

Services, innovation and growth: current policy challenges

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The policy context

- The financial crisis has pitched us into a period of policy reassessment
- Note in passing: the crisis is in part the result of sustained innovation in a service sector
- Fundamental issues are back on the agenda – the broad role of government, regulatory frameworks, etc
- Current issues include the idea of a ‘balanced economy’, and therefore raise issues about industrial structure
- Significant effort inside Government around *Going for Growth* strategy

Services and long run growth

- Often argued that services are ‘modern’, something new, part of a major transition
- But services were a (neglected) major part of the industrial revolution and hence long-run growth
- Early C10 service activities included transport, wholesale and retail distribution (Sainsbury’s founded 1869), finance, broking.
- From mid C19, government-driven services in health, education (compulsory schooling etc)
- By late C19, large enterprises in banking, insurance, sea and land transport (neglected by Chandler)
- Long term development impact of knowledge services – geological surveys, mapping, metrology, which had big impact both in UK and across developing countries (such as USA)

Why have services been neglected?

- Because of a producer-focussed emphasis on innovation
- Because of output measurement problems
- Because public-sector services tend to be underplayed in terms of impact
- Because of the prevalence of non-market services
- Because they are apparently non-science-based and non-R&D intensive

Are services now being overplayed?

- Changes in the technical division of labour are reflected in the data as changes in industrial structure (sub-contracting of maintenance, cleaning, etc; spin outs of engineering design and consultancy in oil sector, etc)
- Changes in firm classification as firms wrap products in services may affect things (IKEA – world’s biggest furniture producer – is classified in Sweden as a service firm) (This can affect R&D data)

Aspects of service sector innovation

- Services are highly heterogenous
- There is frequently no product-process distinction
- Service users often drive manufacturing producers (air transport – Pan Am/Boeing; finances – liberalisation and IT platforms)
- Diffusion into service applications may be long term
- Problems of output measures also entail problems for innovation measures (especially in public services)

Measuring innovation in services

- Given heterogeneity, output measurement issues, centrality of public sector etc, its not clear that CIS-type survey instruments are appropriate
- We may need a more diverse array of survey instruments
- At the same time, we need to keep manufacturing-service interaction in view
- We may need a new industrial classification

Technical measures of service innovation output?

- What are the possibilities for technical measures of innovation performance in transport, health etc, analogous to Nordhaus's work on light (in terms of lumens ...)
- This would simultaneously address output and innovation measures...

Why does this matter for policy?

- Services are almost completely neglected in current growth/innovation policy discussion
- The focus remains on high-tech manufacturing
- There is a big need to change this