

How recession can lead to a boom in innovation

Review by Richard Reeves

Published: April 28 2010 20:55 | Last updated: April 28 2010 20:55

The Great Reset

How new ways of living and working drive post-crash prosperity

By Richard Florida

HarperCollins, \$26.99

Richard Florida is a man in search of a silver lining. The world has been tipped into the worst recession for a generation, with rising unemployment and sovereign debt crises among its woes. But this is all, he assures us, a necessary part of a “great reset”. This could result in ways of living and working characterised by “greater flexibility and lower levels of debt, more time with family and friends, greater promise of personal development, and access to more and better experiences”.

Florida, a professor of business and creativity at the University of Toronto’s Rotman School of Management, argues that economic bust is usually followed by innovation boom, resulting in better living standards. It is a view that owes much to Joseph Schumpeter’s contention that downturns represent “creative destruction”.

Florida digs into the history books for parallels with today. The 1873 economic crash brought about “the first reset”, as the 1870s saw a spike in patent applications and rapid advances in areas as diverse as bicycles and electricity.

The “second reset” came during the painful decade after the Wall Street crash of 1929. Total factor productivity grew by 2.3 per cent a year during the Depression era – faster than the “roaring twenties” or the dotcom dizziness of the late 1990s. This “reset” led ultimately to the political and social economy of the post-second world war years, based on mass consumption, suburbanisation and credit.

But it is this world that the latest crash is ushering to its grave: “We can literally feel the demise of the old suburban way of life all around us.” Florida believes that new forms of working and living – requiring a new “spatial fix” – will emerge.

Florida is modest enough about his capacity to predict this new world, but in the latter half of the book offers a prospectus for what it should look like in short, essay-like chapters.

Echoing the themes of his book *The Rise of the Creative Class* (2002), Florida suggests that cities dominated by educated, mobile workers are the future: “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.”

Part of the new “spatial fix” will be greater mobility, underpinned by two necessary reforms. First, high-speed rail to link urban areas to form megacities. Fast rail would cut the commute from Philadelphia to New York to half an hour, and Portland, Seattle and Vancouver would become a

single labour market. But the \$8bn announced by President Barack Obama to improve high-speed rail ranks poorly against other countries: by 2020, China will have more high-speed rail than the rest of the world put together.

The second need is an end to the obsession with home ownership that blights the US and British economies. Florida points out that mortgage lending made the capital markets poisonous, and that the impact of falling house prices has been to trap people in their debt-funded homes. "The most staggering damage caused by the housing crisis may not be the impact on the financial markets, it may be the long-run competitive disadvantage caused by the inability to relocate the labour force to where the jobs of the future lie," he says. Florida wants the US government to redirect some of the \$230bn of tax breaks for homeowners towards support for the private rented sector.

Cities are also the best hope for greener living. Manhattan dwellers have a 30 per cent smaller carbon footprint than their fellow citizens. Four out of five of them travel to work by public transport. Florida also hopes more of us will use one of the inventions of the "first reset" – bicycles – to get around.

Big changes surely do lie ahead after the recent economic crunch. But his conclusions – a world of trains, cities and bicycles – have a nostalgic feel. A rewind, rather than a reset.

The writer is director of Demos