



Spatial Economics Research Centre

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More City Rankings

A report from the Business of Cities discusses city indexes. They identify 107 separate rankings.

As I wrote a few weeks ago, I am not sure that [these rankings are very useful for policy](#).

Economists think of households as facing an earnings, cost of living, amenity tradeoff when they think about where to locate. SERC research suggests [wage disparities across local areas in Britain are pronounced and very persistent](#). Earnings disparities between different cities and different labour markets give cause for concern, because they seem to imply differences in standards of living and economic welfare. So, does this imply that places with the lowest wages are the 'worst places to earn a living'. Of course not, because earnings disparities are uninformative about differences in economic welfare and wellbeing unless we take account of differences in the costs of living and the availability of local amenities.

In [recent SERC research](#), we address this question, by considering the extent to which higher post-tax earnings are offset by higher housing costs. Across Britain, our research shows increased living costs (particularly of housing) tend to completely offset increased wages for the average household. In the lowest wage areas, which are mostly rural, differences in amenities drive the cost-of-living versus wage tradeoff. In (mostly urban) higher wage areas, differences in firm productivity drive the results.

Rankings of cities based on one or two characteristics make for interesting stories, but they don't tell us much about the more complex tradeoffs facing households and firms. Multivariate indices (that consider many characteristics) try to get round this by applying arbitrary weights to those different characteristics which likely makes the index not useful for anyone (except those who just happen to have the same weighting as used in the report). In contrast, urban economists start from observed difference in wages and costs of living, assume that people are pretty mobile across space and then try to figure out from actual behaviour what amenities people appear to value. This approach doesn't always make for such nice stories, but it does make a more consistent way of evaluating the wage-cost-amenity tradeoff that firms and households face when choosing their city.

Posted by [Prof Henry G. Overman](#) on [Monday, July 11, 2011](#)

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