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@TheIFS

# Geographical inequalities: causes and consequences



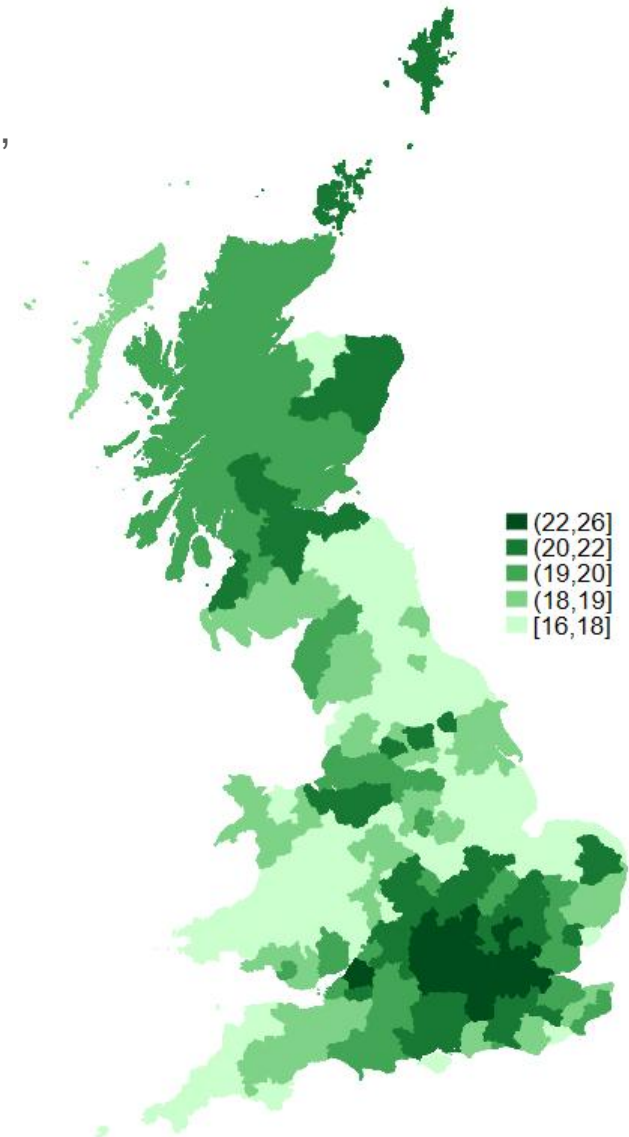
Economic  
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# This presentation

- 3 basic facts (focus on wages)
- How did we get here?
- What does this mean for productivity?

# 1. Large differences in wages across areas

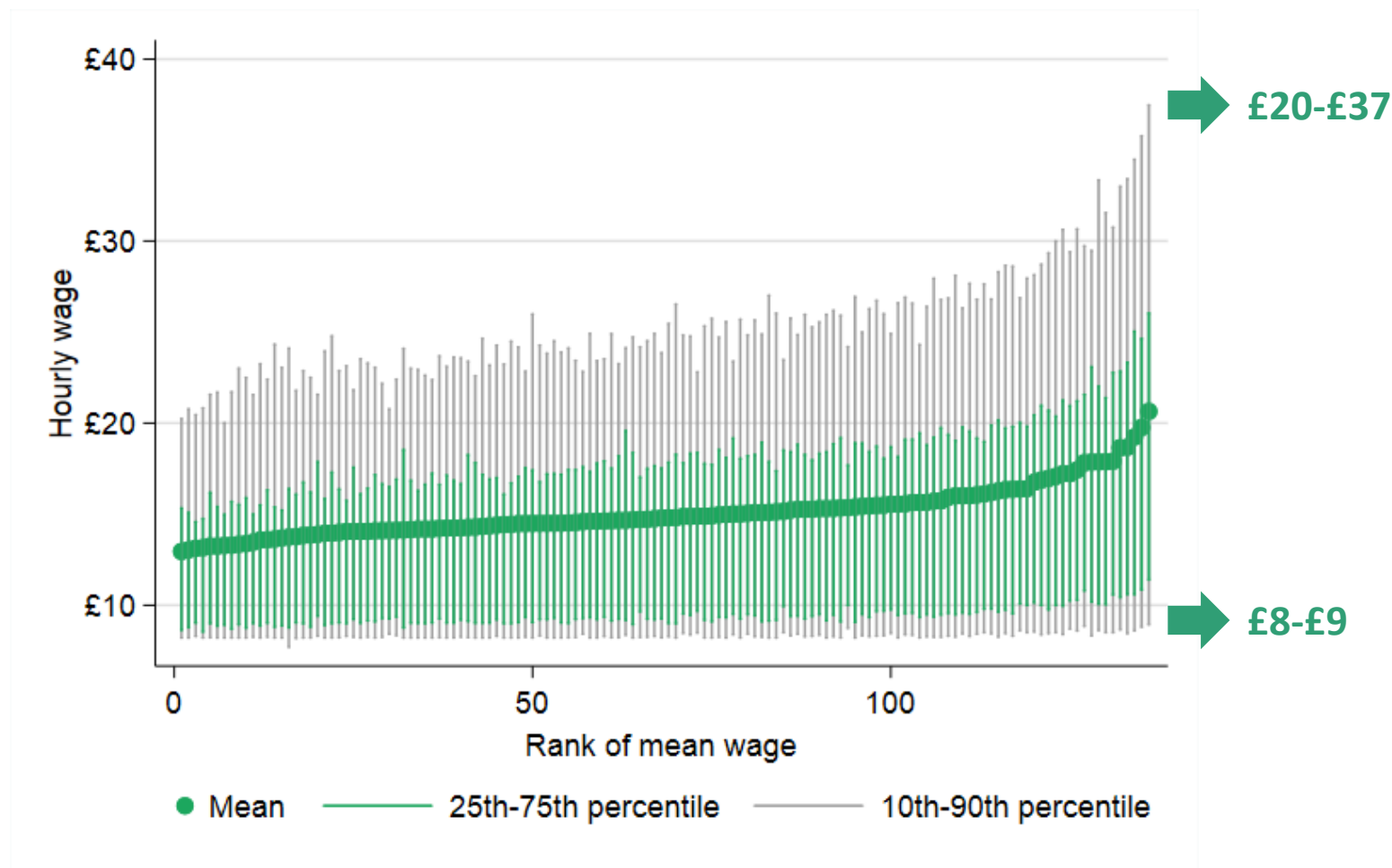
Average hourly wage by travel to work area (TTWA), 2024



Source: ASHE    Notes: Shows LA-based approximations of TTWAs

## 2. Much more variation in wages at top of distribution than at bottom

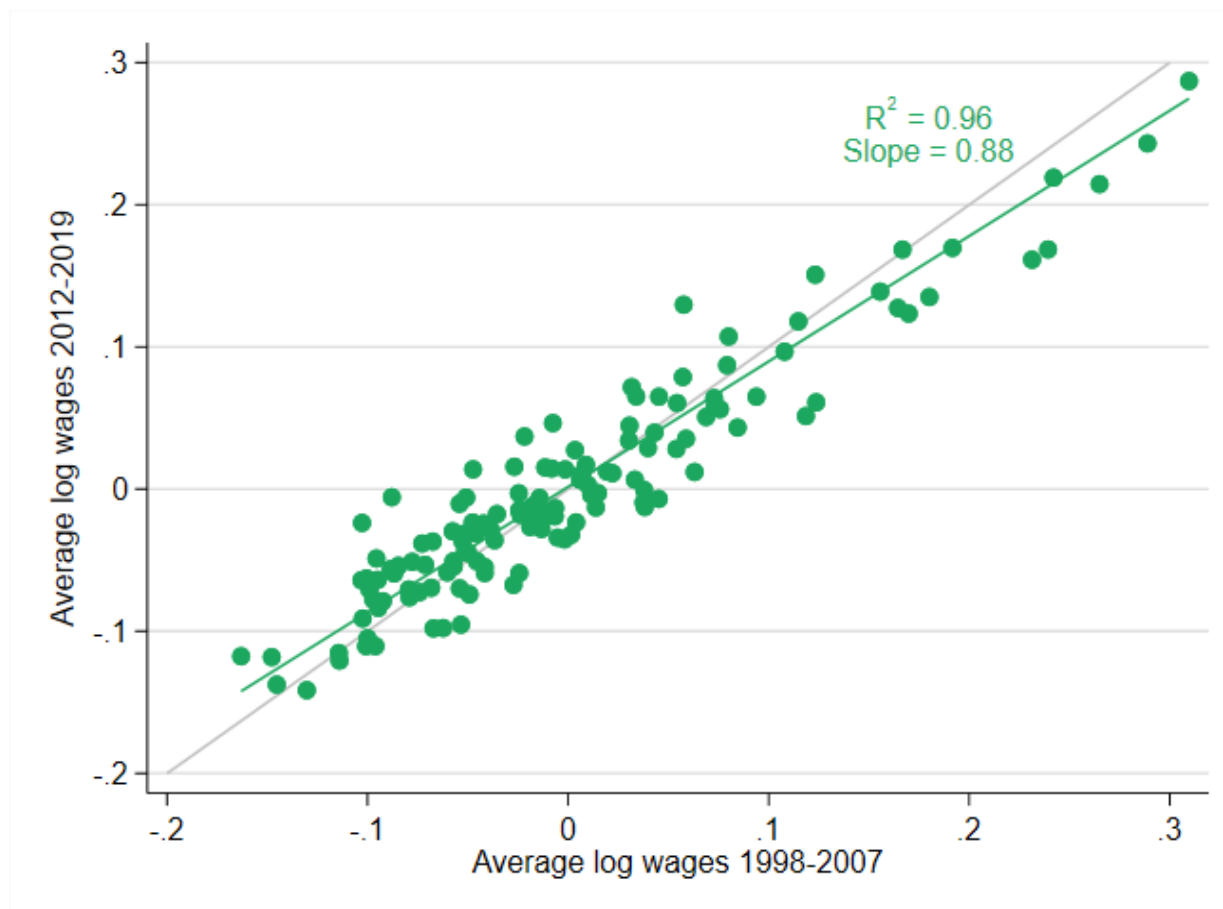
Distribution of wages between and within TTWAs, 2019



Source: Overman and Xu (2022)

### 3. Geographical disparities in wages are highly persistent

TTWA-level average wages normalised around GB average, 10 years pre-/post-Great Recession



Source: Overman and Xu (2022)

# New jobs are the top or bottom of the wage distribution

Top 10 jobs with the biggest rise in employment, 1993-2022

Occupation group (three-digit SOC)	Employment 1993	Employment 2022
IT and telecoms professionals	275,600	1,447,500
Functional managers and directors	342,300	1,034,100
Caring personal services	646,900	1,288,100
Business, research and admin professionals	373,700	943,800
Teaching and educational professionals	973,100	1,540,500
Business, finance and related associate professionals	355,000	875,800
Childcare and related services	264,300	749,700
Health professionals	199,100	645,600
Sales and marketing professionals	630,400	990,300
Waiters and bar staff	601,700	812,500

Notes: Wage deciles based on median hourly wage in occupation. Employment is rounded to the nearest 100. Occupation names have been shortened. 'Waiters and bar staff' refers to 'other elementary services occupations', which also includes caterers.

Source: Xu (2023)

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Top 10 jobs with the biggest rise in employment, 1993-2022

Occupation group (three-digit SOC)	Employment 1993	Employment 2022	Wage decile 1997	Wage decile 2022
IT and telecoms professionals	275,600	1,447,500	9	9
Functional managers and directors	342,300	1,034,100	10	10
Caring personal services	646,900	1,288,100	2	2
Business, research and admin professionals	373,700	943,800	9	9
Teaching and educational professionals	973,100	1,540,500	10	10
Business, finance and related associate professionals	355,000	875,800	10	8
Childcare and related services	264,300	749,700	1	1
Health professionals	199,100	645,600	10	10
Sales and marketing professionals	630,400	990,300	9	8
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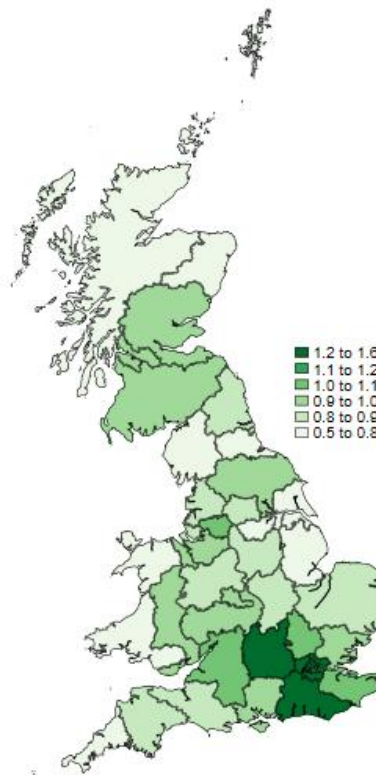
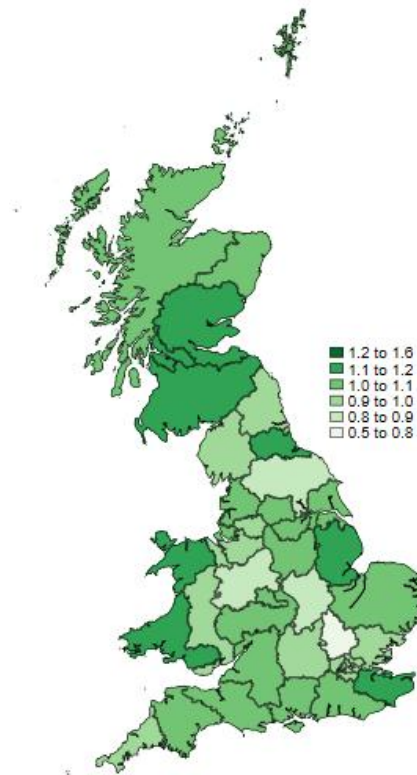
Source: Xu (2023)

# Low-skilled jobs emerged everywhere, but high-skilled jobs emerged in/around London

Concentration of top 10 emerging jobs by NUTS2 region, 2022

Does not require a degree

Requires a degree

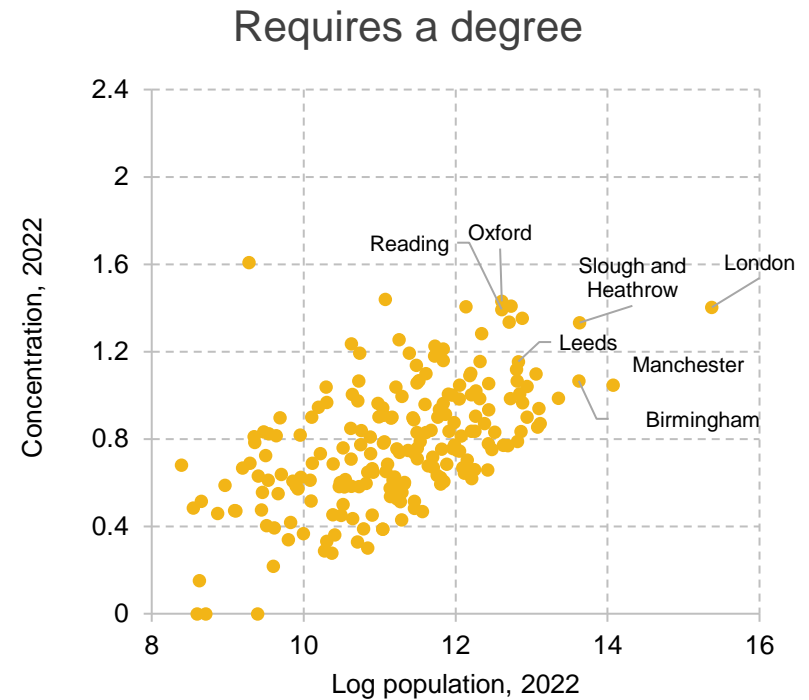
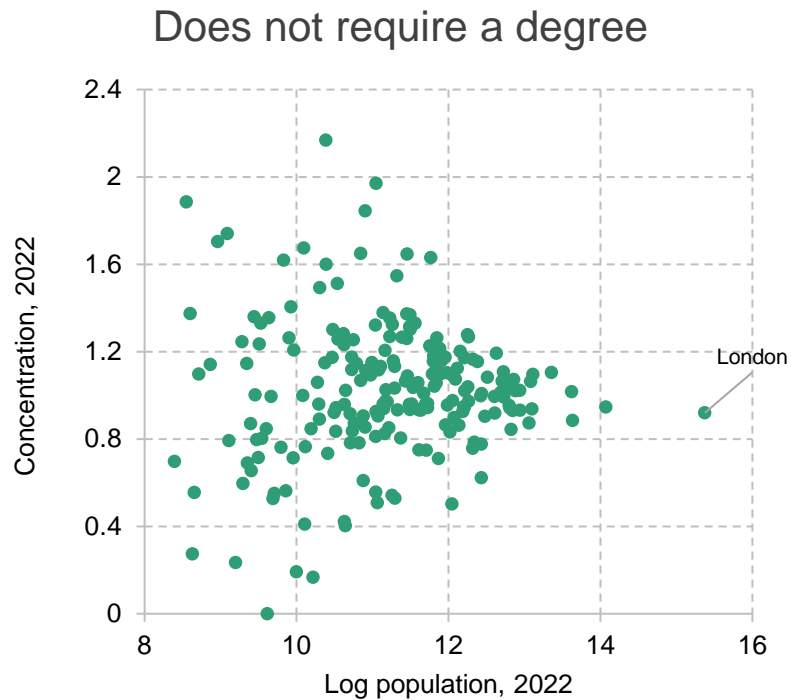


Notes: Skill classification based on RQF (see Aghion et al., 2023). Concentration measured by location quotient.  
Source: Xu (2023)



# High-skilled new jobs are concentrated in cities

Correlation between concentration of top 10 emerging jobs and TTWA size, 2022



Notes: TTWA refers to TTWA of residence. Concentration measured by location quotient.

Source: Xu (2023)

# Not just structural changes – also a result of government policy



- Britain deindustrialised more, and more quickly than other countries
- Lack of investment in North and Midlands (Stansbury, Turner and Balls 2023)
  - UK spends less on transport infrastructure than similar countries; investment has gone disproportionately to London and SE
  - R&D spending also highly skewed; public investment even more skewed towards London and SE than private investment

# Only London remains a high-performing region

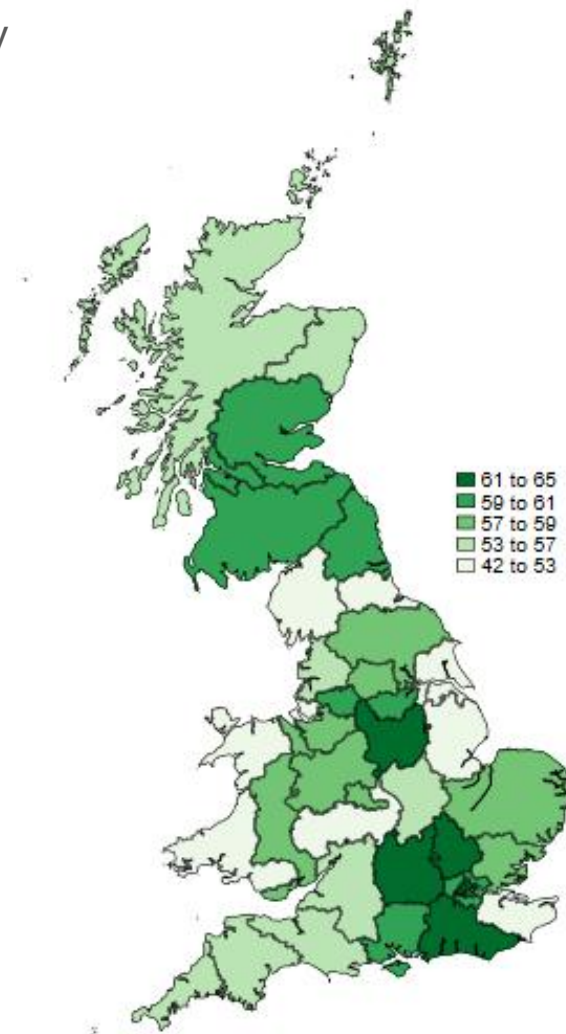
UK regional GDP per worker relative to European mean, 1960–2010



Source: Allen, R. C. (2021), 'Technical change, globalisation and the labour market: British and American experience since 1620'

# Graduates outside London are less able to make use of their skills

Share of graduates working in a graduate job by NUTS2 region, 2022

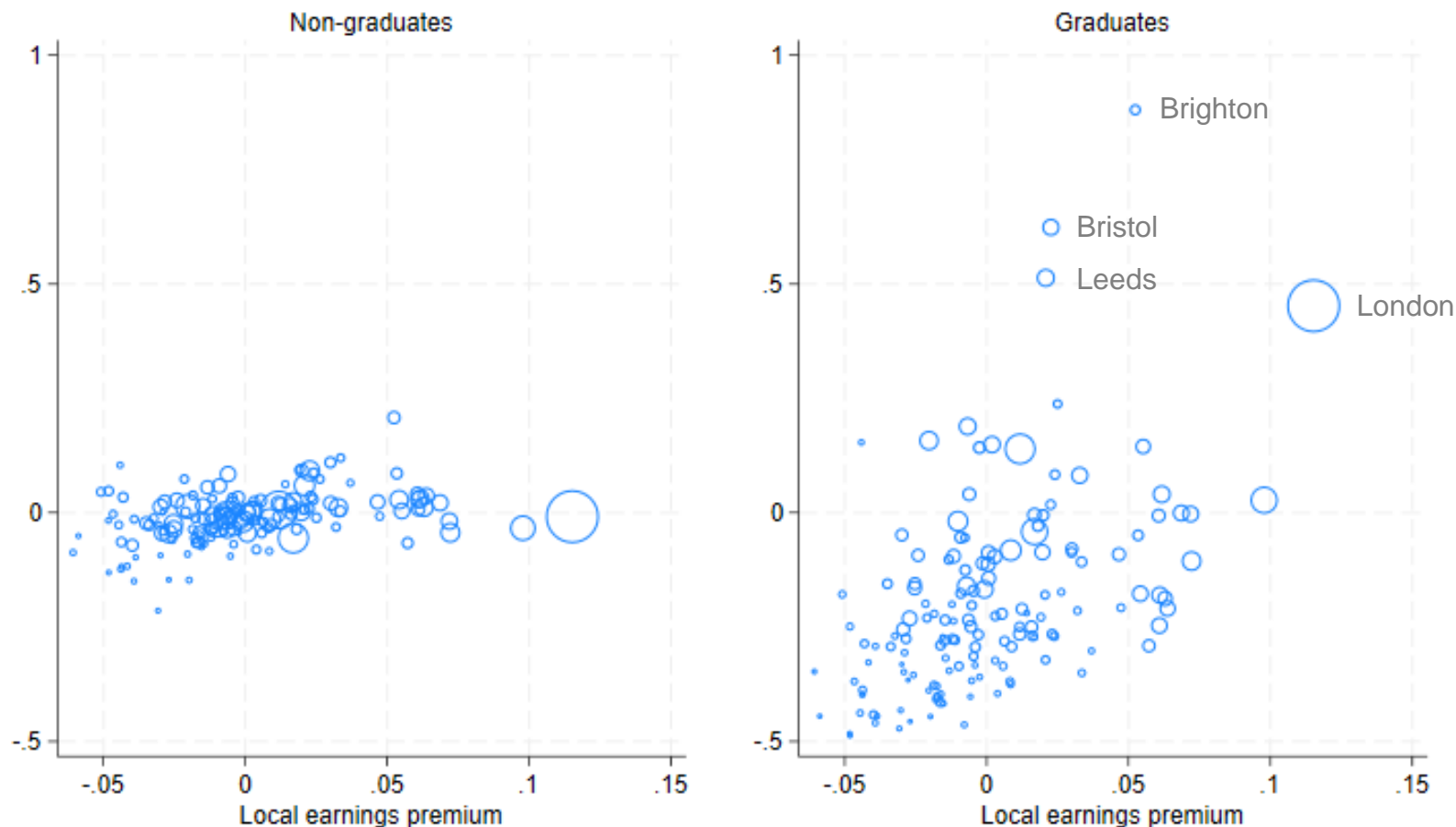


Source: Xu (2023)

Notes: Graduate jobs defined based on RQF. Region refers to region of residence.

# Leading to migration to London and other cities

Net migration by local earnings premium, age 16 to 27



Source: LEO

Notes: 2002-2003 GCSE cohorts in England. Size of bubbles denotes population size at age 16. Local earnings premiums are estimated using a 2-way fixed effects (AKM) regression.

- Large and persistent inequalities in wages across places, driven by where high-skilled workers and jobs are located
- Result of structural labour market trends and policy choices
- Concentration of economic activity in London may hamper productivity:
  - Graduates outside London/SE are unable to make use of their skills, unless they move
  - Potentially reduces incentive to invest in skills
- Need large-scale investment in 1-2 cities outside SE
  - Target both job creation and skills

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