

# ***The Creative Compact:***

*An Economic and Social Agenda*

*for the Creative Age*

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We live in a time of great challenge but also of great promise and opportunity. Today, for perhaps the first time in human history, we have the opportunity to align economic and human development. Indeed, our future economic prosperity turns on making the most of each and every human being's talents and energies. But we cannot realize the full potential of this incredible age simply by relying on the natural evolution of the new technology-driven, knowledge-based Creative Economy. Although it is the source of tremendous innovation and incredible economic potential, it leads inexorably to worsening economic and geographic inequality.

What is needed is a new Creative Compact - a Creative Economy analog to the great social compact of the 1930s, 40s and 50s which expanded and accelerated the Industrial Economy and led to the great golden-age of prosperity. The Creative Compact would expand participation in the Creative Economy to industrial and service workers, leverage new private and public investment in human infrastructure, restructure education around creative endeavor, bolster universities, provide mobile benefits, recast urban policy as a cornerstone of economic policy, and ensure that America remains an open and tolerant nation. At its core, the Creative Compact would ensure the right of each and every American to fully develop and utilize their creativity and fully express their values and identity.

Based on science, technology, innovation and entrepreneurship; arts, culture, design and entertainment; and the knowledge-based professions of law, finance, health-care and education, the Creative Economy has powered economic growth over the past two decades, generating more than 20 million new jobs since 1980. Today, some 40 million Americans work in the Creative Economy, roughly a third of total employment. The Creative Economy accounts for nearly \$2 trillion in wages and salaries, roughly half of the total.

Despite the incredible outpouring of innovation, productivity and wealth it has produced, the Creative Economy has overwhelmingly concentrated resources and wealth both by economic class and geographic region. My own research documents the mass migration and incredible concentration of talented creative class households to around a dozen regions nationally and perhaps 25

globally, identifying growing economic inequality both between and within geographic. The idea that the “world is flat” is a wonderful idea, but the reality is one of increased concentration and unevenness by economic class and geographic location.

The challenges we face today may be different in their specifics, but they are by no means new. We have been through this before. Our situation today is strikingly similar to that posed by the Industrial Revolution more than a century ago. The rise of the Industrial Revolution generated new technology, new industries and new productive potential alongside gross economic inequality. The full potential of the nascent industrial age required the development of a much more broadly-based industrial *society* in which great masses of people could participate. This industrial society did not emerge on its own, but was spurred into existence by a new social compact which extended the benefits of the industrial economy to blue-collar workers and other segments of the population. This social compact which emerged particularly under FDR’s guidance and spanned the New Deal years into the immediate post-World War II era encouraged the development of key mass production industries, from cars to appliances, by expanding the availability of home mortgages, investing in the development of a large-scale interstate highway system, expanding higher education, and increasing investments in research and development, among other things. Most amazingly, it did so in a way that did not stoke the fires of class warfare. The industrial social compact actually brought capital and labor closer together, by encouraging the development of mass production unions, by linking wage increases to productivity gains, by improving health and safety in the workplace, and by creating social security for older people and basic social welfare service for the truly needy. This system thus squared the circle, driving the expansion of the industrial economy by allowing many more people to benefit from it, while simultaneously addressing a whole range of its negative externalities.

Today we need to do something similar. We need a new social compact attuned to the demands of the Creative Economy. At bottom this Creative Compact must harness the full creative capabilities of the workforce in ways that simultaneously improve productivity and extend the benefits of the Creative Economy across industrial and service workers as well as the creative class. Right now the leadership of both parties in Washington is so out of touch that they cannot even grasp the need to discuss this kind of agenda. But one can already see elements of it emerging on the local level across the United States where both Republicans and Democrats are working closely together to spur development and to broaden its appeal. This is important for to be successful a new Creative Compact must transcend current ideology and partnership.

Our history provides some rationale for optimism. America has shown its incredible transformative capabilities time and time again, leading the world out of the Great Depression, winning World War II, saving Europe and the world from the grip of fascism, overcoming the Soviet threat, and rebounding in the 1980s from the onslaught of European and Asian competition in manufacturing industries. My father told me long ago of this incredible American capacity. A teenager who went to work to help his family during the Great Depression, an infantry soldier who enlisted in the Army the day after Pearl Harbor, landed on Normandy, and fought in all the major battles of World War II, and a man who spent his life in manufacturing, he would always say: "Richard, no one should ever – never, *never* – count this country out. When I enlisted in the Army, we had nothing. They gave us doughboy hats and old uniforms, our boots often did not fit. There weren't enough guns to go around in training, so we used wooden facsimiles. But, boy, did we gear up. We turned this country on a dime and built an incredible production machine."

Can we do it again?

In the spirit of engaging a broader conversation about the need for a new social and economic agenda, I offer here ten core principles around which to base a new Creative Compact. I fully realize that such a compact in tune with the demands of the Creative Age can never be a top-down plan; it must emerge organically from the insights, efforts, and energies of varied groups of people and organizations. The ten principles I offer here are intended as just the starting point of this much needed national and global conversation.

### ***Principle 1: Every Human Being is Creative***

The first principle is as simple as it is obvious: The United States must strive to tap the full creative capabilities of every single human being. The creative class is doing well, and taking care of itself. More effectively harnessing the creative energies of the 30% of the American workforce employed in this class is important, but it won't be enough. To both prevent widespread social unrest *and* benefit economically from the creative input of the maximum number of its citizens, the U.S. will have to find ways to bring the service and manufacturing sectors more fully into the creative age.

In this respect, our greatest challenge involves both the growing class divide that the creative age is producing and the huge reservoir of untapped creative capital that is being squandered. Addressing this divide is not only socially and morally just; it is an economic imperative for any society interested in long-term innovation and prosperity.

We need to expand the purview of the creative economy – to massively augment the numbers of people who participate in it and benefit from it. During the Great Depression and New Deal, the United States succeeded in turning a huge number of formerly low-skill, low-paying, blue-collar occupations into the kind of jobs that could support working class families and become the launch pad for upward mobility. We did that for a good reason: Those were the growth jobs of the industrial age. But today – painful as it is for the people who lose them – those jobs are declining, and they have been declining for four or five decades.

We are, however, seeing the dramatic rise of two kinds of jobs: high-paying, high-skilled jobs in the creative sector and much lower paying, lower-skill jobs in the service sector. As I have said before it is not enough to prime the pump of the creative sector. Just as we improved manufacturing jobs some 70 years ago, we must act to improve the pay, content and working conditions of the second great source of jobs in today's economy – service sector jobs – the port-of-entry jobs to the creative economy. Leading service sector companies - Best Buy, Whole Foods, Starbucks, Target, and many others – are already improving their wages and working conditions; some are even trying to more explicitly tap the creative capabilities of their workforce to engage customers and improve efficiency. We need to find ways to leverage and expand these efforts, perhaps analogously to the spread of quality management in industry. What's more, personal service industries that require close physical proximity are practically impervious to outsourcing. It's hard to have your hair cut by someone in Bangalore. These jobs are immensely rewarding from a personal creativity standpoint, too, and provide further opportunities for those who hold them to utilize the human creativity inherent in all of us.

As a nation, we need to call a Service Economy Summit as soon as possible to learn about best-practice trends, support and expand these best-practice efforts, and ultimately dramatically improve wages and working conditions in this integral and fast-growing segment of the economy. In this way, we can better utilize talent and also to increase the demand for and *market* for creative opportunities.

### ***Principle 2: Encourage Entrepreneurship across the Board***

The industrial economy was organized around large firms. The creative economy is organized a mix of firm-sizes, high-rates of mobility and dynamic firm formation. Our efforts to date to support entrepreneurship have focused on technology and private firms. We need to extend this all segments of the economy – from arts, design, and culture to the service economy – giving every

American, young and old, rich and poor, the tools needed to survive and succeed as entrepreneurs.

### ***Principle 3: Expand Innovation***

Investing in innovation and in our collective creative infrastructure is key. As Paul Romer and other leading students of innovation have shown, investments in innovations and ideas have extraordinary rates of return and promise to pay incredible dividends precisely because they are public goods; the benefits they confer are broad and reverberate throughout the entire economy.

We need to extend the definition of innovation beyond technology and R&D to include investment in the arts, culture, and all forms of innovation and creativity. In spring of 2003, I had the good fortune to meet with high-ranking British economic officials in Tony Blair's cabinet. We were on the topic of high-tech clusters, and they voiced concern over their ability to ever overtake the U.S. in this field. We began to brainstorm other possible British niches, and as a way to spur the conversation I asked the ministers to rattle off the richest people in the U.K. They shot back without hesitation, and in their list I began to notice a pattern: Paul McCartney, Mick Jagger, Elton John, and David Bowie. Someone joked that not only were these performers fabulously wealthy – most of them had been knighted, too. Largely without realizing it, the U.K. had created a killer cluster. Only when we begin to see all of these investments – scientific, economic, artistic, cultural, and other – as mutually reinforcing parts of the same creative whole will we begin to take advantage of even a fraction of our latent human potential.

### ***Principle 4: A Social Agenda for Creativity***

The Industrial Era evolved a social compact oriented around big companies and big government based on a combination of productivity-based wages, employer provided benefits, and targeted subsidies or entitlements to overcome disadvantage. In doing so, it provided material benefits to workers, but neglected other dimensions of human development and well-being.

A new social compact must start from the organizing principles of the Creative Age. First, our system is increased levels of employment mobility, benefits needs to be affordable, mobile and portable. There will always be a need for a social safety net for the truly disadvantaged. But that system cannot be based solely on government subsidies to address material need. A new social compact would be based around a simple organizing principle: it recognizes the ability for individuals to develop and utilize their talents and to self-express as fundamental human rights. A Creative Age social compact would ensure that

people can define their human identity and utilize their full skill sets and capabilities.

### ***Principle 5: Restructure Education for Creativity***

Everyone agrees that education is important, but our definition of education must be broadened. The most important investments we make are not in road, highways, and other physical assets, but in our human assets.

Like earlier efforts to build canals, railroads, highways, and other physical infrastructure to power industrial growth, the United States today needs to massively increase its public and private investments in human infrastructure. The scale of the effort required will need to dwarf the public education system, land grant colleges, and GI Bill of a previous generation. Investments in human capital are the single most important investments we make. We need a massive increase in our ability and capacity to educate and train people from primary and secondary education through the most advanced stages of higher education.

Our current system of K-12 education, as Bill Gates has said, is “broken.” What is needed is in fact a full-scale overhaul in the way we think and deliver education. We can no longer succeed – or even tread water – with an education system handed down to us from the industrial age, since what we need is no longer assembly line workers. We need one that instead reflects and reinforces the values, priorities, and requirements of the creative age. Education reform must, at its core, make schools into places where human creativity is cultivated and can flourish. Americans revel in the legendary stories of young creators like Michael Dell building new businesses in dorm rooms or in the garage in their spare time. The question to ask ourselves is: Why are they doing these things in their *spare* time? Isn’t this the real stuff of education in the creative age? Schools need to be vehicles for enhancing and mobilizing the creative capacities of all our children, so that the tinkering of today can be translated into the creative advancement of tomorrow. Expanding education in this country is not only a matter of basic human rights; it is an economic imperative.

Many venues for alternatives to our industrial age educational system have already sprung up. The MET schools in Providence, RI, have created a new model of education around the idea of real practice. Children are taught not just to think, but to do, a welcome change from a system in which arts, music, and physical education classes are always the first to go. In a similar move, companies such as SAS have instituted onsite schools that offer upon a more well-rounded and in many ways more practical education for the creative age. The Gates Foundation has stepped up as another leading private proponent of small schools and experientially-based education.

We need to think beyond schools. Technology allows for a massive expansion of home-schooling and learning outside of classrooms. Humans have always essentially “learned-by-doing.” Our system of learning in schools is a relatively recent development, necessitated by the limits of technology. Our investments need to be focused on what’s best for learning and creativity, not real estate.

Parents also need to be recognized and rewarded more fully for their role in the educational process. Study after study has shown that, in the end, parents are what make or break a child’s ability and desire to become lifelong learners. Hilary Clinton was right: it takes a family and a village to educate a child, not just a school. Unfortunately, as Phillip Longman’s research shows, parents face wickedly perverse disincentives to educate their children. Longman deems it a “curious truth about American politics today” that “elected officials love to talk about ‘family values’ and ‘investing in our kids,’ but shy away from proposing anything big or new that would actually help them.” On the contrary, the system is configured such that raising a child – let alone sending him or her to a good school – is an enormous economic burden.

Teachers are also critical. A recent Gallup study shows that engaged teachers, like engaged employees, make a huge difference in student performance.

At the systemic level, too, there are disincentives for cities and local governments to invest heavily in education. The mobile nature of the creative economy has broken the age-old connection between where people are educated and where they work. As we used to say about Pittsburgh: “The region’s key export is no longer steel, but its talent.”

This creative-region dynamic injects into the already tenuous public education system an added disincentive for investment in primary and secondary schools. Leading creative regions like Austin import many of their top workers by winning the regional talent exchange, in effect plucking them after they’re fully educated. Regions with top-flight universities such as Stanford and MIT also draw the best and brightest high school grads from everywhere and hold onto many of them after graduation.

Either way, mobility has broken the connection between local investment in education and regional economic growth. In fact, some regions can do quite well without anteing up a big investment in homegrown talent. Talent-importing hotbeds like the Bay Area and San Diego have thrived in California, home of tax revolt, where public funding shortfalls often have held back local public-education upgrades. An obvious long-term danger looms: If too many regions begin to rely too heavily on imported talent rather than growing their own, the

whole process will peter out. Our national economic competitiveness will decline.

We need an overall system that values human creativity – from our children to the people who raise and educate them.

### ***Principle 6: The University as Creative Hub***

Universities are the hubs of the Creative Economy. America's strong university system is the source of much of our best scientific, social, and creative leadership. To this point, though, our modern conception of what universities could or should be has been somewhat limited. The tendency to see universities primarily as the laboratories of new research and technology has grown particularly acute in the last 20 years. They do indeed serve our society as technological and scientific laboratories – and amazingly productive ones. But they are much more than that.

Universities also do a remarkable job of fostering the other 2 T's of economic growth: talent and tolerance. On the one hand, they are undeniably our strongest talent magnets, attracting (as we've seen in previous chapters) the best and brightest to our shores. They are the Ellis Islands of the creative age. A huge percentage of the high-tech entrepreneurs that power places like Silicon Valley, Austin, Texas, and the Research Triangle came here originally to attend graduate school. Not surprisingly, almost all of our leading creative regions have one or more great universities.

Higher education institutions are also the community entities that, perhaps more than any other, have opened up city after city and college town after college town to the world. In this respect, they are bastions and breeders of tolerance. A university, with its tendency towards openness to ideas, people, and practices not always considered mainstream, is a natural source of diversity – ethnic, socioeconomic, and cultural.

Universities and colleges also serve as key building blocks around which older cities like Cleveland and Pittsburgh can rebuild. Whenever I am asked how to save Detroit's economy, my answer is the same: Ann Arbor - the future of the Detroit region in the creative age lies more with the technology, talent, and tolerance engine that is Ann Arbor than in stadiums and a refurbished Renaissance center.

### ***Principle 7: Make Every Community a Creative Community***

The world is not just flat; it is also spiky. Globalization increasingly takes shape around city-regions with large concentrations of talent. Leading scholars concur that urbanization economies are the decisive drivers of economic growth, more

important even than technology and innovation. As I argued in *Rise of the Creative Class*, cities are the key economic and social organizing units of the creative age. They promote economies of scale, incubate new technology, and match human capital to opportunities, ideas to places, and innovations to investment. They capitalize on the often chaotic ecosystem that creates previously unforeseen financial, scientific, social, political, and other linkages to one another.

Urban centers are therefore a core element of the infrastructure of creativity and competitiveness. Yet, in the United States, we have relegated cities and urban policy into a social policy afterthought. At best, cities have been conceived as the responsibility of mayors and city planners. At worst, they have been denigrated as “reservations” where the poor are allowed to exist.

In today’s creative centers, affordable housing and commercial space is being wiped out at an alarming rate. It is yet another irony of the creative age that as we rediscover the importance of vibrant cities, we threaten to choke off the very street-level energy that creates a vibrant city. We must find a healthy balance that allows real estate development to occur in ways that support rather than choke off our creativity and innovation engines.

One strategy that will be crucial in striking this balance in our creative centers will actually be to find ways to bolster our older, declining cities. Even as technology enables allows us to work from virtually anywhere, a key fact of the creative age remains its tremendous geographic concentration. The creative economy has emerged and remained largely concentrated in but a handful of leading regions by in the United States and in most countries around the world. It is imperative to decentralize and to spread the benefits of the creative economy—to enable people in a much wider range of regions to participate fully. Bringing a wider number of regions into the creative economy will also help to take the pressure of the leading creative centers which are experiencing levels of growth, sprawl, inequality, and housing inaffordability which threaten to choke off the very innovation and growth they have given rise to.

Our older cities are filled with the industrial use architecture, the factory buildings and warehouses, that provide the “garages” so crucial to economic innovation. Plus, this infrastructure is already in place. These older urban centers prove fertile playgrounds for the human imagination – but only if we look at them as an opportunity, and not a blight. Such an expansion of urban investment is a win-win-win situation; it reinvigorates our older centers, takes the pressure off the new ones, and results in a stronger overall *system* of cities with which the U.S. can compete against the rest of the world in the global creative economy.

### ***Principle 8: Leverage the Local***

Most of all we need to **leverage the local**. Cities function not only as economic drivers, but as social and political laboratories. The real policy innovation in the US and around the world no longer comes from national legislatures or federal bureaucracies but from cities and mayors crafting new, non-ideological solutions to pressing social and economic problems. I always like to say that when I meet local officials in my travels through America and around the world I can't even tell who is a Democrat from who is a Republican, a liberal from a conservative. Both are working pragmatically to solve real problems.

America needs to utilize this asset, leveraging the local as its laboratories of democracy. America's "federalist system" since its inception, has encouraged experimentation and learning across states and cities. We may have more problems than we know what to do with, but we also have plenty of latitude in figuring out how to deal with those problems. Other countries with more nationalized or centralized planning and policy have never brought the social and political creativity to the table that the U.S. is able to infuse into its economy. These 'laboratories of democracy,' will continue to provide us with many of our best solutions in the creative age.

### ***Principle 9: Recommit to Openness and Diversity***

The United States faces real security concerns. But none of them can trump the need to remain an open society. To be certain, security is a real issue in post-9/11 world—and it is not one that is going to disappear soon. Whatever one thinks of the specific issues of Iraq, Afghanistan, or Al Qaeda, the fact is that global terrorism has long been a serious problem—and it is now one that the United States and other advanced countries must deal with effectively. But it is important for both business and political leadership to recognize the economic costs of being over-zealous and to think of the serious trade-offs to economic security and long-run competitiveness that are involved.

We are concerned as we never have been before about the economic stability of our jobs. I'm referring of course to outsourcing. In the last few years, it has finally hit home to the average American how truly global this economy is. Politicians and the populace have in general reacted viscerally, blaming foreign countries for taking our jobs. The rise of economic nationalism on both the left and right is as dangerous to our nation's future as social conservatism. It would be a huge mistake to impede the movement of talented people to economic opportunity, whether here or abroad. This can only hurt our competitive advantage in the long run, and we need leadership brave enough to tell some hard truths to our workers. Our own economic security hinges on the free

circulation of talent, and we can no longer let outsourcing be the political bogeyman that no one is willing to confront.

Neither can we allow the debate on immigration to be framed by our tendency to celebrate high-skilled immigrants as we denigrate and obstruct the contributions of those in other sectors of our economy. Too often nowadays, I hear calls for the easing of visa restrictions for high-skilled laborers and high-skilled laborers alone. Gary Becker, whose work I greatly admire, invokes a sort of prioritization system. His (and others') intentions are good: the basic argument is that we need to consider how much these high-end people mean to our economic success. I would expand the call, though, to realizing how much *all* immigrants mean to our economic life. We know that immigrants add value, and that low-skilled immigrants have helped to propel the American economy. It's time to start acting like it. Our future as a truly open society depends on it.

### ***Principle 10: A Global Agenda***

An economic and social agenda for the Creative Age cannot be a one-country strategy. A truly global economy requires global institution-building. Like it or not, we live in a multilateral world, where economic power is exponentially dispersed compared to even 50 years ago. The United States, still the world's most dominant power, must take the lead here, abandoning any semblance of unilateralism and truly embrace the world in navigating mutually beneficial multilateral solutions and strategies for the prosperity and inclusion in the creative age.

To start with, it would be useful if we could all be using the same language, statistically speaking. The challenges of the creative age are hard enough to conceptualize and pinpoint as it is; the lack of a unified, standardized system of economic measurements makes that task all the more difficult. It's time to get serious about collecting comparable global statistics – a census for the world, if you will. Such a system will be enormously difficult to institute, no doubt. All the more reason to start trying as soon as possible.

Similarly, to get a better idea of the scope of activity across the world, a true global forum on creativity is in order. We currently have global summits such as Davos to bring together CEOs to talk about tax rates and other business climate issues. Why not start comparing the best practices of our creative centers, discussing the business of more open societies with competitive people climates? Today, many international organizations, from the International Monetary Fund to the World Bank, are concerned with investment, trade, and competitiveness, while the United Nations and other groups tackle policy, security, or equity. Left out are the crucial dimensions of the new creative age,

the “other” two T’s, talent and tolerance, which can potentially lead to common prosperity. What we need more than anything now is a focal point for the discussion of migration and global talent flows, for someone to make the case for a fair and equitable global framework for managing the flow of people worldwide. Such a forum can no longer be the exclusive province of business leaders and government ministers but must be truly open and inclusive, designed to tap the ideas and creative energy of a much broader cross-section of people from around the world

Such a Global Creativity Initiative would focus on developing new approaches to investing in people. It could orient its efforts around a “Global Compact” – a Global New Deal of sorts – which would encourage free flows of capital and people, while taking steps to mitigating worsening class divides, provide a viable social safety net, and ensure social and economic freedoms, while building the creative ecosystems and infrastructures required for economic prosperity.

By devoting its energy and its power to this kind of effort to spread the benefits of the creative economy across the globe, the United States can reclaim its status as a truly open and free society and lead the world and its people in becoming a more prosperous and less divided place. More importantly, it can reassert itself as a risk-taking society, one which encourages entrepreneurship and experimentation by caring for its people and providing for their basic security – physical, social, political, and economic. Maybe I’m an eternal optimist, but I think the United States can continue to be a beacon of openness not just for the global creative class – and, indeed, for the whole of humanity. It has a long history of resourcefulness and creativity to draw on, and it has transformed itself many times before.

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