

Why Canada needs a Great Reset

The U.S. is changing its economy; we might miss the chance

BY RICHARD FLORIDA, CITIZEN SPECIAL JULY 7, 2010

With the G8 and G20 summits behind us, most Canadians now realize how comparatively unscathed we've come through the great economic crisis. But we shouldn't be too hasty to pat ourselves on the back. Our economy is badly in need of significant structural changes. Without the pressure of a crisis, there's a real danger that we'll settle for complacency, instead.

The U.S. banking system went to the brink of failure in 2008 and its housing system completely seized up, with sales and starts falling to some of the lowest levels in history. Overall unemployment in the U.S. reached historic highs, while specific regions and job categories

endured even higher, soul-crushing levels of economic distress. Many of them have yet to experience any significant relief.

Thanks to Canada's risk-averse system of financial regulation, its banks are model citizens, admired around the globe; Canada's housing markets swiftly rebounded and are already booming again. Though Canada's gross domestic product declined just as precipitously as the U.S.'s did, we got off lightly when it came to unemployment. Some of Canada's laid-off auto workers are being called back to work at formerly quiet factories from Windsor to Oshawa, and companies from Research in Motion to Loblaw are hiring new workers to support their growth.

As awful as it has been south of the border, the Great Recession appears to have given the U.S. the impetus and political capital it needed to address issues that have been troubling it for decades, bearing out Rahm Emanuel's notorious quip (actually a quote from the economist Paul Romer) that "a crisis is a terrible thing to waste." From health care and now banking reform, with shrinking home ownership and the beginnings of a new transportation infrastructure, the U.S. --however chaotically and hectically -- appears to be resetting itself as a result of the crisis.

Canada might look to be in good shape on the surface, but underneath that veneer problems are piling up. Canada lags in productivity, as research by the Institute for Competitiveness and Prosperity's Roger Martin and Jim Milway has shown. Canada also lags in technology: both in patents and in the even more complex managerial skills that are required to transform raw technology into profitable products and systems, like the iPhone,



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Facebook, and even Walmart. Canada should be taking advantage of its enviable economic condition -- its stable banks, rising housing prices, great cities, high levels of education and abundant natural resources -- to lay the groundwork for an improved economic future. Given the lack of sacred cows falling by the wayside, it will take an even greater sense of urgency to kick-start the necessary changes.

There are five areas where I believe Canada, the U.S., and the rest of the developed world needs to make critical changes:

1) Shift private consumption away from housing and energy. We can't invest in the new growth industries of the future while we're spending more than half of our income on housing, energy, and transportation. Add in other basics, such as food, clothing, health and education, and the total jumps to more than three-quarters of family budgets. No wonder so many people went into debt. How else could they live? A Statistics Canada study shows that the difference between savers and spenders is what they pay for housing and cars. We need to dial back on the housing-auto-energy complex so that we can free up capital to develop the full skills and talents of our people -- and grow the industries of the future.

2) Strong mega-regions that can act as integrated economic units are vital to economic prosperity in the 21st century. The Tor-Buff-Loo-Mon-Tawa corridor stretches from Montreal through Ottawa and over to Toronto and west, housing 22 million people and producing \$530 billion in economic assets. Cascadia, including Vancouver, Seattle and Portland, houses 8.9 million people and produces \$260 billion in economic output. These are two of the world's 40 leading mega-regions, the sources of two-thirds of the globe's economic output and nine in 10 of its innovations, while housing just 19 per cent of its people. Canada should also strengthen economic corridors that are not quite mega-regions, but which extend across cities, like the one joining Calgary and Edmonton.

3) Speed up the velocity of people, goods and ideas. We need to connect our mega-regions with high-speed rail. The line connecting Windsor, Toronto, Ottawa, Montreal and Quebec City is an absolute priority. But high-tech solutions are only part of the answer. We need to rebuild our cities and mega-regions denser, with faster and less-stressful modes of transportation: mass transit, walking, and biking. Canada already has an advantage here. Eighty per cent of its people live in two per cent of its land area. And its top five city-regions produce 53 per cent of its total economic output, compared to just 23 per cent for the top

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five U.S. regions. While money is part of what's needed, we also need to do a lot of creative thinking about how people travel. If we do it right, there will also be less congestion for those who want and need to drive.

4) Create new and better jobs, especially in service industries. Service jobs have proven far more resilient than manufacturing jobs in the recession. But they also tend to be lower-paying and are often temporary or part-time. Given the inexorable, decades-long decline of manufacturing job share across all developed economies, low-skill service-class jobs urgently need to be upgraded. We need to tap into the potential of employees to make these jobs more productive and more value-added, so they can be higher-paying as well. Companies such as Whole Foods, the Container Store, Zappos, and Wegman's are leading in this area.

5) Build a more flexible housing system. For many of us, this will mean transitioning from the Canadian Dream of owning your own home to renting. While homeownership was seen as a noble goal in the post-war period, our home-ownership rates are at an all-time high, and we might have overshot the mark. Home ownership fixes people in place, preventing them from moving when they need to. High-quality rentals and other market-based, non-owner-based options will open up options for a range of investments and consumption. Homeownership in the U.S. has already come down from its historic high of nearly 70 per cent to 67 per cent as a result of the housing crisis; research by the Urban Land Institute predicts it will come down as far as 62 per cent. Our own research at the Martin Prosperity Institute shows that the most innovative, productive and competitive regions -- places such as NYC, Silicon Valley, and Washington, D.C. -- have homeownership rates of between 55 and 65 per cent. An abundance of high-quality rentals is an amenity that helps attract young people and immigrants to an area; they also allow for greater flexibility in the face of economic downshifts.

You might not agree with everything I've said here. But just because the Great Recession is technically at an end is no reason to go back to "business as usual." The issues I've raised are crying out for a vigorous public debate. In the long-term, Canada will be much stronger if we take advantage of the Great Recession to apply a Great Reset of our own -- to reconfigure our economy to achieve the long-term prosperity we all aspire to.

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