Regional Implications of the novel coronavirus outbreak

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It is my profound hope that the current Covid-19 crisis will allow us all to step back and take some of the heat and anger out of the Brexit debate. After all, it is hard to remain angry about a political phenomenon – however strong one's beliefs – when you're concerned for the lives of loved ones.

More generally, as my colleague Professor De Ruyter has previously commented, whilst profoundly different events, analysing Brexit can help us understand elements of the economic impact of the Covid-19 outbreak. Brexit will have profound implications for regional economies. This much is known, with many academic papers examining either exposure to Brexit via trade-related channels (Chen et al., 2018) or looking at other aspects of its subnational impact.

Many, including the Treasury, have used computable general equilibrium (CGE) models to try and estimate the economic impact on regional GDP and employment. Although useful, such modelling is highly sensitive to its inputs and precise parametrisation[1].

Other research has looked at more disaggregated data or took a qualitative (or mixed methods) approach. After all, any impact will differ dramatically between industries with financial services concerned about passporting rights, the aviation industry concerned over membership of the European Aviation Safety Authority, media firms about the audio-visual media services directive and so on.

How does this relate to the Covid-19 outbreak? Well, much as Brexit has profound economic implications for the nations and regions of the UK, so does the novel coronavirus. Often these are both interesting and subtle and, like Brexit, the final reckoning will depend on political decisions.

The current crisis has forced employers and employees to embrace remote working. This is likely to enormously accelerate an existing trend. Many of us are using software to collaborate remotely in a way that would not have been possible even 5 years ago.

It turns out that for many job roles, a permanent physical presence in the office is much less necessary than we previously believed. Concerns over employee “shirking” appear to be overblown. For many roles, it appears that either there are clear job outputs or effective employee monitoring is close to impossible in any events.

It is clear whether outputs have been achieved or not: they are easy to monitor remotely, particularly when tasks are more repetitive. For other employees, effective monitoring is largely impossible except in terms of achieving longer-term goals. However, this is true even in the workplace – all that can be monitored is whether an employee is present, not the achievement of work.

In most cases, however, people are keen to deliver. In part this is due to very human impulses – the desire to perform work that is valued and a sense in pride in what we do. More traditional “economic” career incentives to perform well also still apply.

Once such barriers to change have been overcome, such arrangements are likely to prove sticky. Consider many of the profound changes that occur in the workplace during wartime. Even in cases where these revert to pre-war norms, there is clear pressure for longer-term change.

Elements of the new normal are likely to stick. Whilst this will represent a profound culture change for many, its implications will also be profound for regional economies. For certain job roles, it is likely to become much less necessary to live in the same region that one works.

It is (almost) impossible to live in Newcastle and commute to London every day. The expense is enormous and the time taken huge. It’s far more feasible if one can work remotely for 4 days per week.

If this indeed occurs then it will act to remove pressure on the London housing market. Our own work has found that (Hearne, In prep.; Hearne and De Ruyter, 2019) for most income deciles any additional wages earned as a result of living in London are “swallowed up” by higher housing costs.

If this effect unwinds even slightly as a result of remote working then its impact could be profound. A second factor hitherto uncommented on concerns so-called “agglomeration” effects. Whilst contested within the regional development literature (Bosker, 2007; Geppert, Gornig, & Werwatz, 2008; Rivera-Batiz, 1988), it has been argued that London and Paris benefit profoundly from such agglomeration. In London’s case, this is particularly true of the financial services sector.

However, the novel coronavirus (SARS-CoV-2) dramatically illustrates the “diseconomies of scale” associated with major conurbations. It is no accident that the virus has spread most rapidly in large cities and urban areas. In Italy it was the wider urban area around Milan, in Spain the most vicious outbreak has appeared in Madrid. In both France and the UK, the twin metropolises of Europe – Paris and London – have been hit hardest. Looking across the Atlantic, we see New York wrestling with the same problem.

Many of us recoiled in horror watching commuters continuing to pack onto the London Underground long after ‘stay at home’ became first strongly advised and later mandatory. This is not a question of certain regions being “ahead” on a curve. They are on a different trajectory altogether.

There is a sense in some quarters that once this is over, everything will somehow return to “normal”. That ‘normal’, however, will not look like the old normal. Cities will not lose their lustre and most jobs cannot be done from home, but there are nevertheless likely to be profound long-term impacts from the current events. My hunch is that their regional ramifications will be equally fundamental and long-lasting.

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[1] In this regard it is not so very different from epidemiological models that have received such intense scrutiny during the ongoing Covid-19 crisis.