

The Daily Dish

A Lesson From Restaurants and Productivity

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At first pass, it was just a fun fact. A new working paper from the National Bureau of Economic Research finds that "after remaining almost constant for almost 30 years, real labor productivity at U.S. restaurants surged over 15% during the COVID pandemic. This surge has persisted even as many conditions have returned to pre-pandemic levels."

Holy have-a-second-helping, Batman! That's amazing.

How did this miracle occur? It turns out the key is "dwell time" – the term of art for time spent in the restaurant by a customer:

> *The restaurants' productivity growth rates are strongly correlated, however, with reductions in the amount of time their customers spend in the establishments, particularly with a rising share of customers spending 10 minutes or less. The frequency of such 'take-out' customers rose considerably during COVID, even at fast food restaurants, and never went back down.*

This accords with Eakinomics' lifelong field study of P.F. Chang's. My Chang's permanently transformed into a predominantly take-out operation, with two implications. First, the need for wait staff and bar staff was greatly reduced, while the manager reported no real loss in revenue. The productivity implications follow immediately.

The second effect is more subtle. The wait and bar staff deliver two services. The first is food and drink – the same as the take-out operation – and the second is sucking up, aka service. The service is valuable – at least to Eakinomics – but not priced by the restaurant. As a result, the "output" of the wait staff is understated and the productivity underestimated as well.

I think this issue arises more generally, but especially so in health care. It makes sense to pay more for a provider that has nicer facilities, stays on schedule, communicates effectively, and treats the patients with some dignity. In consumer-driven markets, it would be straightforward for people to sort themselves toward those providers and reward the higher quality by paying higher prices. But there is no place to check “treated with dignity” on a charge sheet for a third-party payer like an insurance company or government program.

The lesson is as old as markets themselves – the more one can rely on consumer-driven decision-making, the more quality will be delivered in goods and services.