

BY KARTIK ATHREYA

Why Is Returning to the Office Contentious?

A trusted colleague recently relayed an article about CEOs taking a harder line on bringing staff back to the office. I found the employers' views expressed in the article understandable. When it comes to bringing people together in the workplace, it's often the case in specialized teamwork settings that what I as a leader am looking for is simple availability. Stuff needing quick attention comes up in any organization, especially when others are waiting for one team member to dispose of an issue. It is bad for business, and personally frustrating, when such agility is compromised. A rigid in-office policy more or less solves this in a crude but effective way: Team members are physically available should the need arise.

Yet I suspect that return to office, or RTO, is not a "return" in the sense of going back to the past. Instead, it is a new approach combining what we always knew about physical proximity with what we learned about its costs and benefits during the pandemic.

THE MIXED BAG OF BEING BACK

What is gained from RTO is pretty clear: A vibrant office is absolutely more fun to be in (unless, I suppose, one is especially shy or introverted, which should not be dismissed — people differ in the "space" they need to thrive, even when they're members of teams). It is more productive in very tangible ways — meetings are in my view far better in person. And quick resolution of matters via an impromptu pullup in the corridor can be worth a lot. Chance encounters can spark ideas. And on and on.

Economists always want to tally benefits and costs, though, so this made me wonder: "What, specifically, is lost from RTO anyway?" One thing that is surely key is the ability to simultaneously invest in one's work and one's life and loved ones. For example, using the otherwise unproductive six minutes between meetings to grab a 12-year-old and get them started on homework — and simply being around to deter their goofing off! Dealing with a change in after-school events, being present for generally able-bodied elders in our homes, managing dual-career lives when one partner travels a lot, and all the rest. This is by nature not fully predictable, but all of it is easily resolved by working from home. So, an RTO stance that retains meaningful flexibility will, I suspect, be important if the organization is to stay competitive in the marketplace for workers.

Moreover, the "availability" I noted above doesn't have to be the same as physical location. And employers who

overprioritize the latter over the former run the risk of sending a message that they don't quite trust their employees. Now, unmotivated people who need direct in-person oversight definitely describes some people, but if weak motivation describes a lot of people in your organization, then RTO is the least of your problems. And today, availability is straightforward enough to gauge and incentivize no matter where you are. If the average wait time for acknowledgment and response to an "instant" message is routinely inordinate, the employee is defaulting on their availability obligation, full stop, no matter where — at the office or in a treehouse — their keyboard is.

A perhaps minor — though more subtle — problem with emphasizing physical presence over availability is the inferences that people will make about their co-workers for entering after, or exiting before, the "official 9-to-5" hours. This can, if not managed, lead to idiotic outcomes. People clock in and out in minutes — with just a badge swipe or a quick walk around the office to be seen — to game the system, wasting time and gas commuting along the way. At the other end, the scenes from 1980s movies of East Asian offices where everyone is racing the others on the way in and marking time for others — the boss especially — on the way out of the office come to mind. So, communicating that we will operate in-office RTO days with the organic flexibility that arose in the pandemic era will be key.

But since that was organic and natural, it may take time and effort to reestablish. (I serve as a manager myself and have always been acutely aware of the constraint this role places on my ability to communicate such notions credibly and effectively.) Absent that, I think it's not correct to argue that we have something more flexible simply because we have fewer days in office now versus pre-pandemic. For that to be true, the ones that remain need to be run well.

Despite all these concerns, I suspect there are actual productivity and career development/mentoring gains to more in-person interaction, making some form of serious RTO absolutely the smart thing to do. And if that's right, then RTO ought to be an easy sale: The pie gets bigger.

SHARING THE GAINS

But even an RTO that was well-tuned to deal with the things I note above might not be appealing to the bulk of employees. Indeed, it appears that this movement is far more driven by management — across all the varieties of RTO that are now being tried. Something is still not fully

clicking; I've not heard of many employees telling their employers, "Phew, thanks guys — you finally coordinated the whole group to something better for everyone!"

Why?

If I had to guess why the raw productivity gains (which, again, I think are real) to physically congregating are proving to be a hard sell to employees, it is because the mechanism for sharing those gains seems not quite present.

In any for-profit business, if there are big gains to productivity from physically convening en masse, then total revenue will grow for the same employee base. If they are paid the same as before, those gains all go to management and maybe to shareholders. So why would anyone expect the rank-and-file employee to find that compelling? Put another way, an employee might believe: "Hey, it's just the employer saying: Give me more." That's not energizing for most people I know.

Yet, if there are truly gains, it should be feasible to make shareholders and workers all better off — an "RTO dividend," if you will. So, the friction so plainly visible all around seems to me to have roots in the employers' view that gains are available under RTO colliding with the employees' view that they will not see most of those gains themselves. This to me is consistent with chatter I hear about how "employers are finally getting back to having some clout." The latter makes very clear a view of the world as changing who gets the gains from workplace arrangements, and far less one of better coordination.

CAN COMPANIES AND WORKERS MAKE A DEAL?

An interesting thing for me as an economist is to see just how little (explicit, anyway) deal-making more generally seems to be going on, at least so far. (Perhaps you readers see more of it?) It's apparently hard to have models where we let people "buy the right to WFH" — that is, you work

from home, you agree to take a pay cut, or alternatively, you come into the office, you make more. For individual contributors with clear metrics, this seems easy. For team producers, that is hard to implement, I'd guess, but it suggests that other frictions get in our way. Maybe due to the worker selection it would induce? We will likely see such experimentation in the months ahead. We know this because we see a version of this in the data already: The only reason businesses adjust for cost of living in bigger cities is that to them ... it's worth it!

In the end, though, a more diffuse form of deal-making will happen, with firms sorting into different models with different mixes of compensation. This is an extremely complex process at the level of any society, and the outcome will reflect a kind of "multidimensional competition" (think of the "bundles of amenities" of any job — commute time, cafeteria quality, IT support, etc.) for which economists, as far as I know, have no clean determinative theory. It isn't like price-based competition, which we understand so much better and which seems to work so well much of the time. So, don't ask me how this all ends!

A brief postscript: This will be my last column in *Econ Focus*. In February, I will be stepping into a new role as executive vice president and research director at the New York Fed. The Richmond Fed has been my intellectual home for the past 23 years and having an outlet like this one where I can share my thoughts and musings has been an enjoyable part of my wonderful experience as a Richmond Fed economist. My thanks to the entire Richmond team — for everything. **EF**

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