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# High Rents in SF and NYC; Do They Reduce US Inequality?

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The short answer is that yes, yes the high rents in places like San Francisco and New York City do indeed reduce inequality in the US given the way that we measure inequality. For what we generally do (and it's possible to do this with more accuracy but we generally don't bother) is simply look at the distribution of incomes and we don't take account of the differences in price levels in different places. And no one should be all that surprised to find that incomes are generally higher where those general price levels are higher.

Some amount of the inequality that we record (in things like the "gini", a measure of income inequality) is therefore phantasmal. Yes, people in SF or NYC generally have higher incomes than those in Flyover Country. But those out in the wholesomeness of the Great Plains and the South are paying less for their house to live in, whether they buy or rent, and thus consumption opportunities are much more equal than our standard measures recognise. In fact, if we look at the ability to consume housing services we might actually conclude that it is those in SF and NYC who are the poor people. As Paul Krugman pointed out he used the cash from having won the Nobel to buy that ultimate New York luxury, an apartment large enough for a washing machine.

As ever with these sorts of things inequality does depend very much on exactly what you measure and how you measure it. I've said before that consumption inequality is the important one and that's very much more equal than income inequality: the relative costs in different parts of the country being one of the reasons for this.

However, over at Slate Jordan Weissman has another point to make about this: New York and San Francisco are synonymous with out-of-control rents. But they're more of a bargain than most of us realize. The New York Citizens Budget Commission, a nonprofit devoted to state and city government issues, recently ranked 21 large U.S. cities and found that New York, San Francisco, and Washington, D.C., (also thought of as an expensive place to live) were actually among the most affordable. How is that possible? First, families in these cities tend to earn more. Second, they spend less money commuting. The typical New York household, for instance, pays a ludicrous amount of rent, but most don't own a car, since they can use the subway or a bus to get to work instead.

And that is also true: we need to look at the total cost of living in a particular place and in a particular style in order to be about to work out what is "affordable" and what is not.

Weissman's headline tells us that:

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Forget the Rent: Why New York and San Francisco Are Actually Amazing Bargains

This is something that isn't actually true: or at least not true for all people. Which brings us to something that economists like to bang on about, revealed preferences. Sure, we can look at rental costs, commuting costs, wages, and decide using these metrics what is a desirable or undesirable place to live. But we've got to remember that when constructing these metrics we are inevitably imposing our own estimations of the relative importance of all of these various different things. And the thing is that other people might well not apply the same weightings. As should be obvious from the fact that other people do end up living very differently from ourselves, in very different mixtures of environment.

There are those who simply would not give up the clean air, the wildness, of the Rockies or the Appalachians for all the excellent of kosher delis in Brooklyn or Manhattan. Just as there are those who value the cultural life of the Big City far above the ability to walk out the back door and have the dog start chasing elk. *Chacun a son gout* as the French say in stereotype. Adam Smith talked about this in relation to jobs: all get paid pretty much the same amount for the same sort of skill level. The worse the job in terms of hours, dirt, noise and so on the more people will get paid to do it. The better the job in terms of social standing and the joy of actually doing it the less people will get in money. This is why deep sea fishermen get paid very much more than interns on fashion magazines.

So it is with particular locations to live and work in. The total package is going to be roughly similar in different places. Only roughly mind: it takes a pretty steep gradient to get people actually moving from place to place. But the total package will be of roughly equal value to people who live in different places. Some will rate the culture,*joie de vivre*, excitement of New York or SF highly and think of them as balancing the tiny apartments and the cost of being there. Others will say the heck with that, culture's that funny stuff on French cheese and give me the wide open spaces. And roughly, again roughly speaking, the total package will be about the same value given those different preferences. For if it isn't then people would move to where they gain a more valuable bundle by their own lights.

The end result of which is that inequality in the US is almost certainly rather lower than we find by simply measuring incomes. Because people do have the choice over which bundle of consumption they select through migration and that we don't all migrate to one or the other bundles shows two things. Firstly that we do have different consumption bundles that we prefer and secondly, of the ones that are on offer we logically must prefer the one that we've plumped for. Thus living standards are indeed roughly equal across geographies even while incomes, the things we actually measure, vary wildly.

None of this means that income disparities within a geographic area are not inequalities in our usual sense. That having $150k a year to live on in small town America is not better than having $50k in the same place. But it does mean that, by the choices people make, that $50k a year in small town

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America is just as good as $80k, $90k, in Manhattan (perhaps median income in each place) and also *vice versa*.