

Innovation in the Public Sector / Innováció a Közigazgatásban és a Közsférában  
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## Public Sector Innovation Indicators: Emerging Issues

Keith Smith

Science and Innovation Analysis  
Department of Business, Innovation and Skills  
London  
and  
Imperial College, London

## The current context

For the past 30 years we have had a very specific  
model of economic development in OECD economies

Based on deregulation-liberalisation, globalisation  
(increasing interdependence), debt-fuelled  
consumption growth in US/UK (with income-wealth  
inequalities), major macro imbalances, and capital  
flows

The financial crisis is one symptom of the breakdown of  
this growth model

The challenge is not recovery but reconstruction, and a  
key issue is the role of innovation in this

## Innovation and reconstruction

Why is innovation central to reconstruction?

Because recent sources of growth - population growth, energy-intensive processes, consumption-led growth, etc., are unviable

So growth may well be driven by problem-oriented innovation - energy carriers, demographic ageing, food supply issues

How can such innovation occur?

## Some innovation issues for policymakers

How are the relevant innovation processes likely to occur (organisation, scale, knowledge inputs, geographical distribution etc)?

What scale and composition of resources are likely to be required?

How might innovations have economic/industrial outcomes?

What is the likely role of the public sector?

## Public and private in innovation

Our economic models do not have a good framework for thinking about the public sector

They conceptualise our economy as self-regulating market system, with a government attached

In this model, the role of government is to guarantee property rights, to regulate where necessary, and to intervene only where there is clear market failure

In this set-up, markets drive innovation, and firms are the primary agents. The government role is residual

## The history of technology ...

How does the market model look in terms of the historical trajectory of innovation?

States have played central roles in innovation - specific techniques, but also organisation changes

Organisational innovation: assembly lines, financial mobilisation, logistics, infrastructures, taxation, multilateral agencies etc

Techniques: most core technologies of the modern world were developed through governments (ICT, biotech, pharma, transport etc)

## A state-market economy?

This is not just a matter of recognising the innovation role of states. It is a matter of reconceptualising the role of states in the economic process as a whole

We can think of not of a 'market economy' but a 'state-market system' in which states are active agents in most economic processes

## The scope of state activity

Partly an issue of scale - education, health, defence, transport, infrastructure, science, plus financial support to private sector (such as defence-funded BERD) add up to major part of economy

But also an issue of integration - large corporations are closely integrated with state activities, even where 'privatisation' is occurring. Boundaries are often very fuzzy

Despite human capital theory, states are central in capability creation

## States and innovation

Why have states been so heavily involved in innovation?

Partly because of scale and scope of state activity.

Partly because of specific innovation characteristics: scale, time-horizons, risk and uncertainty

## Measuring the public role

Linked to the conceptual issues of state-market interaction, we have two broad indicator problems:

Quantifying within-state innovation and productivity-welfare benefits of state activity

Quantifying impacts of state activity on wider innovation performance in system as a whole

Public sector measurement issues are well known in areas of income, productivity. So we need not only innovation indicators but revised income/product/wealth accounts

## Innovation and reconstruction

Reconstruction will involve a rethink of state-market interactions

The 'global challenges' will require major state activity

Note: many of these innovation areas are likely to be in mature industries: energy, transport, food, construction - this is not a high-tech issue

Much of this activity will be multilateral - new forms of state interaction are emerging

## Public sector innovation in the new context

A lot of indicator development (not only innovation) has been predicated on the idea that the private sector is the key locus of activity

We all recognise that there is a major gap to be filled

But our current situation means that this 'gap' in fact takes us into fundamental reassessments of economic action and measurement: the problems and demands are bigger than we might think ...