Reflections

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Remote work trend will lead to rising share prices and QE 4-ever

The growing trend towards remote work has the potential to create a global labour market. In the richest countries, it will intensify downward pressure on wages. Central banks will find it increasingly difficult to generate enough inflation, and they may need to make today's QE policies permanent. Investors will benefit from both ultra-loose monetary policies and a continued rise in their share of corporate earnings. Political leaders will try to offset widening gaps with more redistributive fiscal policies, but this is no easy task in an increasingly global world.

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For many years, I have personally benefited from living close to my workplace. I can confirm how convenient it is not to have to climb into a car every morning or have to make it on time to a bus or train. But for the past six months or so – like hundreds of millions of other people around the world – I have been working from home much of the time. This makes living close to the office meaningless. In theory I can just as easily perform my job from a summer cottage or even from another country if I should want to. Remote work has opened up completely new opportunities for people to choose freely where they want to live, and many of them seem inclined to take advantage of this new freedom. According to a recent public opinion survey in Sweden, three out of four people hope that the pandemic will lead to changes in their work situation. Topping their wish list is greater opportunities to work from home.[i] Another survey shows that nearly four out of ten office workers would consider moving if the trend towards better remote work opportunities continues, and 5% are even thinking about performing their job from abroad.[ii]

It is hard to overemphasise what a dramatic change this is for the economy and society as a whole. The remote work trend will create both winners and losers (which I wrote about recently here). But although many people apparently look forward to the option of leaving behind cold, dark Sweden in November – or simply the opportunity to avoid commuting to an office – these new opportunities also create new threats.

The office: An important competitive advantage in the West
In fact, if the office disappears, so will one of the most important competitive advantages enjoyed by employees in the Western world. When a company's employees gather at an office each day to carry out their jobs, the office also becomes a natural barrier against the company employing people remotely. Informal but important conversations at the coffee machine or over lunch are available exclusively to those who are at the office. It is harder to make meetings function properly for remote workers, and today's technology does not allow them to participate on equal terms with those who are sitting in the same room.

But if the office disappears, so will the most important obstacle to hiring remote employees. Suddenly employers can begin searching for employees – and employees can begin searching for jobs – regardless of geographic location. They no longer even have to search in the same country where they live. The result will be an almost global labour market. Obviously there are also other obstacles such as language, culture and time zones, but in many cases the office is actually the main reason why companies search for labour locally and why employees look for jobs close to where they live.

A global, better functioning labour market
In a global labour market, competition to recruit the best workers will increase. The most attractive, well-educated people will be able to pick and choose among different job offers. Labour market mobility will also improve as obstacles to accepting a job in another location disappear. An employee will no longer need to move to another city or country. That person's significant other will no longer need to find a new job, and their children will no longer need to start at a new school. Everything will be simpler and as a result more people will want to change employers and try doing something new.

Companies will be the biggest winners

But the biggest beneficiaries of a more global labour market will be companies. Many employees who are not among the elite that all companies want to hire will instead face tougher competition for jobs, since to a greater extent than before they will have to compete with well-educated but cheaper labour from countries with lower income levels. A corresponding change has already been under way for a long time in manufacturing. As a result, a very large number of industrial jobs (in some sectors, all jobs) have moved to low-cost countries. In the service sector, too, many simple office jobs have already moved abroad or have been automated, while more advanced jobs have been protected so far. But as offices gradually disappear and remote work becomes a normal element of many business operations, there is every reason to believe that foreign (and domestic) competition for office jobs will increase.

A growing wage and salary squeeze in the Western world

In the future, just like today, this transition will be driven by cost-cutting efforts on the part of employers. The principle will be the same as it always has been: jobs tend to move to where they can be done the most cheaply. For emerging market countries this change is a major opportunity, while for many employees in rich countries like the Nordics, UK or the US it will result in major challenges. The more jobs can be performed remotely, the greater will be the downward pressure on wages and salaries in the richest countries.

QE 4-ever will be the only way to try maintaining inflation

Greater downward pressure on working incomes is also a major problem for the world's central banks, which are already fighting an uphill battle to push up inflation. Higher wages and salaries are traditionally regarded as the most important source of stable inflation pressure over time. Pay increases boost production costs, which companies offset by raising their prices, thereby generating inflation. Unlike many other inflation drivers, such as a weaker currency or higher commodity prices, the pay hiking process repeats itself year after year, creating stable inflation pressure. This is why wage and salary trends are so important to central banks. But there is actually another way of achieving stable inflation pressure, and that is by permanently printing new money. If they wish, central banks can keep doing that indefinitely. The bigger the structural squeeze on wages and salaries, the more expansionary monetary policy will have to be. The logical conclusion is that interest rates will remain around –or even below – zero, while quantitative easing (QE) by means of bond and other asset purchases must continue long after the COVID-19 pandemic has relaxed its grip on the economy. In many countries, developments will resemble what we have seen in Japan, though not driven by the same causes.

Companies and investors the main winners

For companies, this is the best of all worlds. An increasingly global labour market will ensure that production costs can be squeezed, while permanent low interest rates will make capital cheaper. The long-prevalent trend towards shareholders benefiting more than employees will gain new fuel. The result will be a continued widening of gaps in society, with investors also benefiting because their assets keep rising in value thanks to "4-ever" low interest rates. This trend will subject political leaders to growing demands to offset the widening gaps by adopting active fiscal policies (which means more taxes on investors and high-income earners). Yet this is no easy task in a world that is moving towards an increasingly globalised economy and labour market.

Major changes take time, but this one is already under way

As always when facing paradigm shifts, one important question is how long all this will take. No one seriously believes that everyone working from home today will continue doing so to the same extent once the pandemic is past. But the ball has started rolling, and the coronavirus has undoubtedly speeded up the process. Many employees will certainly be able to resume commuting to their workplace sometime next year. But they will probably continue to work much more from home than they ever did before the pandemic. Many companies have doubtless already come to the conclusion that they can reduce their office space. Because a growing percentage of employees will be working from home regularly, companies will invest a lot in making sure that things function as smoothly for remote workers as for those who are sitting at the office. To achieve this, all the information we exchange today when we meet physically must be electronically transmittable. The business sector will make large investments in new technology over the next few years. A lot of capital will flow into everything from expansion of bandwidths and 5G networks to cloud services and conferencing solutions that employ augmented reality and virtual reality (AR/VR) to decrease the difference between physical and virtual meetings. Companies and sectors now working to develop these products can look forward to many good years. Technological innovation will also be an important factor in ensuring that the productivity of remote work is competitive. New methods need to be developed to evaluate, manage and enable employees to interact with each other in an environment where the office is no longer their natural gathering point. It is impossible to say how long it will take before this process is completed, but change is already under way. And, it will not be possible to turn back the clock.

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[i] *Kollega* (Swedish trade union magazine), September 29, 2020: "Fortsatt distansjobb kan öka flyttviljan" (Continued remote work may increase the desire to move).

[ii] *Örebronyheter* (local newspaper), September 27, 2020: "Fyra av tio kontorsarbetare beredda flytta vid fortsatt distansarbete" (Four out of ten office workers prepared to move if remote work continues).