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@TheIFS

# Geographical inequalities



Economic  
and Social  
Research Council

# Geographical inequalities

- Voted most serious type of inequality in Britain
- Multiple dimensions of inequality come together
- Divergence of lived experience

## **Today: focus on geographical inequalities in labour market**

1. Key facts
2. How did we get here?
3. Geographical inequality and efficiency
4. What could policy do?



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# Key facts

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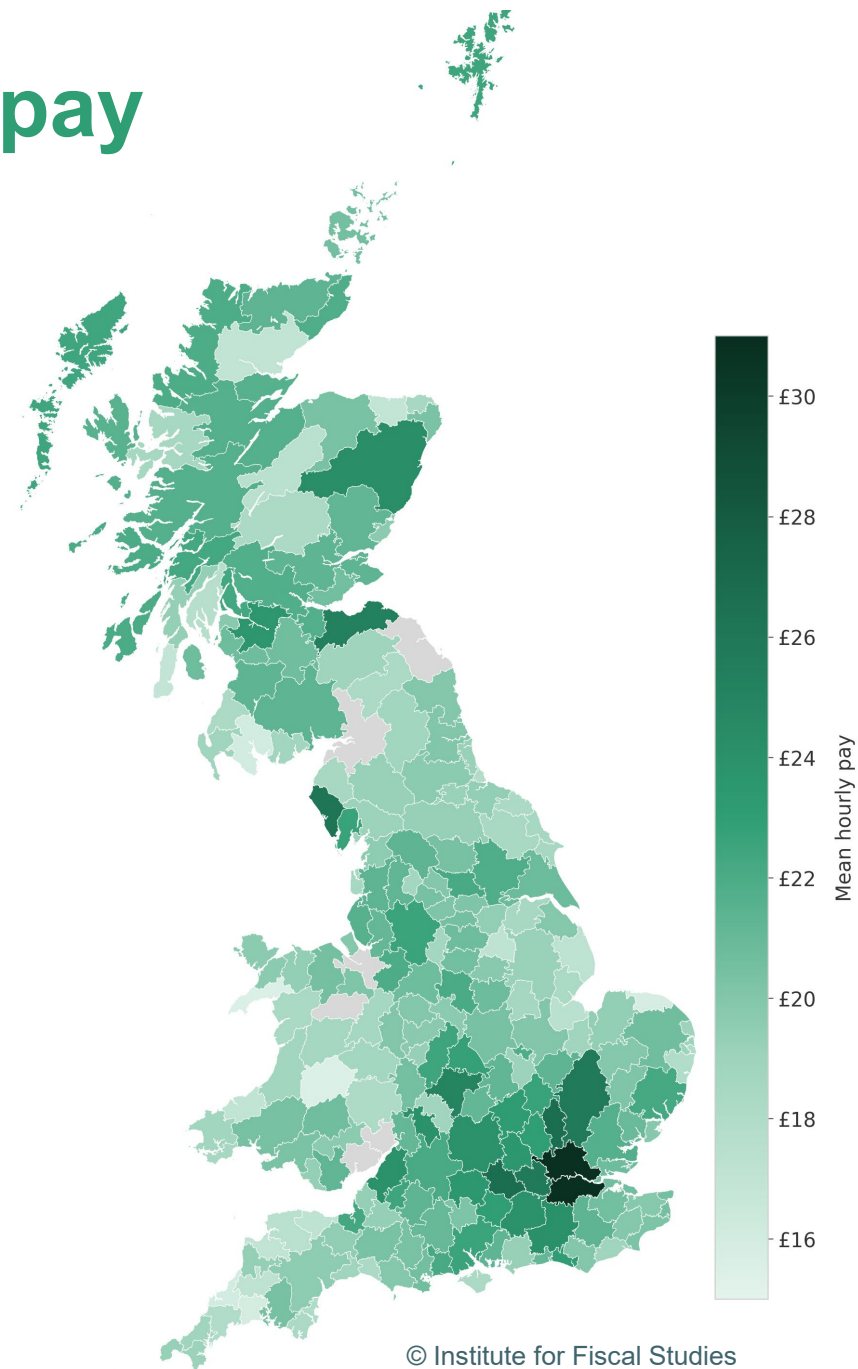
# 1. Large differences in pay across places

Wages in London are:

- 2x higher than in lowest-paid TTWA
- 53% higher than in median TTWA
- 36% higher than in Manchester
- 38% higher than in Birmingham

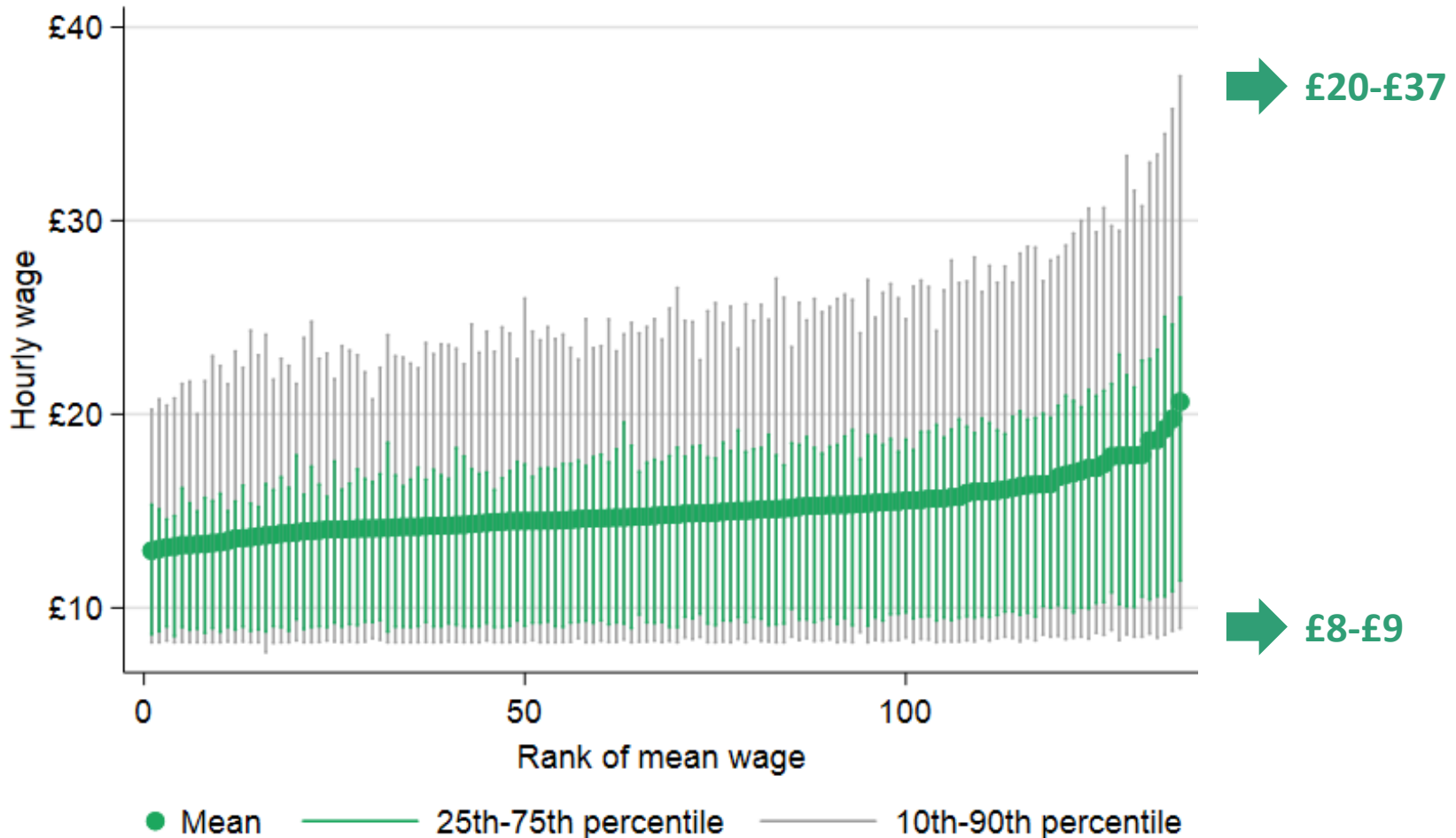
**Average hourly wage by travel to work area (TTWA), 2025**

Source: ASHE  
Geographical inequalities



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

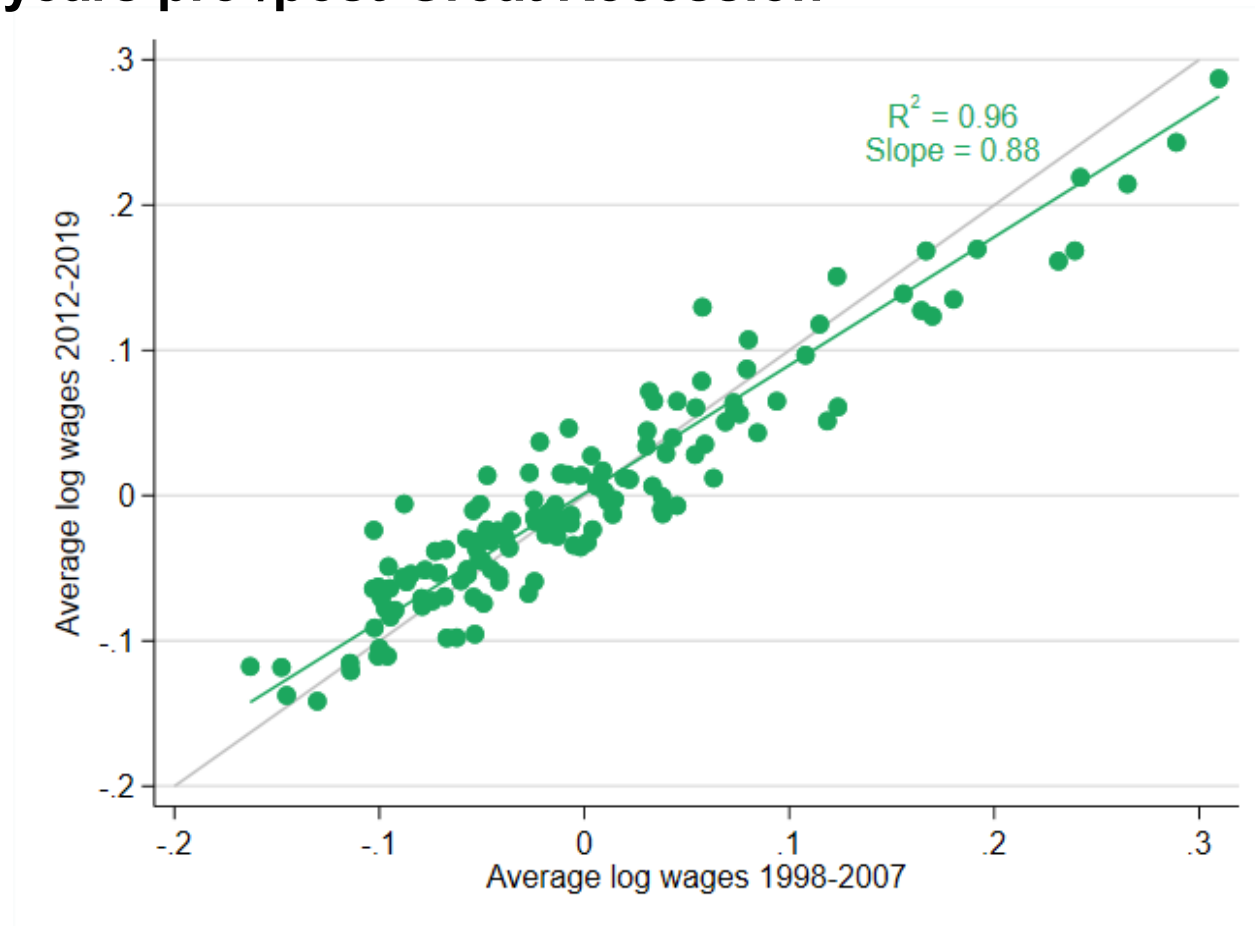
### Distribution of wages between and within TTWAs, 2019



Source: Overman and Xu (2024)  
Geographical inequalities

# 3. Geographical inequalities are highly persistent

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



Source: Overman and Xu (2024)  
Geographical inequalities



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# How did we get here?

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# Shift to service economy changed the geography of jobs



‘Hollowing out’ of middle-paid occupations had different effects across the country

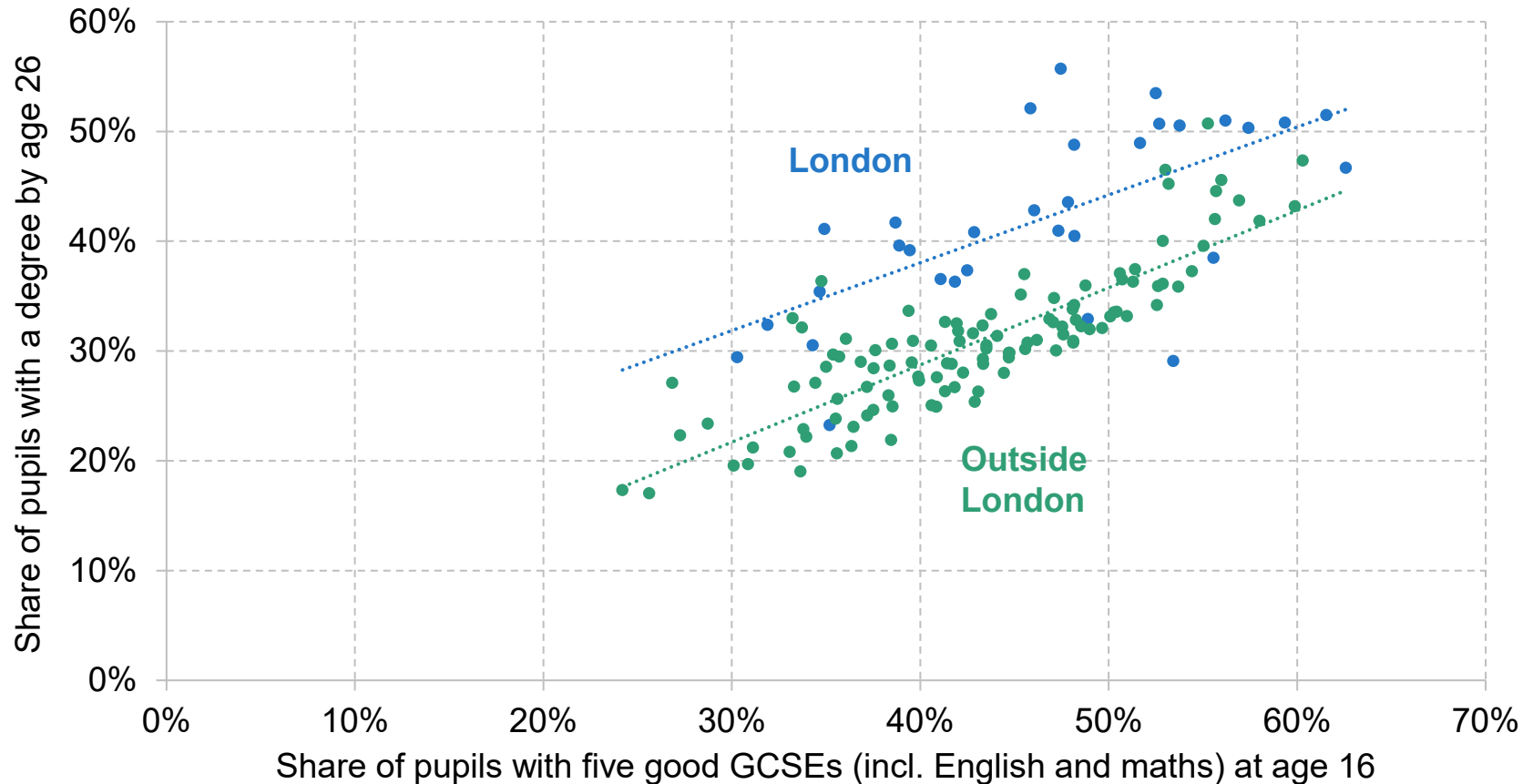
- Industrial jobs lost in North and Midlands
- Low-paid service jobs grew everywhere
- But high-paid service jobs grew mainly in London
  - Tech, finance and professional services strongly benefit from agglomeration
  - Employment in highest-paying occupations (deciles 7-10 of median wages) increased 95% nationally 1993–2022; 240% in Inner London

# Agglomeration effects are self-reinforcing

- High-skilled workers move to places with high-paid jobs
  - Third of graduates leave hometowns by age 27
  - ~30% of those from outside London move to London
- Amenities e.g. restaurants, museums and theatres (Diamond 2016)
- Venture capital grow around successful places (Chen et al. 2019)
- Greater local government capacity

# Interactions between multiple inequalities can create virtuous and vicious cycles

GCSE attainment and degree completion by LA, 2005-06 GCSE cohort



Source: Farquharson, McNally and Tahir (2022)

Notes: Rates of degree completion are based on the local authority where a pupil completed their secondary school.

# Government policy has leaned into market forces

- Britain deindustrialised more, and more quickly than other countries
- Sustained 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 towards London and SE; public investment even more skewed 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'



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# Geographical inequality and efficiency

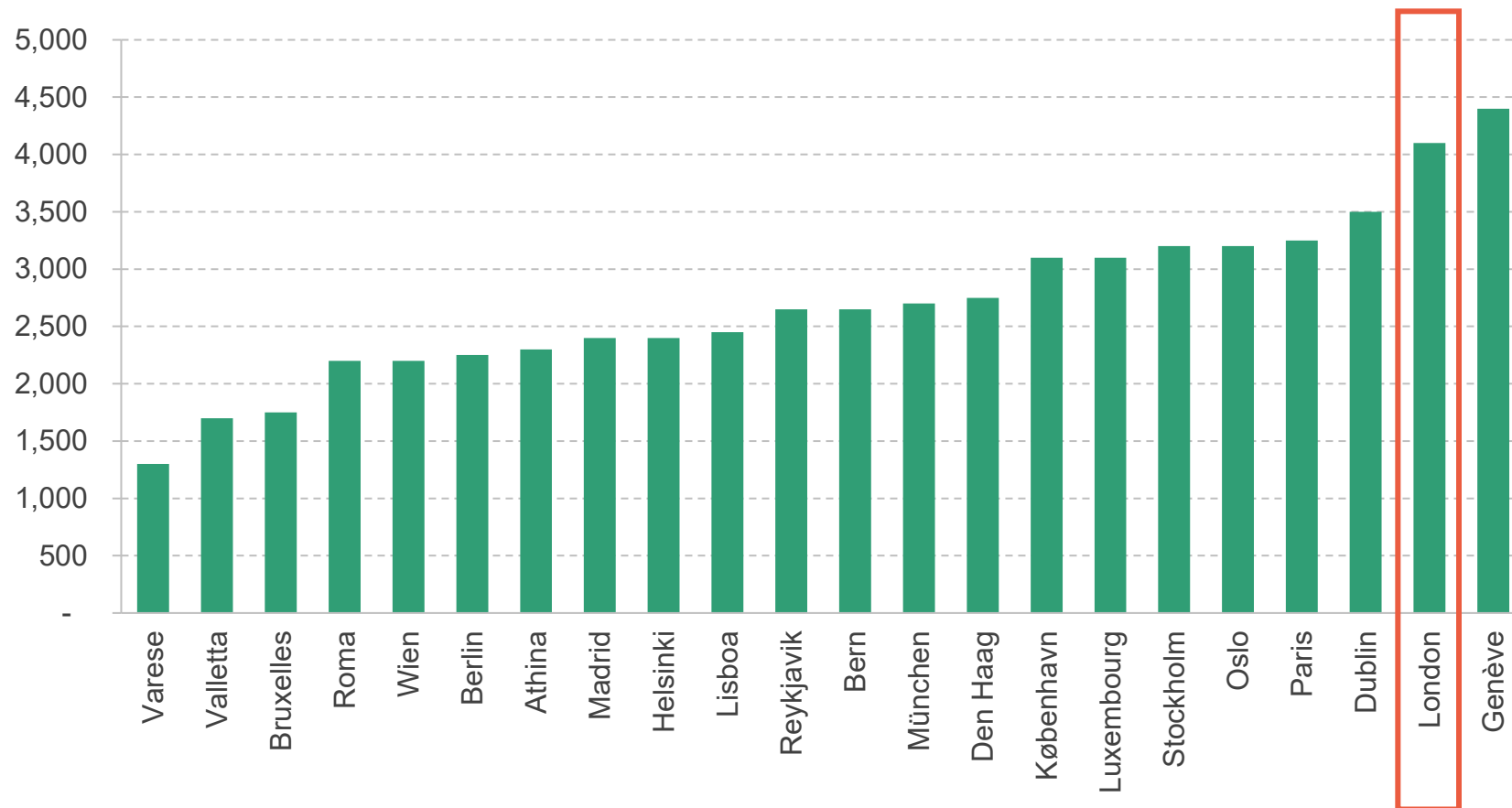
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# Geographical inequalities may not be efficient

- Agglomeration requires coordination across a large number of actors (firms, workers, VCs etc.)
- No individual has an incentive to ‘seed’ a second hub outside London, even if one were socially desirable
- Market may fail to produce efficient distribution of economic activity across places

# People who choose to live in London impose congestion externalities

Average rent of 2-bedroom flat in Western European cities, 2025



Source: Eurostat

Notes: Excludes Turkey, Balkans, Eastern Europe and Cyprus

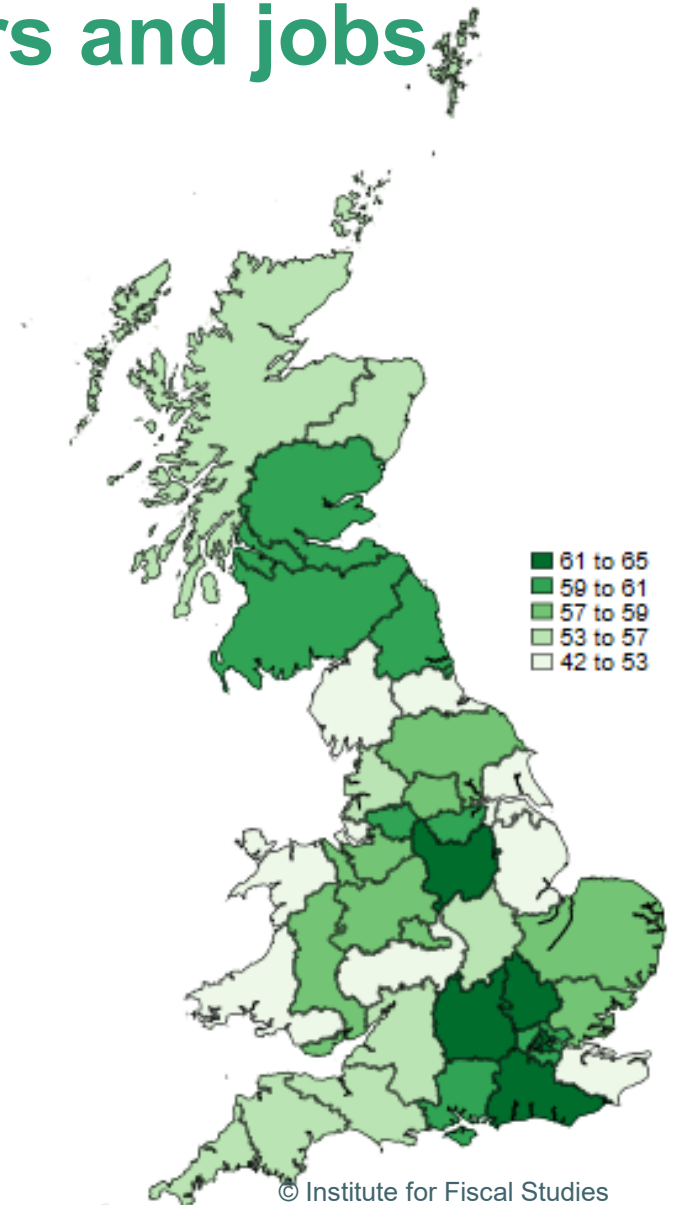
# Concentration of opportunity creates mismatch between workers and jobs

- Not everyone is willing or able to move → people outside London may not make full use of their skills
- Share of graduates in graduate jobs has increased in Inner London and fallen elsewhere since 1993
- Graduate wage premium has fallen outside London (Stansbury, Turner and Balls 2023)

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

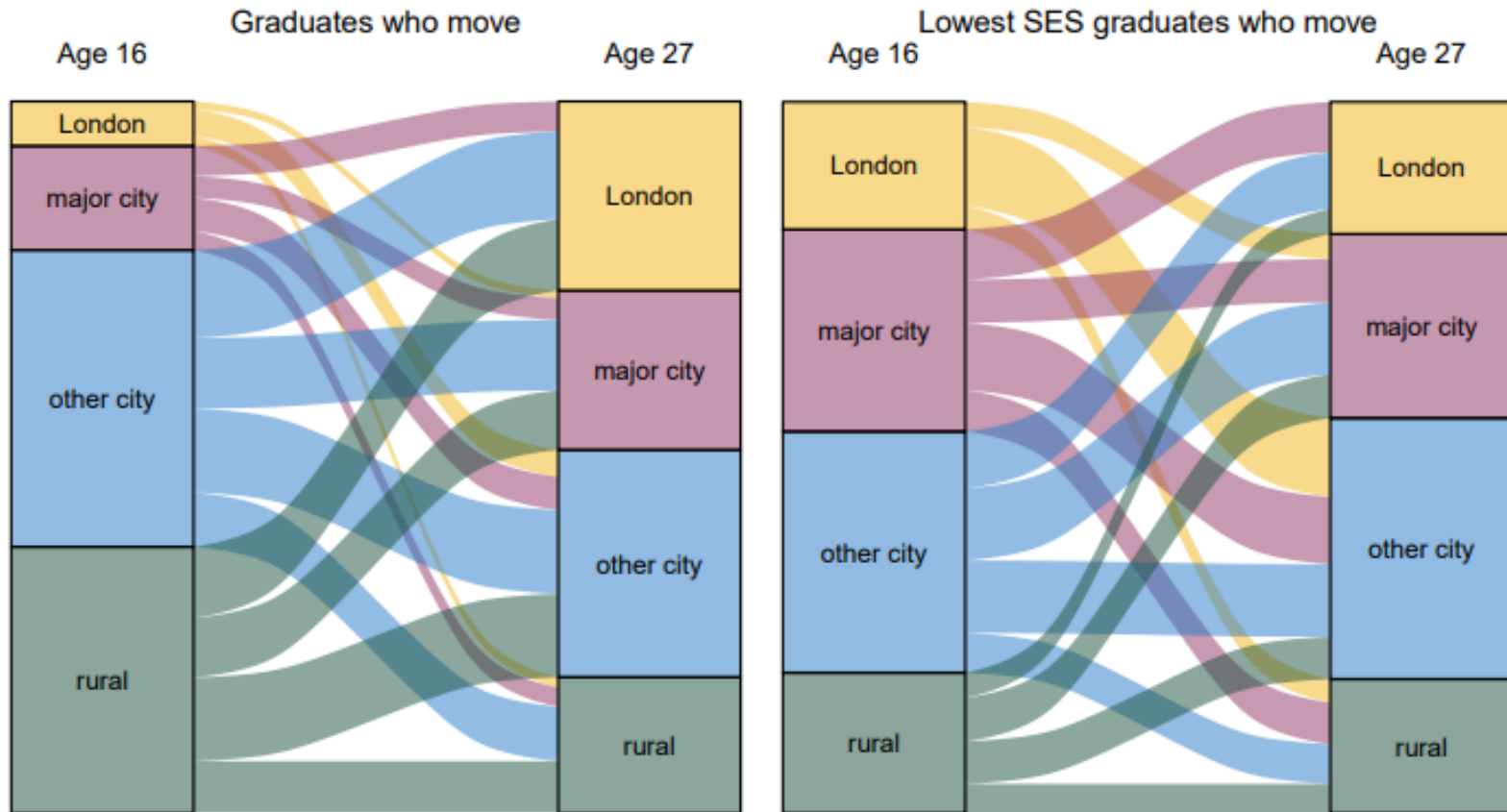
Source: Xu (2023)

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



# This is likely to inhibit social mobility

**Mobility flows of all graduates (left) and graduates in bottom SES quintile (right), movers only**



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; major cities are 9 biggest cities outside London.



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# What could policy do?

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# Expand access to London

- Improve transport links between London and other cities/towns
    - Case for High Speed 2
  - Reduce housing costs and other barriers to mobility
    - Planning reforms (e.g. Green Belt)
    - Stamp duty
- Alleviate negative consequences of geographical inequality on worker-firm matching and social mobility
- But would not reduce level of geographical inequality

# Kickstart positive cycles of agglomeration elsewhere

- Place-based policies that bring together necessary complements (workers, firms, financial capital, infrastructure etc.)
- Recent ‘turnaround’ cities e.g. Lille, Bilbao, Pittsburgh point to common themes (Frick et al. 2023):
  - Comprehensive strategies that pull multiple levers at once
  - Economic strategies that build on existing strengths
  - “Significant, stable and long-term funding”
  - Local and regional leadership and engagement of local actors
- Challenging because of political economy and information constraints

# Conclusion

- Deindustrialisation and move to service economy widened geographical inequalities
- Agglomeration effects are self-reinforcing
- Concentration of economic activity in London may not be efficient
- Policies that expand access to London could alleviate some negative consequences of concentration
- Moving to a different equilibrium would require large-scale place-based interventions

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