



THE BROOKINGS PODCAST ON ECONOMIC ACTIVITY

“What does more remote work mean for workers and the economy?”

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Episode Summary:

In the first episode of the Brookings Podcast on Economic Activity, Steve Davis of the University of Chicago Booth School of Business, and co-author of the new BPEA study “Working From Home Around the World,” discusses his findings on remote work in the post-pandemic recovery with Stephanie Aaronson, vice president and director of Economic Studies at Brookings. Stephanie Aaronson. The study presents findings from a new survey conducted by Davis and his co-authors of more than 37,000 workers across 27 countries. Respondents reported their employers plan an average of 0.7 work-from-home days per week after the pandemic ends. Aaronson and Davis discuss what this shift means for workers, businesses, and local governments.

EBERLY: I'm Jan Eberly, James R. and Helen D. Russell Professor of Finance at the Kellogg School of Management at Northwestern University.

STOCK: And I'm Jim Stock, Harold Hitchings Burbank Professor of Political Economy at Harvard.

EBERLY: We're the coeditors of the *Brookings Papers on Economic Activity*, a semiannual academic conference and journal that pairs rigorous research with real time policy analysis to address the most urgent economic challenges of the day.

This is the Brookings Podcast on Economic Activity. In this first episode, we're presenting a conversation between Stephanie Aaronson, the vice president and director of Economic Studies at Brookings, and Steve Davis, a professor at the University of Chicago Booth School of Business. Steve is one of the authors of a new paper that we saw at our annual conference on working from home around the world.

STOCK: The topic of working from home has big economic implications. One of the consequences of the pandemic is a huge change in working arrangements that we've seen. So many people are spending much more time working from home. I know I am. One of the things I like about this paper is it provides hard evidence, systematic evidence, on working from home, it's prevalence across the world, and it gives hints at its long term economic consequences.

EBERLY: That's a really important topic for the economy and for macro, because recent data shows that working from home is associated with higher productivity, consistent with the survey evidence where workers say that they're actually more productive working from home in addition to saving on commuting time. Given the importance of productivity for standards of living and for the macro economy, the evidence that they are providing has potentially important consequences for economic growth as well as our working lives.

STOCK: You know, Jan, that actually really resonated with me, too. Productivity is such a big deal for macroeconomics, and I guess the old stereotype was that if you're working at home, actually what you're doing is you're playing with your dog and you're cooking dinner instead of working. But this paper suggests that that seems not to be the case.

EBERLY: And with that, here's Stephanie Aaronson with Steve Davis.

AARONSON: Thanks, Jan and Jim. Again, I'm Stephanie Aaronson, the vice president and director of the Economic Studies Program at Brookings, home of the *Brookings Papers on Economic Activity*. I'm very excited to welcome you to the first episode of our new podcast series, the Brookings Podcast on Economic Activity. And joining me for this first episode, I'm pleased to have with me Steve Davis, the William H. Abbott Distinguished Service Professor of International Business and Economics at the University of Chicago Booth School of Business. Steve is also a longtime participant in the Brookings Papers and a member of our advisory council. We're going to be discussing his new paper, "Working from home around the world." Welcome, Steve.

DAVIS: Thank you, Stephanie. It's fabulous to be your first guest on this exciting new podcast.

AARONSON: Thanks so much. So, Steve, since early in the pandemic, you and your colleagues have been surveying workers in the U.S. and now globally to understand the

implications of the mass shift toward working from home brought on by the pandemic. Can you tell me why you began studying this issue so early and what you think are the implications of the recent trend for individuals, workplaces, and the economy as a whole?

DAVIS: Sure. So the pandemic was a big deal, obviously. And early on, we began asking workers and employers about their longer term plans around work from home. And when you aggregated those plans, they implied work from home levels that were many times greater after the pandemic than before. We took those plans seriously and began accumulating evidence on the forces behind higher work from home levels. We also began exploring the implications.

And here's there's great news, I think, but also some reasons to worry. The great news working from home saves on commuting, improves workday flexibility, and increases personal autonomy. Most people value the opportunity to work from home at least a day or two week, and many people like it a lot. So, while few people had the opportunity to work from home before the pandemic, now many can. And that's really a huge benefit. So, that's all to the good.

On the worrisome side, though. Many urban areas basically took a big negative fiscal shock as a consequence of the shift to work from home because it meant fewer inward commuters spending dollars in the city, fewer service jobs because they weren't going out to restaurants and bars as much, and in some cases, fewer residents. All of that means lower sales tax revenues and a smaller property tax base. So, the economic and social downsides as a consequence of poor city level governance are greater now than before the pandemic, because it's now easier for jobs and people to leave if crime levels are too high, schools are bad, taxes are too high relative to the quality of local public services. So, for poorly governed cities in particular, there's now a greater risk of a downward spiral in tax revenues, urban amenities, workers, and residents. So, that's the worrisome side.

AARONSON: So, it seems like it is a little bit of a mixed bag from the perspective of individuals versus from the perspective of employers and from the cities where those people used to work.

DAVIS: I wouldn't say it's a mixed bag for employers; it's a challenge for employers because they have to learn how to operate in a new environment where some of their workers are working remotely much of the time. Or they can go the Elon Musk route and tell people that you're either here at least 40 hours a week or you pretend to work somewhere else. Some companies will go that route. That's fine. But if they do, they may have to pay a premium relative to their rivals to keep employees, and they'll have to recruit from a somewhat smaller talent pool.

But on the whole, I think it's good for workers and employers. It's just that certain political entities do have to recognize there's a there's a new market reality, so to speak, for jobs and people that makes the makes the performance in their jobs matter more than it did before the pandemic.

AARONSON: So, in the United States, there's been a good deal of coverage from home in the popular media. And one thing I found really fascinating about this new paper of yours was that it showed how broad the phenomenon of working from home has become across the globe, including in countries with very different economies from ours, such as China and India. I was hoping you could describe for our listeners who is working from home across the

globe and whether there were similarities or differences in how workers view working from home across countries.

DAVIS: Sure. First, it's mainly college-educated people who have good opportunities to work from home and who are working from home in large numbers now, at least a day or two a week. That's true around the world. The thing to recognize is an obvious point: college educated people are a bigger share of the population in richer countries. And so that means there's fewer people as a share of the population working from home in poorer countries, but still the same kind of people, mainly those with lots of education, who have good opportunities to work from home.

We see some other strong patterns around the world. First, women have stronger desires to work from home than men, other things are equal. Second, both men and women with young children have stronger desires to work from home. And perhaps surprisingly, those stronger desires are just as strong for men as they are for women. So, if you've got kids, it's hard to manage the household, it's complicated, you want to be there perhaps when they come home. So for those reasons, work from home looks a lot more attractive to people with young kids than people who don't have kids. And third, and not surprisingly, but important people with long commutes are really keen to work from home at least part of the week and save on that time.

AARONSON: So, I think this kind of raises an interesting question. Obviously, people are trying to optimize over not only their work lives, but also their home lives, their commuting. And it was interesting that in your survey you found that post-pandemic work from home days per week rose with employee self-assessments of productivity in a remote work environment. And it may be that employees feel that they're better balancing all these aspects of their lives. But do you have a sense of how these self-assessments compare with actual measures of productivity around the world in the last two years? Does it appear that some industries really can be just as productive or even more so in a remote setting?

DAVIS : Yeah. Let me say a couple of things on that. First, measuring productivity at the individual level is hard. There's no doubt about it. There's no great way to do it in most cases. But the empirical relationship that you mentioned is an important indirect piece of evidence. So, in particular, when we look across individuals, we see that their employer's plan for how much they're going to work from home after the pandemic are very highly and positively correlated with the individual's assessment of how productive they are in the work from home mode.

That's saying that at least on average, employer assessments are lining up with individual productivity assessments. And an important indirect piece of evidence that for some people in some tasks, at least, they can be at least as productive when working from home and working in the office.

And I think the "some people" and "some tasks" part of that is really critical because some people don't like working from home, and they don't perform very well in isolation. There's definitely a chunk of the population that fits that description. And some tasks really require or benefit from a face to face interaction with others. But many work tasks, like preparing a memo, working on your spreadsheet, preparing your speech, quiet time for reflection, these are things which are done at least as well at home, maybe better, away from the distractions of the office.

So, in many jobs, not all, there's a mix of activities or tasks, some of which call for personal time and some of which call for interaction time. So, obviously you need to manage things so that the interaction time happens at the workplace and personal time, at least some of it, could happen at home. That's the way to think about it. It's not that everything can be done well at home or every job or all tax tasks, they can't. But there's some that can be done at least as well at home. That's what we learn from the pandemic experience, but I don't think we fully appreciated before. So, when you combine that with the time savings and personal freedom and autonomy that comes along from work from home, you get this overall benefit that I talked about before.

AARONSON: Yes, I mean, I can say from personal experience as a manager at Brookings trying to figure out what can be done at home and how to make our time back into office productive has been a big part of what I've been thinking about in recent months.

So, based on what you said, I think it's very obvious that not all jobs can be done from home. So, were you able to identify any trends in which industries are embracing more remote work? And also, you spoke about a disparity in the availability of work from home across, say, workers' education levels. So, does that raise any concerns for you about the types of workers who will be able to benefit from remote work? And, in a sense, are we with this going to contribute to inequality in terms of quality of life or caretaking ability, costs of commuting?

DAVIS: Sure. So, there's really two sets of questions there. First, what kinds of jobs can be done remotely? There are indeed many jobs in economy that don't lend themselves to remote work. Most manufacturing jobs, at least the production aspect of manufacturing jobs, people who work in mining, agriculture, people who work in personal services that require direct contact with their clients or customers, the leisure and hospitality sector. So, there's maybe roughly half the jobs in the economy that don't lend themselves to remote work.

But even in those industry sectors, there are lots of back end jobs. So, there are lots of people manning phones who work in hotels, taking reservations, customer service, that type of thing. Big manufacturing companies, well, they got offices. They got to handle purchases and sales and HR and IT and all that stuff. So even in these sectors that you might think of as requiring hands on activity or at the work site have many jobs that do lend themselves to remote work.

Another thing I think we've learned from the pandemic, though, is that there's probably a larger share of jobs in the economy that are amenable to work from home at least a day or two a week than we thought before the pandemic. So, we see that most clearly in another line of research that looks at job vacancy postings, where we find even in occupations that were kind of coded as you had to be there in person in the past, now, say, in the job ads, there's some at least limited scope to work remotely.

On your second question about the uneven effects or benefits of the shift to work from home, it's definitely the case that better educated people, people who tend to have better paying jobs, have more opportunities to work remotely. And as I said before, most people, not everybody, most people would like to work from home at least a day or two a week. That's true across the earnings distribution. It's true across the education distribution. But it's mainly the higher paid people, the better educated people, who have the opportunity to find a set of working arrangements that really suits their needs.

So, there is there is some unevenness in the benefits. And I put it in those terms deliberately rather than inequality, because we do find across the whole the earnings distribution there are

on average in every earnings bucket benefits from the shift to work from home. It's just that those benefits are quite a bit larger as you move up the earnings distribution. So, that's an issue to think about.

I think the real potential downsides go back to what we talked about before, the need for high quality urban governance to respond to the challenges that are presented by the shift to work from home. And if that does not happen, the people who will be most hurt by that are going to be lower income folks living in urban areas. So, to me, that's the central policy challenge going forward, is to figure out how to make dense urban areas thrive in a new environment where there are going to be fewer inward commuters, probably less business travel, and possibly fewer residents, or at least fewer high income residents who want to live in those dense urban areas.

AARONSON: So, over time, the ability to work from home will be just another job amenity in a sense, the way that different jobs already have different pros and cons to them. And people will have to decide what package of benefits is more appealing to them. But over the long run, there really isn't going to be a structural difference in local and state financing due to these shifts around where people are working. And that's going to present a real challenge, which will have real impact on the people who are living and working in those areas, it sounds like.

DAVIS: First, I think it's exactly right your point about it's just another amenity aspect of a job. And some people like that amenity a little bit, some people like it a lot, some people don't like it at all. And so over time, people will sort.

On the city side, I've been emphasizing the challenges for some cities, but there's upsides for some cities either because they're well managed in terms of their political decision making, so they can easily attract residents who want to live there and take advantage of good quality public services or so. Or, to use a phrase that I think one of my discussants at the Brookings conference has, not coined, often used, in the idea of "consumer cities." Some cities are well endowed with other amenities: sunshine, mountains and oceans nearby, that people like a lot. And those cities are well positioned to benefit from the shift to remote work just because it's no longer quite so important that you be tethered to the same city as your employer, and so you can go work for an employer located in one city and spend much of your time residing in one of these consumer cities that's a fun place to be.

AARONSON: Actually, I think this is a great segue into my last question, which, one of the purposes of the Brookings Papers is to inform policymakers. And so I'm curious as to whether you think there is a role for policymakers either in regulating work from home, which so far has really been, I think, mostly a negotiation between employers and employees. And also, you've added on this other layer about how they negotiate this post-pandemic world with more remote work.

DAVIS: Yeah. So, a few things here. First, there's a big role for policymakers to enable remote work. And this goes back to your point about inequality of opportunity. Even today, there are people, especially in more rural areas, but also in just poorer urban areas, who don't have good access to high quality internet service. Well, let me tell you, if there's anything that's a productivity killer and work from home, it's a lousy internet connection or no internet connection. So, just in terms of overall economic efficiency, but also in terms of leveling the playing field so that people who live in more remote or lower income areas have the opportunities to work from home, we need good broadband. That's point one.

Point two kind of follows from things I've said before. I would summarize it this way. One size fits all is not the way to go with respect to work from home. And we see that on the preference side in terms of what workers want; there's enormous heterogeneity. I mentioned earlier most people like to work from home, but the extent to which they like it, the amount they want to work from home, it just varies tremendously across people. And that's even after you control for all their standard observable characteristics.

Similarly, on the employer side, some employers are well-positioned by virtue of their business model or the kinds of services and products that they offer to their customers, they're well positioned to offer remote work. Others are not. So, it would be a real mistake to compel every employer or most employers to provide the opportunity to work from home that many people want.

So, a prescriptive regulatory approach to work from home is, in my judgment, a bad idea. This is the kind of situation where markets work pretty well. As you suggested earlier, over time, the ability to work from home will be an amenity aspect of a job. And people can sort into the kinds of jobs that they like, not just with respect to compensation, career advancement opportunities, but also the opportunity to work from home along with other things like health benefits and so on.

So, I'd say let the market work here. Partly because of the need for flexibility that I described, but also because it's going to take years to figure out what's really the optimal set of working arrangements for given types of workers and given types of employers. And we need the kind of experimentation process that markets are good at to play out over time.

AARONSON: That makes a lot of sense. Well, Steve, I just want to thank you so much for joining me. And I also want to say, I think you and your coauthors have just made a huge contribution by conducting these surveys and providing this analysis. It's really being in real time as the issue of remote work has been developing. And I think often in economics you have to wait years for these types of analyses to be done. So, I think your work has just been really valuable. And I just want to thank you also for sharing your thoughts with us today and best of luck in your work.

DAVIS: Okay, thank you so much, Stephanie, for those kind remarks. And let me just say, in that regard, we will soon make available to other researchers and interested parties all of the micro data that went into the paper on working from home around the world for the Brookings conference.

AARONSON: Oh, great. You heard it first here. Thanks, Steve.

DAVIS: Okay. Take care.
[music]

STOCK: I'm Jim Stock, Harold Hitchings Burbank Professor of Political Economy at Harvard University.

EBERLY: And I'm Jan Eberly, James R. and Helen D. Russell Professor of Finance at Northwestern University. We're the co-editors of the *Brookings Papers on Economic Activity*, and this has been the Brookings Podcast on Economic Activity. Thanks to our colleagues for this great conversation, and be sure to subscribe to hear more discussions with BPEA authors.

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