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Business Beat: 'Creative class' Madison still a favorite of author Florida

Mike Ivey — 3/24/2009 8:46 am

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Richard Florida, author of "The Rise of the Creative Class," has always had nice things to say about Madison.

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Florida has long argued that communities which offer a stimulating working environment for creative people will thrive in the 21st century. This includes towns that embrace the arts, pop music, gay people and ethnic food.

Now, with the economy facing some tremendous challenges, Florida has offered up his take on what type of communities will emerge from the Great Recession. He details them in a cover story in the March edition of The Atlantic.

Not surprisingly, Florida maintains that creative class cities will flourish while the suburbs lose out and the Sun Belt fades. In an e-mail interview, Florida says Madison will survive the recession but must work to increase its connectivity to the Chicago-Pittsburgh "mega region."

"As I explained in 'Who's Your City,' economic activity is concentrating in a select group of mega regions," he said. "Worldwide there are just 40 significant mega regions, which are home to one-fifth of the world's population, two-thirds of the global economic output and 85 percent of all worldwide innovation."

Florida says Madison and other Wisconsin communities should look to strengthen their position within the Chi-Pitt mega region, which he ranks third in the world for economic output and eighth for innovation.

"I think it's also important to note Madison does not face the challenges a lot of Midwest industrial regions face -- deteriorating industries, brain drain, etc.," said Florida, who now serves as Director of the Martin Prosperity Institute, Rotman School of Management at the University of Toronto.

Florida closes by saying that the driving force behind any economic strategy is talented people.

"Madison has always been successful at attracting and retaining some of the brightest minds in the Midwest," he said.

Must be the weather.

Of fits and starts

With so much of the nation's economy linked to housing -- from mortgages to carpeting -- the Census report last week showing an uptick in housing starts nationwide was widely cheered in building and construction circles.

Starts went up from 477,000 in January to 583,000 in February, a 22 percent increase when seasonally adjusted.

But University of Wisconsin-Madison real estate professor Steve Malpezzi says it's way too early to proclaim the housing crisis over.

"While 22 percent sounds like a lot, it's a substantial percentage increase over a very small base," he said.

Malpezzi noted that historically, U.S. housing starts average about 5 per 1,000 people annually. Even with the January to February bump, new construction is only running at 1.9 starts per 1,000.

"It's still near a record low," said Malpezzi.

The president of the Madison Area Builders Association is a bit more optimistic. Mike Vilstrup of TimberLane Builders says the inventory of new single-family homes in Dane County has sunk from about 650 two years ago to less than 150 today.

Vilstrup adds that over the last eight weeks he's watched activity at open houses pick up significantly as the weather has warmed and mortgage rates stayed low.

"Honestly, I believe our county is going to be one that leads the nation out of this," he said. "There's a lot of pent-up demand out there."

Malpezzi isn't convinced. He maintains there is a year's inventory of new homes available in Dane County at current sales rates. He compares the uptick in housing starts to the recent stock market rally.

"Not a bad thing, but too soon to get overly excited," he says.

In fact, Malpezzi says adding more new homes to an oversaturated market could actually be a bad thing at this point.

"I don't think we want to see starts up until inventories fall if we want the rebound to be sustainable," he said.

By any measure, it's hard to argue local builders are jumping back in too quickly. There were only 37 permits issued for single-family homes and duplexes in Dane County in February, the lowest on record. From 1999 through 2006, the county averaged 161 housing starts each February.

Eat the rich

One take on the AIG mess is that it's an issue the beleaguered middle class can actually get its hands around.

While few people may understand mortgage-backed securities or credit default swaps, just about everyone can get upset about Wall Street executives grabbing bonuses while their company needs a $180 billion taxpayer bailout.

But an underlying issue is the ever widening gap between the wealthy and the rest of us.

In his new book, "Unjust Desserts: How the Rich Are Taking Our Common Inheritance and Why We Should Take It Back," author Gar Alperovitz argues for even higher tax rates on the richest Americans.

A professor of political economy at the University of Maryland, Alperovitz notes the top marginal tax rate was 91 percent during the Eisenhower administration and about 70 during the Nixon administration. Today, it's 35 percent with President Obama proposing to raise it back to 39.6 percent.

Alperovitz says that doesn't go nearly far enough, explaining that the top 1 percent has seen their income grow from 9 percent to 20 percent of the total over the past two decades.

"The tax increases are tokens compared with this doubling of their share," he argues.

Alperovitz also calls for raising taxes on corporations.

"Corporations at one point paid 35 percent of total federal taxes," he says. "Now, depending on profit levels, they pay as little as 7 percent and never higher than 15 percent."

Ah, for the good old days.

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