Working from home: The systemic risks we may be facing

This article is the third of three we have written on the subject of changes in the workplace brought on by the Covid-19 pandemic. The first article examined the case for and against homeworking from the perspective of the employee. The second looked at that case through the eyes of the employers. In this article, we broaden the discussion to consider the economic externalities of homeworking – its costs and benefits to wider society.

Some argue that it is not the business of businesses to worry about wider society. They say that individual employers and employees should be left alone to arrive at whatever arrangements work best for them. The problem, however, is that what appears rational and harmless at the individual level can, when all of this individual activity is aggregated and left to run its course, quickly become irrational and harmful at the collective level. This collective harm then feeds back to the individual level, capturing us all in a vicious circle.

What could happen if each employee and employer followed what they deemed to be best for them would be a modern variation of the economic problem known as The Tragedy of the Commons.

The Tragedy of the Commons

> The Tragedy of the Commons is an economic situation where there is overconsumption of a particular product/service because decisions which are rational at the level of the individual lead to an outcome that, overall, is damaging to the welfare of society at large.
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> The theory assumes that when making decisions, people take the course of action that maximises their own utility. However, if many people seek to do this, the net effect may be to deplete a resource making everyone worse off in the long run.

Let's try and illustrate this, by imagining the following. Mass homeworking takes root as its initial benefits are enjoyed by employees and employers alike. The summer sun is shining and everything in the garden seems rosy. But with city centre offices emptying out and no prospect of a return to the full offices of the past, commercial property prices start to tumble. As prices tumble, institutions that are heavily exposed to shifts in the commercial property market – ranging from insurance companies and pension funds to property companies themselves – come to need massive injections of capital to stay afloat. With the prognosis for the commercial property market remaining gloomy, raising money from the capital markets proves impossible. And yet, because of their scale and their function within the UK financial system, the collapse of these institutions poses a systemic risk to the economy as a whole. Only the institutions of the state, whether in the form of the Treasury or the Bank of England, have the financial firepower to bail them out – and bail them out they must because they are too big to fail. Thus, just at the point when public spending is most needed to revive the economy by intervening and funding massive public works, a big slice of it will be diverted to propping up institutions that may need to keep coming back for more.

Instead of the rot ending there, it continues to flow through the entire economic system. As the number of office workers goes down, so does the economic demand they bring to city centres. The shops, restaurants, and bars that hitherto relied on office trade start closing down: they just don't have enough customers anymore. (In fact, there is evidence these businesses are *already* witnessing a sustained onslaught to their profitability, if not (yet) a total collapse. For example, SSP, the owners of Upper Crust and Ritazza, has announced 5,000 job losses in the UK. Pret A Manger, one of the darlings of the sector, will be closing 30 stores and cutting 1,000 jobs. On the other side of the retail coin, Intu, the largest retail shopping centre owner in the UK with 14 wholly owned centres and 3 joint ventures, filed for administration on June 26).

The more city centres start to hollow out, the less attractive they become as places to work and live. The shift to homeworking thereby becomes self-perpetuating and its negative economic consequences are magnified. The more ghostly city centres become, the less attractive they are to tourists – another big hit to the economy. To cap it all, the economic shock to city centres sparks a big fall in residential property prices: retirement plans have to be put on hold or abandoned, the bank of mum and dad can no longer see children through university, negative equity becomes rife. Taken together, these developments represent a further tier of systemic risk to the economy as a whole.

It is not just the well-being of our big cities that is at stake. Suburban and rural areas may indeed see increased economic activity but with it will come more pollution, higher property prices (with a premium on homes that are easy to work from), more traffic, and greater pressure on public services. Moreover, the fusion will not just be of home and work but of work and leisure l*ocations*. This is bad news for locals in Devon, Cornwall, the Cotswolds, the Lake District, and other attractive homeworking spots, where getting on the property ladder will become even more out of reach for those born and bred nearby than it is at the moment. And as we have written about before, the wider environmental costs of homeworking and of living a life that relies on delivery vans covering large distances, can be severe.

Remember, this unsettling picture of our economic future has innocent and apparently small-scale beginnings, namely, a calculation on the part of individual employees and employers that the benefits of homeworking outweigh the costs *for them*. What this illustrates is that policy-makers, charged with the task of charting our collective future and the wellbeing of the overall system, do not have the luxury of leaving the market to take its course in the hope everything will turn out fine in the end. Without a concerted effort to alter the trajectory on which employees and employers, viewing the world from the immediacy of their own perspectives, may be taking us collectively, the future could be very alarming for us all. The point here is not that, at the individual level, employees and employers are doing anything wrong in being drawn to homeworking. They are not. What is at issue is the difficulty each of us faces in looking beyond what is present and immediate in the personal standpoint we occupy day-to-day to what is distant and remote viewed from the impersonal standpoint.

The task of occupying this impersonal standpoint falls to the government, which has a number of instruments at its disposal to alter the collective trajectory. These instruments range from exhortation to taxing and spending through to regulation. For now, the collective cost-benefit analysis points in favour of homeworking as a means of countering the spread of the pandemic. But there may come a point when the analysis tilts in the other direction and we may then see government rolling out heavy-duty incentives to return to office life and likewise disincentives to stick with homeworking. These incentives and disincentives could be directed at employees or employers or both. Given the political unpopularity of targeting employees, we imagine it is employers who will bear the brunt of this pressure. Either way, the government is going to need to pivot – quite possibly at short notice – from promoting a world that discourages human contact to one that actively encourages it.

Change is coming

Others see things differently. They say that the pandemic represents an historic opportunity not to recreate a watered-down version of the status quo ante but to chart a new path altogether, one in which our relation to the economy and the natural world itself is cast in entirely new terms. On this view, we should celebrate the impending demise of globalisation and turbo-capitalism and its malign effects on how we live our lives, from sky-high property prices through to great disparities in income and wealth and widespread rough sleeping. Now is the time to reclaim our cities and to welcome the prospect of them becoming cheaper to live in, less overstretched in terms of public services, easier to get around, less polluted. The fact they will lose some of their sense of drama and occasion, and their variety and cosmopolitanism, is a price worth paying. If empty skyscrapers – be they commercial or residential – become, for the time being, a feature of the urban landscape, so be it. With fewer cars, fewer people and a lower need for office space, there will be an opportunity for more open and pedestrianised spaces. If homeworking brings in its wake a greening of city centres, that would be no bad thing. At the same time, perhaps there will be a stripping back of ephemeral consumption – after all how many soy lattes does a person really need? If people are not window shopping in city retail spaces on the way to and from work, perhaps consumption of throwaway fashion might decrease.

In this spirit – and in keeping with the argument we made in our first article in the series – there is a powerful case for saying that now is the time to start thinking about what we want the world to be like after the pandemic is over and to re-examine the deep assumptions that have underpinned the economy for the past several decades.

It seems to us inevitable that, in light of the recent crisis, things cannot and will not back to the status quo ante. However much we may raise flags about the risks to individuals, employers and the economic system we depend on of moving further towards a homeworking model it is, to a greater or lesser extent, going to happen.

Change is coming, whether we like it or not. In our writings, we have been describing the likely contours of this change:

- a push towards levelling down (in the form of higher taxation for the well-off) as well as levelling-up (in the form of rewarding essential workers in ways that reflect their social value)

- an era of big government in which the idea of trusting to the market (particularly the *global* market) is in retreat

- an increasing emphasis on intergenerational justice, pushing concerns about the economic prospects for the young to the top of the political agenda

- a recognition that the Covid-19 pandemic is a dress rehearsal for a far greater threat to human lives and livelihoods in the form of climate change

- an end to the *peaceful rise* period of China's diplomatic and economic strategy: as the rest of world considers how far to pin the blame for the pandemic on Beijing, China will become increasingly assertive and self-reliant

All told, his seems to us a period in which Joseph Schumpeter's concept of creative destruction comes to the fore. A realignment of the national and global economy is inevitable. Many companies will fail or fight to survive whilst others will appear in the most unlikely of market niches. Organisations rooted in the old economy of mass movement and assembly and of fossil fuels and gas-guzzling transport will take a back seat to front-runners in the fields of virtual communication, cleaner energy, and services that can be delivered direct to the home. Healthcare in all its forms – from day-to-day caring through to sophisticated diagnostic technology and data systems– is likely to take up an increasing share of our economy. Not before time, social care will receive substantial public investment.

But, if that is what we are facing in the immediate future, what do we, collectively as a society, want to come out of it and what might be some of the unintended consequences that planners and governments may need to deal with? Take just one example: if homeworking really does take off and workers are no longer tied to the commuting area around the cities, will we experience a brain drain of skilled white-collar workers out to more distant parts? If so, what will this mean for the supply of services to areas that will now see a population influx of working age families? What will need to be done to ensure that sufficient hospitals, schools, GPs and other public services are available in the locations that experience this influx bearing in mind the lead time involved in the creation of such infrastructure and of populating it with an appropriate cadre of professionals to service the demographic shift? How and on what basis will central and local government reallocate funds across local authorities and rebalance budgets? These are things that ought to be at the top of the agenda for government departments right now. Lead times are long and, as we indicated earlier, individuals and employers are already taking actions that central government may need rapidly to encourage or constrain.

The benefits of greater homeworking are not going to be evenly spread across the country. London's loss is not necessarily Blackpool's gain. Existing geographical inequalities may grow, with homeworking spurring a process of internal immigration *between* smaller towns and cities that hastens the decline of some and puts pressure on others to relax planning restrictions to allow for rapid population expansion. In all this, policy-makers will need to pick geographical winners and invest in them.

On the positive side of the equation, major cities have shown themselves to be highly adaptable and capable of re-invention: their cultural heritage and attractions are not mobile even if parts of the urban workforce are. London has re-invented itself since the 1960s and may need to do so again, while the example of Detroit shows how cities that have been written off can make a comeback. Beyond this, we need to keep the likely scale of homeworking in perspective. It is not a free lunch either for employees or for employers, even without government taking measures to load the bases against, it any more than it is an option for large sections of the working population. And there is a see-saw effect here: as suburbs and rural areas become more expensive, city centres will become relatively cheaper. The days of commuting from the city in order to work in the suburbs may have come a step closer.

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