March 2003

The New American Dream

The economy will prosper again when more Americans can do the work they love. The party that realizes this first wins.

by Richard Florida MAGAZINE

The debate over the nation's economic policies has become so vacuous and out of touch that it's alarming. The Republicans look eerily like the party of Calvin Coolidge, with a tax cut on corporate dividends masquerading as their catch-all solution to a stalled economy. The Democrats have at least tried to help, with tax cuts for lower-income people, assistance for state and local governments, and extended unemployment benefits. But such fixes are merely palliatives.

It is time for a change. The market crash, the ensuing recession, the worsening societal inequality–these are not normal cyclical downturns or growing pains. We are in a crucial transitional stage. The nature of our economy is changing; the nature of what people want from our economy is changing. A whole new system for creating wealth is taking shape, a new kind of capitalism that is powerful and full of promise, but far from fully formed. Yet neither party is proposing measures that might help it along because neither appears to grasp what's going on.

The key factor going largely unheeded is the rise of creativity as the central force in our economy. Without great waves of new products, technologies and industries, our economy would barely have grown since the dark days of the 1970s and early 1980s. Without constant innovation none of our industries will avoid the grim fate that befell factories and offices across the United States. Innovation doesn't come magically from an invisible hand. It comes from people. Every innovation, be it the Palm Pilot, *My Big Fat Greek Wedding*, or the tweaks that make a chemical plant run better, can be traced to human creativity–to people having ideas and finding better ways of doing things.

In recent history, the number of people doing creative work has exploded. Those in creative occupations–from engineers and designers to artists and writers to higher-end planners, analysts, managers, and other "creative professionals"–now comprise more than 30 percent of the workforce, up from about 10 percent in 1900 and only 20 percent as recently as 1980. Creative-sector workers today outnumber blue-collar workers. And the creative sector of the economy accounts for nearly half of all wage and salary income–$1.7 trillion dollars per year. The rise of the creative sector has also changed the way people work, as well as their expectations. The American Dream is no longer just about money. Better pay, a nice house, and a rising standard of living will always be attractive. But my research and others' show another factor emerging: The new American Dream is to maintain a reasonable living standard while doing work that we enjoy doing. In fact, many people are willing to trade income for work they enjoy. I've interviewed countless professionals who left secure jobs for riskier new ventures, often at lower pay, not for a shot at a stock-option bonanza but for a chance to do work that excites them.

I've seen it on the lower rungs of the economic ladder as well. While unions and politicians bemoan the loss of "good" manufacturing jobs, such as machine-tool operator, states like Pennsylvania have actually had a hard time filling those jobs that remain, even as cosmetology schools fill up with working-class kids hoping to be hair stylists. The hair salon typically pays less and offers fewer benefits than the machine shop–but it's seen as more creative and stimulating. The point is not that we should all join startups or become hair stylists. It is simply that what growing numbers of Americans want today is the very same thing needed to strengthen our economy. Not just more financial opportunity, but more creative opportunity.

Yet both parties disregard these dynamics and put forth "old economy" solutions: tax cuts, financial incentives, and fiscal pump-priming, along with financial safety nets, tariffs, and other favors to protect big firms. I've seen similar measures fail in nearly 20 years of research on state and local economic development. Desperate to keep firms and industries, and to lure new ones, many cities and regions bled themselves with tax cuts, building projects, and other costly incentives. To uphold their sinking "major league" status, many squandered scarce public funds on dramatic gestures like new stadiums, which diverted the public's attention but added little or nothing to their region's creative capacity. The result was counterproductive: Existing firms and industries downsized their payrolls anyway, while growth flourished in places like the San Francisco Bay Area and Boston, which actually had higher costs but better creative climates. Today we are reprising this flawed strategy at the national level. The real key to driving the economy forward and "completing" our emergent creative system doesn't lie in financial incentives alone but in summoning innovation–human creativity.

Nor is it always true that the financial carrot will lure the creative rabbit out of the hat. At the system level, the drive for financial gain encourages innovation in many ways, but can also stifle it or waste it–by favoring quick-payback applied R&D over basic research; by diverting lots of creative energy into narrow channels like high-margin luxury goods; by letting investor greed fuel speculative bubbles that burst and spoil the game for everyone. And at the personal level, money is vastly overrated as a motivator of human creativity. There is little evidence that Edison or the Curies toiled at their experiments for the chance to get rich; Edison was sometimes *too* eager to plow money back into more experiments. What drove the Wright brothers to invent was not financial competition, but creative competition: the race to be first to fly. It's this kind of "competition" that truly motivates most scientists and inventors, and even football coaches, artists, and rappers. To keep our economy vital, the behavior that fundamentally needs to be incentivized and supported is not money-making but creative activity. When more people do the good work they enjoy, wealth will follow–not the other way around. Developing a vision for expanding opportunities for creative work is the great untapped political opportunity for both parties in the new century.

It is also an economic imperative. Other countries are competing in the creative economy. Ireland is now the world's second-leading exporter of software, while Finland, with Nokia, is a world leader in cell phones. Japanese auto firms were first to put hybrid and fuel-cell cars on the street. India and Indonesia are rising powers in high-tech fields like software and biomedicine. According to studies by my research team, Canadian cities like Toronto and Vancouver now surpass many U.S. metro areas on measures of creative activity and potential. In a creativity-driven economy, leads are tenuous and even small players can quickly come to the fore.

Our nation must keep building the creative capacity that has made us strong. And we must avoid the traps that hold us back–including those that spring from the emerging creative age itself.

A Nation of Designers

Creativity–the ability to come up with and implement a new idea–has always been the prime source of economic growth and advantage. In prehistory, some people learned that cultivating plants and animals worked better than hunting and gathering. In the Industrial Revolution, ideas carried the day. And in the late 1800s and early 1900s, the vitality of capitalism was correctly credited by the economist Joseph Schumpeter to the "perennial gales of creative destruction" that swept through it–periodically sweeping out old ways of doing things, sweeping in the new.

In the later 20th century, the pace of creativity quickened while the profit from routinized production plummeted. A new version of capitalism began evolving in which creativity was not just perennial but constant, in which rapid-fire innovation and continuous improvement were the norm. The United States surged to lead this emergent system. It didn't happen merely because government stood back and let the free market work. Many factors combined to foster the conditions for human creativity and harness it on a wider scale than ever. After World War II, federal funding for basic research ramped up dramatically, as did higher education through the GI Bill. In the private sector, the venture capital industry provided a new avenue for bringing research ideas to market and employing bright people. The combination of these factors has been potent: It's been calculated that the high-tech companies spun out from just one university, MIT, would now constitute a nation with the 24th-largest GDP in the world.

There were other factors. In the 1990s, U.S. firms (belatedly) adopted the Japanese "creative factory" methods whereby workers contribute ideas for improving productivity and quality. Outsourcing played a role by leading to creative specialization: A firm can focus on designing chips or clothing and contract others to do the manufacturing. Last but not least, the United States took the creative lead by being an open and diverse society. Immigrants flocked here and fueled our growth: Nearly 30 percent of new businesses in Silicon Valley in the 1980s and 1990s were started by foreign-born people. Our freedom of expression has allowed new art forms to flourish–from rock music to independent publishing to digital media–and allowed artistic and technical creativity to commingle. The result was a sustained outpouring of human creative activity, in every form imaginable.

Also, as Virginia Postrel and others argue, design or "aesthetics" has become increasingly important to what sells. The United States makes fewer and fewer products–and sells few services on the world market–that are commodities, sold strictly on the basis of low price. Often it is largely the design work and marketing that determines whether someone will buy a Dodge Neon or a Hyundai, a Dell computer or a Sony. Emphasis on design and creativity is what pushed Target ahead of K-Mart. Material costs and energy and labor costs will always be major factors. But as a nation, in many cases we're already outsourcing the parts of the work (or exiting entire businesses) in which these factors would put us at a disadvantage. As an economy, we are moving inexorably toward earning our keep by adding creative value. Thus creative work, no matter how it's measured in dollars and cents, is what we all rely on.

The Eminem Economy

The rise of the creative sector has also transformed the American Dream. In the years just after World War II, millions of Americans rather quickly acquired a steady job, a car, and a new house–and they quickly grew bored. They read books like *The Organization Man* and *The Lonely Crowd,* and recognized in them their own stifling boredom. They idolized James Dean and Brando, and dreamed of being a *Rebel Without a Cause* or *The Wild One.* They stuck to the grind for the sake of their children–and those children became hippies, rejecting a "higher standard of living" in favor of creative living. And as that generation (and its children) matured and entered the workforce, they sought a new and expanded Dream of their own.

Clearly, a living wage is still essential. Too many Americans still have trouble affording what they need or would like to have. But being able to afford food and decent health care is merely a baseline requirement. Most people, including those on the lowest rungs, have a bigger vision, and it isn't "the chance to get rich," the line Reagan once borrowed from Lincoln. It's Jefferson's idea: the pursuit of happiness. The dream is to reap intrinsic rewards from our work rather than merely be "compensated" for the time and effort we put in.

As observers from the sociologist Ronald Inglehart to the Nobel Prize-winning economist Robert Fogel have pointed out, this is an effect of living in a post-scarcity, post-materialist society. Once a society moves above subsistence level, its members start seeking more than material rewards from their work. Many people come to value intrinsic (or creative) opportunity over financial opportunity. The economist Scott Stern has found that academic scientists actually "pay" to engage in their work. On average they forego about a quarter of what they could earn in the private sector for greater freedom to pursue the research that interests them. In surveys of information-technology workers, *Information Week* finds that the job qualities most highly valued by the greatest numbers of workers are "challenge" and "responsibility." Base pay ranks third, and financial incentives like bonuses and stock options far below that, even below quality-of-life factors like commuting distance. Look at popular culture, from Eminem in *8 Mile* to Jennifer Lopez in *Maid in Manhattan.* Why do young people from the ghetto to the suburbs dream of being rap stars? Not just because they're rebellious or because being a rapper provides their best shot at big money. Most stand a far better chance of earning an athletic scholarship than a recording contract (and even big-money athletes want to be rappers!). It's because being a rapper is creative–fun and stimulating (I'd imagine) in a way that a routine desk job never will be.

Should our economic goal be to enable every young person to earn a living as a rapper? Of course not. But conceptually, it's in the right ballpark. Recognizing and tapping creative talents, whatever those talents may be, is a pretty good starting point for a serious debate on how to keep our economy healthy.

Catering the Class War

Today, we have levels of income inequality not seen since the 1930s. And the issue isn't simply one of social justice or equitable distribution of rewards. It is a matter of functional inequality–and creative waste. Seventy percent of the workforce does not have the opportunity to do valuable creative work, as the favored 30 percent does. We are not close to hitting on all cylinders.

And I see little sign that either political party understands the real root of this inequality. Republicans tend to see inequality as the natural byproduct of a Darwinian system in which some people are more competent and industrious than others. True to a degree, but there's nothing either natural or desirable about letting it run to extremes. Historical evidence shows that periods of high inequality (like the 1930s) are also ones of low growth, while eras of lower inequality (like the "Great Compression" that followed World War II) are accompanied by high growth. Democrats tend to see inequality as damaging national unity and weakening consumer demand, and thus something to be remedied by government assistance or wage supports. As for the roots of rising inequality, liberal thinkers from William Julius Wilson to Paul Krugman and others have cited factors that range from the loss of high-paying manufacturing jobs to an assault by the rich and conservative on unions and other institutions that might help poorer people.

There are good points to be gleaned from all these analyses. But my research suggests that rising inequality stems mainly from the very nature of the emerging creative economy. If you define "class" as I do–by economic function–you see that the largest, at 44 percent of our workforce, is the lower-end service class, a category that includes janitors, food-service workers, healthcare attendants, office and clerical workers, and many others. The ranks of these people are increasing in large part because the growing numbers of busy creative workers require an army of "servants" to minister to the many things they don't have time for. As one astute Silicon Valley observer told *The New York Times*: "Behind every software engineer is a nanny or a food-service worker." This massive functional division of human labor produces the bulk of our income divide.

It also threatens our national competitiveness. Japan taught us this lesson in the 1970s, when its manufacturing firms leaped ahead of ours with their continuous-improvement methods that tap the intelligence of every worker on the shop floor. U.S. firms–stuck in the old Fordist system, whereby engineers and top managers did the thinking while the masses did the rote work–nearly had their doors blown off. Many of our firms have since caught on to the new way. But our economy as a whole replicates the outmoded, inefficient Fordist regime. Unless we can change that, we risk faltering once again.

The New Civil War

Moreover, our new inequality has troubling geographic dimensions. My colleague Kevin Stolarick has developed an index of wage inequality comparing creative-class wages to others' to study the relationship between inequality and regional prosperity. His main finding is startling: City-regions that rank highest in terms of creative economic strength also rank highest in income inequality. Among major metropolitan areas, San Jose, in the heart of Silicon Valley, scores third on my multi-factor Creativity Index and also ranks first in inequality. North Carolina's Research Triangle is the fourth-most creative region and has the second greatest level of inequality. Boston ranks seventh on both scales. Conversely, regions lagging in creative economic strength tend to be more equal–more people are chugging along in the same slow boat. The same basic pattern is true for regions of all sizes. (*See charts.*)

These regional patterns have significant political implications, though neither party is eager to address them. While Democrats portray themselves as champions of economic and social justice, they draw high levels of support from Blue-state and so-called "ideopolis" regions like San Francisco and Boston that are also high in inequality. Republicans, on the other hand, think of themselves as representing the entrepreneurial, wealth-generating class, but now supplement their traditional high-income constituents by courting laggard Red-state regions with greater equality but far less vibrant economies. It's a politically driven, mixed-up system that does not appear likely to lead either party to address our core problems.

Meanwhile, the United States is caught in a pattern of uneven regional development not seen since the Civil War. This is not the old North-South split or a coastal-heartland split. Rather, in all parts of the country, some regions are moving toward higher creative growth (Austin, Boston, Minneapolis-St. Paul, Denver, Portland) while others become mired in either slow growth (New Orleans, Grand Rapids, Buffalo), low-end service-economy growth (Las Vegas), or no growth at all. Those in the first group are emerging as the clear overall "winners" in the new creative economy.

What's driving this split is a massive flow of human creative capital. My research finds mobile, demanding creative workers migrating to certain kinds of places they favor: places where they can find not just "a job" but lots of opportunities, and where they can find participatory amenities–active outdoor sports, not just stadiums; caf?and-gallery "street-level" culture, not the symphony. They also seek places of demographic diversity, openness to newcomers, and stimulating cultural interplay. And the catch is, such regional qualities tend to be self-reinforcing. A region with many creative industries and creative-class workers will thus attract more of both, while the losing regions–well, they lose them.

Robert Cushing of the University of Texas has found evidence of this great "class sorting" in his research on regional talent exchanges. By comparing home regions on sequential tax returns, Cushing traced migration patterns between metro areas in Texas and the rest of the country. From 1992 to 2000, for instance, he found more than twice as many people moving from Pittsburgh to Austin as vice versa. Moreover, those leaving Pittsburgh for Austin had a much higher average annual income (more than $58,000) than those coming the other way (about $44,000), a sign that Austin is attracting higher-valued workers while shedding those less valued.

Many other factors also reinforce this split, but the upshot is this: As a nation, we are beginning to divide into two kinds of regions with different economic prospects, and the political implications could be dire. The old North-South split not only bred a civil war, but continued to drag on our society and economy well into the next century. A great deal of FDR's New Deal–continued by postwar spending–was geared toward redeveloping the South as a modern urban-industrial economy. What might be the repercussions of a new split?

And what can be done about it all? One all-around solution to inequality that both parties offer is education. If we can just catch these working- and service-class people when they're young and teach them right, the thinking goes, surely many will climb the ladder to success. Maybe they'll improve their regions' fortunes in the process. The trouble is, improving education for the masses is always a tough sell. High-end creative workers, who often send their kids to private or elite public schools, may have to be persuaded to pay higher taxes for educating children other than their own.

What's more, the creative-region dynamic injects an added disincentive for investment in public primary and secondary schools. Leading creative regions like Austin "import" many of their workers by winning the regional talent exchange, in effect plucking them after they're fully educated. Regions with top-flight universities, like Stanford and MIT, can also draw the best and brightest high school grads from everywhere and hold onto many of them after graduation. Either way, mobility has broken the connection between local investment in education and regional economic growth. In fact, some regions can do quite well without anteing up a big investment in homegrown talent. Talent-importing hotbeds like the Bay Area and San Diego have thrived in California, home of tax revolt, where public funding shortfalls often have held back local public-education upgrades. An obvious long-term danger looms: If too many regions begin to rely too heavily on imported talent rather than growing their own, the whole process peters out. Our national economic competitiveness declines.

And though immigrants are valuable, neither can we rely too heavily on importing talent from abroad. At some of our elite universities, one-third to one-half of the seats in graduate engineering programs are filled by foreign-born students, and their numbers in many skilled occupations are rising as well. Curtailing immigration so that "our own people" can have more good jobs and classroom seats is not a viable solution; our economy needs immigrants. What we must do is tap more of our own vast human resources.

Stop Subsidizing Stagnation

The new creative economy is still emerging. In that sense, we're in a period much like that of the late 1920s and 1930s, when the emerging corporate-industrial system faltered with a stock market crash and subsequent depression. It took nearly two decades and a world war to put in place the national policy initiatives that "completed" that system and spurred a golden age of economic growth–initiatives ranging from the labor-union-empowering Wagner Act and the GI Bill to federally guaranteed long-term mortgages to federally funded highway construction. The task now is not to replicate what worked last time, but to devise policies for the creative age that will have a similar effect. So, in the spirit of encouraging partisan competition and creative dialogue, let me offer a framework for thinking about our economic future.

First, we need an education system that develops and harnesses the creative talent of all our people. The current K-12 system is a vestige of the old mass-production age and is beyond tinkering with. The current education reform movement is laudable, but must be taken to its logical conclusion. No one wants to admit this openly, but we're already headed toward effective federal government takeover of troubled public schools. It was George W. Bush, after all, who passed the most federally intrusive education bill in American history, the No Child Left Behind Act. Only a national strategy can repair the now broken connection between good local schools and regional prosperity.

Education reform must also, at its core, make schools into places where human creativity is cultivated and can flourish. With the same zeal that schools and communities across the United States have embraced athletics and fitness, they now need to embrace creativity. We revel in the legendary stories of young creators like Michael Dell building new businesses in dorm rooms, or in the garage, in their spare time. The question to ask is: Why are they doing these things in their *spare* time? Isn't this the real stuff of education in the creative age? One person I interviewed told me that he'd bought his kids drums and guitars, and encouraged them to form a band, just because he thought it might keep them home at night and out of trouble. He'd never imagined, he said, that they would go on to learn useful skills by looking for and booking gigs and then producing and marketing their CDs. This kind of activity needs to be encouraged in schools.

Second, we must make increasing the number of creative jobs and opportunities the guiding principle of national economic policy. Right now, both parties are stuck in ideological and interest-group-driven modes of thinking that often have the opposite effect. The Bush administration's economic "vision" is essentially to provide subsidies and regulatory favors to older industries from steel to airlines to the energy and defense sectors. More often than not these industries are located in Red-state areas that support the GOP, and they also tend to have the most well-heeled lobbies. At best, the administration's protective favors squander precious public funds in ways that add few entrepreneurial or creative jobs. At worst, they actually undermine such jobs– giving antitrust relief to Microsoft, for instance, and greater monopoly power to regional phone companies at the expense of emerging broadband providers.

Democrats, on the other hand, who tend to represent Blue-state regions where creative industries reside–from the entertainment centers around Hollywood to high-tech hotspots like Boston's Route 128–ought therefore to be natural allies of the creative economy. Instead they, too, are prone to fall into the protectionist trap. For instance, Democrats are now helping Hollywood media conglomerates crush some of the most innovative new entertainment technologies like music and video file sharing on the Internet–precisely the kinds of technologies that will breed the new creative jobs of the future. (See "Hollywood and Whine," by Brendan I. Koerner, *The Washington Monthly*, January/February.) And for those people left out of the creative economy, Democrats continue proposing the benefits-and-assistance programs that will surely help, but will not tap people's creative abilities and give them a real chance to join the game.

Third, perhaps the nonprofit sector can play an expanded role in our creative economy. Nonprofit organizations–like most basic-research labs, and like the magazine you're reading–give people chances to be creative, free from the market's pressure to maximize investor returns. Are there any creative ideas on how to instigate more of this sort of thing, and more broadly?

Finally, we must remain an open society, in every sense. We can't close our borders as a knee-jerk response to terrorism fears. Those foreign-born scientists, engineers, and other immigrants really are vital. Creative workers worldwide are mobile; they'll go where there is opportunity and where they are welcomed. And now other countries are positioning themselves to siphon off this talent.

The Bush administration is in danger of hurting us on this front. Our policies of unilateralism and preemption–combined with tighter restrictions on immigration, and tighter scrutiny and control over key flows of information–are billed as necessary for security. But carried too far, they weaken our hand in competing for talent. In a very real sense, America's economic security is as important as its military security. Superpowers don't usually fall by military attack. They fail by growing socially and economically stagnant: Remember the Soviet Union? The Ottoman Empire, the Spanish Empire, the medieval Chinese Empire? At some point each focused on protecting turf or maintaining the status quo; they stopped innovating.

America is far better positioned to survive and prosper in the new creative environment than were these other civilizations. Despite the current hard times, our still-growing rates of productivity suggest that our ability to innovate–and to bring out the creative potential of many people–remains strong. But if we don't take our creative strengths to the next level, with policies that bring more citizens into the creative sectors, America will begin to lag behind. Getting us to the next level will require real political imagination and leadership, guided by a new political vision rooted in an understanding of our new economic situation. The old American Dream was a job with which to feed your family. The new Dream is a job *you love*, with which to feed your family. The political party that best understands this dream, and can make it a reality, will be the party that thrives, and makes America thrive.

Richard Florida

Richard Florida is is the director of the Martin Prosperity Institute at the University of Toronto and Global Research Professor at New York University. He is the the author of The Rise of the Creative Class.