

The Future of Work

What Happens Next – 10.08.2022

Larry Bernstein:

Welcome to What Happens Next. My name is Larry Bernstein.

What Happens Next is a podcast which covers economics, finance, history, and politics. Today's session will be on the future of work. Our speaker will be Nick Bloom who is a Stanford Professor of Economics.

Nick is a leader in the research on working from home. Nick will explain the growing dominance of hybrid work for certain segments of our economy. It turns out that hybrid work increases productivity for some employees, and it makes them happy.

Technologists are aware that work from home has changed the nature of employment, and substantial R&D is being to improve the zoom experience with dozens of cameras to make it seem like we are together.

What Happens Next uses a team of interns to make this program and I have job openings. Interns improve the podcast by selecting topics of discussion, editing, and production. If you're interested, please let me know.

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Today's podcast was recorded at Stanford in conjunction with an event to honor my old boss and close friend Myron Scholes, the Nobel Prize winner in Economics. He will join us in this podcast with some very provocative questions.

Ok, let's start the session with Nick Bloom.

Nicholas Bloom:

I'm going to talk about work from home. I'll talk about three things. One is where we currently are, two is the impact of working from home, and three the future.

Where are we? 1965 is the first data we have in America, about a half percent of days, were work from home.

Work from home levels went up about tenfold between 1965 to 2019. In 2019, on the eve of the pandemic, 5% of days in America were work from home. The pandemic happens, it goes from 5% to 60%. I'm guessing everyone in this room probably is working from home in 2020. It's then fallen back down and asymptoting at about 30%. The two critical numbers are for 5% in 2019 to 30% now.

Sixfold increase and sticking. The past four months have been about 30%.

Well, there are three groups of Americans, 55% cannot work from home at all. The folks working in Chipotle or McDonald's or in the university cleaners, catering, security, et cetera. There's another group at the other extreme which are full time remote. They're about 15%, mostly like call centers, payments processing, HR.

The remaining groups about a third is basically professionals, managers. They're almost entirely hybrid: Monday, Friday you work from home.

Globally, America, Canada, Northern Europe look very similar about 30%. If you go to Asia, Australia, New Zealand levels are lower. In South America, Africa are lower still, but the increase is very large.

So, work from home was very low, surged up to 60% and has dropped to 30%. It's probably the largest change to US labor markets since World War 2 when you had a big increase in female labor force participation.

The donut effect is the impact of work from cities. We've got data from the United States Postal Service change of address and from Zillow transactional data, what you see is a lot of people have moved out from city centers into the suburbs. So, give an example, you're some techy. You are living in Central San Francisco in 2019. You're going into work every day.

Suddenly I'm only going to be going to the office two maybe three days a week. I'd really like a bit of space for a home office, maybe a backyard for my kids. You move out to the suburbs. If you own property in Tahoe or East Bay, you've probably done very well. If you own property in the center of San Francisco, you're probably about flat.

It's been even more extreme for retail. I've worked with a few retailers, and they've seen sales collapse in the city center like Panera Bread or Starbucks, Chipotle, no one's going in every day, particularly Monday, Friday sales plummeted, but out in the suburbs they're doing really well. A lot of activity is just moved out of the suburbs. Impact number two is on firms and organizations. Employees, they're much happier. We've surveyed tens of thousands of people. People really like hybrid. If you ask people, how much would you value being able to work from home two, three days a week?

You typically get numbers at about a five, 10% percent. Why is that? Well, you save on commute, it's less stressful. You have two days a week, you can work from home. Most people don't want to work from home five days a week only about 25% of people do. Most people want to come in two, three days a week, work from home two, three days a week.

We find clearly in the data is well organized hybrid, which is when everyone comes in on the same two or three days a week and works from home on the same two or three days a week, seems to improve productivity.

If you come in Tuesday, Thursday and everyone comes in, having meetings, presentations, lunches, training events, mentoring, et cetera. Monday, Wednesday, Friday at home. The evidence is productivity is up.

And the big reason is on your home days, you save a lot of time. The average American saves 70 minutes a day by working at home, of that about 30 minutes more work, 40 minutes more leisure. If you're an employer, your employee works about 30 minutes more a day. And if they get it right, they're doing quiet stuff, they're just more effective at it. It's doing concentrated work. It's a win-win economically.

The third thing that's interesting is around globalization. Going back to the eighties is a big globalization of trade and China joining the World Trade Organization in 2001. Over the 20 years after, it was a huge surge in global trade in manufacturing. It's running out of steam. What I think is going to happen for the next 20 years is globalization and services. I must have talked to 300 organizations since the beginning of the pandemic.

Firms all say the same thing, which is there are some individuals or some tasks that have been fully remote for the last two years and they've been really good. We maybe just don't need them in the organization or maybe don't need them in the state or in the country. The next 20 years there's going to be a big surge of outsourcing. Like take Stanford, our IT department or payroll. They're fully remote, they just don't need to be in California.

I talked to a lot of tech firms and they are swiveling hundreds of millions of dollars of R&D budget towards making technology to support work from home.

What that means is if you look five or 10 years out, the technology's going to be way, way better to support this. Bigger screens, lots of little microphone, lots of little cameras.

When you watch a football game on TV, there isn't one camera, there's like 10 cameras and they keep changing. Holograms, there's a whole set of technology.

Larry Bernstein:

First topic is the economics of cities. Studies show that computer scientists, skill adjusted, who work in Silicon Valley get paid more. And you are suggesting that it doesn't matter where you work. What are the implications for the economics of cities, if you can work from anywhere?

Nicholas Bloom:

It's almost all good. There's this whole affordability crisis for a lot of cities is too expensive. So, people and jobs have moved out. The one person or group that loses is politicians whose tax take is very narrowly defined. Because there's a lot of techies are living out in the suburbs, they're paying taxes in the suburbs. Revenue's gone somewhere, it's not disappeared.

Larry Bernstein:

Why haven't we seen a real decline in center cities residential real estate prices?

Nicholas Bloom:

If we're spending more time at home, we value housing services more and other services less. I care slightly less about eating great food. But I care a lot more about home cause I'm just in it more of the day.

The supply of houses in the short run is basically fixed. You have more spending chasing after the same amount of property.

Commercial properties is in trouble. It hasn't collapsed interesting enough because firms are struggling to downsize. A lot of execs have said, people are coming in Tuesday, Wednesday, Thursday, but I can't sublease the office Monday, Friday.

Larry Bernstein:

Young people are more social, and they lose the chance to be mentored. They are the big losers in the move to hybrid. But strangely, if you ask many of them if they prefer hybrid, they love it. Why is that?

Nicholas Bloom:

We've been surveying 10,000 people a month since the beginning of the pandemic. We probably have the best high frequency data in the US about work from home. We know people's demographic and if you look at it, the average number of days per week people want to work from home. It's about two and a half, but it's rising with age. And the other thing is what share of people wanna work from home fully remote and for 20 to 29 year-olds it's 24%. The reasons they don't is, as you indicated, is mentoring and socialization. I spoke to David Solomon, the head of Goldman Sachs about a month ago, and Goldman is very aggressively pushing back to the office. Why are you doing this? And he said mentoring.

If your Airbnb and you've said you're going fully remote, you're going to struggle to hire 20 somethings. You're going to be really attractive to 30, 40 somethings with young kids. Apple that said, we're going to have folks come in three days a week is going to pick up a lot of 20 somethings. These strategic decisions on work from home impact who you hire.

Larry Bernstein:

Our next question comes from Jeff Benjamin.

Jeff Benjamin:

Work from home changes the dynamic between capital and labor by reducing switching costs. A lot of us here, like Larry, we worked at Salomon in the eighties and we developed these friendships. Switching costs were higher. If I work from home full-time, switching costs involve changing my email address, I don't have any social relationships, doesn't that change the balance of power between workers and firms?

Nicholas Bloom:

Some big tech firms and a bunch of startups are fully remote. The evidence is turnovers a lot higher for exactly the reasons you say. Even for hybrid, turnovers are higher because it's easier to search for a job and interview.

Disappearing off smartly dressed, it's like suspicious. If you're hybrid you can interview on Monday and Friday. This whole search and matching and frictions are going to go down for hybrids and particularly virtually remote.

Larry Bernstein:

Our next speaker is David Kostin who is the chief equity strategist at Goldman Sachs.

David Kostin:

Working at Goldman for almost 30 years. We have 45,000 people, half of whom are engineering related and they have more flexibility and work from home remotely. If you're more client facing, more of the people pretty much in the office, you don't wanna be in the office, work somewhere else. Maybe it's not for the entire firm, it's by job function.

Nicholas Bloom:

Preferences vary. 18% of people want to come into the office five days a week. 30% want to be fully remote and the remaining 50 want to be hybrid. So it makes total sense to have an economy where there are some firms saying you come in full time, there are others saying you can be fully remote and others saying hybrid, there's nothing wrong with that. I don't think everyone needs to follow one model post pandemic. It's hard because you inherit a stock of people that are very heterogeneous in preferences, but over time firms would head towards one policy.

Larry Bernstein:

The next question comes from Nobel Prize Winner Myron Scholes.

Myron Scholes:

If you know what you have to do with certainty, either you can do it at home or in the office. You can be a technician or a computer programmer, you know what your tasks are, you can do it remotely. Okay. The more uncertainty there is, you need flexibility. In the future we're going to figure out how to get together and to be connected and not necessarily be in the office.

But then if you get so much uncertainty then you need ideas and teams. It has to do with uncertainty and what the task involved and how you interact with people. If we can handle the uncertainty, then we can have more remoteness and trades off the cost of commuting with the cost of living in the cities, et cetera.

Nicholas Bloom:

One of the issues you want people in, is when there's problems and they need to be resolved at incredibly high speed and it's often faster if people are there. So some organizations have a very different model, we want one lawyer in every day. So don't come in on the same day, we need coverage because we can't predict what's going to happen when.

For academics, it works reasonably well. We have our seminars, we teach, we know when we need to be in. But for some jobs when things are very unpredictable, yes it gets a lot harder to schedule it.

Larry Bernstein:

Our next question comes from Stanford Finance Professor John Cochrane.

John Cochrane:

What fundamental things of the economics of cities did we learn? Why did we used to move to cities and work at the factory rather than work at home? Well one monitoring, a lot of stuff in the 1800s was done at home because you knit a sweater, you bring them a sweater, aha, you can do that at home, move to the factory and we can watch people and make sure they don't goof off. Technology lets you monitor people or if they are home on Zoom, maybe they're at home shopping on Amazon too.

We moved to the factory because there was a big machine in the factory and there wasn't a big machine at home. The cities were supposed to be these fixed costs of providing amenities. There's only one opera now that works against that we're all going to go out to the suburbs. Except what I'm noticing is that the cities are becoming where rich retired people go for the amenities. New York real estate's still doing okay. The big loser is the Ed Glaeser view, the magic of agglomeration and we all have to be together in informal ideas that seems to be have been completely wrong. I'm curious what you've learned.

Nicholas Bloom:

In the office you can monitor inputs. So my manager can see if I'm like typing away, working, talking to people, seem to be productive. That's maybe not best management practices but it's doable. It's like management by walking around. As soon as I go remote, input evaluation collapses. It is only output valuation or nothing. Which is why, early in the pandemic, all these horror stories of surveillance software and people watching your face as you're working on your camera and randomly screenshotting. These were badly managed firms that were using input management. There's been an enormous movement in organizations to move to output management.

Larry Bernstein:

The next question comes from Brande Stellings at Vestry Laight who specializes in diversity and inclusion strategies.

Brande Stellings:

What is your data showing you of differences by gender and by race. I've seen a lot of research that shows the preferences for remote and hybrid are higher for women and people of color. And most strikingly for black women reported being happier and feeling more included in their organizations when they worked remotely, because they just weren't reminded every time, they went in that they were the only black woman there. What are you seeing in terms of race and gender and what do you think the long-term impacts of proximity bias?

Nicholas Bloom:

Factually, all genders, all demographics, ages, all want to work from home. But, you are correct, there's some variation. There's a slightly higher level for women, not a lot, a much bigger pickup for people with young children. You also do see a higher level for minorities. We ask people, are you a minority in your workplace? Which defines less than 10% of your colleagues are in this by

age, race, religion, politics, and gender. And people that are in a minority are happier working from home.

Larry Bernstein:

What happens if we agree to work in the office three days a week, but the boss comes in every day. Then if a select group of employees show up in the office five days a week they will be ahead of the others who do not. Will this create a problem for the stay at homers?

Nicholas Bloom:

It's probably a good idea to try and nudge people to stay home, particularly senior leadership on the home days. Otherwise you have this real fear of missing out. I've done two randomized control trials.

One was back in 2010 where he took 250 employees in a travel agency. We randomized them by even and odd birthdays and whether they got to work from home for four days a week or not, the people that work from home for four days a week, after nine months they had a 50% lower promotion rate and performance was better. These are in a call center; this isn't a very technical job. And when you interviewed the managers, they said, "Well, these people aren't coming in. It's partly they're forgotten about and partly they're just not developing managerial skills." And you can imagine how this breaks by gender, race. I would be organized about having people come in on the same days within teams.

I did a second randomized controlled trial with 1600 professionals. These are like MBAs, grads, coders, marketers, finance folks. Half of them worked, came in the office five days a week, the other half randomized by even, odd birthdays, work from home two days a week.

And we evaluated after six months, folks working from home two days a week, their quit rates were down by a third and lines of code written, which is one of their best performance metrics was up by 8%. The company looked at this and was like, well labor costs are down, revenues up, space costs down, there's no downside. It's just profit maximizing.

Larry Bernstein:

What are the advantages and disadvantages of going fully remote in the workplace?

Nicholas Bloom:

I've spoken to several big companies that have gone fully remote. Adam DeAngelo, who's the founder of Quora, went to fully remote. He's a super smart guy and there are two upsides. I save on office space and it's easier to recruit but it's harder to mentor and it's hard on creativity now. You have big upsides and big downsides. Hybrid doesn't seem to have any of the major downsides. If you get folks in three days a week and they're together and it's organized on the same days.

Even if you look at fully remote firms with high skilled employees, they're not actually fully remote. Airbnb or Upwork or Automatic, they still have people come for a week every other month and meet up. It's hard to get fully, fully, fully remote where you just never physically meet. Every other month, they have a week in Albuquerque or in Barcelona or something,

because there's human interaction. Turns out to be a big deal even in these supposedly fully remote firms.

Larry Bernstein:

Nick, I end each episode on a note of optimism, what are you optimistic about?

Nicholas Bloom:

Work from home, I think it's a permanent change. The big thing that's going to change going forward is technology, and the rate of change of technology to be much faster now. It's generated a surge in startups. If you look at business creation in the US, they dropped off in the pandemic. They're now about 20% above pre-pandemic levels and remained high. And the reason, it's just cheaper. If you're working from home, it's cheap to start up a new business. It's been a bit of a boom intensive start-ups.

Larry Bernstein:

Thanks to Nicholas Bloom for joining us today.

If you missed last week's session, check it out. Our speaker was Yale historian Paul Kennedy who is well known for his classic book *The Rise and Fall of the Great Powers*.

The Kennedy podcast was the final in a four-part series on the history of World War 2 that focused on the battles beginning in 1944 and ending with Japan's unconditional surrender. Paul Kennedy is an incredible speaker and is very provocative. You will love it.

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I would like to thank our audience for your continued engagement with these important issues, good-bye.