



February 2022

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Geographical inequalities in the labour market



Inequality

The IFS Deaton Review



Economic
and Social
Research Council

Levelling up White Paper

12 ‘missions’ tackling different aspects of geographical inequality

- **Improve pay, employment and productivity** and closing the gap between top performing and other areas, with a **globally competitive city in each region**
- Improve **education outcomes** in primary school and increase numbers in **high-quality skills training**, especially in low-skilled areas

This presentation:

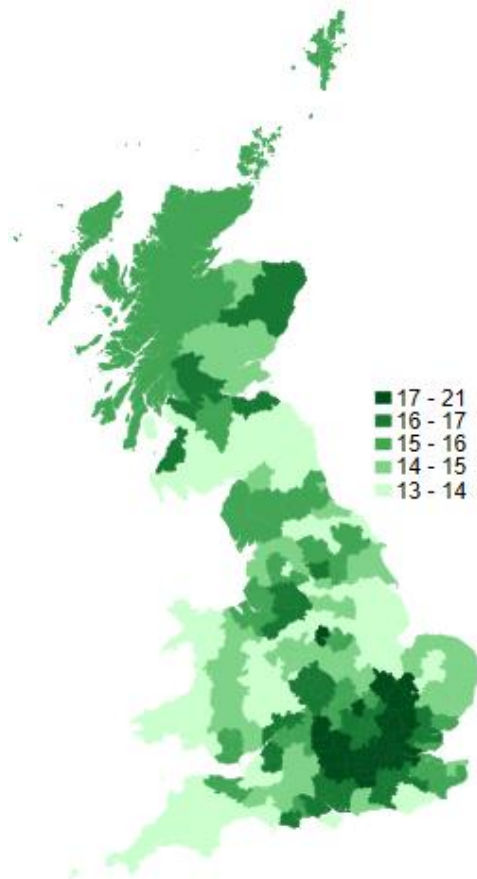
1. Patterns of geographical inequalities in pay and employment → **focus on hourly wages**
2. Importance of education and skills
3. Implications for policy



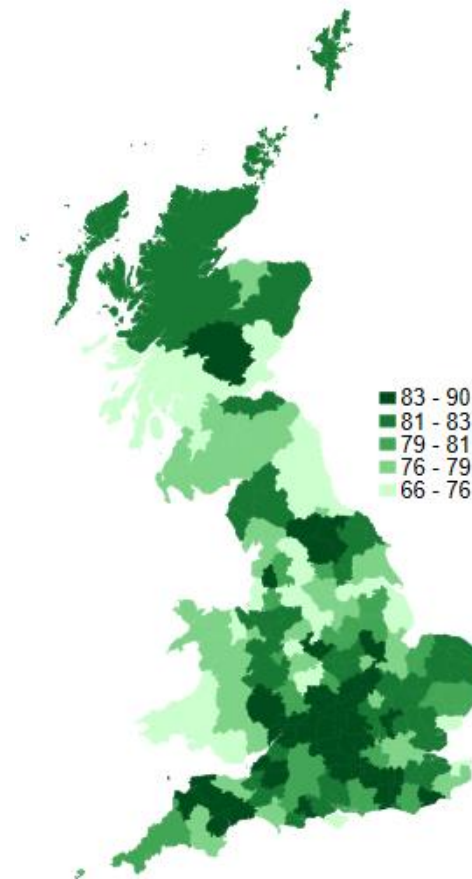
Patterns of geographical inequalities

Large differences in pay and employment across areas

Average hourly wage (£), 2019



Employment rate (%), 2019

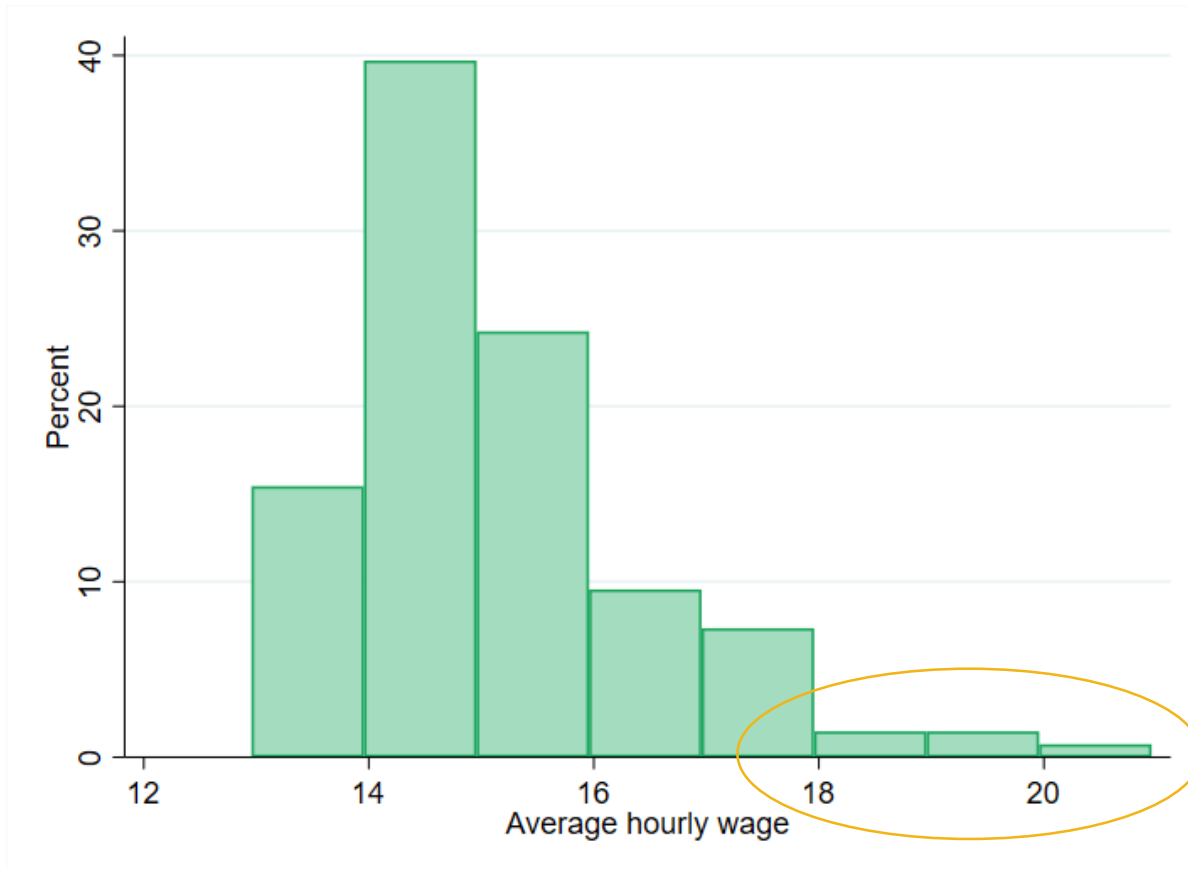


Source: Overman and Xu (2022)

Notes: 136 grouped LA-based TTWAs

Distribution of average wages is highly skewed

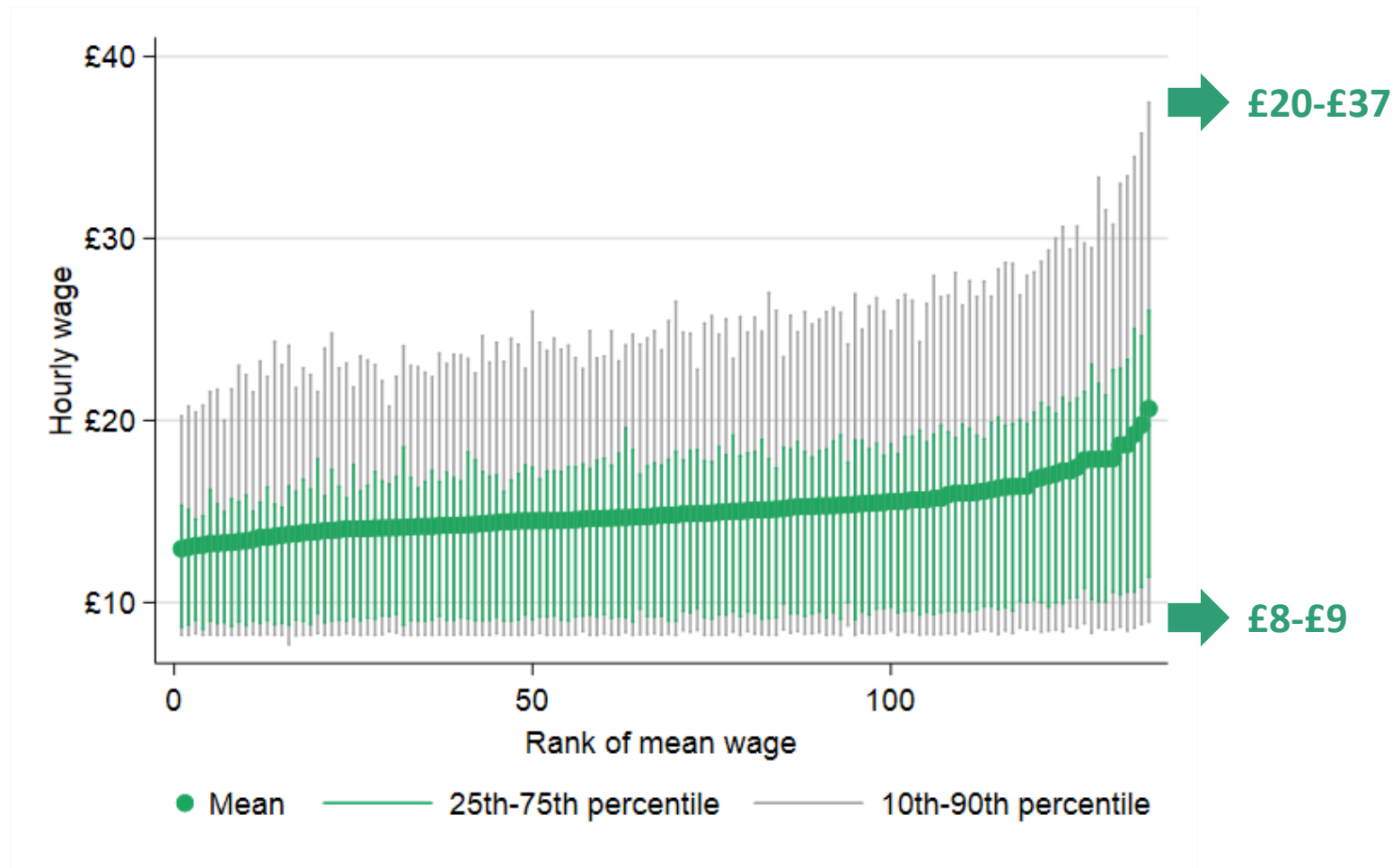
Distribution of average hourly wage, 2019



Source: Overman and Xu (2022)
Notes: 136 grouped LA-based TTWAs

Much more variation in wages at top of distribution than at bottom

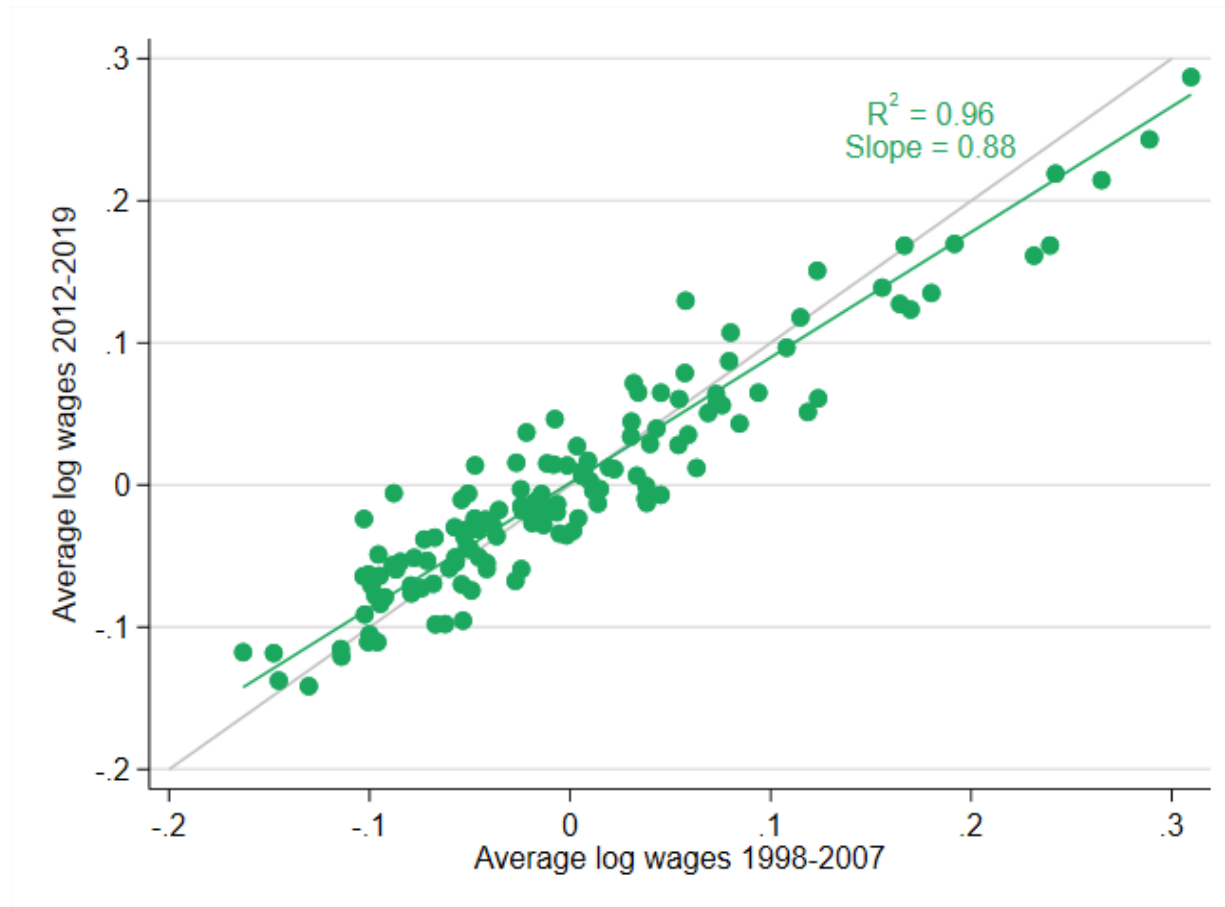
Distribution of wages between and within areas, 2019



Source: Overman and Xu (2022)

Geographical disparities in wages are highly persistent

Area-level average wages normalised around GB average, pre-/post-Great Recession



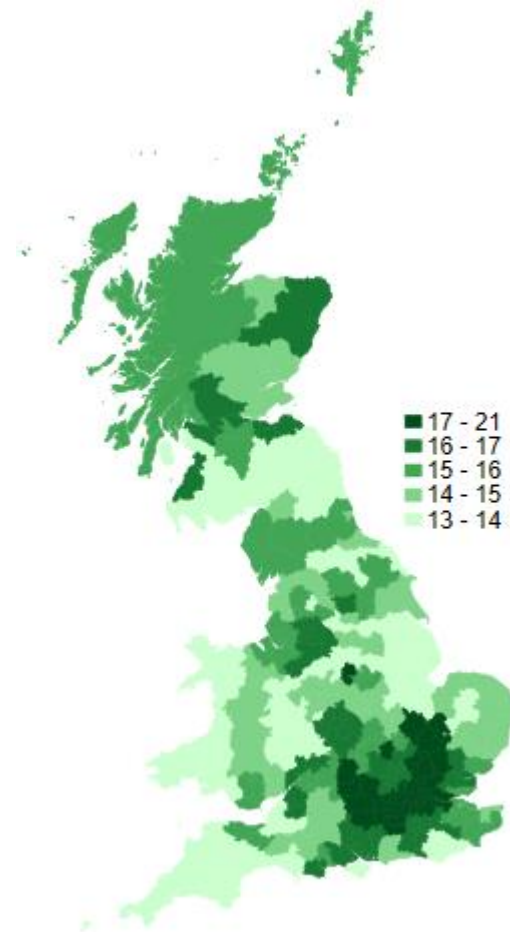
Source: Overman and Xu (2022)



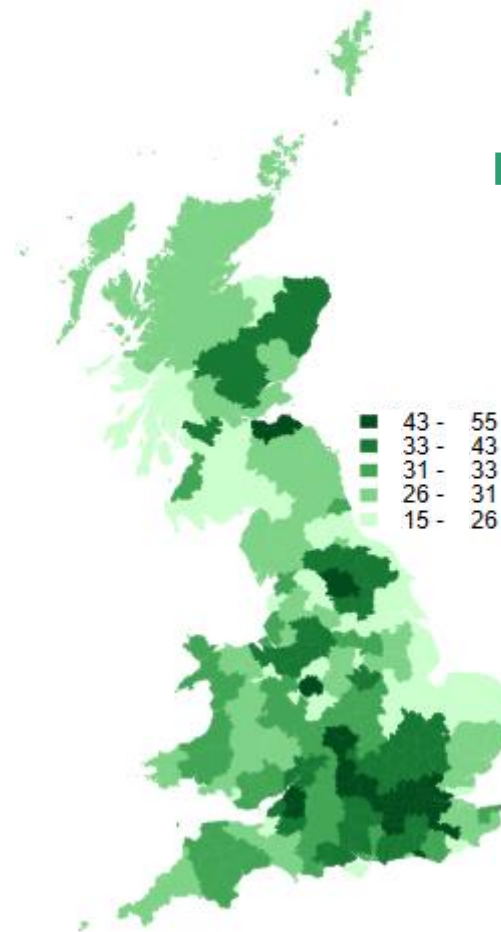
The role of skills

Area-level wages highly correlated with graduate shares

Average hourly wage, 2019



Graduate share, 2019



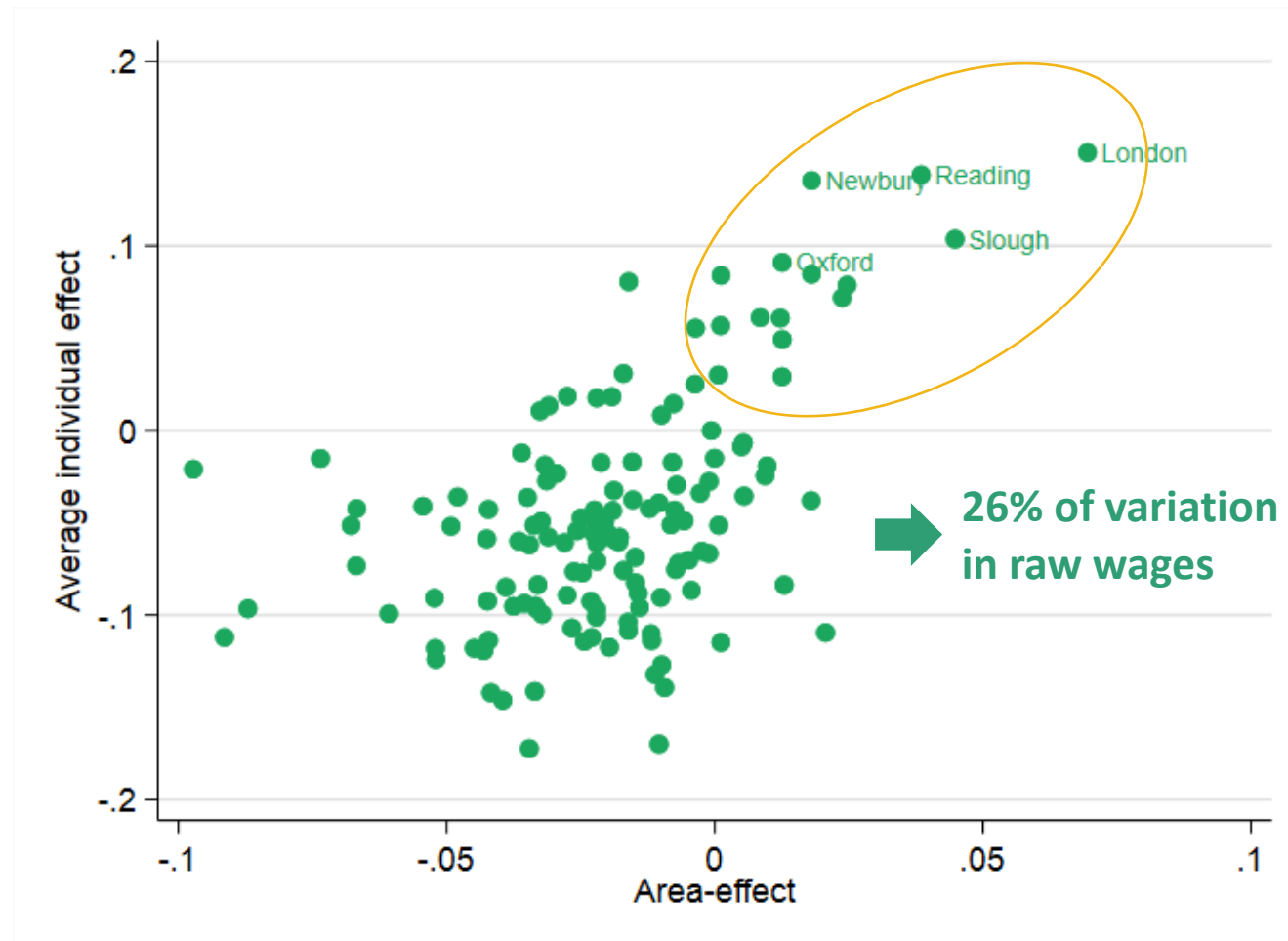
➔ 46% of variation

Most of spatial disparities in wages reflect differences in people

- Compare differences in raw wages v. **differences in wages that can be attributed to areas** ('area effects'), controlling for individual characteristics ('individual effects')
 - Area effect = local wage premium for a given (type of) individual
 - Individual effect = wage that a given individual would earn irrespective of where they worked
- Controlling for composition reduces variation in wages. In 2012-2019:
 - Min-max: 43% → 17%
 - 10th-90th percentiles: 21% → 6%
- Decomposing variation in average wages across areas:
 - **64%** reflects differences in average individual effects (characteristics)
 - **10%** reflects differences in area effects

High-earning people are in more productive places

Correlation between estimated area and individual effects, 2012-2019



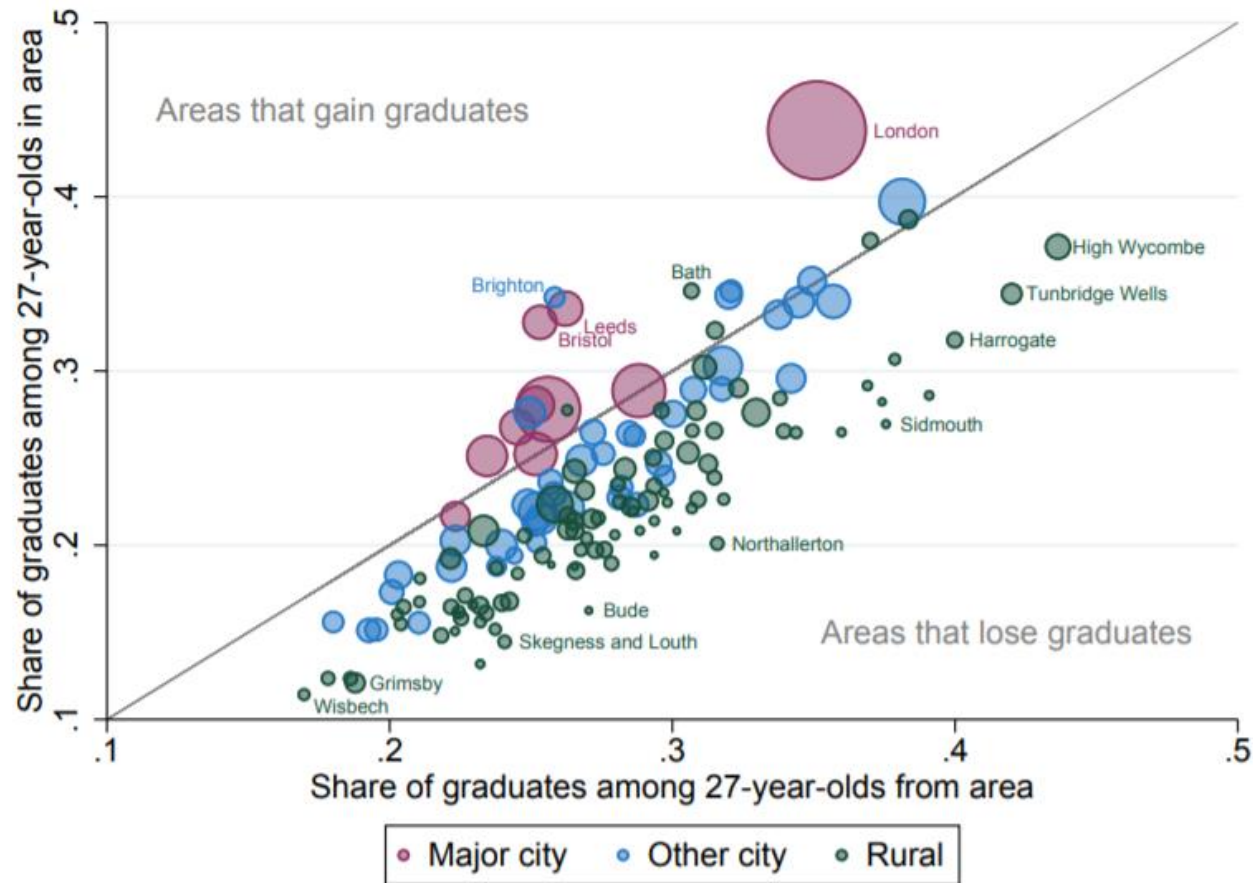
Source: Overman and Xu (2022)



**What drives geographical
inequalities in skills?**

Large differences in educational attainment, compounded by migration

Graduate share by place of origin v. place of residence

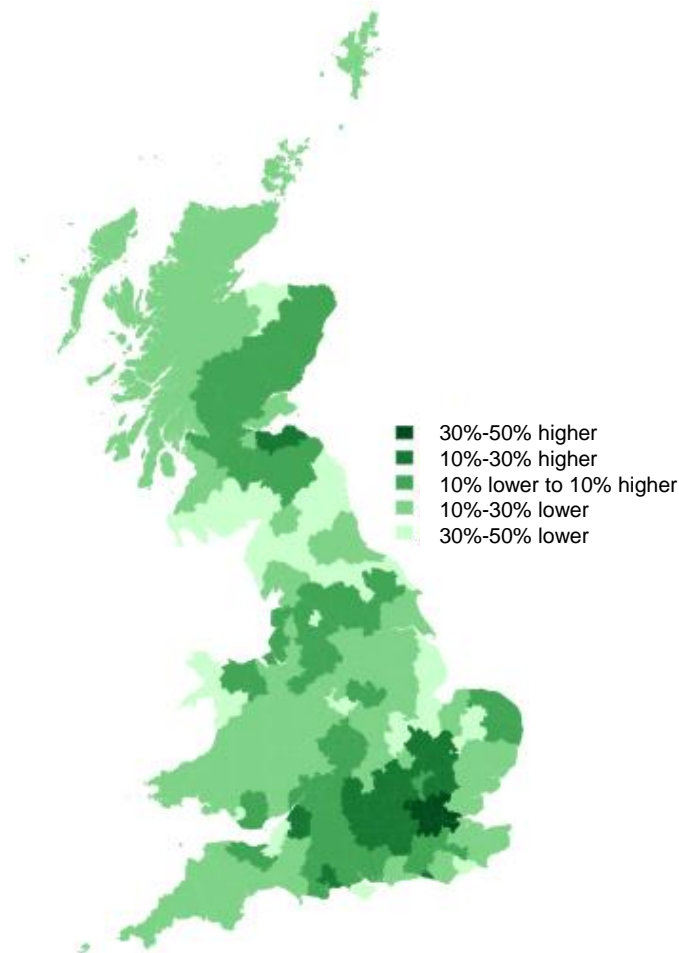


Source: Britton, van der Erve, Waltmann and Xu (2021)

Notes: 2002-2005 GCSE cohorts in England. Cities refer to Primary Urban Areas defined by Centre for Cities.

Demand for skills is geographically concentrated

Share of graduate jobs relative to national average, 2019

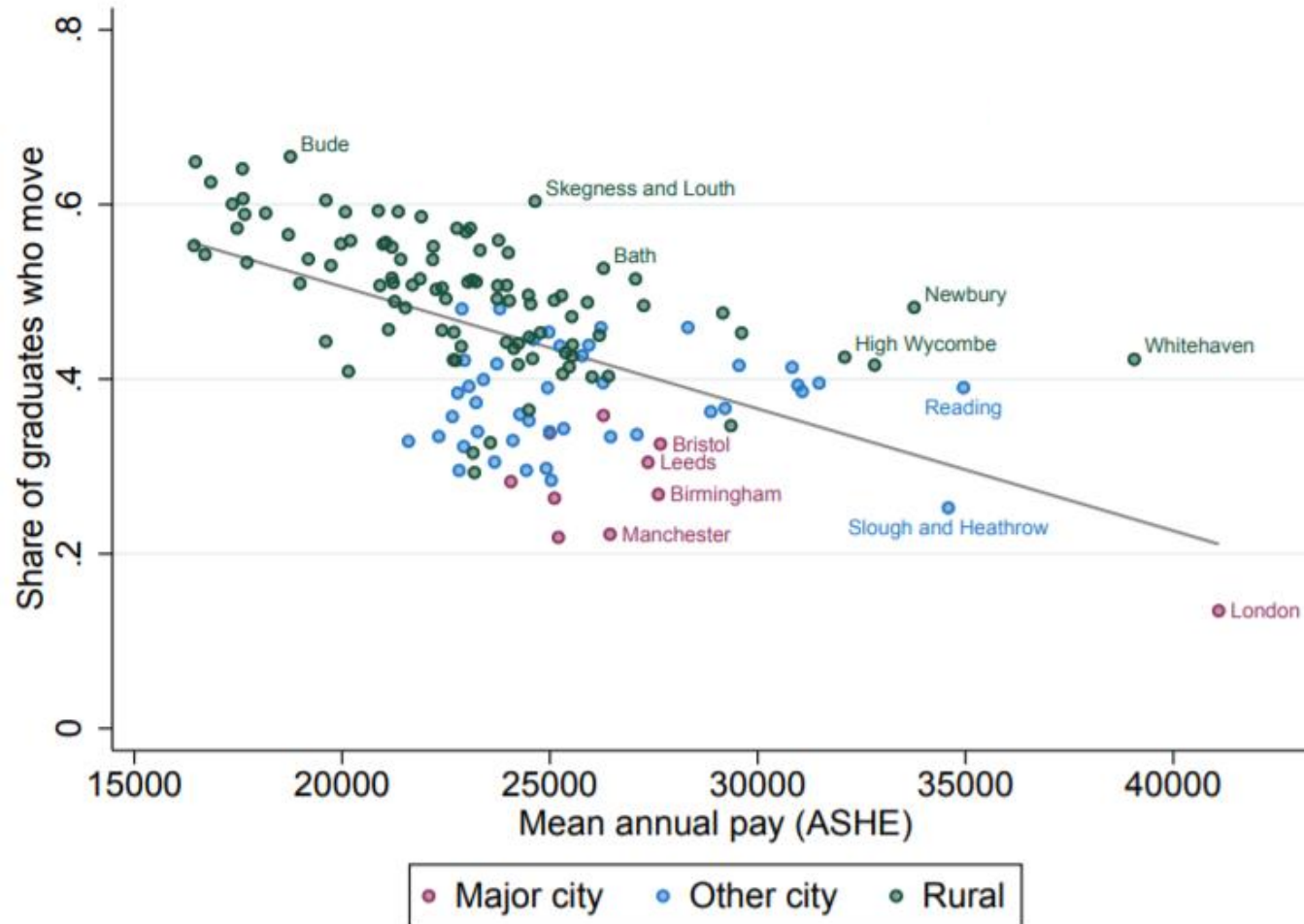


Source: Overman and Xu (2022)

Notes: Graduate jobs defined as RQF 6+

Graduates from poorer areas leave...

Share of graduates who leave by average pay in home TTWA

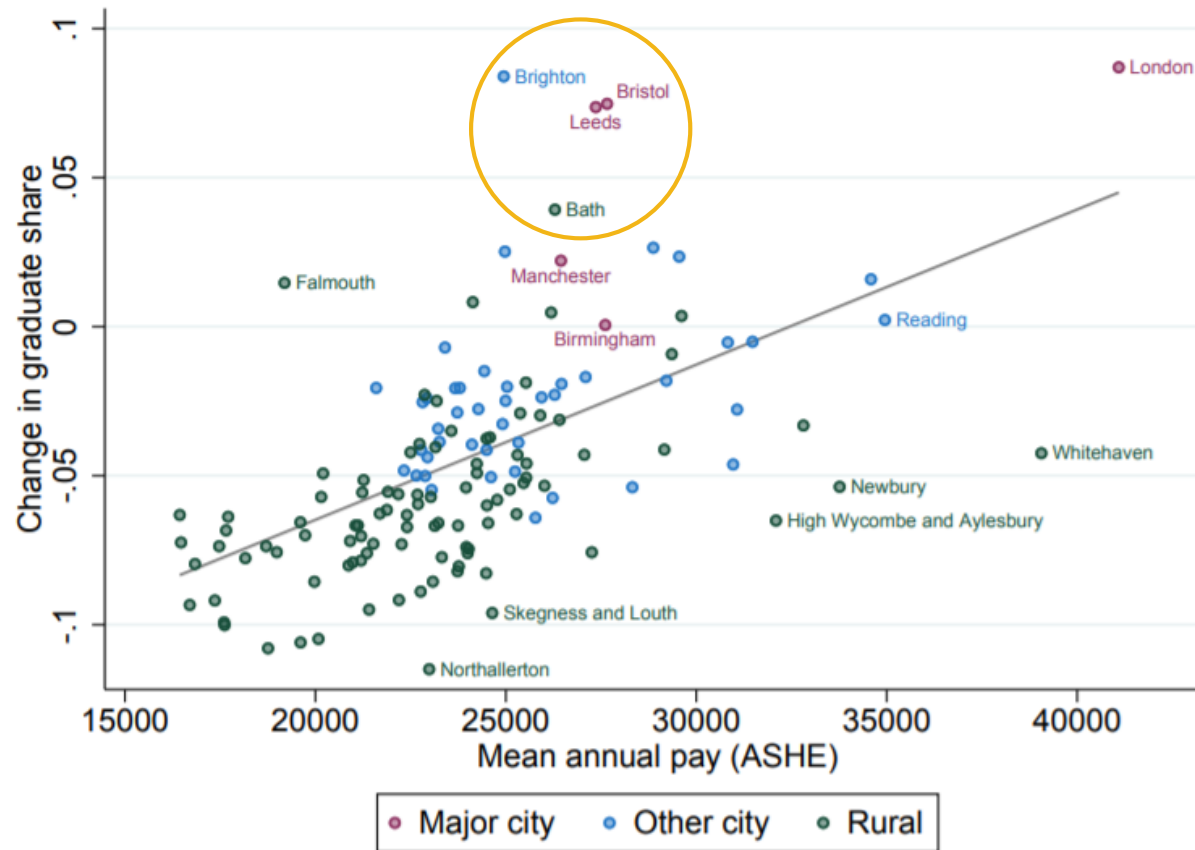


Source: Britton, van der Erve, Waltmann and Xu (2021)

Notes: 2002-2005 GCSE cohorts in England. Cities refer to Primary Urban Areas defined by Centre for Cities.

...For areas with high wages (and amenities)

Net graduate gain by average TTWA pay

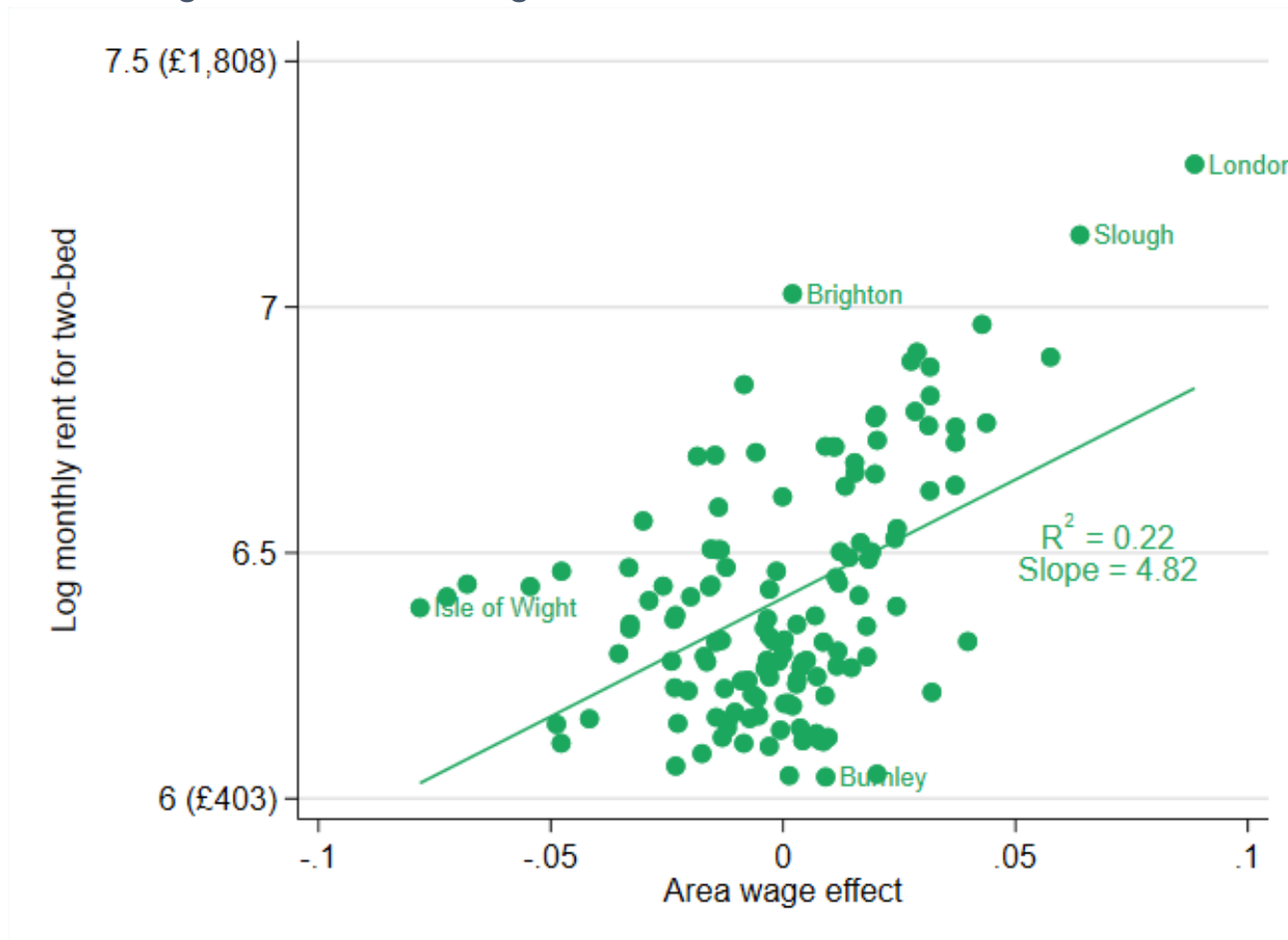


Source: Britton, van der Erve, Waltmann and Xu (2021)

Notes: 2002-2005 GCSE cohorts in England. Cities refer to Primary Urban Areas defined by Centre for Cities.

Higher-paying places have higher living costs

Area wage effects v. average rents, 2012-2019



Source: Overman and Xu (2022)



Policy implications

Discussion

- Most of differences in wages across areas are driven by differences in skills
 - Need to **boost skills** in left-behind places
- Differences in skills driven by differences in educational attainment (supply) and graduates moving to where the jobs are (demand)
 - Need **simultaneous action** on both fronts
- Need to be realistic about extent to which outcomes can be ‘levelled up’ across places, given scale of investment needed and agglomeration benefits
 - **Focus on a few places** outside London (‘level up’ regions not narrowly defined local areas)

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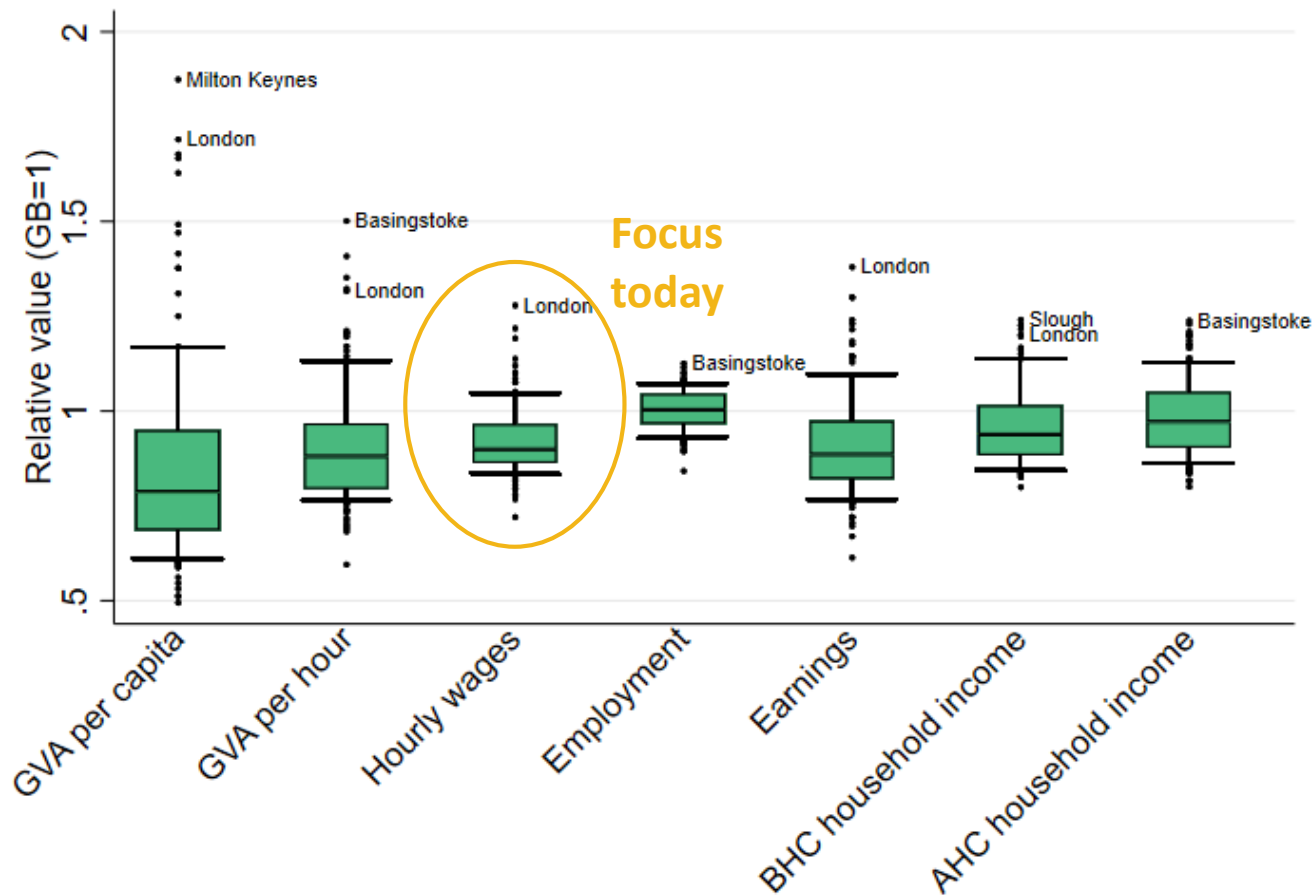




APPENDIX

Extent of inequality and ranking of areas depends on outcome

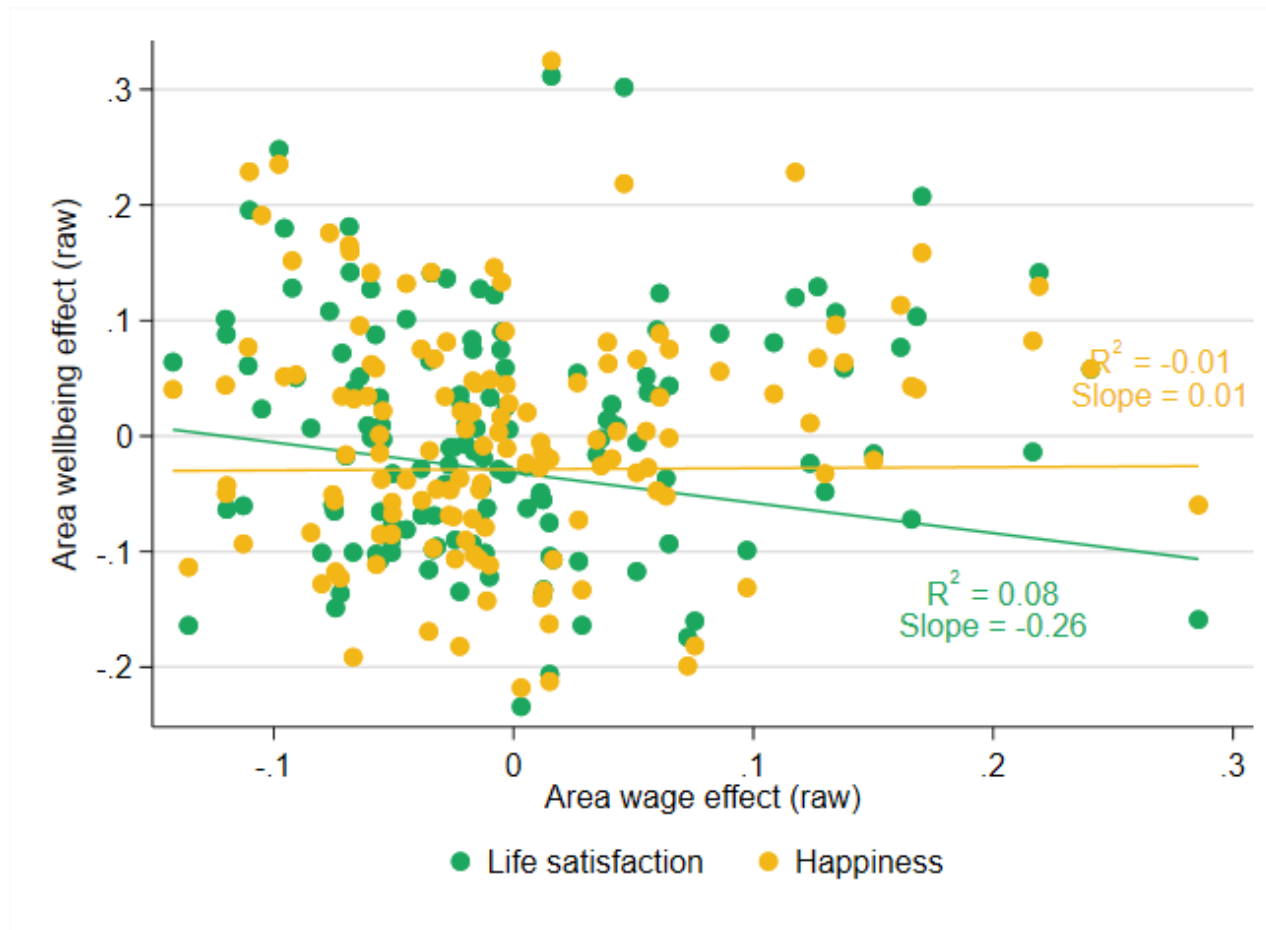
Distribution of economic outcomes, 2018



Source: Overman and Xu (2022)

No correlation between wage premiums and wellbeing

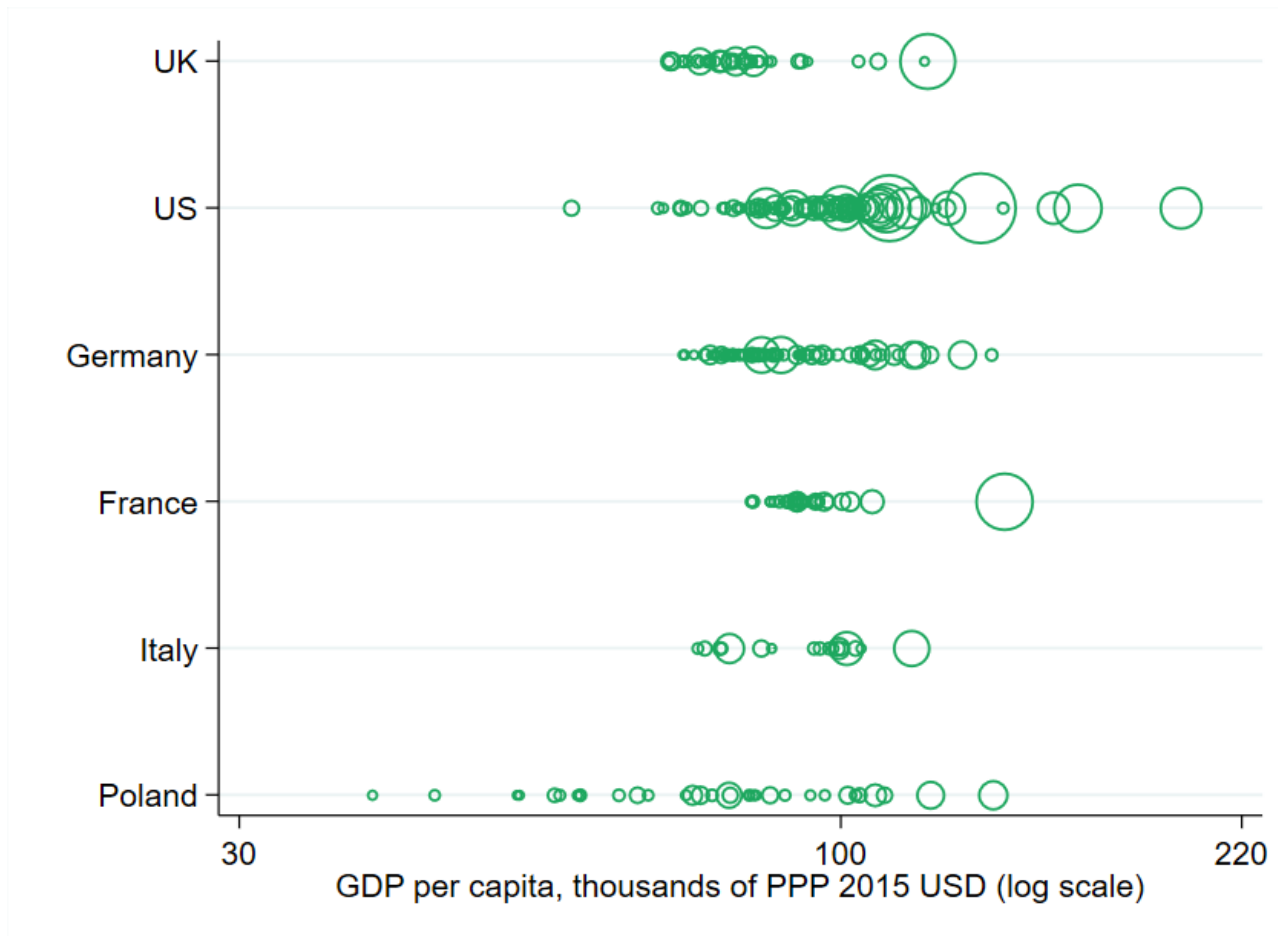
(Lack of) correlation between area-level wages and wellbeing, 2012/13-2019



Source: Overman and Xu (2022)

Many cities in the UK are not very productive

GDP per capita by metropolitan area, selected countries 2016-2018



Source: Author's analysis using OECD metropolitan area statistics