

Innovation after Lockdown

Using innovation to build a more balanced, resilient economy

Harry Farmer, Madeleine Gabriel
June 2020

Executive summary

Investing in innovation will be crucial as the UK looks to rebuild its economy after COVID-19. But innovation policy should not simply return to business as usual.

The UK's achievements in cultivating and supporting innovation over the past decade have failed to coincide with broadly felt prosperity. In late 2019, the UK had some of the highest levels of economic inequality in the developed world, along with some of the highest levels of regional inequality. When it came to innovation performance, some parts of the UK were among the most productive regions in Europe, while others had been overtaken by regions that were formerly part of communist East Germany.

While the pandemic will make these issues more pressing, the UK government's commitment to increase public spending on research and development (R&D) gives an opportunity to rethink. We argue that to support recovery, innovation policies must focus on creating a more balanced, resilient economy whose benefits are widely shared. In practice this means:

- 1. Creating innovation policies that serve the whole economy, not just 'frontier' sectors.** The current Industrial Strategy focuses on a narrow range of sectors, which according to one study, employ just one per cent of the UK workforce. Yet small productivity improvements in sectors that employ

large numbers of people could have a big effect on overall productivity and, crucially, on the wellbeing and livelihoods of many people across the UK. More investment is needed to help innovation to diffuse across the economy and to support innovation in sectors that are not normally thought of as being at the 'technological frontier', like social care and retail.

- 2. A far greater focus on building innovation capacity across the country.** Public spending on R&D is heavily skewed towards London, Oxford and Cambridge, which receive 52 per cent of investment despite having 37 per cent of the population. Innovation policies should shift from a place-blind to a place-sensitive approach. The UK's nations, cities and regions need resources and capacity to build and develop their own innovation priorities. Institutions like UK Research and Innovation must take on new responsibilities for geographical rebalancing.
- 3. A more proactive approach to guiding innovation in the public interest.** Market forces alone do not always produce innovations that create societal value and sometimes produce innovations that are harmful. The government should develop institutional infrastructure for more proactive, democratic governance of innovation, enabling the UK's innovation system to fully embrace a mission-led approach to R&D and to take advantage of new, anticipatory approaches to regulation.

Our 15 recommendations are summarised below.

Problem	Recommendations
<p>COVID-19 has exposed the precarity of many workers and sectors</p>	<p>Building the productivity and resilience of the wider economy</p> <p>Using innovation to raise the productivity and resilience of essential sectors like care, retail and hospitality</p> <ol style="list-style-type: none"> 1. Introduce a new settlement for frontline workers and sectors, funding innovation to improve pay and resilience in those parts of the economy that have been hardest hit in the struggle against COVID-19. 2. Use testbeds both to stimulate innovation in the foundational economy and to increase the supply of innovations developed at the frontier that are readily applicable to the foundational economy. 3. Task the Economic and Social Research Council's new productivity institute to look specifically at improving work, productivity and pay in foundational sectors. 4. Invest in increased support for low productivity firms and sectors to adopt basic technologies and management practices, and in an expanded evidence base on the impacts of this kind of 'catch up' diffusion. 5. Produce guidance and resources for firms in the public and private sectors that want to start using digital tools, but are concerned about managing the legal and ethical issues. 6. Create an 'automation pioneers' programme to incentivise firms that want to introduce automated processes in their business in a manner that improves, rather than replaces, jobs.
<p>COVID-19 threatens to worsen regional inequality</p>	<p>Addressing regional inequality</p> <p>Using investment in innovation as a tool for regional development</p> <ol style="list-style-type: none"> 7. Devolve a significant proportion of public R&D funding to the nations, regions and cities of the UK as part of new Deals for Innovation-Led Recovery. 8. Accompany investment in innovation hubs with measures to ensure that the benefits they create are widely felt. 9. Create regional offices of UK Research and Innovation (UKRI). 10. Create greater latitude for decision makers, both at a national and a regional level, to prioritise equity. 11. Invest in innovation mapping tools to provide a better understanding of what innovation is happening and where. 12. Make public R&D investment more transparent, in particular by making available more data on the regional and sectoral spread of existing support.
<p>Innovation will be essential to recovery, but will only be acceptable if its value is clear to the public</p>	<p>Steering innovation for the public benefit</p> <p>Guiding and regulating innovation to deliver maximum public benefit and minimise potential harms</p> <ol style="list-style-type: none"> 13. Maintain commitment to mission-led innovation policy and expand funding for innovation that is directed to tackling societal problems. 14. Continue to support regulators to take a more anticipatory approach. 15. Configure the regulatory system to be anticipatory 'by design'.

About Nesta

Nesta is an innovation foundation. For us, innovation means turning bold ideas into reality and changing lives for the better.

We use our expertise, skills and funding in areas where there are big challenges facing society.

Nesta is based in the UK and supported by a financial endowment. We work with partners around the globe to bring bold ideas to life to change the world for good.

If you'd like this publication in an alternative format such as Braille or large print, please contact us at: information@nesta.org.uk



nesta

58 Victoria Embankment
London EC4Y 0DS

+44 (0)20 7438 2500

information@nesta.org.uk

 [@nesta_uk](https://twitter.com/nesta_uk)

 www.facebook.com/nesta.uk

www.nesta.org.uk

