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Why do newer cities promise higher wages in Russia?

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Abstract

This paper documents the negative relationship between the age of cities and their average wages in Russia and a number of post-Soviet countries. To determine age-related urban characteristics responsible for this relationship, we develop a spatial equilibrium model as a framework to guide the interpretation of the regression estimates. Higher real wages in newer cities reflect both their disadvantages as places for living and their production advantages. The latter are related to their production amenities, higher shares of skilled workers, and more available natural resources. These advantages and disadvantages tend to disappear over time, which gives rise to income convergence.

1. Introduction

Russian territories display an unexpected relationship between city age and wages. While the ancient and famous Russian cities are relatively poor, those founded just a few decades ago are relatively rich and are frequently the most flourishing cities.¹ Examples of a new, rich city and an old, poor one are Nadym (46 years old and having an average monthly wage of \$2,574) and Yelnya (863 years and

¹The newest Russian cities in 2013 were less than thirty years old, while the most ancient ones were well over a thousand. The latter include such historical cities of the Ancient Rus as Veliky Novgorod, Smolensk, Pskov, Rostov, Vladimir, Bryansk, Belozersk, and Murom. These cities are not in ruins; quite opposite, they are living cities and relatively densely populated.

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