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Toronto-based urban theorist Richard Florida believes Ontario's economy is at a turning point. He was asked by Premier Dalton McGuinty to map a path to long-term economic success.

INTERVIEW

Looking at the recession as an opportunity

Could 'mega-region' phoenix rise from economic crisis ashes?

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Sandro Contenta

FEATURE WRITER

Richard Florida isn't one to keep his grand ambitions quiet.

Within the staid and muffled world of academia, the Toronto-based urban theorist virtually shouts them from the rooftops. If not in leadership forums and media interviews, from the BBC to *The Colbert Report*, then on a wall-sized blackboard in his office that suggests, in big chalk letters, he has found the "Road to Global Prosperity."

Premier Dalton McGuinty would be satisfied with a more modest discovery: He has asked Florida and Roger Martin, dean of the Rotman School of Management, to map the path to long-term economic success for Ontario.

The \$2.2-million report is expected in February. Florida and Martin say it's too early to discuss specific recommendations. But in separate interviews, they make clear they will focus on strengthening the Toronto "mega-region," investing massively in infrastructure, greatly expanding post-secondary education, and managing a seismic transformation that will eliminate most manufacturing jobs, but may also threaten social peace.

"If we don't do this adjustment right, if we lose social cohesion, we'll never get it back," says Florida, director of the Martin Prosperity Institute, affiliated with the University of Toronto.

For starters, Florida sees the current recession, and the financial meltdown that triggered it, as an opportunity to "recalibrate" a distorted economy toward the prosperity principles he and Martin espouse.

Martin blames much of the collapse on how Wall Street used stocks to pay the lion's share of CEO salaries. That created a kind of financial Russian roulette, with hedge fund managers and others repeatedly betting on the riskiest investments until they all came tumbling down.

The shakiest were "sub-prime" mortgages, the fools' gold peddled by Wall Street. They're a symptom, Florida says, of a U.S. economy focused on creating "fictitious wealth" through inflated real estate prices.

"The crisis is a break point," he says. "It makes us understand that the only real capital we have is human beings and our creativity. It's not about flipping houses and moving money around."

Florida and Martin urge a major development of Toronto's "mega-region," an area Florida describes as extending from Quebec City to Windsor. The goal is to attract creative jobs and people, many working in "clustered" industries, such as aerospace, finance or telecommunications.

They have commissioned a detailed plan for new infrastructure, everything from high-speed rail to broadband links to energy grids. The idea is to attract more people and more density. Toronto's mega-region needs to bulk up if it hopes to compete with giants such as New York, London and Tokyo.

"We're big, but not big enough yet," Florida says.

The ambitious plan, once developed, would cost billions of dollars. But Florida urges McGuinty to move more slowly than U.S. President-elect Barack Obama, who proposes spending billions on company bailouts and what Florida considers more traditional infrastructure, like roads and bridges.

"We owe it to ourselves to really build the economy of the future. We shouldn't be spending it on propping up the economies of the past," he says.

On the surface, Florida and Martin seem an odd couple. Florida is the casually dressed, best-selling American author whose 2002 book, *The Rise of the Creative Class*, turned him into a celebrity social theorist. A disciple of the late Jane Jacobs, he was labelled a bit of a huckster by one critic soon after he arrived in restrained Toronto.

The Ontario-born and Harvard-educated Martin is a buttoned-down academic. He also sits on the board of several companies, including Research in Motion, and chairs the Ontario Task Force on Competitiveness, Productivity and Economic Progress, which has been reporting to Ontario premiers for the past seven years.

They share a passion for the mega-region model and a near exuberance about Ontario's economic prospects.

"I like Ontario's prospects better than almost any Ontario-sized chunk of Europe, or all of developed Asia," Martin says.

Still, there's much to do. Even before the recession hit, Ontario's economy was struggling. It ranked 13th when compared with 14 "peer" U.S. states tested by Martin in 2007. With a per capita GDP of \$45,500, Ontario trailed far behind the \$65,500 produced by first-place New York.

So far this year, 68,600 manufacturing jobs have been lost in the province – 42,000 of them in November – pushing the unemployment rate to 7.1 per cent.

"When the going gets bad, it's the working class that really takes it in the teeth," Martin says, noting that unemployment within this Ontario group hit 15 per cent during the recession of the early 1990s.

Martin and Florida say the crisis is simply accelerating an irrevocable trend in advanced capitalist economies – the near disappearance of jobs based largely on physical skills or repetitive tasks, from construction to assembly lines.

"When there are headlines: 'We've lost this many manufacturing jobs, isn't that a disaster?' It isn't. Manufacturing is just going away, in numbers, across the industrialized world. And it's because productivity is going up," he says.

Martin and Florida say advanced capitalist societies will eventually be made up of two classes: The creative class, a term coined by Florida for workers with a lot of autonomy, including doctors, senior managers and artists; and the service class, made up of low autonomy jobs such as clerks, hamburger flippers and secretaries.

During the past 25 years, the creative class in Ontario has grown to 35 per cent of the workforce from 26 per cent. The service class has been steady at 40 per cent while the working class has fallen six percentage points to 23 per cent.

Martin and Florida want to gear Ontario's economy to develop as many creative class jobs as possible. These jobs pay the highest salaries, weather recessions well and create the most wealth, they argue. But both recognize the potential for social instability with little buffer between affluent creators on the one hand and low-paid, benefits-deprived service workers on the other.

"If we don't pay attention to (income inequality) I think it is dangerous. It'll create more of a sense of haves and have-nots," Martin says.

Reducing this looming income gap will be a key aspect of the report. Florida says boosting service sector salaries is crucial, perhaps through collective bargaining or by making them more innovative and efficient.

Ontario also needs to shift its economy from one that rewards physical labour to one that attracts creative minds, Martin says.

Martin and Florida measured a series of jobs on the basis of how much cognitive and physical skills they require. They plotted them on line graphs that measured units of "standard deviation" for each skill.

In Ontario in 2005, a job that required an increase in one such unit of cognitive skills resulted in an average salary increase of 10 per cent, or about \$5,000. In the 14 U.S. "peer" states tested, the salary increase was 14 per cent, or \$8,200 (all funds in Canadian dollars.)

The province instead led the way in rewarding physical skills: A one unit increase resulted in a salary hike of 9 per cent here but only 7 per cent in the U.S.

Martin expects this to change dramatically within about two decades. He agrees with studies indicating that by then, 70 per cent of jobs created in Ontario will require post-secondary education. At the moment, however, only half of high-school students get a post-secondary education of some kind.

Without a "monumental" increase in the size of the post-secondary education sector, Martin says supply and demand will force two possible results: salaries for post-secondary jobs will rise while those for less skilled ones plummet; or highly skilled jobs will settle elsewhere.

The new economy will have its share of losers, particularly outside the Toronto mega-region, Florida says. But Ontario is the only jurisdiction hoping to mitigate them by considering a massive restructuring along cutting edge economic ideas, he adds.

"It's really the reason we decided to move here," Florida says.