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Why are levels of pay so different across the UK?



Inequality

The IFS Deaton Review



Economic
and Social
Research Council

This presentation

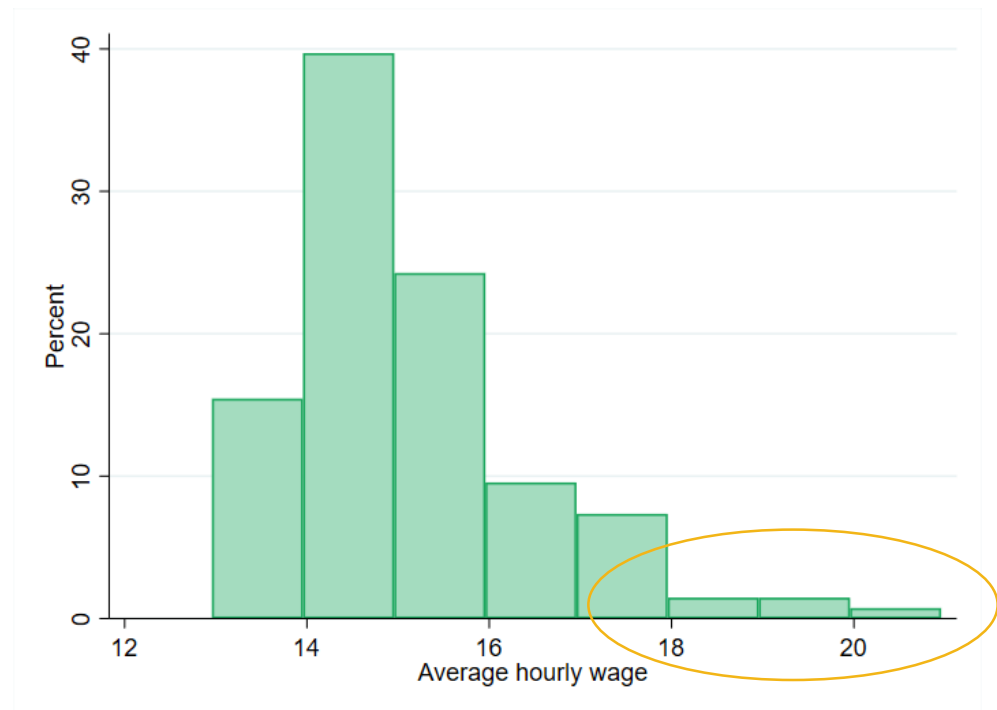
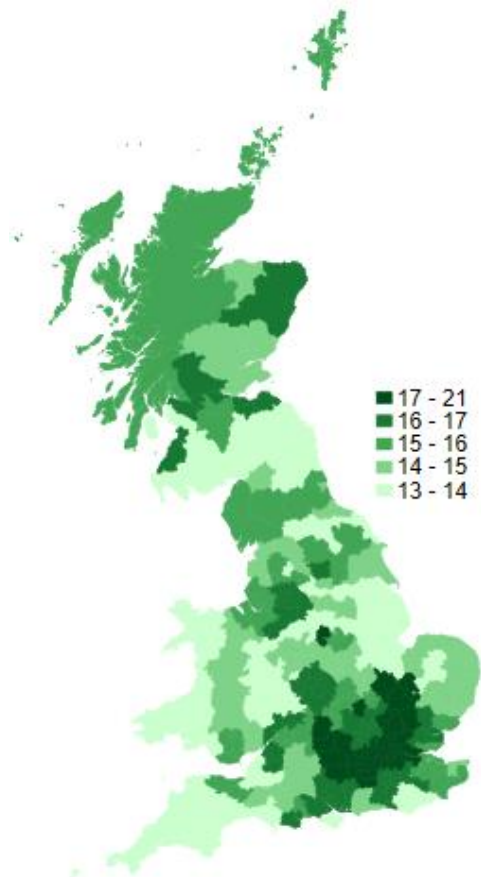
1. Large and persistent geographic inequalities in labour market outcomes → **focus on hourly wages**
2. Variation in average wages across areas mostly reflects **differences in the types of people** who live in different places
3. Skills differences driven by differences in **supply of and demand for skills** → educational attainment and selective mobility
4. Discussion on policy implications



Patterns of geographical inequalities

Large differences in wages across areas

Average hourly wage, 2019

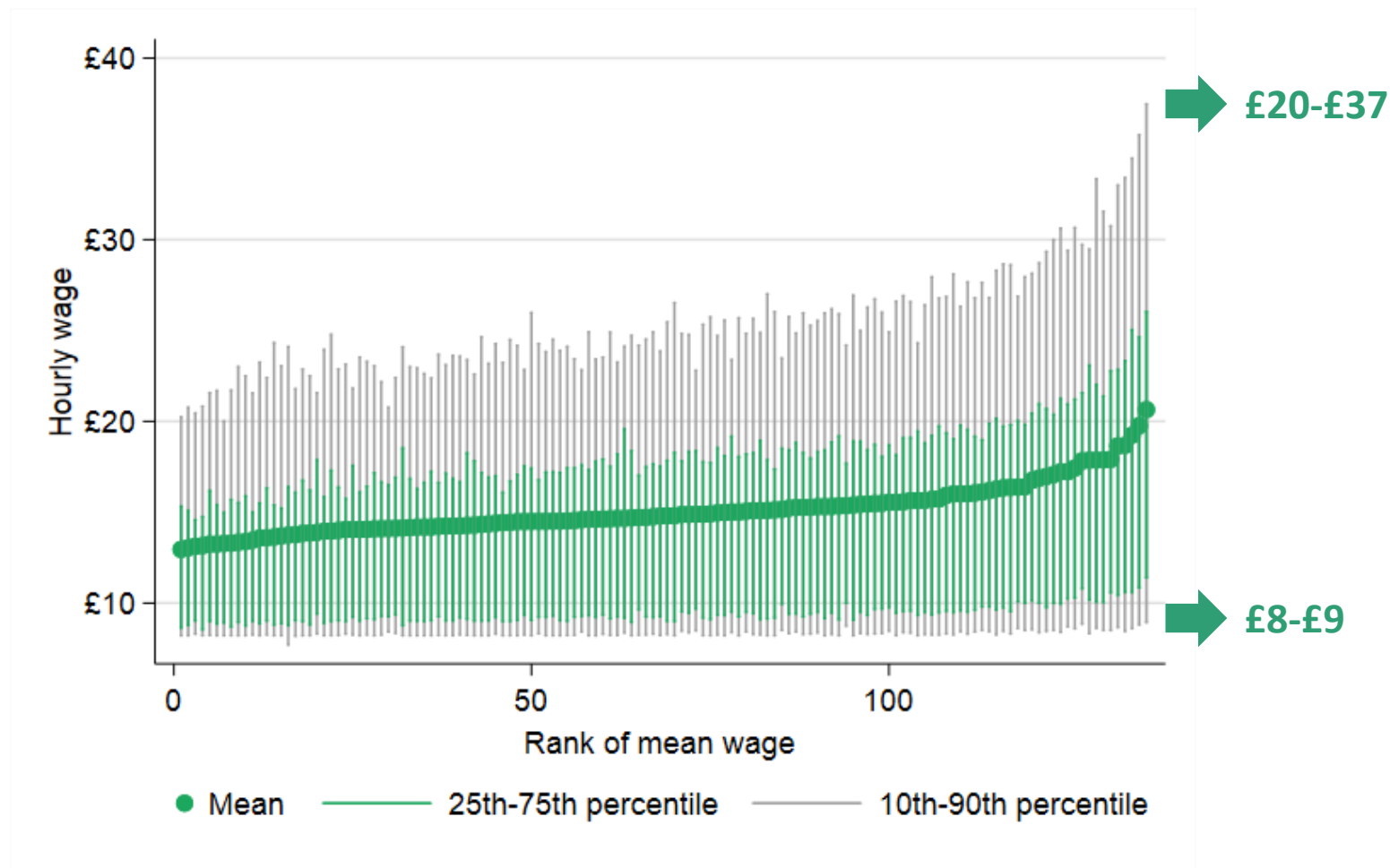


Source: Overman and Xu (2022)

Notes: 136 grouped LA-based TTWAs

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

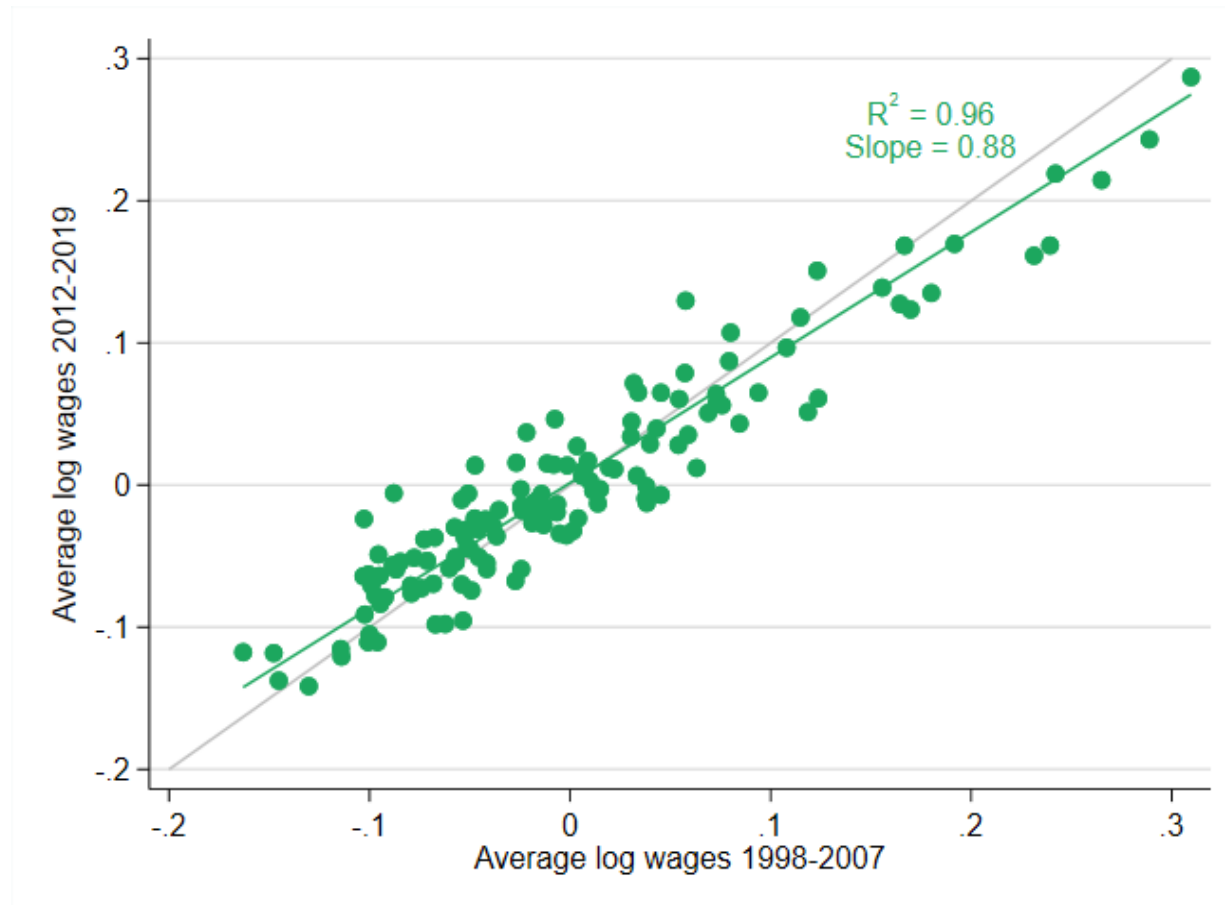
Distribution of wages between and within areas, 2019



Source: Overman and Xu (2022)

Geographical disparities in wages are highly persistent

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



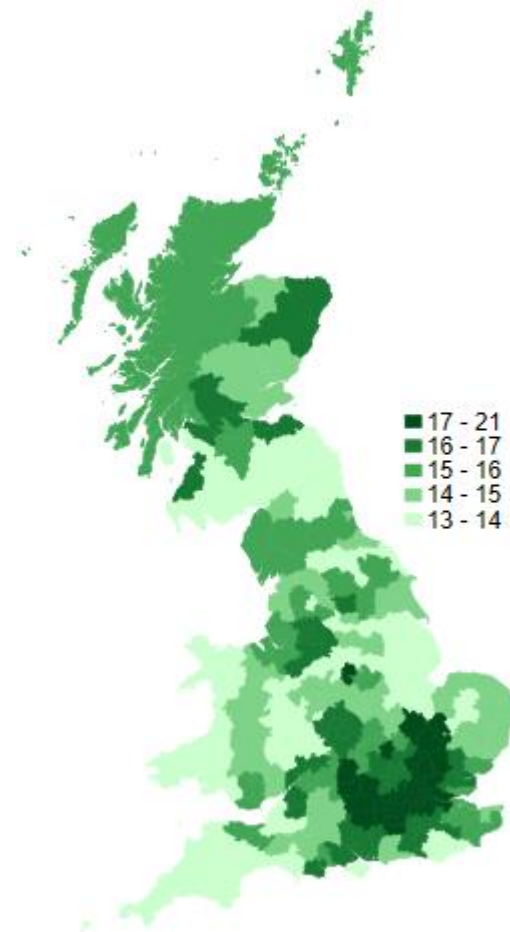
Source: Overman and Xu (2022)



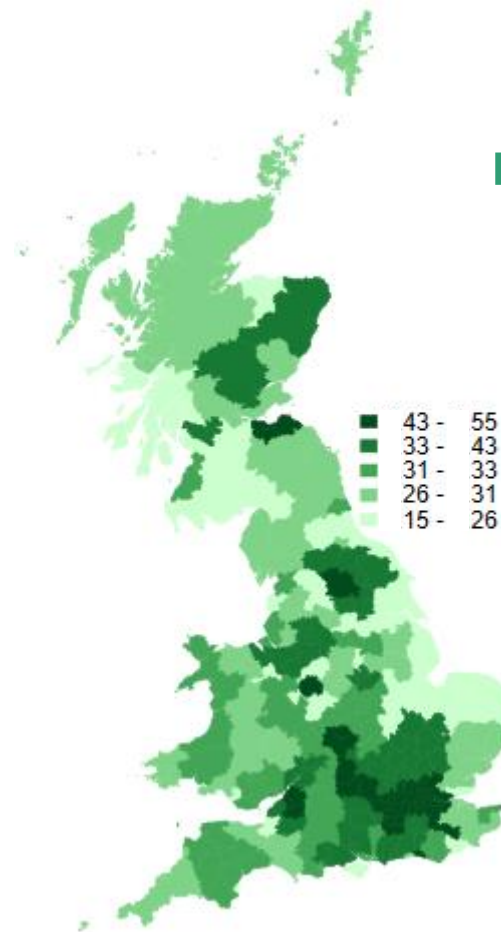
The role of skills

Area-level wages highly correlated with graduate shares

Average hourly wage, 2019



Graduate share, 2019



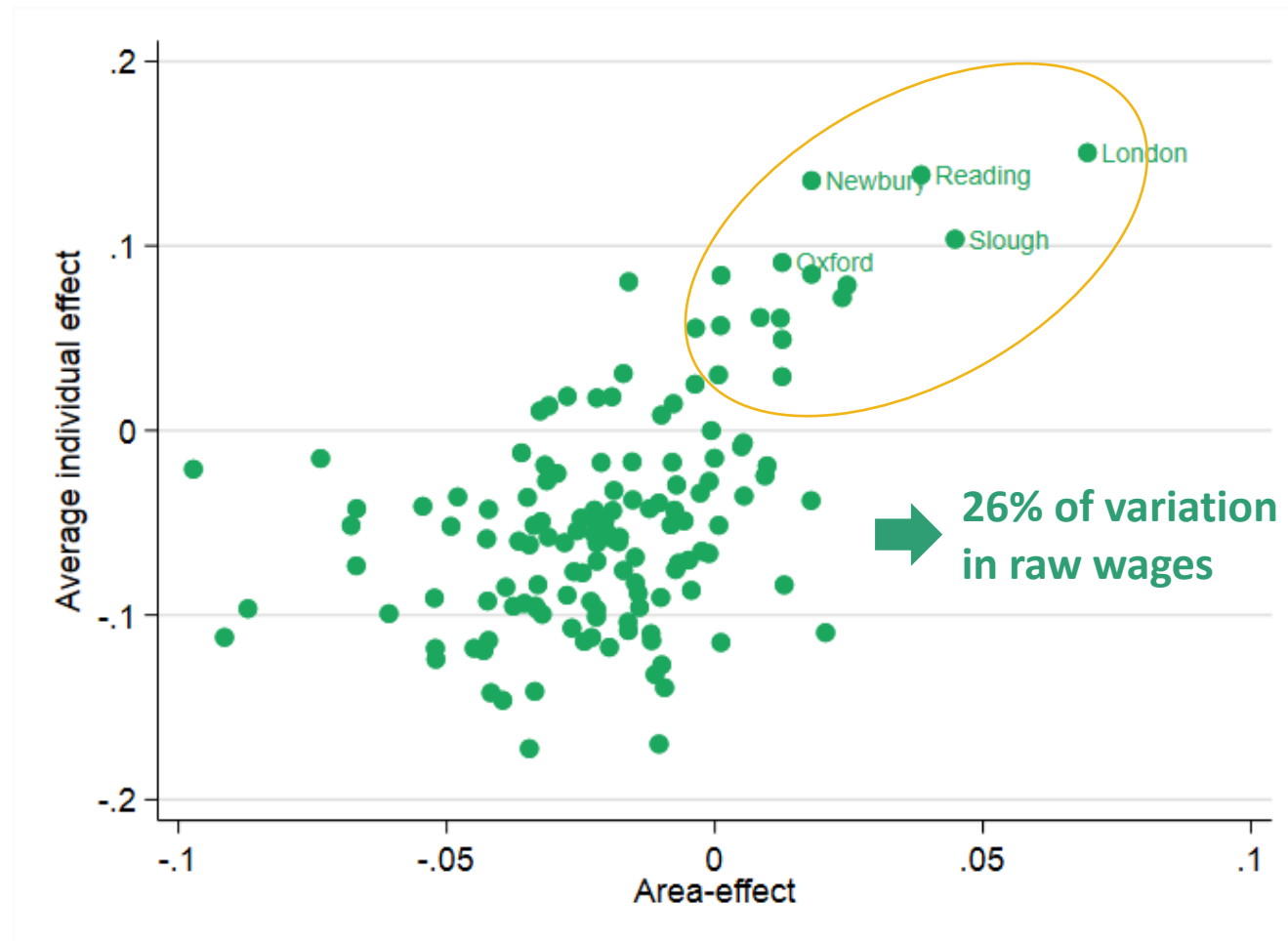
➔ 46% of variation

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



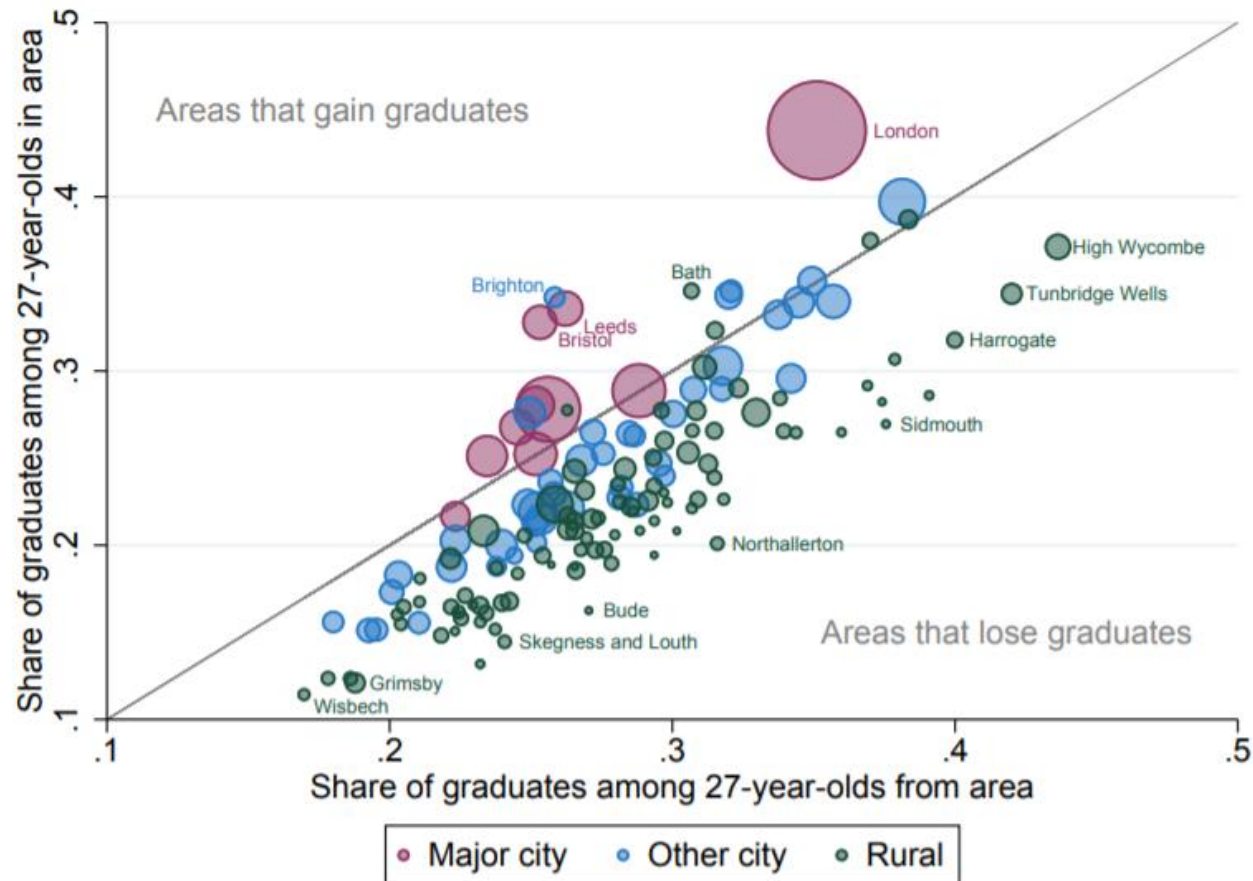
Source: Overman and Xu (2022)



**What drives geographical
inequalities in skills?**

Large differences in educational attainment, compounded by migration

Graduate share by place of origin v. place of residence

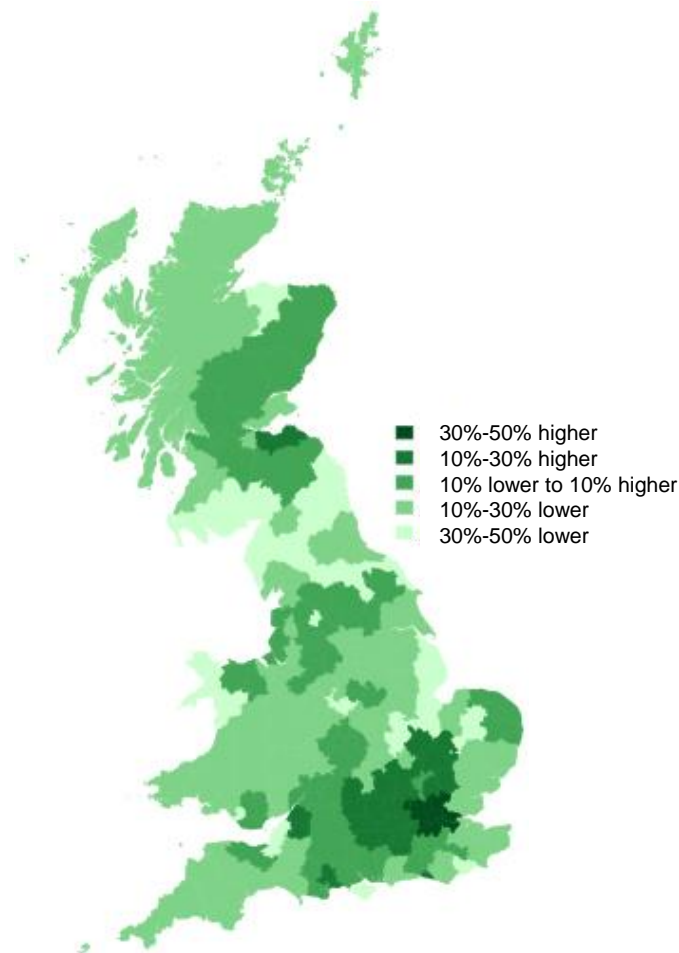


Source: Britton, van der Erve, Waltmann and Xu (2021)

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

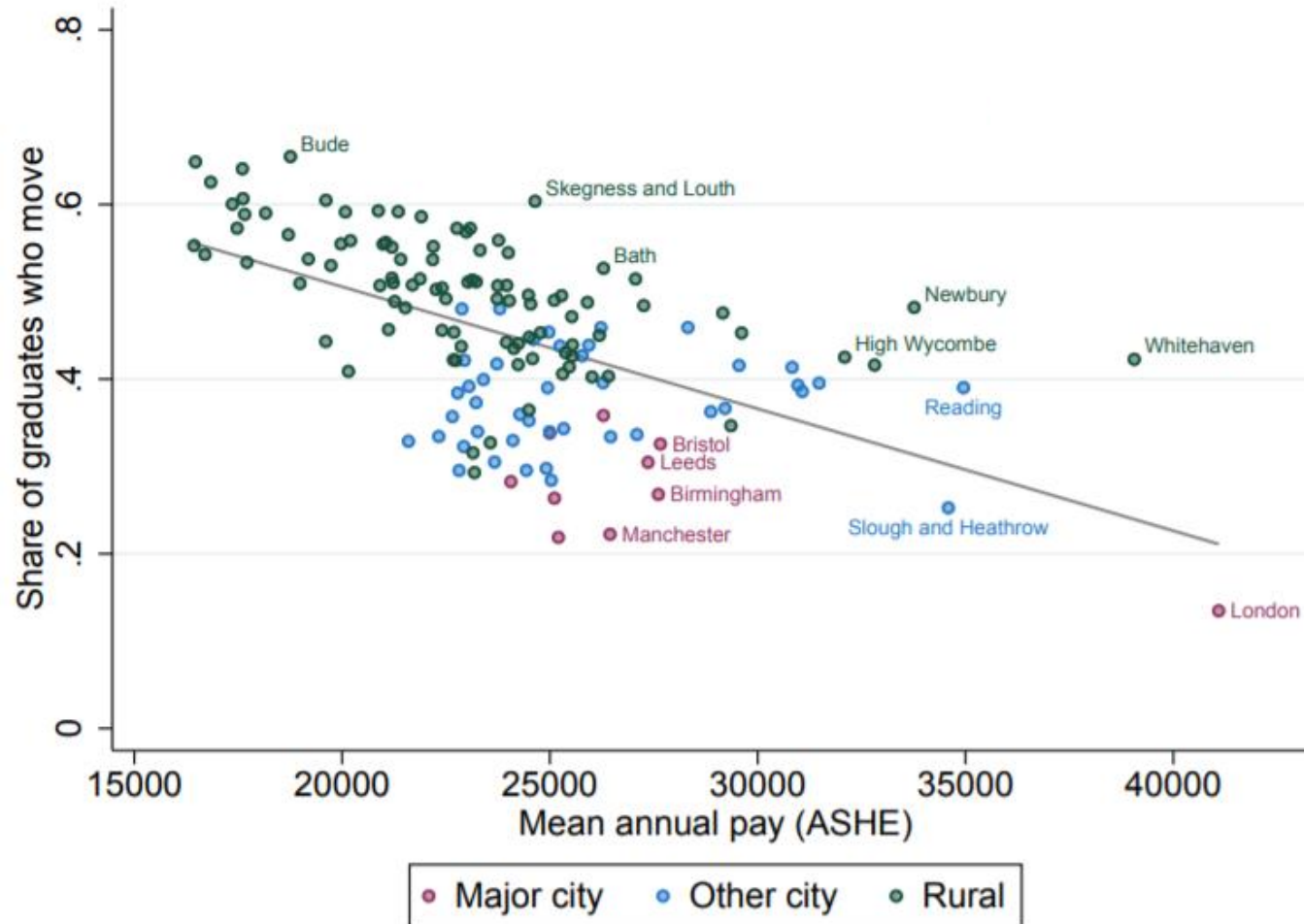


Source: Overman and Xu (2022)

Notes: Graduate jobs defined as RQF 6+

Graduates from poorer areas leave...

Share of graduates who leave by average pay in home TTWA

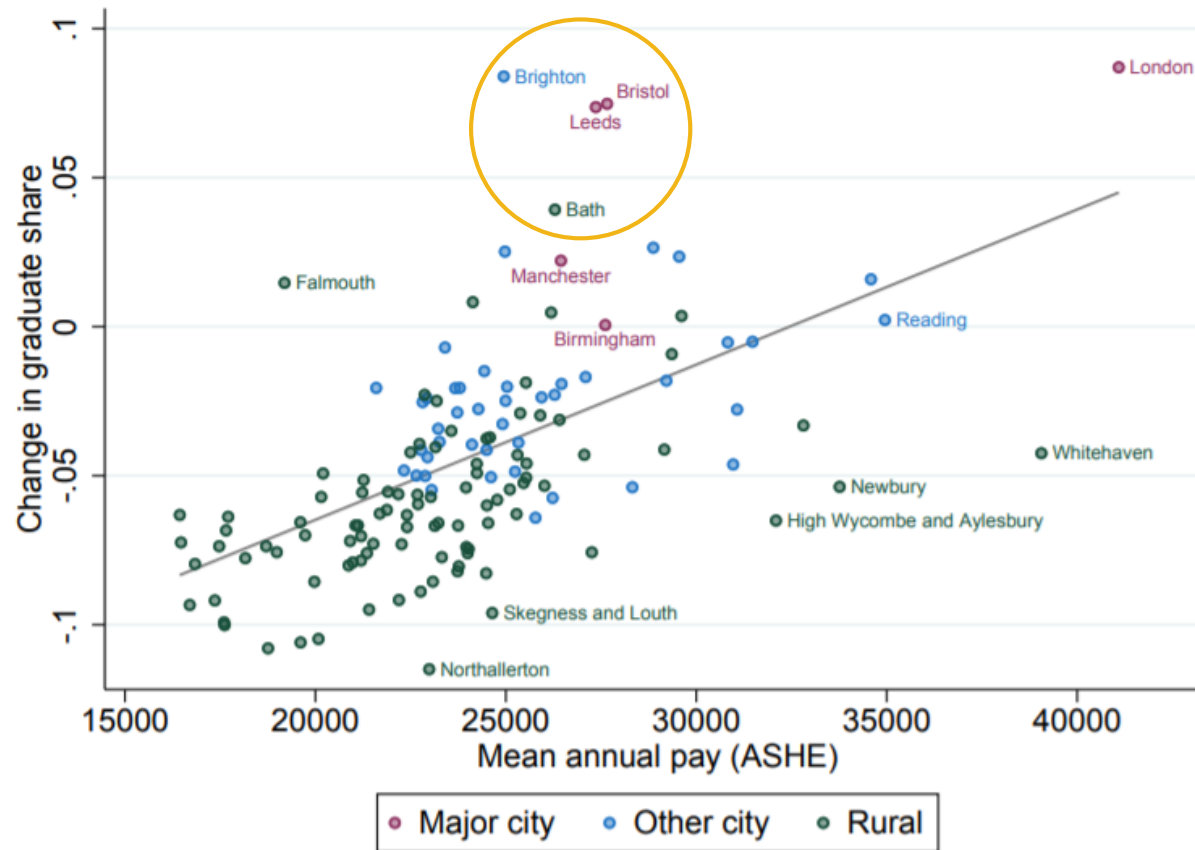


Source: Britton, van der Erve, Waltmann and Xu (2021)

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

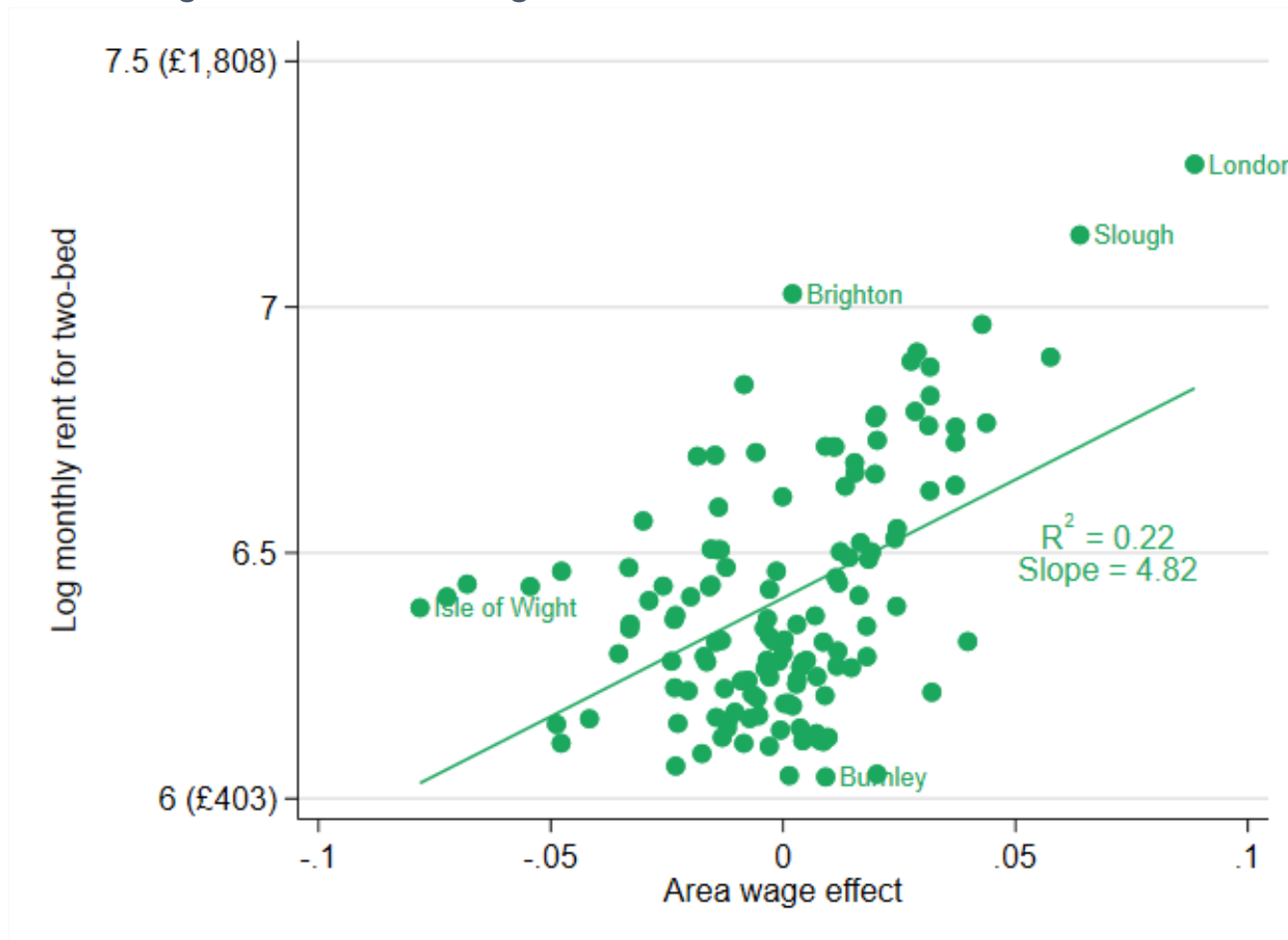


Source: Britton, van der Erve, Waltmann and Xu (2021)

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)

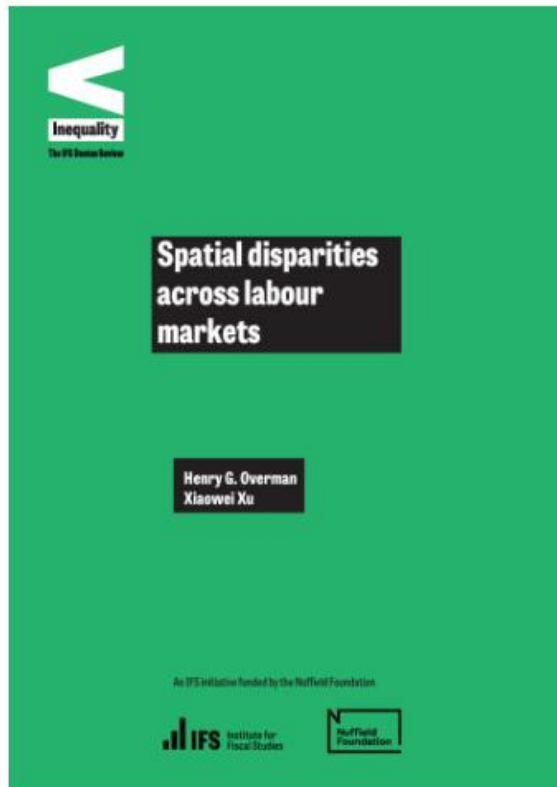
Levelling-up not a cure-all: poverty rates are high in London

→ Need to integrate levelling up agenda with **agenda on individual/household inequality**

Thank you!

Read the chapter (and download data):

<https://ifs.org.uk/inequality/spatial-disparities-across-labour-markets/>



More on the Deaton Review:

<https://ifs.org.uk/inequality/>

DOWNLOAD [PDF 3 MB] 

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