PIONEER
OPPORTUNITY

Barriers to Exit Lowered in High-Cost States as Pandemic-Related Technologies Changed Outlook

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PIONEER INSTITUTE
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Pioneer Transportation seeks reforms that allow commuters to take full advantage of the coming mobility revolution — with access to a range of affordable and on-demand public and private transportation options, as well as transit-friendly real estate development.

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Introduction

The impacts of COVID-19 have been widespread and devastating. Lifestyles and basic functions, like daily commuting, have changed dramatically for many families. Discussions of permanent shifts in industries like healthcare and hospitality have added to the feeling of uncertainty that pervades much of society at the height of the pandemic.

But with a vaccine approaching widespread distribution, permanent shifts in other areas, notably transportation, have garnered increasing attention. Global Workplace Analytics, a consulting company based in San Diego, garnered headlines when it predicted that "25-30% of the workforce will be working-from-home multiple days a week by the end of 2021," compared to just 3.6 percent before the pandemic.[1] If it proves true, this permanent shift in the popularity of remote work would have major implications for everything from traffic congestion and carbon emissions to commercial real estate.

Barriers Lowered

The geographic implications of such a shift could be massive as the pandemic lowers "barriers to exit" for companies and people once based around sprawling metropolises. In November 2020, Forbes Magazine columnist Gad Levanon predicted that the "big winners" of remote work in terms of attracting residents would be vacation spots.[2] A shift toward remote work could also accelerate pre-existing migration trends towards southern and western states.

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In a damning December 2020 interview with the Silicon Valley Business Journal, artificial intelligence software mogul Tom Siebel said that "every responsible chief executive officer has to consider moving their company out of California."[3] According to Census Bureau estimates, California recorded a population loss for the first time on record between July 2019 and July 2020, and now companies like Hewlett Packard Enterprises and Oracle are following workers out of state.[4]

Given recent technological innovations, notably teleconferencing apps like Zoom, remote work is only getting more sophisticated and convenient over time. Meanwhile, tools like G Suite and Slack make it easier than ever for coworkers to share files and messages over the internet.[5] These changes, combined with shifting attitudes among workers and employers alike, could spell trouble for previous job growth hotspots.

In many ways, individual events in the business world during the pandemic justify these concerns. For example, Goldman Sachs' Asset Management division is mulling a move from Wall Street to Miami, one of many recent examples of businesses rethinking the benefits of being in high-cost cities during the pandemic.[6] Similarly, Palantir Technologies has moved from Silicon Valley to Denver, and other Silicon Valley firms, notably Facebook, have prepared to permanently offer remote work to more employees after the pandemic. Such moves have reduced the need for employees to be able to afford a coastal California lifestyle (and for firms to pay their workers coastal California wages).[7] One survey even found that 28 percent of Massachusetts businesses were considering moving jobs out-of-state in December 2020, down from a staggering 60 percent in August 2020.[8]

Similar trends are evident for individual workers. Before the pandemic, economic growth was increasingly concentrated in a small handful of powerful, expensive cities, and access to the innovation economy and labor market often kept workers from moving to cheaper, roomier locales.[9] But after the pandemic hit places like New York City especially hard, stories abounded of wealthy people decamping to vacation homes in Vermont, Florida, or the Hamptons. It's an open question whether such people will need policy-driven incentives to move back, especially given New York's heavy reliance on the wealthy to fill city coffers. In the words of urban theorist Richard Florida, "it doesn't take very many one-percenters changing their address to wreak havoc on cities' finances."

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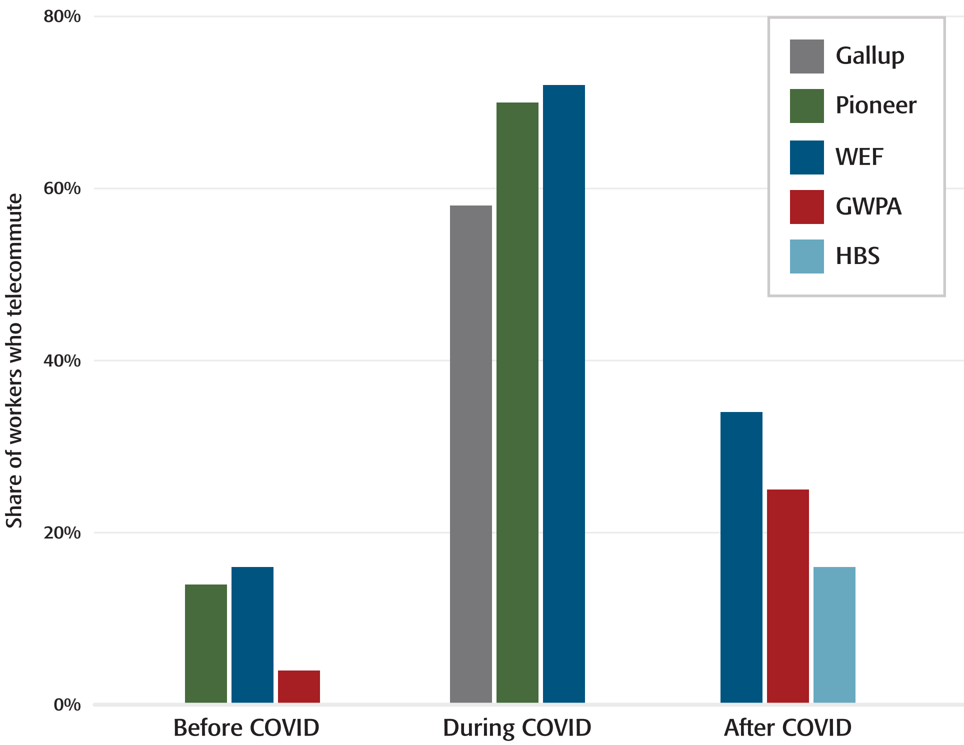
–Urban theorist Richard Florida

The rise of remote work may be the final push for workers and employers already fed up with the enormous costs of living and doing business that plague many coastal metropolises. The pandemic and its repercussions have made it easier for workers of many stripes to live hundreds of miles from their office, and recent research makes the scale of this shift towards telecommuting even clearer.[10]

While 72 percent of the global workforce works remotely as of October 2020, as many as 34.4 percent of workers are projected to be permanent telecommuters by the end of 2021, according to the World Economic Forum.[11] Harvard Business School offered a lower estimate of 16 percent of workers telecommuting after COVID-19 subsides, but that's still far more than the 3.6 percent who worked from home at least half-time before the pandemic (see Figure 1).[12]

Pre-pandemic, 3.6% of workers telecommuted. Post-pandemic, 16% will telecommute according to Harvard and 36% will telecommute according to the World Economic Forum.

Figure 1: Share of workers who telecommute before, during, and after the COVID-19 pandemic, according to various survey groups*[13]



*Note: some of these figures may not be directly comparable to each other, as they poll different groups of people at different times with differently worded questions

Moreover, these remote workers might not be as concentrated in certain companies as one might expect. Before COVID-19, 5 percent of companies said that at least 40 percent of their employees were primarily working remotely. One year after the pandemic ends, 34 percent expect that at least 40 percent of their employees will be working remotely.[14] Nearly three-quarters (74 percent) of companies plan on moving at least 5 percent of their employees to full-time remote work after COVID-19, and nearly a quarter said they would move at least 20 percent of their employees to remote work.[15]

Surveys clearly point to the future: Business leaders and workers want to expand remote work significantly.

The work-from-home revolution also reflects shifting attitudes of workers, not just business leaders. In a 2019 survey, 56 percent of respondents said it's possible to work from home in their line of work, and 80 percent said they would like to telecommute at least some of the time.[16] Further, 35 percent of workers said they would change jobs for the opportunity to work remotely full-time, including nearly half (47 percent) of Millennials.[17] Over one-third of workers even said they would take a 5 percent pay cut for the opportunity to work remotely at least some of the time.[18] More recently, after the pandemic began, Pioneer Institute found that 56 percent of workers would like to telecommute at least two days per week.[19]

A growing body of evidence also suggests that there are concrete gains to worker productivity from remote work. A recent survey of tech executives found that 48.6 percent said that remote work during the pandemic has increased productivity, compared to 28.7 percent who said remote work has decreased productivity.[20] While information technology might be among the most easily adaptable to remote work, other categories, such as Administrative Support and Real Estate, reported nearly 40 percent productivity gains from telecommuting as well.[21]

These productivity gains hold true when workers are polled, not just supervisors. According to a May 2020 survey, 28.1 percent of workers said they get more done when working from home, compared to 20.9 percent who say they get less done.[22] Some researchers claim that for every half-time remote worker, the average employer saves $11,000, largely due to productivity gains and real estate cost savings, while the average telecommuter saves up to $4,000 in travel, parking, and food expenses.[23]

Some industries saw nearly 40% productivity gains from telecommuting.

Conclusion

Ultimately, these numbers show the strong incentives both workers and employees have to pursue more telecommuting opportunities in the future. But as the high-opportunity places many of them choose to leave behind (think New York City or Silicon Valley) see their tax revenues dip, these economic hubs may face a reckoning over how to balance budgets or maintain core services for those who have nowhere else to go. Richard Florida even alludes to the potential for a repeat of the blight and disinvestment that characterized much of New York City during the 1970s.[24]

For some observers, however, the fact that the enormous importance of coastal enclaves for big business over the last generation is waning may be an opportunity to return places like New York and San Francisco to their roots, with small, local businesses, more affordable urban amenities, and lower tax and regulatory burdens.[25] It's also likely that big business operations will remain centered in these and similar cities, even while the individuals who run them reside elsewhere.[26]

New York and California were already known for shedding residents and corporations to more business-friendly locales before the pandemic, but the pandemic has created the need for increased caution about policies that might further lower the barrier to exit. Inevitably, this means thinking deeply about the incentives and tradeoffs embedded in local, state, and federal policies for years to come.

The pandemic has created the need for increased caution about policies that might further lower the barrier to exit.

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