

## Twitter Thread by Noah Smith ■



**Noah Smith** ■

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**1/Lots of tech companies and workers are making noises about leaving San Francisco, LA, NYC, and other "superstar" cities.**

**Some are predicting a shift to remote work and distributed companies.**

**Let's take a hard look at what that would actually**

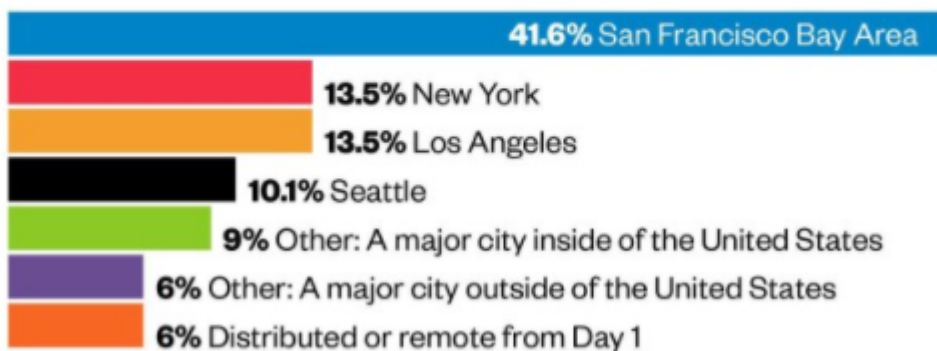
2/We're all familiar with the trend of tech companies and other knowledge industries (finance, biotech, etc.) piling into a few tech hubs, raising rents and house prices.

Now some think the advent of Zoom, Slack, etc. might reverse this trend.

<https://t.co/nQVCJrKvrB>

If you were to start a company today, where would be the most beneficial place to found it in the interest of the company's long-term success?

**2020**



3/But escaping the superstar cities is going to be tough.

The forces keeping tech companies in places like SF are so strong that these regions have essentially become prisons for these companies.

So far, **clustering has just conquered everything**. Insane rents and house prices, crazy numbers of **car break-ins**, massive **homelessness**, dysfunctional **social services**, deep **social tensions** between transplants and natives...nothing could knock SF off its perch. NYC, Seattle, Los Angeles, and other **Superstar Cities** were less dysfunctional, but they've all had their own affordability crises over the past decade, and yet their positions have also seemed unassailable.

Essentially, this has made knowledge industry workers, and the companies that employ them, prisoners of superstar cities. Forced to locate in cluster hubs in order to remain competitive, they have to endure whatever costs the other people in those cities choose to subject them to. Sometimes those costs are reasonable things like taxes, but often they're things that hurt the city in general, like high rents.

4/In order to escape the prison of the superstar cities, tech companies and other knowledge industries will have to overcome the Four Jailers of Industrial Clustering:

1. In-person office productivity
2. Thick market effects
3. Knowledge spillovers
4. City life amenities

5/I'm actually pretty optimistic that companies can find ways to make remote work productive.

Studies show that working from home \*some\* of the time actually tends to raise productivity.

<https://t.co/HK9DW99qAI>

6/Does that mean people can work productively away from the office ALL of the time?

It's not clear yet. But remember, in order to shift out of top cities, tech companies only need to shift PART of their workforce to 100% remote.

That seems very doable.

But it's also important to remember that companies don't have to go fully distributed in order to mostly escape the pull of the superstar cities. They just have to shrink their main offices, and manage the rest of their workers either remotely or at branch offices in cheaper places. If 50% of knowledge industry employees — the Noah Smiths of the world — are fine working remote, and the rest need onsite collaboration or tech support or whatever, that will still make a big difference. So between that fact, the amazing progress of tools like Zoom and Slack, and all the studies showing productivity boosts from partial remote work, I'm actually pretty optimistic that office productivity won't be a big obstacle to the distributed future.

7/Then there's the "thick market" effect.

Lose your engineering job in SF, and it's easy to find another nearby.

Lose your engineering job in Tulsa and you're in trouble.

Same goes for companies who need to find new employees.

8/To beat the thick market effect, companies and workers will need to learn to do 100% remote job search and hiring. They'll need to get comfortable working closely with people they've never been in a room with.

That seems like a difficult but doable shift.

9/VCs will also have to get used to investing in companies remotely.

In fact, this was a shift that needed to happen long ago, because VCs' cultural preference for in-person investing means that a lot of cities unfairly lose out.

Another type of thick market effect is finance. Venture capital firms are still way too obsessed with being physically near to their portfolio companies. I don't know of any study on this, but it seems like mostly or entirely a cultural thing. In fact, this is a negative feature of the VC industry with or without distributed workforces, since it robs second-tier cities of needed financing and contributes to a winner-take-all effect among American regions. So hopefully more VCs will follow the example of Initialized, and learn to invest remotely, whether or not companies become distributed.

10/But remote work, hiring, job search, and investing are all things that are possible as technology improves.

Companies will look for solutions, and they will find solutions.

But a harder challenge will be replacing the good things about cities that companies DON'T generate.

11/One of those good effects of cities is knowledge spillovers.

Many economists believe that when knowledge workers (like engineers) live in close proximity, they exchange ideas that boost their productivity.

<https://t.co/hROA2pMOsw>

12/No one company is responsible for knowledge spillovers. They happen outside the company.

So companies can't really replace this benefit of cities.

Maybe the internet will naturally replace knowledge spillovers. Maybe Stack Overflow is all we really need.

...Maybe??

13/Maybe universities, or industry associations, or other actors can try to recreate virtual spaces where engineers can mix, mingle, and share ideas? Just spitballing here.

Anyway, this going to be a taller order than switching companies over to Zoom/Slack.

But if knowledge spillovers are a big deal, then it will be very hard for businesses to overcome this hurdle and go remote. The reason is that knowledge spillovers are an externality — they often happen outside of a company, so they're not something a company can control. It might be that in the age of Stack Overflow, knowledge spillovers are already shifting online, so maybe this isn't a problem. But if Stack Overflow isn't enough — if better online interaction forums are needed in order to take knowledge spillovers completely virtual — who will make those forums? What if it's technically feasible but just not monetizable? This is a public goods problem, and it's not clear if private companies will be motivated to solve it. Maybe Stanford University can create some worldwide virtual version of the networking events it used to hold for Silicon Valley engineers, back in the early days of Silicon Valley.

14/Now we come to the fourth benefit of cities, and the most difficult to replace.

Cities are great places to meet people and do fun stuff.

Cities are not awesome for everyone. If you want to have a McMansion with tons of space, or quiet empty leafy streets, or a big driveway with three cars, or a forest right outside your back yard, a city is not for you. But for many people, the amenities of cities are hard to resist. For young people, this means bars, music venues, fun social events, lots of potential friends in their age group, and — probably the most important piece — opportunities to meet romantic partners. For older people this means a large variety of good restaurants and cultural events like musicals.

15/Here's an important but subtle point:

If distributed remote work means that tech workers just move to DIFFERENT SUPERSTAR CITIES, you haven't really changed anything!

For this reason, distributed workforces might just mean that knowledge workers live in *different superstar cities*. For example, when I started my current remote-work job, I moved from New York City to...San Francisco. And now I'm probably going to move to...Tokyo. All big knowledge industry hubs. They even all have Bloomberg offices!

16/To really distribute the workforce, you need more than for San Franciscans to work in Tokyo and New Yorkers to work in LA.

You need to get knowledge workers to work in Tulsa, Oklahoma and Cleveland, Ohio.

17/One function of cities -- dating -- actually seems somewhat easy to replace, since it's basically just a 1-to-1 matching process.

But social discovery -- meeting whole groups of friends online -- is a problem that no social media company seems to have solved yet.

18/And restaurants will be even harder. I can't even think of how cities like Tulsa will be able to achieve the variety and quality of dining options of cities like Los Angeles.

Maybe there is a way, but it'll take some creative supply chaining and matching!!

19/Anyway, so there you have it. To escape the prison that cities like San Francisco have become, knowledge industries will need to UNBUNDLE THE CITY completely, for the first time in human history.

It's a tall order. We'll see if they can do it!

(end)

<https://t.co/3XYlftJAHd>

20/Oh and if you like stuff like this, make sure to sign up for my free email list, so you can get my newsletter delivered directly to your inbox! :-)

<https://t.co/FGppA1M8W6>