



national commentary

Richard Florida's 'The Great Reset'

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Richard Florida can be counted among the great prophets of our age. This incredibly interesting and well-written commentator on the socio-economics of the modern era has hit yet another grand slam, eclipsing his phenomenal "Rise of the Creative Class" with the bright-yellow covered, "The Great Reset: How New Ways of Living and Working Drive a Post-Crash Prosperity."

At just 200 pages, it's a book even I can make it through. It is so chock full of interesting data about the factors involved in and surrounding last two great depressions in American history – that began in 1873 and 1929, respectively – that there's almost enough in there to, well, fill a whole book!

One interesting little factlet is that the term, the Great Depression, applied to the infamous 1930s, came not from some official economic diagnosis, but "depression" was a political phrase chosen by President Hoover at the time because it sounded less alarmist than words like "panic" or "crisis."

In other words, whether or not the current crisis is a "great recession" or a "new depression" is simply a matter of semantics, or marketing, if you will.

While Florida paints a rosy picture of how the "new normal" arising out of the current crisis will necessarily wean our society of its obsession with the things that credit and debt can acquire, he also points out that the previous "resets" out of the 1873 and 1929 crashes took decades, up to 40 years, to be achieved.

So, beyond his surface optimism, he's quite cautious about predicting any immediate return to a level of prosperity (as distinct from egregious materialism) that average Americans can expect going forward. Transitioning into the "new normal" is not going to be easy.

Florida is very candid talking about how the trends unfolded that led to the great meltdown of the past couple years, about debt as "capitalism's dirty little secret" and of how financial institutions shifted from being servants to creatively-driven economic growth to being a predator.

He cites exactly the trend that has, for example, led to the gutting of the newspaper industry, in which the feeding frenzy of Wall Street investors on the wounded prey of newspapers everywhere led to their swift demise.



"Instead of reinforcing the economy, the financial system started to undermine it – funneling capital that could have been used to create new technologies and industries into real estate or shaky financial instruments, sucking up scads of talent, and ultimately generating the series of bubbles that got us into this mess in the first place," he writes.

"Real wealth is based on the 'goods and products we wish to consume or of things (factories, machinery, and educated workforce) that give us the ability to produce more such goods and services,'" he writes. But financial assets, on the other hand, are not 'wealth,' but a claim on real wealth."

Financial institutions and their practices became, instead of supporting the generation of real wealth, "a parasite on them," and "in addition to siphoning off capital to its own benefit...misallocates the remaining capital in ways that harm the real economy...It's time we stop confusing the practice of moving money around with generating real profit."

Finance also siphons off talent from key parts of the real economy, Florida adds, citing "study after study" that show that the U.S. economy "suffers from critical shortages of scientists and engineers...Over the past couple of decades, top graduates in math, science and technology have been lured to Wall Street by extraordinary salaries."

He adds, quoting William Black, "Individuals with these quantitative backgrounds work overwhelmingly in devising the kinds of financial models that were important contributors to the financial crisis. We took people who could be conducting research and development work...and instead put them in financial sector activities where, because of that sector's perverse incentives, they further damage both the financial sector and the real economy."

If Florida is to be questioned, it would be around his sense of certitude that the current crisis will lead to a recovery, or reset, the way it did post-1873 and post-1929. Doubts arise because of the drain on the national creative talent pool that has occurred, that would need to be driving the coming reset.