between European Union policy priorities and EU-funded research in Socio-economic Sciences and Humanities (SSH). This Policy Snapshot considers aspects of the Smart Growth priority (Europe 2020) in relation to selected results from five research projects dealing with the services sector, intangible assets and economic indicators. While some of these results have been integrated into Europe's evidence base for policymaking, the capacity of EU-funded SSH research to inform European policymaking in general appears underexploited. A more concerted effort to disseminate (and absorb) policy-relevant output from SSH research projects may be warranted.



Context

Europe 2020: The Quest for Smart Growth

In January of this year, unemployment in the European Union hit a new high of 10.1%. In March the European Commission warned that 'all large Member States, including Germany, are now facing deteriorating labour market prospects'¹. And in April, Eurostat informs us, youth unemployment in the EU hit 22.4%. Such developments underscore the urgency of efforts to achieve the objectives of the Europe 2020 growth strategy.

How 'smart, inclusive, sustainable growth' can be fostered is a question that European research is working hard to answer. Results from EU-funded research in Socio-economic Sciences and Humanities (SSH) are particularly relevant for Europe 2020 policymaking as they often illuminate systemic issues at the growth strategy's core. This Policy Snapshot offers some examples of how selected EU-funded research projects on **services, intangible assets and indicators** are informing measures pertaining to the Europe 2020 priority of Smart Growth.



Relevant Headline Targets

In order to track progress toward the goals of Europe 2020 (i.e. 'high levels of employment, productivity and social cohesion'), EU Member States have collectively agreed on five Headline Targets. Two of these targets are especially relevant to the research projects featured in this first edition of the Policy Snapshot:

Europe 2020 headline targets of relevance to research on services, intangibles and indicators

75% of EU citizens aged 20-64 should be employed
3% of the EU's GDP should be invested in R&D

For anyone dealing with macroeconomic policy, these targets will sound familiar, echoing traditional appeals for fuller employment and more spending on research and development. But viewed through the lens of Europe 2020's Smart Growth priority, the targets take on more specific meanings.

Flagship Initiative: Innovation Union

The EU's smart-growth approach to employment and R&D spending can best be understood through a close reading of the Flagship Initiative known as Innovation Union.

¹ (2012) 'Employment and Social Situation Quarterly Review: The number of jobless rises and social concerns persist', Press Release MEMO/12/230, Brussels: European Commission. Available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/12/230>. [accessed 04 April 2012]

The European Commission describes Innovation Union as being *at the heart of the 2020 growth strategy*.

Among other things, Innovation Union:
• focuses attention on developing creative and knowledge-intensive services
• stresses the need to monetize intangible assets
• creates a mandate for developing a headline indicator on innovation

In its landmark Communication² outlining the EU's commitments to Innovation Union, the European Commission laments the fact that Europe's '**knowledge intensive services are still underdeveloped**'.

In light of this, the Commission proposes a number of corrective measures. Among these is an initiative to develop 'a European knowledge market for patents and licensing'. One of the objectives here is to '**enable financial investments in intangible assets**'.

The Commission also calls for the development of a **new 'headline indicator' on innovation** that will allow the EU to benchmark its performance against key trading partners. Emphasising the importance of this particular point, the Commission has vowed to 'take urgent action to develop this indicator'.

The EC Communication on Innovation Union makes clear that indicators, services and intangible assets all have essential roles to play in helping Europe achieve its headline growth targets.

Policy-relevant Research Results

from selected SSH projects

► Intangibles and indicators

The capacity of EU-funded research in Socio-economic Sciences and Humanities to inform Smart Growth policies is demonstrated by the uptake of results from **INNODRIVE** and **COINVEST**, a closely related pair of projects focusing on intangible assets.

INNODRIVE and COINVEST both did pioneering work on intangibles, work that is fundamentally changing the way these assets are understood and valued. Both projects have now formally concluded, but their findings are continuing to shape the evolution of innovation policy in Europe and beyond.

Two developments in particular exemplify INNODRIVE and COINVEST's relevance for macroeconomic policymaking. First is the decisive role they played in creating INTAN-Invest, Europe's new joint database on intangibles. This database, which INNODRIVE and COINVEST co-developed in conjunction with The Conference Board, provides harmonised data on macro intangible investment for 27 EU Member States plus Norway and the US. A publicly accessible source for research and

² European Union: European Commission, Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions on the Europe 2020 Flagship Initiative Innovation, 6 October 2010, COM(2010) 546 final, available at: http://ec.europa.eu/research/innovation-union/pdf/innovation-union-communication_en.pdf [accessed 16 April 2012]

policymaking, INTAN-Invest helps overcome fragmentation of data in an area of key importance to the European Union.

The database's significance in the context of Europe 2020 is concisely described in the following statement from European Research Area Director Octavi Quintana-Trias: **'The Joint Database on Intangibles lays the fundament for a common European, cross-country understanding of how intangibles contribute to innovation and smart growth.'**³

Which brings us to the second notable example of how INNODRIVE and COINVEST are informing Europe's policymaking activities: Not surprisingly, the Joint Database on Intangibles and other results from the two projects have captured the attention of experts serving on the European Commission's High-Level Panel on Measuring Innovation. The panel's October 2011 report titled 'Using productivity growth as an innovation indicator'⁴ focused attention on the following INNODRIVE findings:

INNODRIVE results highlighted by the EU High-Level Panel on Measuring Innovation
Investment in intangibles (other than R&D) matters for creating value
The structure of intangibles differs across countries.
Accumulation of intangible capital promotes labour productivity and well-being

Revising narrow ideas about capital value left over from the twentieth century (when tangible capital, i.e. machinery, was so important for industrial development), the findings from INNODRIVE and COINVEST provide further evidence that contemporary service-based economies are being driven more and more by intangible capital (i.e. knowledge).

Just how important intangibles have become for Europe is reflected in the dramatic rise of their share of GDP between 1995 and 2006 (Table 1).

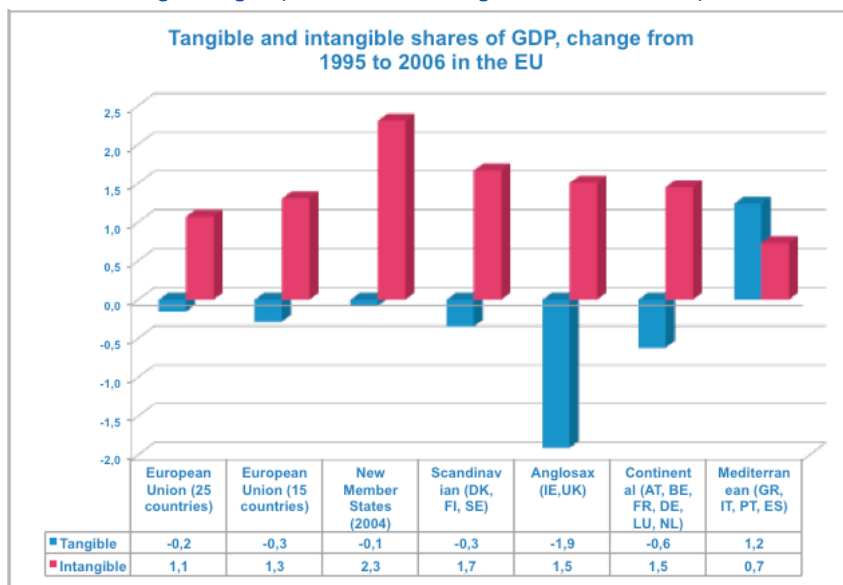
The researchers involved in INNODRIVE and COINVEST have been active on three fronts: they have helped develop a more complete definition of intangible assets; they have spearheaded European efforts to standardise collection of data on intangibles; and they have worked to get the true value of these assets recognised. Thanks to them, there is growing recognition that valuations of intangibles should not be limited to scientific R&D and computerised information (i.e. software).

Though this issue is far from settled, the definition of intangible assets is being expanded to capture the value of 'economic competencies' such as brand equity and organisational capital. The innovative property component of the definition is also being broadened to include R&D spending

³ 'Joint database on intangibles for European policy making – Data from INNODRIVE, COINVEST and the Conference Board', *European Commission - Research & Innovation - SSH*, European Commission, n.d., available at http://ec.europa.eu/research/social-sciences/events-197_en.html [accessed 16 April 2012]

⁴ 'Using productivity growth as an innovation indicator', Report for the High Level Panel on Measuring Innovation, *DG Research*, European Commission, October 2011, available at http://ec.europa.eu/commission_2010-2014/geoghegan-quinn/hlp/documents/20120309-hlp-productivity-innovation_en.pdf [accessed 14 April 2012]

Table 1: The growing importance of intangible assets in Europe



Source: The Conference Board

on architectural and engineering design, R&D in the financial industry, copyright and license costs, as well as new architectural and engineering designs.

Together, INNODRIVE and COINVEST have shed new light on critical areas of economic activity, identifying intangible capital's importance as a component of labour productivity and providing sector-specific breakdowns of intangible investment as a share of value added.

A third EU-funded research project on intangibles, **IAREG**, has also contributed to European policy discussions. Illuminating the role that intangible assets play in regional growth, IAREG argues that the process of innovation and knowledge accumulation is at the root of uneven territorial development in Europe. To help address such disparities, the IAREG researchers propose development of a new knowledge-flow strategy. They say what's

required is an approach that promotes local interactions while helping to build connections between local innovation systems and international entities. The project's findings suggest that better cross-regional integration and improved communication infrastructures could enhance knowledge flows.

Confirming a need for harmonisation of the data

being collected in the Joint Database on Intangibles, IAREG indicates that a lack of such data (and, by extension, indicators) is hampering research on the main determinants of economic development at regional level in Europe.

This, the project concludes, is making it difficult for policymakers to shape future development.

In their final report, the IAREG researchers offer European policymakers a catalogue of recommendations, several of which are gathered under the heading 'Accumulation of Intangible Assets'. Topping the list of suggestions in this category: 'Stimulate and support the accumulation and improvement of all Intangible Assets (human capital, technological capital, social capital and institutions, entrepreneurial) in the system since their complementary action enhances the economic performance at the firm and regional levels'.

► The Service Economy

The service sector is estimated to account for around two-thirds of Europe's employment and GDP. In fact, according to the innovation platform INNOVA, 'the service sector is the only sector of the European economy that has generated jobs in the last two decades'. Given the overwhelming importance of this sector for the economy, it naturally plays an essential role in the Europe 2020 growth strategy.

Two ongoing projects - **INDICSER** and **SERVICEGAP** - are trying to help Europe deepen its understanding of service sector performance with an eye to improving the policy environment for Smart Growth. Sharing this common goal, partners from the two projects have been cooperating with each other. Last year they staged a joint INDICER-SERVICEGAP workshop in Brussels focusing on financial markets and exploring how financial crises affect various sectors of the economy.

While the two projects have yet to produce final results, they have already generated insights that could be of value to policymakers. For example, INDICSER has published two Policy Briefs that offer concrete recommendations.

The first Brief - comparing measurements of service sector output in the EU and the US - urges national statistical institutes to improve transparency of measurement practices in order to enhance comparability of data. Looking at data from the retail trade and banking sectors, the researchers

conclude that the divergent ways of measuring output can lead to distortions in our perception of productivity gaps. 'Statistical agencies in the US and Europe use different assumptions', the research team notes.

The findings underline the need to harmonise measurement of key values such as productivity output in the service sector, an indicator that can significantly influence policy decisions.

INDICSER's second Policy Brief builds on recent research showing that investment in intangibles such as workforce training is needed to reap productivity gains from adoption of new technology (e.g. ICT). Examining how continuous training affects growth in EU countries, the consortium concludes that 'human capital is a key driver of growth'. This applies particularly to service sectors that have made intensive use of information technology in recent years.

For its part, SERVICEGAP has published a number of publicly available discussion papers on the service sector. These papers cover a broad range of service-related issues extending from internationalisation of services to the impact of service regulation. One important strain of the research focuses on linkages between manufacturing and services. Professor Mary O'Mahoney, who is coordinating the project, says she is hopeful that the analytical findings from SERVICEGAP will provide 'guidance for policy.'

SSH research projects highlighted in this Snapshot

The following research projects provided key content for this document. All of these projects were developed within the European Commission's Seventh Framework Programme for Research and Technological Development (FP7) under the theme Socio-economic Sciences and Humanities.

Project	Title	Start Date	End Date	Website
INNODRIVE	Intangible capital and innovations: drivers of growth and location in the EU	10.03.2008	28.02.2011	www.innodrive.org
COINVEST	Competitiveness, innovation and intangible investment in Europe	10.04.2008	31.03.2010	www.coinvest.org.uk
IAREG	Intangible assets and regional economic growth	10.02.2008	31.01.2010	www.iareg.org
INDICSER	Indicators for evaluating international performance in service sectors	10.01.2010	31.12.2012	http://indicser.com
SERVICEGAP	The impact of service sector innovation and internationalisation on growth and productivity	10.03.2010	09.03.2013	www.servicegap.org

Related FP7 research projects

Project	Title	Start Date	End Date	Website
POINT	Policy influence of indicators	01.04.2008	31.03.2010	www.point-eufp7.info
AMELI	Advanced methodology for European Laeken indicators	01.04.2008	31.03.2011	www.ameli.surveystatistics.net
Blue-ETS	BLUE-enterprise and trade statistics	01.04.2010	31.03.2013	www.blue-ets.istat.it
SERVPPIN	The contribution of public and private services to European growth and welfare, and the role of public-private innovation networks	01.02.2008	31.01.2011	www.servppin.com

About FLASH-IT

FLASH-IT is a European Union dissemination project offering enhanced access to research findings in Socio-economic Sciences and Humanities (SSH).

Part of a broader effort to consolidate knowledge resources within the European Research Area, FLASH-IT aims to help bridge the communications gap between Europe's research and policymaking communities.

Using a custom-built IT interface, FLASH-IT provides consolidated results from EU-funded SSH research projects that are thematically linked to the Europe 2020 priorities of smart growth, sustainable growth, inclusive growth and economic governance.

FLASH-IT focuses on five distinctive yet mutually reinforcing priorities, corresponding to those of the Europe 2020 strategy for smart, sustainable and inclusive growth and to the societal challenges addressed by Europe's 'Horizon 2020' research programme.



FLASH-IT strives to accommodate the interests of a broad range of stakeholders – public bodies, researchers, corporations and civil society organisations – and is particularly geared toward serving the needs of evidence-based policymaking initiatives.

For more about FLASH-IT, please visit our website:

www.flash-it.eu

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