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Review: The Great Reset by Richard Florida

Richard Florida takes a lot of heat in certain quarters. As one of the most widely known economics writers, that makes some sense. Pretty much anyone who achieves a certain level of popularity acquires haters along the way.

But most of the criticisms of Florida seem wide of the mark to me. Consider the one that he's in it for the fame and rock star lifestyle. Well, let's assume so. What's your point? Who doesn't want to be famous, or at least at some level well known in their field? I'll admit I'd like to be much more widely recognized that I am. Is that a sin? Popularity in and of itself has nothing to do with whether or not your stuff is any good.

Then there's the one that suggests Florida is fleecing the rubes, such as the recent attack piece by Alec MacGillis in the American Prospect. The author suggests that Florida took money from towns in bad faith, knowing their cause was hopeless, then turned around and pronounced them beyond salvation.

MacGillis mentions Florida's $35,000 speaking fee and $250,000 consulting reports as evidence of how much money he's acquired, but fails to put these numbers in perspective. While they might sound big to some people, ultimately they are a nit in the world of public expenditures. Consider this: Foundations alone in the state of Indiana spent a staggering $450 million on “brain drain” initiatives in just the last five years. I suspect other states spent similar sums. Cincinnati recently spent about $1 billion to build two new sports stadiums. Again, many other places did likewise. The point is not to criticize these expenditures, but to highlight that hiring Richard Florida to speak isn't even a rounding error compared to the amounts spent on other development initiatives.

Also, the problems of struggling Rust Belt burgs are daunting. Years of trying to stem decline using every strategy under the sun has largely been ineffective. I don't think anyone could legitimately believe that they could pay Richard Florida to sprinkle some creative class fairy dust on these places and turn them around over night. It's just not realistic. If a Florida speech couldn't turn around Toledo overnight, it's not like there's some readily available strategy that could. Turning around the Rust Belt is an effort that will take years of hard work with no guarantee of success. Pittsburgh is getting a lot of press now, but that city's turnaround was 30-50 years in the making.

I might even suggest that if there is any scamming going on, the arrow is pointing the other direction. Cities go hire a big name like Florida to give a speech or two and do a few flash in the pan arts projects, all for a very small sum of cash. They trumpet that as showing Something Is Being Done and that change will happen Real Soon Now. Then they go back to doing what it is they really want to do – namely spending money on all those other things.

MacGillis also criticizes the apparently circular nature of Florida's creative class theory, saying:

A tautology lies at the heart of Florida's theory that has limited its instructive value all along:

Creative people seek out places that draw a lot of creative people. Florida has now taken this closed-loop argument to another level by declaring that henceforth, the winners' club is closed to new entrants.

I posted a piece by Ryan Avent who said that's really how it works. But rather than a tautology, I prefer to think of this as a positive feedback system. A tautology is something that is true by definition. Mathematical truths like “2 + 2 = 4” are tautologies. A positive feedback system is one where an effect tends to produce more of itself.

Consider college sports teams. Good teams are able to recruit better players. Better players generally mean a better team, which enables you to recruit better players, etc. If you've got a good coach, plenty of money, and some good luck, your team can remain a powerhouse for years. That's why, to the great dismay of all Americans who don't live in North Carolina, Duke has a good basketball team pretty much every year. Conversely, if your team is not so good, it is harder to get and stay in the top ranks. The door isn't closed, but you've got to work harder to get into the club. This type of effect happens in many different places, and cities are one of them.

This isn't always good by the way. Positive feedback systems are often unstable and prone to runaway behavior. Growth itself tends to be a positive feedback system, and we saw several metros where housing growth got carried away and crashed hard. The ever increasing upscaling of top tier metros is driving costs through the roof and destroying the economic viability of anything other than high end activities, a phenomenon I explored in a piece called “Migration: Geographies in Conflict”. Negative feedback systems such as the thermostat that controls your furnace and air conditioner, tend to be much more stable.

Lastly, there's the claim that Florida's creative class theory is reductivist and radically over-simplifies the truth about cities. This is accurate to some degree but I think misreads what Florida is doing. I don't think he intended *Rise of the Creative Class* as his application to the Nobel Prize committee. It was a book targeting a popular audience. In that light it ought not to be compared against dense, nuanced, academic tomes, but rather against other popular press books like Tom Friedman's *The World is Flat*.

Indeed, I think of Florida as a lot like Friedman. Both of them have been able to take extremely complicated phenomena like globalization and package them in a way that is accessible to a mass audience. Florida and Friedman have differing paradigms of globalization, but in a sense they are both right in that they illustrate important aspects of the world we live in.

Because Florida is so good at this, he's been able to radically change the policy discussion in America all the way down to places like MacGillis' Elmira, NY in a very important way. Strip away the “creative class” packaging and look at the basics of what Florida is saying, and I frankly don't think it is that controversial. If you think of creative class as merely recognizing the increasing importance and primacy of human capital, I think almost everyone would agree. But I don't think that's a notion that was even on the radar of many civic leaders in America until Florida came along. I don't think any other contemporary author other than Friedman has had a similar impact on the policy discussion. This is a very valuable service.

Or consider the “three T's”: talent, technology, and tolerance. We already addressed talent. Anyone want to take the position that technology is unimportant today? Anyone want to claim intolerance is a virtue? It's easy to mock the notion of adding gaydar to the index of leading economic indicators and the like, but guess what? Things like the porosity of social networks and welcoming of newcomers and new ideas are absolutely critical to civic success. This has been demonstrated by the likes of AnnaLee Saxenian, who attributed the triumph of Silicon Valley over Boston's Route 128 to this.

Surely Florida could have made his books more dense and nuanced, and they might be more robust as a result, but they'd certainly be much less read – and I'm not sure cities would be better off for that.

Which brings us to his latest book, *The Great Reset*, based on his Atlantic cover story "How the Crash Will Reshape America". Again, let's look at this as trying to communicate a complicated topic to a popular audience. In that light, let's not get hung up on packaging. You might not buy the framing device of "great resets", of which this is the third, or the various attributes of them such as "spatial fix". But that's almost irrelevant.

There's something going on out there in the world. We've been in the middle of it for a while, and the Great Recession has brought it into stark relief. Its the end of the industrial age in America and the West and the beginning of something else. Some call it the age of globalization, others the information age. Who know what history will judge. But the point is that we are in a transition period from one era to another. It's a period of uncertainty. We don't know what the future will hold. Florida admits he doesn't have a crystal ball either. But he is willing to make some prognostications and talk about what he thinks it means.

The first part of the book is a history lesson that tees up his reset frame. I won't cover that here. The second part is an overview of how he thinks various cities and regions in the country will fare in the coming years and in the new era. Florida's basic take is that the crash is going to accelerate the transition from the old world to the new by speeding up trends that were already underway. This is a risky move since if there's one thing we've learned it is that history is wildly unpredictable and extrapolating trends into the future always breaks down at a point sooner than we think it will.

One the other hand, this makes the predictions mostly plausible. For the short term at least, they seem reasonable. My own view is that we are still in the early innings of the new era. Sometimes the cities that seem the best end up falling by the wayside. Cincinnati was the original Porkopolis, but ended up superseded by Chicago during the second half of the 19th century, for example. Chicago itself was a comparatively late bloomer during the industrial revolution. But it was in the right place at the right time. The further into the future we go, the more likely some newcomer will surprise us.

So let's take a look at some of the predictions. Florida's first one is that New York will remain on top, despite being the epicenter of the financial world that was at the heart of the crash. Ed Glaeser has made similar claims. This strikes me as likely since New York isn't just #1 in finance, it's #1 in lots of things. Florida actually predicts that most US financial centers, ranging from Chicago to Charlotte, will do well. He also predicts big government cities, of which Washington DC is the ultimate example, will thrive, which seems, alas, pretty likely.

I was eager to see what what he'd say of the Rust Belt. There's been a lot of talk such as that of MacGillis that Florida has said many Rust Belt cities are hopeless, but I hadn't actually seen him write it anywhere. In this book, Florida clearly recognizes the challenges facing struggling manufacturing towns. And he doesn't sugar coat the fact that further troubles are likely for many of them, and that turning around places like Detroit will be a generational effort at best. This may sound harsh, but unfortunately it is likely true, especially for smaller cities that don't have the critical mass of human capital and infrastructure to operate effectively in the knowledge economy.

But he definitely does not say it is hopeless, and in fact talks about some positive examples, such as Pittsburgh. The Pittsburgh story is based around investments in educational infrastructure, grass roots neighborhood, initiatives, and a long time frame. The roots of the Pittsburgh turnaround are decades old. He thinks this is the path others will need to take.

Florida's recipe for cities is to favor grass roots change over big, top down redevelopment initiatives like stadiums, and investing in quality of life and place making. But he, like Glaeser, says that the primary focus of investments ought to be people, not places. This isn't a matter of writing off cities or not writing off cities, but rather a political or philosophical question about where the focus of our investments ought to be. I don't think it is either/or and neither does Florida, but you've got to make some choice as there aren't unlimited funds. Where do you give the priority?

I for one am in the camp that we need to look at people first. For one thing, there is no guarantee we can renew every single city, no matter how much money we spend. It's not like there's a magic formula out there that we just aren't following. And any revitalization could be a long time down the road. What do we do about the people who are suffering and lack opportunity in the meantime? And what about the human cost if we fail?

People may not want to move and we shouldn't force them to in most cases. But leaving people who have no choice stuck where they are isn't good either. One of the best ways to give people chances to improve their lives is by giving them mobility options. We can do that through better education, which should be unobjectionable. But I might also suggest even going further than Florida and helping people who want to relocate but can't to do so, such as by helping to extract them from underwater mortgages. In any case, giving people mobility options means they aren't part of a captive local labor market and that they have a greater universe of opportunity to better their lives.

This is already running long, but I want to highlight three other areas of the book. The first is the idea of upgrading service jobs, similar to how manufacturing jobs were upgraded to good jobs in the post-war era. Florida suggests doing this via making them more creative and fulfilling. I was surprised to see that he did not mention unionization as a possibility. Now, I happen to think old school unions are an anachronism, but if other parts of the economy can reinvent themselves, there's no reason unions can't too. After all, unionization was a principal way manufacturing jobs were upgraded.

The second point is about what Florida has taken to calling the “rentership society”. The term is provocative, but Florida actually only suggests pulling back from a peak of around 70% home ownership to 55-60%. He also suggests a pullback from ownership in other areas beyond houses as well.

I think it is very clear that we got carried away with trying to promote homeownership at all costs. The notion of a house as a way to make quick bucks, or as an ATM machine to finance consumption is also clearly past its sell-by date. Many financially marginal people became “owners” who had no business doing so. I wish I rented instead of owned right now. It is clear the dial is going to turn here.

But I believe there are several challenges to significantly increasing rentership rates. First, rental property in the United States is designed for younger people or lower income people and not generally for middle class families. Also, people with any degree of discretionary income are going to want to customize their space. That's generally not possible with renting, plus how would you recover the value of, say, redoing the kitchen or a bathroom? Paint colors I can see, but not a lot beyond that. In order to really get people to buy into the renting idea, I think we'd need a vastly different definition of what it means to rent in America. The market would have to supply a very different product. Florida had some ideas about companies that supplied new types of rental properties, but what he discussed didn't sound compelling to me. Also, there is a benefit in financially diversifying into real estate assets, and, like 401(k) contributions, the monthly mortgage payment enforces a sort of savings discipline it might be hard to replicate for renters. This is something that would also need looking at.

And are Americans culturally inclined to way to rent? The desire to own your own piece of land seems deeply engrained in the American pysche. I can see more renters than today, for sure. But how many is that? I can certainly see it appealing on a discretionary basis to Florida's “super-creative core”, or however you want to think of people who are a part of global labor markets and for whom mobility is key. But I wonder if this is something average Americans will embrace?

One last thing, and one I completely agree with Florida on, is that we've got to make major adjustments in where we are making our civic investments. Virtually all of the stimulus, TARP, etc. went towards bailing out and attempting to reflate the old economy. If there's one thing that should be clear by now, it is that attempting to prop up the past only delays the day of reckoning. Economist Michael Hicks said of the painful budget cuts that Muncie, Indiana is going through now something to the effect of, “What if we'd made these painful choices 25 years ago in better days, and used the money saved to invest in our future?” Maybe we just can't let everything collapse, and we do need some sort of orderly transition, but there has been a huge opportunity lost here. Rahm Emmanuel said, “Never let a good crisis go to waste.” Well, that's exactly what we're doing. Florida put it this way:

Education and infrastructure, creativity, and connectivity – these are the things we can address…Government has its most important and legitimate role to play in establishing the enabling framework for a new era of shared prosperity, and it squanders precious resources that could support such future-oriented, prosperity-boosting efforts when it chooses to bail out old industries, breath life back into outmoded institutions, or place Band-Aids on problems. Such approaches may or may not stop the bleeding, but they won't keep us from failing again. And they will do little to set us on the path to a better future.

It's time to make a 180 here, folks.

The Great Reset is definitely a worthwhile read. Again, any way you look at it there's a major shift going on. Florida's book gives the broader public the opportunity to step back from the detailed events of the day and look at the broader macro picture. We all ought to be thinking through for