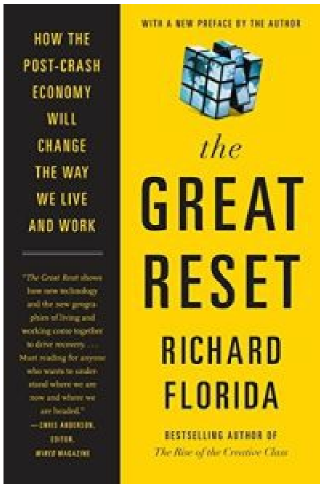

Book The Great Reset

How the Post-Crash Economy Will Change the Way We Live and Work

Richard Florida
Harper, 2010
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Recommendation

Urban studies scholar Richard Florida first popularized the idea of the creative class. Now he argues that saving the last shreds of the factory-driven industrial system makes no sense. A massive overhaul is underway, and knowledge workers are its new vanguard. Florida makes his points in short, punchy chapters, but steps away from stating the obvious. *BooksInShort* recommends this book to economists, politicians, urban planners and anyone wanting a sense of the likely future.

Take-Aways

- The current economic crisis is most similar to the “Long Depression” of the 1870s.
- The US is in the midst of a “reset” from an industrial to a knowledge economy.
- The new economy will be mobile and flexible; it will orbit around “megaregions.”
- An important part of economic overhaul is geographic, the so-called “spatial fix.”
- Big cities such as New York will increase, not diminish, in importance.
- The coming economy will draw on each person’s creative potential.
- America should elevate service jobs so they can become careers.
- High-speed rail ought to be a key part of the economic future.
- The new economy will mean renting, not owning, a home.
- Propping up the economic factors that caused the crisis makes little sense; the US needs to move on and install a new infrastructure that values each person’s talents.

Summary

Where the US Has Been and Where It’s Going

Today’s economic crisis has been in the works for years. And, the US has endured major downturns before, in the 1870s and the 1930s. Such times of upheaval are “Great Resets,” when the economy remakes itself for a new kind of prosperity. Resets change where you live and work – a “spatial fix.” This new society will be less anchored and more mobile, with rental housing rather than home ownership, and public transportation rather than cars. Enormous megalopolises will emerge as engines of economic purpose.

> “Times of crisis reveal what is and isn’t working.”

The “Long Depression” of 1873 arrived on the back of banking woes spurred by bad mortgages and high-wire financial products. This fiscal catastrophe marked the birth of big industry, as advances took hold in steam turbines, internal combustion engines and steelmaking. This was the time of Thomas Edison and George Westinghouse, inventors who created industrial systems. Those systems improved railroads, produced trolley cars, and promoted the development of public schools focused on literacy and social skills for future factory workers. College availability grew and education expanded, particularly in training engineers.

> “Housing was an unsustainable engine of economic growth. Too many cities simply lacked the underlying economic base and productivity to support high housing prices.”

After the Long Depression, three decades of rapid expansion filled cities. As the new industrial economy swelled, manufacturing payrolls and Americans migrated to urban areas. By the beginning of the 20th century, New York, Chicago and Philadelphia each had more than a million residents. Approximately 27 million immigrants from Europe diversified the nation’s culture. Factories became the central organizing element of changing cities.

> The “collapse, in the early years of the 21st century, is the crisis of the latest economic revolution.”

The Great Depression that followed the 1929 stock market collapse scarred the national psyche. The 1930s were the century’s most technologically active decade, in retrospect surpassing the more narrowly effective tech years of the 1990s. The Depression saw the spread of radio and refrigeration, and a fall-off in marriage and childbearing. Entire families worked to make ends meet. Continued improvements in streamlined mass production led to technological gains and peak productivity. Research and development expenditures “actually doubled over the course of the 1930s.”

> “Great Resets are broad and fundamental transformations of the economic and social order and involve much more than strictly economic or financial events.”

The rise of suburbia began with new federal outlays for housing assistance, education and war-related manufacturing. High school graduation rates rose, and, after World War II, thanks to the G.I. Bill, college enrollment climbed. Federal labor laws drove wages up, and assembly-line jobs became careers. The government underwrote road building in the late 1950s, and suburbia grew.

> “Inquisitiveness and analysis, knowledge and invention [are] the necessary tools of the modern world.”

The suburbs provided the “Second Great Reset’s” spatial fix and required owning a home. By 1960, more than 60% of Americans lived in their own little castles. Such cyclical geographic realignments follow a five-step pattern: The economy stalls along with the old system, the market begins to welcome fresh innovations, those innovations become the structural steel of new systems, public and private money expands the new way of life, and the spatial fix appears.

> “The places that thrive today are those with the highest velocity of ideas, the highest density of talented and creative people, and the highest rate of metabolism.”

In the early years of the 21st century, the home became a virtual ATM as new financial instruments turned many more people into home buyers, and some of them into speculators. This was the end of a 30-year period in which consumers ran up debt ($5.3 trillion by early 2009). The factory economy shrank and took the middle class with it. The wealthy grew wealthier, while personal bankruptcies increased.

A Tale of Several Cities

The downturn eviscerated New York City’s finance industry, with devastating consequences for city revenue. But an established financial center is almost impossible to dislodge. The United Kingdom lost its global economic pre-eminence in the 1870s, but London stands with New York today as the two top financial centers in the world. The financial sector constituted only 8% of New York’s economy, as compared to Bloomington-Normal, Illinois, a mid-sized city where 28% of the jobs were in finance. Due to its economic diversity as the nation’s biggest megalopolis and locus of creative talent, the city of New York was able to rebound.

> “Regional economies...based on blue-collar industries are headed for trouble.”

The global meltdown engendered predictions that China in general and Shanghai in particular are poised for imminent dominance of the world’s financial centers. But despite massive growth, the People’s Republic of China remains part of the developing world and will not compete with New York or London for decades. A lack of appeal or openness to the best talent holds back other Asian and Middle Eastern cities. Even sophisticated Japan rarely admits immigrants. New York’s and London’s cultural and societal environments draw finance professionals.

> “We need to...make smarter use of both our urban spaces and the surrounding suburban rings – creating comfortable, affordable living space for people while at the same time providing an improved quality of life.”

The economic diversity of Chicago and Los Angeles should help them survive the downturn. Even Charlotte, North Carolina, with nearly half of its economy devoted to the finance, insurance and real estate (FIRE) businesses, had fewer job losses than expected, in part because of Wells Fargo’s buyout of Wachovia.

> “Large-scale top-down government projects to revitalize communities do not work and frequently do more harm than good.”

Government capitals and college towns are also thriving. Greater Washington, DC, has one of the nation’s most robust job markets and leads the United States in percentages of residents with college and graduate degrees. College towns such as Ann Arbor, Michigan, draw skilled people.

The story changes in cities where manufacturing anchors the economy. For reasons including automation and cheaper overseas labor, only 19% of the US workforce now holds blue-collar jobs. The auto industry city of Detroit, Michigan, has been in a long decline: It has a shrinking population and 62,000 abandoned buildings or empty lots.

> “Investing in high-speed rail systems may be the single most important thing we can do to bring back once-great Rust Belt cities.”

Pittsburgh, Pennsylvania, once reliant on the steel industry, began in the 1970s to remake itself with a push to pursue education and embrace wider skill sets. Unlike Detroit, a city of car-driven sprawl, Pittsburgh has an older urban core that has helped the reborn city – now distinguished by technology, medical research, education and sports businesses – retain its integrity. Detroit has many of the building blocks of Pittsburgh's renaissance – major universities, a modern airport, thriving suburbs – and revitalization work is taking place, but it may be two generations before the city recovers.

> "Mobility and flexibility are key principles of the modern economy. Home ownership limits both."

Toronto, Canada, has done well during the slump, thanks to the stable Canadian banking system, the city's diverse ethnic population and its multifaceted economy. The southwestern American Sunbelt suffers because its growth was based on housing and real estate. Phoenix, Arizona, and Las Vegas, Nevada, stand out as chief beneficiaries and victims of the housing boom, where home building generated rivers of cash but no industries to support the people living in the new homes. When the bubble popped, housing values in both cities dropped by more than half, and many residents lost substantial net worth. In Florida, another Ponzi-housing state, more people left than arrived as the market melted.

The (Healthy) Shock of the New

Americans have started changing their fiscal behavior. That's laudable, but it is more important to develop a new accompanying economic system, which is the challenge of the "Third Great Reset." Beginning in about 1980, the US economy shifted from manufacturing to knowledge work, which now accounts for half of US salaries. Enormous growth in the finance business accompanied this transformation. Although high-tech centers such as Seattle, Washington, continue to provide new products, such creativity has virtually vanished elsewhere. Many of the US's current innovations depend on foreign thinkers, who create nearly half of all new patented products.

> "We need to build the infrastructure of the future."

The US is steadily adding service jobs (some 28 million over the past 30 years) and losing manufacturing jobs. Both trends will continue into the near future. While creative work must expand, the service sector potentially could offer the same kind of good wages and managerial advancement as assembly-line jobs once did. This requires the approach taken by companies such as Best Buy, which empowers its employees by encouraging them to suggest improvements to the way the retailer does business.

> "A true Reset transforms not simply the way we innovate and produce but also ushers in a whole new economic landscape."

American cities today are increasingly divided along lines of education and available work; this directly affects community well-being. Factory towns rank low in residential satisfaction, but people like living in communities with large populations of service workers, which provides further evidence that these kinds of jobs deserve an upgrade.

This idea faces some substantial obstacles, such as the durability of an old-fashioned culture that valued men for their manufacturing skills. The people of the US should take this "reset" time to exalt the utility of all work. "For the sake of the people who currently toil in the service economy" and the US's long-term economic health, it should do everything possible "to turn service jobs into more innovative, more engaging, more fulfilling and much better-paid work."

Before the 2008 crash, the US underwent a period of debt-fueled consumption in which Americans used more and more of their family budgets to pay for housing and cars. Real recovery will mean restructuring society to alter that consumption ethos and shifting to a lifestyle oriented around knowledge-driven industries instead of around the factories or infrastructure projects that benefited from the post-Depression Reset. Some signs indicate that a more frugal mind-set is taking root, as Americans roll back spending on everything from entertainment to driving. Younger people appear less interested in the old dual success trophies of car and house that inspired their parents. Further, consumption of "green" goods, at least in part for reasons of status, has taken pride of place over showy buys like "McMansions or Hummers."

Megaregions

Today's global economy runs more than ever on the efforts of the megalopolis, or "megaregion." These giant concentrations of intellectual and productive power form urban concatenations such as "Bos-Wash" (Boston to Washington, DC), which includes the cities of New York, Philadelphia and Baltimore. Two-thirds of the world's economic activity occurs in such regions. Their importance is only growing, contrary to predictions that globalization's spread would diminish the necessity of cities. New York, Washington and Los Angeles continue to draw ambitious younger workers, mostly because there they can find the best opportunities for social and business advancement.

Megaregions impel the "Third Great Economic Reset's" land-use restructuring. The near suburbs and inner cores of the big urban centers are being remade as the cities grow again, while outer suburbs and exurbs are remaking themselves in less car-dependent ways.

The world's biggest, most successful cities have faster "metabolisms" than other places, because the talent clusters they attract create more innovation. Talented people need to live in places like New York to maximize their abilities and earning power. Such cities are greener because their density lets public transportation thrive, and skyscrapers mean high land-use density. In the ongoing reset, society needs that sort of sensible urban planning.

High-speed rail might be the smartest infrastructure investment the US can make, given that talent-heavy megaregions increasingly will command its economy. Critics deride the idea, saying that the US's and Canada's spread-out landscapes are unsuited to high-speed rail. But rapid train transit could be a lifesaver for the depressed factory cities of the Midwest that would benefit from quicker connections to more prosperous cities.

US housing policy, which overwhelmingly favors homeowners, no longer makes any sense. The new economy is mobile, and its opportunities place a premium on workers who can pull up stakes and go where the jobs are – something that's much more difficult for homeowners. Widely available rentals in major urban cores would serve the future labor force far better than costly home ownership.

Today's crisis is fundamentally worse than the 1930s Depression. Back then, large infrastructure investments helped pull the economy out of stagnation, but today the

US has to build a whole new system. That system will need to assume the basic creativity of every person, upgrade service jobs, revamp education to encourage innovation, establish a "safety net" of portable job benefits and fund high-speed rail. The US must erect a new infrastructure for a new way of life that will use the talents of each person to a much greater extent than today.

About the Author

Richard Florida also wrote *The Rise of the Creative Class* and *Who's Your City?*