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Our new normal should be decided by a return to the market economy

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Provided a virus mutation doesn't spoil our progress, the UK's vaccination rollout has created a pathway to ending this pandemic. By late spring or early summer, we could be "getting back to normal". The big economic unknown is what that new normal will look like. Will home working endure? Will entrepreneurs or business people adjust their real estate needs or change the industries they operate in? Will consumer spending patterns or the desire to live in big cities permanently shift?

The shock of Covid-19 on business working practices was profound. Just 5pc of workers regularly operated from home before the pandemic, compared with an estimated 43.5pc of jobs that could feasibly have been done remotely. By June 2020, that gap had been eliminated. The shift in physical presence from productive urban areas to residential suburbs crushed the underlying market for everything from hairdressers to sandwich shops within cities, industries usually staffed by lower wage workers.

Economists Gianni De Fraja, Jesse Matheson and James Rockey describe this as a "Zoomshock", varying in size by area depending on commuting patterns, work-from-home capabilities, and the substitute services near people's residences. Six London boroughs, including the City of London and Westminster, as well as Cambridge, Newcastle, Nottingham and Manchester made up the 10 local authorities with the biggest proportionate net worker outflow. Suburbs, such as Redbridge, Harrow, and Bromley, saw the biggest inflows.

With changes in consumption patterns and a temporary exodus from city living, the jobs dislocation was unprecedented. Since businesses were constrained by social distancing protocols and pandemic uncertainty deterred firms from relocating, the changes in workers' presence was never matched by businesses moving too. As a result of that mismatch, employment would have plunged massively, were it not for government furlough schemes.

Once the pandemic is over, of course, we'd expect most of this to simply unwind. Plenty of businesses are itching to get back to old ways and a lot of workers long for the change of scene returning to the office will bring. Westminster and the City will surely repopulate quickly. The allure of living and working in offices in cities remains particularly strong for younger workers who benefit most from learning via interaction.

Yet a lasting impact on working patterns and location tastes will remain. Claims of the "death of the city" are an absurd exaggeration, but when 88pc of home workers say they want to continue it in some form, a return to early 2020 won't happen. Workers say they better recognise the downsides of commuting after all this. A recent PricewaterhouseCoopers study, meanwhile, found that 83pc of employers believed remote work had been successful.

The challenge is that even modest, permanent changes to commuting patterns bring painful adjustment costs. Even a 10pc or 20pc decline in commuting would bring a significant consolidation in office, hospitality and entertainment space in cities, disrupting the commercial property market.

Workers in those industries themselves often live in concentrated areas of cities too, bringing localised pain from any job losses. They will find themselves needing to commute elsewhere or else relocating to access new jobs, made more difficult by the fact that the UK's housing supply is famously unresponsive to new demand.

Will these overall shifts be "good" for economic health? Economist Henry Overman worries that companies struggling with cash flow problems might today overreact and in time regret the loss of in-person interaction after cutting office space. "There's quite a lot of commentary at the moment that emphasises the positive from the employee perspective and cost savings to the firm, while ignoring what the evidence says about the longer term consequences for innovation and productivity," he told me.

Given prospects will differ by firm, however, nobody can really pronounce yet what is best until we have seen the results of experiments. That's why we should embrace a system that weeds out inefficiency and rewards productive decisions – a market economy.

We can speculate over the desirability of home working, or muse on whether Pret a Manger will start littering residential landscapes, but the simple truth is that in a free market businesses that make good decisions will flourish with profits, while those that blindly follow trends will suffer. That trial-and-error process of innovation is precisely what helps direct resources to where they are most productively used over time. So far, the Government has tried to protect the capacity of the March 2020 economy by keeping much of it mothballed through lockdowns.

The Chancellor of the Exchequer has provided furlough schemes, given restaurants a short-term fillip with Eat Out to Help Out, and urged us all back to the office to "do our bit" to revive cafes and restaurants through last summer.

After such large sunk costs of relief, will he let market forces operate after vaccination is complete, or will he not be able to resist the lobbies who desire reviving the economy of old? Ideally he'd embrace flexibility, allowing businesses and workers to figure out best practice by, say, freeing up planning laws to allow relocation, or pausing transport investments until we know how things will shake out. It may seem like an alien approach, following a year of "protecting" existing businesses, but it is precisely what we will need.

Nobody in government can know the best industrial, geographical and spatial composition of the economy after a shock like this. "Returning to normal" should not mean restoring the economy of March 2020, but returning business decisions to a market economy again.

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