



### **Cost of Living vs. Cost of Labor**

Most of us have a good sense of cost of living, and especially cost of living increases. There are some parts of the country and some cities where rent, home ownership, and groceries are more expensive than the median and some areas where they are less expensive. A typical cost of living analysis has San Francisco at 180 and Quincy, Illinois, at 79 (the median is 100).

Salaries in San Francisco are higher than in Quincy, but the difference in actual salaries is not as dramatic as the difference in cost of living between the two cities. The reason for this is that different market forces influence cost of living than those that determine cost of labor. Cost of labor is influenced by what is going on in different industry sectors nationally; not just what is going on in a particular city. Engineering firms, for example, will have different cost of labor indices among cities than manufacturing firms do, though people working for these firms are going to pay the same amount for rent and groceries in the same city.

In general, the cost of labor index for an industry sector in a particular city will be a somewhat muted version of the cost of living index. Workers in cities where the cost of living is higher will receive a bump in wages and benefits compared to workers in less expensive cities, but that bump will be smaller than the cost of living index would indicate. Using the San Francisco/Quincy, Illinois, example, the former might have a cost of labor index of 145 compared to 90 for the latter. A significant difference, but not as dramatic as 180 compared to 79.

For SalaryCheck, we use standard cost of living information and calculate cost of labor by looking at the differences that remain once cost of living, type of institution, and institutional wealth are taken out of the picture. We have called the regional and city by city differences that remain cost of labor. We encourage you to do your own internet search to learn more about cost of labor. One thing to watch out for, however, is that there can be two senses of cost of labor. One sense is the way we are using it: cost of labor as an index calculated city by city for a particular industry sector. Another definition is simply the total cost of labor (salaries and benefits) for a particular company or institution. It will be apparent which cost of labor is being discussed.