How Creative-Class Cities Will Beat the Recession

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In this exclusive interview, Richard Florida explains why his latest book "Who's Your City?" matters to workers during a recession and how a business's location affects not only the talent pool, but also its ability to innovate.

BNET: We're in a downturn, and most people are focused on basics of survival like keeping their jobs, paying down debts, and reducing their spending. Aren't the issues you raise in "Who's Your City," such as the uneven distribution of wealth and creative talent, something we should worry about when the economy recovers?
Florida: The U.S. economy has been in recession for several months, and what this down-cycle shows is that we have to pay attention to place more than ever. What's going to come out of this recession is a reverse creative destruction. Some regions will never recover, will never come back to the level they were at, while others will move up. Think of it as an adjustment of the new spiky global economy, where regions with concentrations of creative talent compete on a global grid and the others become increasingly isolated and stagnated. The same thing will happen to entire regions that has happened to national industries, with champions like the auto sector getting wiped out.

BNET: Which regions do you think will weather the current downturn the best?
Florida: If you ask me, the "megaregions" that will have the best go in the future — not just out of this recession, but in the long-term — are going to be the Pacific-facing megas. They are the three clusters on North America's west coast — Cascadia, NorCal, and SoCal — as well as Shanghai and the major Australian metros. The geographic middle of the United States will have no global growth centers, and while New York will remain a global financial center, you generally won't even see growth in the northeast. I predict a shifting out to the left coast. We're looking at a Pacific future.

BNET: Does this trough represent a buying opportunity in one of those regions?
Florida: If I were investing in real estate, I'd buy in the San Francisco Bay Area, in the core or in areas just on the periphery that are cheaper but attractive for weekend homes. There are two parts to that strategy. I think the whole cost of gas issue is overblown. Most people who are creative class workers would prefer cheaper gas, but it's the time-cost that gets them. No one can afford to spend two hours commuting. So the core will carry a higher and higher premium.

The second is that the San Francisco region is buoyed by *earned* wealth like few others. In the Bay Area and Silicon Valley, wages constitute about 80 percent of wealth. Compare that to southern Florida, where only about 20 percent of the wealth is derived from wages. The economy is mostly *transferred* wealth, whether it's snowbirds buying condos or capital flight from Latin America. NorCal's wealth is real wealth.

BNET: But in the last downturn, when the markets crashed and business spending and investment capital collapsed in 2001, the Bay Area was one of the hardest hit regional economies because of its concentration in tech and telecom.
Florida: And look how it's come back. It's just like the Wharton School's Joseph Gyourko says. He doesn't say that "superstar cities" like San Jose and San Francisco stay up all the time. His point is that they crash but they come roaring back. I don't think Phoenix and Las Vegas, which enjoyed so much growth during the recent housing boom, will come roaring back. Places that aren't on the global grid will just get pummeled.

BNET: Greenspan said that the current crisis is the worst since WWII. Given that he's a coauthor of it, isn't that an incredibly blind statement?
Florida: When we look at it through the prism of our research, our analog to this cycle is the 1890s, not even the 1930s. A whole new structure is emerging. The way that Greenspan and Bush tried to deal with a spiky world wasn't even so much as trickle-down with the tax cuts in the first Bush term but Keynesian — only real estate and easy credit were the pumps. Now that the froth is gone, the real economy is showing just how spiky it is. We need someone like FDR to pick up the pieces. We need institutional help to balance the impact in have-not regions.

BNET: Who would make the best president for dealing with this recession and the spikiness of the global economy?
Florida: I hope someone in public policy figures it out, but when you look at the current cast of candidates, it's just not there. Obama is the candidate of the spiky regions, Clinton is the candidate of the traditional blue-collar industries, and McCain is the social conservative candidate of the angry American. The lack of any candidate addressing the profound economic shift underway is really quite scary.

BNET: Do you think the argument for individuals choosing the optimal city or mega to live and work in applies to companies considering locations for expansion or relocation? (As you know, NorCal and SoCal have experienced near-shoring flight to Reno and Las Vegas, Nev.).
Florida: Yes. Microsoft opened a major development center outside Vancouver, B.C., in part because of the difficulty obtaining U.S. visas. Location is a key — and much overlooked — component of business strategy. It is critical to talent: You need to be where the skills are. It is critical to your company's infrastructure: You need to be where the inputs are.

But it is also critical to your markets. So much innovation comes from end users. It's important to be close to them for feedback and joint work and innovation. From our research with Gallup, it became quite clear that there are certain parts of the U.S. and the world — mainly in the center of the spikes — where new ideas and trends start. Malcolm Gladwell and others have talked about influentials; those types of people are highly concentrated in particular cities and especially within particular neighborhoods within cities. Businesses really need to know this stuff.

BNET: Will the spiky megaregions still suffer a skills gap, in spite of offshoring and the current economic cycle?
Florida: Maybe. Part of [offshoring] is driven by costs, and part of it is driven by skills. There are lots of skilled people (engineers and whatnot) in Bangalore, Beijing, and Shanghai. Also, offshoring is happening in and helping to build spikes. When I presented my findings to Goldman Sachs, they were interested in the emerging economies and the BRICs (Brazil, Russia, India, and China). The BRICs, I

said, are a fiction. It is the megaregions in those countries — Rio-Paolo; Greater Moscow; Bangalore, Delhi, and Mumbai; and Shanghai and Beijing — that are driving growth and consumption.

BNET: What is the main message you'd like people to take away from your book?
Florida: My goal in writing "Who's Your City" was to force people to think about this: To what degree is place a driver of your standard of living? Real people don't think about this at all. Real people think about, "I gotta get a job, I want to find a boyfriend or girlfriend."

But real people need to think about this, not just economists and public policymakers. This is not a classic self-help book, which is useless, or an academic tome. My goal is to make *place* part of the conversation about career, life, and love. Where I'm going to live is one of the three most important decisions in life, next to what I'm going to do and who I'm going to marry. They're all codependent.