

"Unprecedented": Remote Work and the Strange Economy of 2023

Randy Cohen

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The 2023 United States economy has been hard to wrap one's head around. Historically low unemployment rates suggest a tight labor market and strong economy. But if the labor market is tight, how come real wage growth is negative? And if the economy is strong, how come GDP and productivity growth are so weak? Moreover, while inflation has been falling, it's still well above historical norms, something more common in a strong economy than a poor one. The pieces just don't seem to fit together.

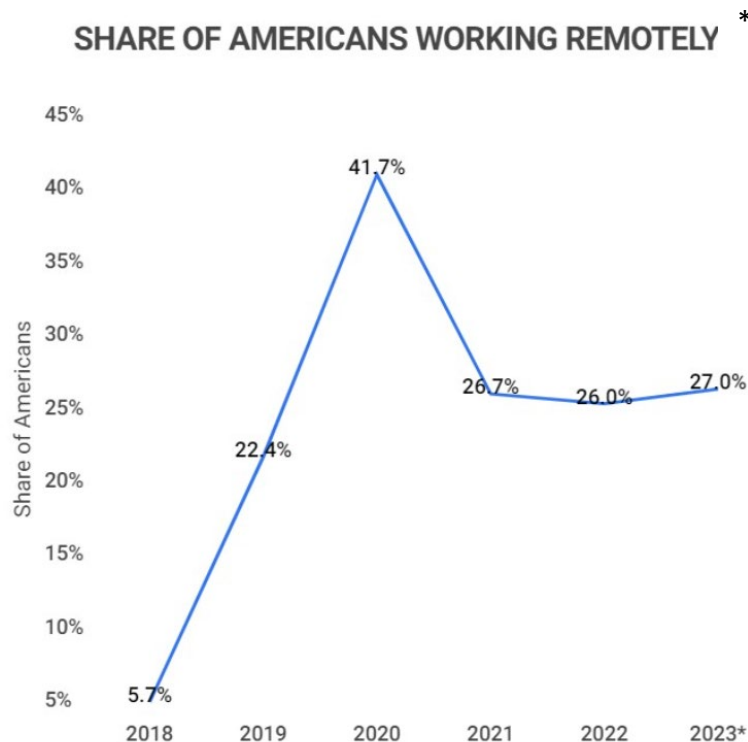
Perhaps the explanation for the seemingly contradictory figures is hiding in plain sight. That is, it could be that the dominant topic of all conversations among business-oriented folks over the past couple years is the precise thing that's driving the strange results. I refer, of course, to remote work. Studies suggest something like 30% of office staff are working from home, though it is often unclear which reported numbers refer to fully remote vs. three-day-a-weekers. Still, it wouldn't be crazy to think that something like 20% of all compensation in the United States so far this year was received for work done out of the office.

The thing everybody wonders about work from home is, does it, um, work? Is it going to continue? Are people more productive because they don't have to spend time commuting, or less productive because they don't have those little "bumping into folks in the hallways " interactions that can somehow enhance efficiency? And what about total hours, are people putting in more of them because they don't have to dress up and drive and park, or fewer because nobody's looking over their shoulder?

I recently read an article in which employees at Farmers Insurance Company expressed their disappointment about being told that work from home rules were being tightened. I was struck by one person's complaint that this would be a disaster for them because they were homeschooling their children and having to go into the office would make that impossible. Homeschooling your children?! Teaching children is not an easy job, it's hard to imagine spending the day doing it and still giving your employer 100%! Obviously, this example is not typical, but it still seems likely that work from home people could combine somewhat reduced hours focused on tasks with somewhat reduced efficiency because of not having colleagues right there with

them. Recent research showed remote workers doing about 3 1/2 hours less work a week, say 8% less than if they were in the office.

So, suppose you had 20% of the economy's productive capacity being 8% less effective, that would be a 1.6% drop in GDP. That's a lot; the difference between rapid growth of 2% or more and anemic growth of half a percent or less. That's one economic observation that can be explained by work from home. And since productivity is estimated as total production divided by supposed hours worked, a bit of slippage in which a small part of a work week that's officially 40 hours is spent on household tasks will make per-hour production drop. What about reduced unemployment? If the workers you have aren't getting as much done, you're going to have to hire some extra people to fill the void, and that's going to reduce unemployment! Negative real wage growth? Well, if people are working less, and getting a little less in wages, maybe they are in fact getting a raise on an hourly basis or on a productivity basis while still getting less in constant dollars.



*Zippia. "25 Trending Remote Work Statistics [2023]: Facts, Trends, And Projections" Zippia.com. Jun. 13, 2023, <https://www.zippia.com/advice/remote-work-statistics/>

It's important to recognize that the shortfalls in wages and production that we are observing recently are modest effects of like one or 2% compared to what we would consider normal, just as the low unemployment is also only one or 2% less than what we might normally expect. So, it just doesn't take that large of an impact from remote work to explain all of this.

And perhaps it's not so terrible! Suppose some people save four hours of commuting time a week, plus save on commuting costs, and do 3 1/2 hours less work and in return for getting this very substantial fraction of their life back, they get a slightly-below-inflation raise one year before returning to normal raises (but with additional freedom and flexibility that is permanent). Are their lives necessarily worse? It may be that people are significantly happier under these circumstances. I recently surveyed a class full of elite business school students as to whether they would prefer a job where they went to the office zero days a week, three days a week, or five days a week if the pay and career development were the same, over 80% of the class chose three days a week. I bet a substantial percentage of that 80% would say the same even if it involved a modest pickup. And they weren't even assuming they would do less work; the flexibility and lack of commuting time alone made it worthwhile in their eyes! This would give some American workers the ability to choose a work life more like what their counterparts in Europe experience.

Of course, everything in life is complex and multicausal, and there's no reason we must explain all these different phenomena with a single factor. Consider China; the combination of the supply chain disruptions when China locked down regions under Covid and political tensions with the US have caused many companies to feel it's in their interest to start producing or purchasing outside of China, components that used to come from the People's Republic. Such changes are sure to increase costs, decrease efficiency and productivity, and require increased numbers of workers... the same set of puzzling findings we began with and that work from home can help explain! What if the already modest affects we're trying to find a reason for can be explained half by remote work and half by the move away from China?

No doubt there are other good explanations that are also pieces of the puzzle, but maybe "puzzle" is too strong of a word at this point. It looks like we have a situation where the economy is growing, perhaps a little less fast the normal but at an OK pace, inflation is a bit above average but not, looking ahead, as outrageous as observers had feared and unemployment is low while a substantial number of workers gain in job flexibility via partial remote work. Perhaps it only seemed like a

puzzle because the remote work shift was, in the favorite term of this decade, "unprecedented". But as we get used to it, maybe there won't be anything that is particularly hard to explain.

P.S. After I wrote this piece, but before I posted it, the economist and writer Tyler Cowen published an article on Bloomberg with a similar thesis. That's good because, first, it reduces the probability that I'm crazy and, second, because it gives me a chance to recommend Marginal Revolution, perhaps the single best thing on the internet; Tyler and his George Mason University Department of Economics colleague Alex Tabarrok post an extraordinarily diverse array of fascinating thoughts there; <https://marginalrevolution.com/>