

## **EconoFact Chats: Going Remote - The Long-run Effects of Working From Home**

**Matthew Kahn, University of Southern California**

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Michael Klein:

I am Michael Klein, executive editor of EconoFact, a nonpartisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at [www.econofact.org](http://www.econofact.org).

We all learned how to use Zoom during COVID to keep in touch with friends, to see relatives, and for many of us, to work from home. While Zoom has become less vital for visiting with friends and relatives, one persistent effect of the pandemic experience is that more people are working remotely in 2023 than was the case in 2019. This has had, and will continue to have, profound social and economic impacts, and could quite literally change the landscape. Professor Matthew Kahn of the University of Southern California explores the potential changes from more widespread working from home, in his new book *Going Remote*. Matt is a renowned expert on issues related to economic geography -- who lives and works, where and why, and what the implications are of these locational choices.

Matt, I'm very pleased to welcome you back to EconoFact Chats.

Matthew Kahn:

Thanks, Michael.

Michael Klein:

Matt, you and I as academics have always worked out of our home office a few days a week. A large proportion of the workforce began to work from home once COVID began. Many people still do so even as the threat of the pandemic has diminished. What do we know about who continues to work from home, how much they work from home, and what kinds of jobs enable this flexibility?

Matthew Kahn:

Michael, so more educated workers are more likely to have the privilege of being able to work from home. Such workers are more likely to work in occupations and industries that offer such flexibility. Some people in finance and many computer programmers can work from home, while dentists and construction workers cannot. A silver lining of the pandemic is that we've learned that there's some fields such as therapy where one can work remotely, and this means that more people have access to care provided by providers who may live far away. But there can be a trade-off in quality. Zoom therapy is not the same as in-person appointments.

Turning to realtime trends, Stanford's Nick Bloom has been the leader in surveying firms and workers about persistent work from home. His major finding is that roughly 1/3 of the US workforce continues to engage in work from home on at least two days a week.

Michael Klein:

Yeah, we had Nick on the podcast about a year ago, and he talked about that. He also mentioned that some people really appreciate working from home because they avoid commuting. People might also like the fact that you can wear sweatpants, although with Zoom you may need to match those with a button down shirt or a nice blouse. What do you find people appreciate most about working from home, Matt?

Matthew Kahn:

I do think that there's a generation gap emerging here. My son is about to graduate from college, and he'll be joining a firm on Wall Street. Both he and New York City's Mayor Eric Adams want everyone back at the office. My son wants to learn and he wants to network. For middle-aged established workers, the ability to only commute to work two or three days a week is valued by workers because it saves us time. A person with a 35-minute one-way commute would save around three hours a week in total commuting. In the middle of a harsh winter or on a day one's child is sick or is having a special event at school, this flexibility is greatly valued. As a work from home worker has a windfall of three extra hours each week, she could sleep more, engage more in her community's events, exercise, or attend religious events. She is free to choose. There's so many different ways to spend our extra time that it's very difficult to generalize here.

Michael Klein:

Working from home is not of course a unilateral decision. Companies need to allow their employees to work from home. What do we know, Matt, about the types of companies that allow, or even encourage people to work from home?

Matthew Kahn:

Tesla and J.P. Morgan are two examples of famous firms that are requiring a return to the office. Every firm is grappling with how to approach work from home going forward. For-profit firms have always faced trade-offs in how they configure worker compensation. A firm that pays high salaries will easily attract workers, and few will quit, but this firm's total payroll will be large. Many firms offer workers' health insurance. Google has offered great food at its main campus. These non-tax benefits are greatly valued by workers. The work from home hybrid option is another type of non-tax job perk. Until recently, we didn't have access to quality data about how firms are making decisions about allowing work from home. Last week, Michael, I released a short report based on a new data set called the Flex Index. This research team has assembled firm level data for over 2,500 major firms in the United States. The data reveal whether the firm is allowing workers to engage in work from home, the firm's industry, the firm's size, and the location of the firm's headquarters. I use their data to uncover an interesting economic geography fact. Firms that are headquartered in cities featuring higher home prices are more likely to allow their workers to engage in work from home. My explanation for this fact is that firms that allow for work from home save more money on commercial rents in areas with higher real estate prices. Workers will value the work from home perk more in such areas because they can move further from the city center.

Michael Klein:

That sounds like a great data set, Matt. I'm sure you'll get a lot of really interesting results out of that. So what are the advantages for companies when they allow for more remote work?

Matthew Kahn:

As I've learned from Nick Bloom's work and other great scholars working on that topic, work from home friendly firms will benefit from developing reputation for being family friendly, and concerned about their workers' mental health and wellbeing. Firms that allow for remote work and hybrid work will be able to search for a talent from all over the United States. By being able to search over a larger set of candidates, the firms will be able to find the right match in terms of skills and personality that the firm's looking for.

Michael Klein:

So those are the advantages. Are there some disadvantages as well?

Matthew Kahn:

Absolutely. Every firm seeks to build up its common culture and its esprit de corps. Recently, hired workers seek to learn from workers with experience at the company. The bosses seek to learn more about their new hires. Urban economists have emphasized the productivity gains brought about by serendipity and random meeting at the proverbial water cooler. While Zoom and the Metaverse can help, we continue to connect better face to face.

While I fully believe this point, the quality versus quantity trade-off arises. If hybrid workers no longer go to work five days a week, but if now they go in say five, eight days a month, can't they achieve the same quality of interactions as they will try harder on the days they do go to work? Of course, firms can experiment here and engage in A/B testing to get this right.

I also want to return to the disadvantages of work from home for specific industries. Returning to J.P. Morgan and the finance industry, I do think there's some interesting economics here. For industries where speed matters, I foresee that their bosses will oppose working from home because a decentralized team is unlikely to move quickly. In fields such as finance, the team has to coordinate and act quickly. Face-to-face interaction facilitates such efficient decision making. Similar to the situation room in the White House.

Michael Klein:

I'm sure the people at J.P. Morgan like the comparison to the situation room at the White House. I'm not sure I would make that, but they do have to act quickly. Matt, in your new book *Going Remote*, you focus on the wider consequences of working from home for the economy and society at large, not just for workers and their companies. First off, what does an increase in remote work mean for where people live?

Matthew Kahn:

Michael, that's the \$64,000 question. Back in college, I received a B- in the only philosophy class I ever took.

Michael Klein:

I guess you got As in economics, and you followed comparative advantage then.

Matthew Kahn:

I mentioned that blemish now 35 years later, because I want to make a philosophical point. Each of us has our own conception of the good life. For those of us who love Manhattan and can afford to live there, working on Wall Street is not a constraint. But consider a worker with four children or a person with a love of nature or a person with a sick mother in Missouri. Each of these people would greatly gain from having the personal freedom to live further from Wall Street. In the extreme case of a remote worker, she no longer chooses her place to live in part based on her commute. She's unchained. She can go anywhere at any time and continue to be a productive worker.

Michael Klein:

Matt, have we seen evidence of this? And if these outcomes occurred during the height of the pandemic, are we likely to see reversals?

Matthew Kahn:

A great question. In terms of where people live, Nick Bloom of Stanford and his co-authors have used house price data and migration data based on US postal code mail delivery to document a donut effect. People are moving out to the fringes of major metropolitan areas in the New York City and San Francisco areas where home prices are cheaper. I believe that these ex-urban price spikes have persisted up till now and will continue. In beautiful places such as Bozeman, Montana, and Santa Barbara, California, home prices have soared more than the national average, and I believe that this working from home driven going remote explains this trend.

Michael Klein:

So by donut effect, you mean that the prices in the center city went down and the prices in the suburbs went up, not that people are going to Dunkin Donuts more because they're saving time on their commute, right?

Matthew Kahn:

That is correct.

Michael Klein:

One concern at the beginning of the shift to remote work was that there would be a collapse in the commercial real estate market. Has that happened?

Matthew Kahn:

Three great economists recently released a National Bureau of Economic Research paper titled 'The Work from Home and the Office Real Estate Apocalypse.' They present several important findings that raise concerns. They document that in the New York City commercial office market, that commercial real estate prices decline 45% from December 2019 to 2020. They predict that this challenge will persist for many American center cities. I'm talking to several New York City commercial real estate experts about this issue, and many of them continue to be bullish about the New York City commercial real estate market. They argue that sales volumes have dried up as transactions have stalled. Their explanation is that wealthy commercial building owners in New York cities who do have deep pockets are waiting out the current uncertainty.

Michael Klein:

So the study you cite is a comparison between the end of the year in 2019 and 2020. It could be very different now. We don't really know three more years on what's going on, right?

Matthew Kahn:

I agree with you. And a competition's going to play out. Great center cities like San Francisco and New York have strong incentives to try to adapt to this challenge. But you're right that there's considerable uncertainty right now.

Michael Klein:

You can certainly get a better bagel in New York than in a lot of other places. Another concern, Matt, was that the depopulation of major urban areas in the movement of companies out of these areas would cause huge tax losses, and cities like New York and San Francisco would have to cut back on services. Have these concerns materialized?

Matthew Kahn:

I believe the answer is yes in the short run. The bad news is that our early 2023 economy is not returning back to our pre COVID January 2020 world. Commercial rents have declined in many cities as many firms, including law firms and accounting firms, rent less space. In the short run, the rise of work from home certainly poses a challenge for center cities. But I continue to be an urban optimist. I believe that center cities will pivot and adapt in response to the new competition they face to attract and retain footloose work from home workers.

Both New York City and San Francisco have excellent credit ratings so they can issue municipal bonds to cover short run deficits. Mayors of these center cities will face many decisions for how to compete going forward. Some will experiment with new ways of providing key public services such as street safety, public schooling, and transport. These cities will need to streamline their regulations to help commercial building owners convert some of their buildings into residential housing. Of course, this will be costly, but this conversion will create new work-life neighborhoods in cities around the United States. Younger people and others seeking the vitality of the city are likely to enjoy more affordable housing.

Michael Klein:

There was in, I believe, 2020 an article in the New York Times saying this is the death of New York. And then Jerry Seinfeld wrote a very impassioned op-ed saying that New York will never die. Maybe you're aware of that.

Matthew Kahn:

That is a great case, and he has made his career. We'll never know whether he would've been as funny a comedian had he not been in Queens and Manhattan. But I'm, I'm with Jerry. I'm more like Newman, the Postman.

Michael Klein:

I would not admit that on air, Matt, but we'll keep that in the podcast just for the record. What about other cities? I bet there are different effects across different cities. If you can work from home, cities with amenities like Portland, Maine, or those that had been relatively inexpensive like Baltimore or Detroit might see an influx of workers. Has that been happening?

Matthew Kahn:

I'm grateful that you carefully read my Going Remote book. In the book, I discussed these possible new economic geography that I do believe is now emerging. Every city in the United States from Portland, Maine to Baltimore, Maryland has its charms. For those who love crab and good micro brewed beer, there's excellent and affordable housing in Baltimore. Each of us knows ourselves and the fortunate footloose work from home workers who have a larger menu to choose from. As you know, I'm married to a great economist. Dora Costa and I will celebrate our 25th wedding anniversary in May.

Michael Klein:

Mazel tov, Matt.

Matthew Kahn:

Yeah. I hope I [inaudible 00:15:08]. And this is awesome, the 25th anniversary of writing our first paper together.

Michael Klein:

Mazel tov again, Matt.

Matthew Kahn:

These are my big accomplishments. Michael, that paper we wrote 25 years ago was about where power couples choose to live. And recall back in the year 1998 when we wrote that paper, few of us were engaging and working from home. Dora and I argued that highly educated married couples would disproportionately live in big cities because such big cities offer thick local labor markets that offer both of them the chance to enjoy their marriage without sacrificing their career ambitions. I raise this now because in our emerging work from home economy, there's many more permutations and possibilities of where these spouses can live. A Baltimore-based couple could feature one working in Washington DC and the other in Philadelphia.

Michael Klein:

Matt, you make some very interesting points in your book about how remote work can level the playing field for groups that didn't have access to better paying jobs because they lived in inner cities or in more remote rural areas. Do you see remote work as a way to reduce economic inequality?

Matthew Kahn:

I do, but I recognize that this is an empirical proposition. My mother often says, "Matthew, no magical thinking." And in my book, I do make the claim that the rise of remote work will create a fairer economic geography for the country, and here's why. Many people have roots in different parts of the United States, and they want to spend more time where they grew up. Those who can engage in work from home are now more likely to spend more time in such areas. The clustering of such workers in these different areas will bring new blood to these communities and create new job opportunities in the service sector. For cities such as Baltimore that feature a high poverty rate and relatively few vibrant private sector firms, these cities can now compete to attract work from home workers attracted by the relatively cheap local home prices and the vibrant local culture. Such cities will improve their tax base by attracting such footloose individuals.

Michael Klein:

But could this be a double-edged sword? Because you might not only hire workers from Appalachia, but you might hire workers from India, or you might hire workers from India instead of workers from Appalachia.

Matthew Kahn:

Michael, this is a key point. A great economist named Richard Baldwin has posited this offshoring hypothesis. Two counters that I'd like to raise to his important point. First, I continue to believe that our jobs will require face-to-face interaction on some basis, often a monthly basis. I do not believe, and Nick Bloom surveys concur, that fully remote work is the future for most jobs. If most work from home jobs are hybrid, meaning that you're going in for face-to-face meetings at least on a monthly basis, then domestic workers have an edge in visiting the headquarters during these times. I do believe that the offshoring threat is credible. This creates an imperative for the United States to continue to improve our educational system so that our young people can compete in the global labor market.

Michael Klein:

Matt, you've done a lot of work on the environmental impact of urban areas. One of your many books is titled Green Cities. What are the environmental implications of increased remote work?

Matthew Kahn:

Great question. I'm now doing new research on this topic. Years ago, an economist cracked a half joke to me when he said the solution to pollution is dilution. I interpreted this joke that if we all spread out, each of us will be exposed to less of each other's pollution. And in that case, the social costs of pollution would decline.

Consider the opposite. In a denser city such as New York City, a cigar smoker or a diesel dirty bus affects the quality of life of thousands of people exposed to the smoke. Ed Glaeser and I explored this in a paper back in 2008 where we documented that residents of center cities have a smaller carbon footprint but are exposed to more local air pollution like PM 2.5. Nick Bloom's work has taught us that the rise of work from home leads us to spread out in the vicinity of center cities. This leads many of us to drive more, and this certainly could increase our household carbon footprint. In my new work, I'm studying whether we see more ex-urban residents buying the bundle of solar panels and electric vehicles as they live in new fringe housing. If work from home workers live at the fringe and buy the bundle of an electric vehicle and solar panels, then this could be a green lifestyle.

Michael Klein:

Well, Matt, we've touched on a lot of points here. In my last podcast with you, I closed by mentioning how much I enjoyed our stimulating conversations when we were colleagues together at Fletcher. We're on different sides of the continent now and the conversations are less frequent, but I still enjoy them just as much. So Matt, thanks very much for joining me again on EconoFact Chats.

Matthew Kahn:

You're welcome.

Michael Klein:

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