

SUMMARY

1. TODAY, INTANGIBLE ASSETS ARE THE KEY TO SUCCESS FOR DEVELOPED ECONOMIES

The economy has changed. In a matter of years, a new element has emerged as a determinant factor of economic growth: intangible assets. During the three boom decades following the end of the Second World War, economic success was founded mainly on a country's wealth in terms of raw materials, its manufacturing industry and the volume of tangible assets that it possessed. That is still true but to a diminishing degree.

Today, true wealth is not measured in concrete terms; the measure is more abstract. It is not tangible, it is intangible. It is the ability to innovate, to create concepts and produce ideas that has become the epitome of true competitive advantage. Tangible capital has been replaced as a pivotal criterion of economic dynamism by intangible capital, i.e. by the pool of talent, knowledge and know-how. The true wealth of a country lies in its people.

Thirty years ago, leadership in the automotive industry was marked by technical criteria, for instance engine size. Today, it is brand image, the concept, customer service and the level of technology built into the vehicles that define industrial success in that sector. The division of labour is being completely revamped across international borders: production is shifting towards countries with low manpower costs while developed countries are focusing on developing state-of-the-art technologies, innovating in marketing, creating new concepts and mastering design. All industrial sectors, from semiconductors to textile, from software to telecoms, are now focusing on intangible aspects as the key to their future. The intrinsic value of companies is increasingly based on intangible elements, which are in some cases easily quantifiable, and in other cases less so, such as the value of their portfolio of patents and trademarks or the proven creative capability of their teams.

In order to fully grasp the significance of this trend, we need to look at three major trends that have heavily influenced the world's economy over the past twenty years. First, the increasing importance of innovation, which has become the primary engine of growth in developed economies. Until the 1970s, it was acceptable to imitate whatever was discovered or invented in the United States. But these days, France, just like all other developed countries, has no choice but to discover what has not yet been developed elsewhere. Second, the massive growth of information and communication technologies is providing companies with significant opportunities for reorganising their production and focusing their businesses on higher value added activities. Third, the ever-increasing trend among developed countries towards service economies, in which ideas, brands and concepts play an essential role. These three developments combine with two other very significant developments that have been shaping the world economy—globalisation and financialisation—in a way that facilitates companies' efforts to focus on those activities that create the most added value, i.e. intangible activities.

These three trends affect all the world's developed economies. In each of these economies, those sectors which specialise in intangible goods and services are increasing in relative economic size. In France, taken by their broadest measure, they account for around 20% of

added value and 15% of jobs¹. But quite apart from these dedicated sectors of the intangible economy, the value created by the French economy as a whole is increasingly dematerialised with each passing year. In all companies, whatever the goods or services they sell, the creation of value is increasingly founded on intangible assets.

➤ ***Leaders in tomorrow's economy are those that will prepare themselves to face these challenges***

When it comes to the intangible economy, the winners will be those countries that demonstrate the greatest ability to attract and make use of talent, i.e. in concrete terms to offer the best training and research potential and foster as widely as possible innovation in both the private and public sectors.

It is hardly surprising that in global surveys of France's competitiveness, perception tends to trump reality and often replace it outright: the idea one has of something is often more important than the thing itself. In this context, many companies have grasped the importance of innovation, know-how, brands, image and the intangible capital that they represent.

However, it is on the basis of training, research and innovation that the world's nations are increasingly ranked. And it is precisely in terms of these three criteria that our economy features important margins for improvement.

Some of these are now well-known, such as the higher education system, which is jeopardised by an organisation that favours mass failure and the invisibility of our universities on the world scene, and the research system, due in particular to the public-sector organisation of research, a formula which has to be renewed to the light of the Lisbon strategy.

Other issues are less well known, but they also constitute a key to France's positioning in the global intangible economy. In general, the country's structures operate smoothly when it comes to existing companies, those that are already well-established. However, in order to strengthen France's potential for innovation, we would need to take serious steps to encourage start-ups to grow, by enabling them to access capital, research grants, public and private funding, by developing quality rules that do not bar entry to new markets and by ensuring that the system that is designed to protect creativity and ideas does not end up constituting too much of a barrier to reusing prior discoveries. It so happens that France's start-ups and small companies are hardest hit by the rigidity of the country's labour organisation and rules.

To these, one must add a weakness which is even less often mentioned: the way in which France's intangible assets are identified and managed. The French State and the country's other public bodies have major intangible assets, thanks in particular to the access rights that it is the State's prerogative to grant or to certain rare resources which are controlled by the State and which represent, for companies, a considerable factor of growth. Radio frequencies, which are used to receive calls on a mobile phone or an image on a television set, or authorisations to exercise certain regulated activities, are but two typical examples of this. If these assets are not properly managed, the State will be depriving the economy of an essential source of wealth for certain industrial sectors. Looking beyond these public intangible assets, the State can also influence the value of the nation's intangible assets. In the intangible economy, France's history, geography and land are all assets which can be used to generate

¹ (excluding general government).

wealth. But in order to do so, the protection of cultural trademarks must be developed, and they must be exploited more systematically.

It is illusory to hope that France, as others, might tomorrow rank as a major player in the world economy if it fails to address these issues. We are in truth at a major crossroads. The speed with which high bandwidth Internet has grown in France, the way in which young French entrepreneurs have managed in recent years to establish themselves as leaders of the new Web generation, the growing brain drain of research scientists and engineers, and the international renown of French trademarks, all demonstrate that our country is full of talent and ideas. Unless we tackle these reforms, a feat which is unlikely to be easy, but which is inevitable, the country runs the risk of failing to properly value its intangible capital and allowing other economies to benefit from them instead.

2. TURNING FRANCE INTO A LEADER OF THE INTANGIBLE ECONOMY

In the new economic playing field, France has all the strengths and resources that are needed to succeed: the country is hardly short of brain power, even though it may lack raw materials and capital. Make no mistake: the intangible economy will be the leading vector of growth for countries in the developed world in the 21st century. It will be the primary source of wealth and employment.

Rather than damage France's potential, let us develop it and make the most of this new vector of growth. Let us set ourselves the aim of making the most of our talent and drawing that of others. We need to rebuild the "France incorporated" trademark so that we are henceforth perceived abroad as a hotbed of creativity and innovation, a leading light of the knowledge economy. But in order to do so, we must change: change our attitudes, change the scale at which we operate and change our model.

➤ *Changing our attitudes*

To increase the extent of private and public intangible assets is an imperative economic necessity. In order to achieve it, we must abandon some of our attitudes which, rather than fostering the growth of these assets, tend to hinder their development.

The first attitude that we need to replace is our tendency to favour established situations. In many fields which are facing technological change, we tend to wonder how to protect what already exists whereas it would be far more positive to begin by working out how to make the most of the nascent change. Our present attitude hinders the emergence of new activities and the creation of new jobs. The country's attitude to the online music and gaming industries are two recent examples of this. The State, for its part, is not doing enough to regulate and grant access rights to activities and rare resources in order to foster innovation and the emergence of new start-ups. On the contrary, the State's handling of France's radio wave spectrum, regulated professions and copyright demonstrates a kind of "internal protectionism" which tends to perpetuate long-standing situations that are not always justified.

The Commission's proposals are designed to overcome the temptation of perpetuating long-standing situations and give a chance to innovation and creativity. To that end the Commission is putting forward proposals to reform the rules governing copyright and related

rights, with the aim of boosting creativity and providing creative agents with a fairer deal. The Commission is proposing among other things to curtail the indefinite extension of producers' copyright-related rights which causes works to be frozen. It also believes that it is necessary to improve the way in which intellectual property rights are managed in favour of creative agents.

The Commission is also proposing to revitalise the Member States' portfolios of intangible rights and rare resources, by reworking the way in which they manage the radio frequency spectrum and altering the conditions under which they allocate access rights to regulated sectors of activity.

The second attitude that needs to be abandoned, is the tendency to focus attention excessively on established economic operators and in particular the largest corporations, whereas a State's productivity and growth potential lies just as much if not more in its small and medium-sized companies. As far as the Commission is concerned, this will involve, among other things, funnelling research grants and funding towards innovative small and medium sized companies, broadening the scope of expenses that are eligible for research tax credits in order to acknowledge and foster innovation.

Finally, the last attitude that needs to be set straight concerns the way in which we assess public assets: we must stop thinking of the State's assets as founded solely on its land and real-estate holdings and develop a more dynamic policy of capitalising on the State's intangible assets, which will not only generate additional resources for expenditure, but also strengthen France's potential for growth. Public patents, professional licenses, rights to access the public domain, cultural trademarks, the know-how of public bodies and corporations such as universities, data held by public bodies, are all intangible assets that are currently not being used to their full potential. Why is this? Because the people in charge of administering these assets are not incited to do so, but also because they lack the practical means to capitalise on these assets. The Commission is therefore proposing to implement an incentive management framework, which would involve setting up an agency to manage public intangible assets, developing more dynamic management techniques, such as through the use of devices like public auctions, and granting financial incentives to the people in charge of managing the intangible assets.

➤ *A change of scale*

Intangible assets know no borders or administrative limitations. They circulate freely over digital networks across the world and those who create them nowadays have near-limitless freedom to establish themselves in whatever location they consider to be most favourable. This volatility is a *fait accompli* which must be taken into consideration in framing our economic policy. **From now on there are issues that cannot be dealt with efficiently at the national level and for which the answer is often found at the European or even worldwide level.**

The shift to a international, or at least European scale, applies first and foremost to the protection of ideas: it is at the European level that the struggle to preserve the quality of the patent system is being played out. The Commission considers that France should launch a political rethink of the European Patent Office and should ratify the London Protocol, which provides a low cost means for improving the protection afforded to the ideas of French and European companies, without weakening the status of the French language. But the

Commission proposes to go even further by ensuring that a patent that is registered in France is enforceable throughout the countries of the European Union. The Commission considers that a French initiative in this area is vital in order to revitalise the EU patent project. The quality of the legal protection extended to ideas would also be enhanced by instituting a special court for intellectual property issues.

Just like ideas, trademarks must be protected, and such protection only makes sense if it is extended on a global level. France, which was a driving force behind the establishment of the FATF to tackle money laundering worldwide, could also spearhead an international organisation bringing together both developed and emerging states in order to effectively combat counterfeiting and piracy.

The last example is taxation. At a time when an increasing proportion of consumer spending takes place over the Internet, the European Member States are finding that their main source of income, VAT, is under threat and increasingly difficult to apply. How to ensure that companies, which are increasingly virtual and which sell services online, do indeed meet their obligation to collect VAT from their clients? In order to limit the risks and avoid any form of harmful tax competition on a tax which is at the centre of every European tax system, the Commission recommends that France launch an initiative to rework Europe's VAT system.

➤ *Changing the French model*

France will not retain its position among the leading intangible economies if it maintains its higher education and research systems, and many of its economic, social and tax regulations, in their present state. In these fields, France is often completely out of step with its trading partners, to the point of sometimes appearing to be a model of how things should not be done. The Commission considers that there is an urgent need for the country to draw inspiration from what is being done elsewhere. Let us not turn down progress and innovation just because they have been pioneered elsewhere.

France cannot afford not to increase its spending on higher education. But even that will not be enough. A reform of the very structure of the French system is vital. This calls for the granting of greater autonomy to the establishments involved, which must be given more freedom to manage their non-educational staff and the use of their financial subsidies, make the most of their know-how, offer greater remuneration to draw or retain teaching staff or set conditions for the admission of students. France's competitiveness in this field is a key element without which it is impossible to foresee a meaningful growth of its intangible economy.

France must rework in depth the organisation of its public research effort, by amplifying the resources dedicated to research, by financing research on a per-project basis and by making better use of the work of public laboratories.

We also need to be aware of the fact that the intangible economy will inevitably require a reworking of our tax system. Although nowadays priority should be given to developing intangible assets rather than to taxing them, the value shift from tangible to intangible assets on companies' balance sheets will eventually inevitably call for a rethink of current taxation principles. In the short term, the goal must be to provide incentives, not through ad hoc or sector-by-sector measures, but through a lowering of company taxes across the board, so as to send out a strong signal to our home-grown entrepreneurs as well as to foreign investors. This

is why the Commission recommends that French corporation tax be lowered to bring it in line with the European average.

We are entering an era which is going to be different from the previous one that was founded on standardised industrial processes. At the time, we came up with regulations and an organisation of labour that were designed to match the circumstances. There is no doubt that these must now be adapted so as to ensure that creativity and innovation are unshackled to yield an increase in economic activity.

The intangible economy is a systemic economy that operates in a network configuration, unconstrained by traditional limitations of time and space. Yet these two fundamental notions form the basis of our social and economic legal regimes, setting up constraints and precautions that act as hurdles to the creation of wealth and jobs. In-depth reforms are needed in order to prepare France to come to terms with this new economic reality, which will be the only way to generate economic growth in a world undergoing a great upheaval where low labour costs are increasingly drawing traditional economic activity away from our shores.

The intangible economy can be the engine, the driving force behind a revival of the French economy and foster now-elusive economic growth. But for this to become a reality, we will have to be inventive and daring when it comes to changing the way our society operates, and we will have to change our established way of thinking. The intangible economy is a real opportunity for the French economy to move forward.