



Edge Perspectives with John Hagel

Exploration of emerging innovations on a broad array of edges that are rising up to challenge the core

The Great Reset

Here's a paradox. Silicon Valley's success hinges on an explosive mix of people and place. Yet, when most Silicon Valley denizens gather to discuss opportunities, conversation quickly narrows to a discussion of data flows and virtual platforms. People and place rarely are front and center, unless of course the entrepreneur is trying to configure the right management team to go make a pitch to a VC firm on Sandhill Road.

Richard Florida, on the other hand, is all about people and place. Better than anyone, he deeply understands that people and place shape outcomes in profound ways. In a number of previous works, including [The Rise of the Creative Class](#), [The Flight of the Creative Class](#) and [Who's Your City?](#), Richard has focused attention on the ability of specific places to attract and retain certain kinds of people. He makes a compelling case that the right diversity of people in certain places will determine whether the place will prosper or decline.

In particular, Richard has emerged as an articulate contrarian to the prevailing view that “the world is flat.” In fact, he convincingly demonstrates that the world is becoming increasingly spiky - people are moving at an increasing rate into densely populated cities, even with all the benefits of digital infrastructures that supposedly make geographic location irrelevant. **Richard is relentless in his view that people and places matter more than ever.**

The history of Great Resets

He has just written a compelling new book, [The Great Reset](#), that takes a longer term historical view of changing patterns in the settlement of people and places. In fact, he makes a strong case that we are entering a third major reset . From his perspective, **Great Resets are precipitated by economic crises and set into motion a remaking of the economy in ways that allow it to recover and begin growing again.** So far, the US has had three major resets over the past 150 years, once in the 1870s, once in the 1930s and now today.

As Richard explains it:

A true Reset transforms into simply the way we innovate and produce but also ushers in a whole new economic landscape. As it takes shape around new infrastructure and systems of transportation, it gives rise to new housing patterns, realigning where and how we live and work. Eventually it ushers in a whole new way of life . . .



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He goes on to emphasize that

Economic systems do not exist in the abstract; they are embedded within the geographic fabric of the society - the way land is used, the locations of homes and businesses, the infrastructure that ties people, places and commerce together A reconfiguration of this economic landscape is the real distinguishing characteristic of a Great Reset.

For Richard, economic landscape is not just a metaphor, it is quite literally the way we organize ourselves across the land. “Every major economic era gives rise to a new, distinctive geography of its own.” He further elaborates:

Great Resets are defined not just by innovation but by massive movements of people. . . . These are times when talent flows out of some places and into others. . . . These talent Resets thus shift the balance of power among cities and regions as well as among nations. Locations rise or fall based on their ability to attract, retain and productively use talent of all sorts - from brilliant innovators to unskilled laborers.

The first Great Reset in the 1870s was defined by a revolution in transportation technology and energy systems which in turn led to a fundamental shift in the organization of production, known as the “American system of manufacture.” As result, industrial cities grew bigger and more complex, segmenting into specialized neighborhoods and business areas.

The second Great Reset in the 1930s was similarly fueled by the deployment of new transportation and communication infrastructures. The introduction of modern assembly lines combined with much more efficient wholesale and retail distribution channels led to even more scale in business activities. As companies moved production activity to new locations outside the urban center, residents followed suit, moving farther and farther out into suburban sprawls, prompted by government subsidies to home ownership. The Sunbelt also emerged as an area of great population growth.

Richard draws on the work of [David Harvey](#) to make the case that Great Resets result in “spatial fixes” that ultimately help to resolve economic crises through large-scale movement of people and channel capital into more productive uses. But these spatial fixes tend to be temporary, ultimately leading to further spatial fixes down the road.



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Where we are now

The current economic crisis is precipitating the third Great Reset, as the growing imbalance between the movement of manufacturing offshore and suburban mass consumption supported by growing consumer debt became too precarious to sustain. **Richard notes that we are in the midst of yet another major economic transition, driven by new infrastructures and global competition:**

Our own collapse, in the early years of the twenty-first century, is the crisis of the latest economic revolution - the rise of an idea-driven knowledge economy that runs more on brains than brawn. It reflects the limits of the suburban model of development to channel the full innovation and productive capabilities of the creative economy. 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. “Velocity” and “density” are not words that many people use when describing suburbia.

Sound familiar? As [knowledge flows trump knowledge stocks](#), we are once again rearranging people and places to support a new wave of innovation and economic growth. What will this new economic landscape look like?

Here are some of Richard's observations. **We will need to be even more welcoming of talent born outside of the United States since these people already account for a significant portion of the innovation occurring within our borders.** We will need to move away from finance capitalism to renew our focus on the “real economy”, especially investing in technology, human capital and infrastructures that can support builders rather than traders. In parallel, “we need to grow more jobs that are high in analytical and social skills, but we also need to increase the analytical and social skills of the jobs we have.” **He discusses an unprecedented “geographic sorting of people by ability and educational attainment”** as some cities prove far more effective in attracting and retaining creative talent, sucking in talent from much less successful cities. Many cities are growing dumber as others grow ever smarter.

And cities overall continue to grow, morphing into megaregions - “the concentrations of population that encompass several cities and their surrounding suburban rings - that have grown swiftly in recent years.” **The hub cities of these megaregions represent a significant magnet for young, mobile, well-educated people.** Richard notes:

Across the board, [Gen Y members] said that the ability to meet people and make



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friends was of paramount importance. These young people intuitively understand what economic sociologists have documented: that vibrant social networks are key to landing jobs, moving forward in your career, and securing personal happiness.

Following in the path of [Jane Jacobs](#) and [Robert Lucas](#), Richard also focuses on cities as **key engines of economic growth**. He cites research showing that large cities boast high rates of innovation and wealth creation and that “metabolisms” (the ability to transform inputs into economic outputs) of large cities actually accelerate as cities become bigger. In part, this is because large cities are more adept at reabsorbing talented workers - helping to explain why unemployment rates in the very largest cities in the US were actually lower than the national average during the current downturn. Surprisingly, research suggests that densely populated cities are also greener than more distributed populations and that the rate of carbon emission growth less rapidly than the population growth of a large city.

If the Great Reset involves a massive restructuring of the economy as a means to drive new growth, any government policies designed to support and reward the old way of doing things runs a severe risk of prolonging the economic downturn. **He is deeply critical of much of the government policy response to the economic crisis:** “. . . we need to spend less time and effort bailing out and stimulating the old economy and a lot more on building the new.” He observes that:

The notion that only manufacturing or high-tech jobs are the source of innovation and growth is precisely what put and currently keeps the economy in its current job-creating rut. From where I sit, service jobs offer lots of potential for innovation, entrepreneurship, and the upgrading of employment opportunities.

The ability to move ever more rapidly is a key theme of The Great Reset. In that context, Richard suggests that we will see a significant shift away from home ownership to home rental, representing a major reversal of trends over the past decades. As he points out, “mobility and flexibility are key principles of the modern economy. Home ownership limits both.”

Comparing the Great Reset and the Big Shift

In reflecting on Richard Florida's wonderful and provocative book, I am struck by its **complementarity with the Big Shift framework we developed in [The Power of Pull](#)**. That's not surprising, given that his previous work very much influenced our perspective. We also believe that we are in the midst of a longer-term profound shift in the economy, although



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we would date the shift much earlier than the current financial crisis. We would also place far more emphasis on the role of new generations of technology infrastructure, especially the Internet, in driving these changes than Richard does (the Index of his book has no reference at all to the Internet and the only infrastructure it references, true to the emphasis on people and place, is transportation infrastructure).

Yet we agree that people and place are becoming more and more important at the same time. **The increasing spikiness of our world is driven at least in part by the growing importance of flows of tacit knowledge that typically flourish with physical proximity.** Densely settled cities are becoming more central to innovation and economic growth, rather than less. In this light, **Richard Florida's book is essential reading - it describes yet another stage in the unfolding economic and social geography that will shape our transition from a diminishing returns world to an increasing returns world.**