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Spatial Labour Market Inequality and Social Protection in the UK

RESEARCH

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ABSTRACT

Spatial inequality in economic outcomes is increasingly seen as a problem for national economies. This paper considers spatial inequality in the UK labour market, its causes, and potential policy solutions. Relative to other European countries, the UK is highly spatially uneven, but it is not as unequal as the United States. The most common explanations for growing spatial inequality are economic, in particular the linked processes of manufacturing decline, the rise in knowledge-based services, and London's growth as an international service hub. However, these explanations ignore the importance of spatial labour market institutions on different local economies. In this paper we argue that labour market institutions are one of the key missing explanations for the changing patterns of spatial inequality in the UK, and that the impact of labour market policy is likely to dwarf the limited funding provided for local economic development policy. We conclude with some suggestions for how policy might better address spatial labour market inequality in the UK and start to create good jobs across the country.

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INTRODUCTION

Compared to other advanced economies, the UK has large gaps in economic performance between richer and poorer areas [1]. This spatial inequality is increasingly seen as a major problem. The Organisation for Economic Co-operation and Development (OECD) [2] have argued that spatial inequality is a drag on national economic performance, with lagging regions wasting potential, bringing down the national average and requiring expensive fiscal transfers. Spatial inequality has been seen as an important cause of political protests. Commentators and academics have argued that this 'geography of discontent' is one of the primary causes of many of the problems faced by advanced democracies [3]. Consequently, such inequality becomes a political opportunity, such as with former British Prime Minster, Boris Johnson, launching a 'Levelling Up' agenda: a nascent set of policies designed to address economic and cultural disparities and thereby attract voters in 'left behind' areas [4].

Research on economic inequality in the UK has often focused on economic explanations for high levels of spatial inequality. In particular, a combination of the UK's service-based economy, the benefits of labour pooling around London and the South East, and self-reinforcing processes of selective migration have been seen as vital in explaining disparities. While there is clearly some truth to these explanations, they ignore one of the key differences distinguishing the UK from most other advanced economies: the weak system of social protection from the labour market, which leads to risks of unemployment, underemployment, low wages, and skill mismatches. In particular, the role of labour market institutions such as collective bargaining and minimum wages have been neglected as a cause of the UK's large spatial disparities in labour market performance.

This paper considers the drivers of spatial inequality in the UK labour market. Section one outlines basic facts about the geography of the UK labour market, areas with the highest, and lowest, median earnings, and how this has changed over time. Section two then compares these facts against the dominant narratives about spatial inequality in the UK, as well as argues that these narratives have tended to focus on economic narratives, ignoring the powerful role of labour market policy. Section three considers the limitations of policy that aims to address spatial inequality; including the excessive emphasis on the old problem of job quantity at the expense of tackling the new problem of job quality. Finally, we conclude by considering how future governments might want to tackle the entrenched problem of economic inequality between places.

1. SPATIAL LABOUR MARKET INEQUALITY IN THE UK

To begin with, it is useful to state some basic facts about spatial labour market inequality in the UK, the causes of this inequality, and how they have changed over time and at different spatial scales. Answers to these basic questions are complicated by the technical difficulties in making comparisons between geographic areas. First, inconsistency in spatial units makes comparisons difficult. Data is often only available for government units, but people do not live their lives according to government boundaries. To reflect real spatial labour markets, it would be better to use consistent 'Travel To Work Areas' (TTWAs), defined as areas where at least 75% of the population live and work within the same boundaries. However, data is often not available for these units, they are subjective (some people are willing and able to travel further than others), they change over time, and they miss problems at the boundary, as some people cross them to work. For the purpose of this paper, however, they are the best option – where possible, TTWAs data was used. A second concern is that while the focus of this paper is the UK, data is often available for only England, Wales, and sometimes Scotland. This major caveat makes it hard to draw comparisons across the whole country and limits the extent of the analysis. However, with these caveats in mind it is still possible to draw out some basic facts about spatial labour market inequality.

FACT 1: THERE ARE LARGE DISPARITIES IN AVERAGE WAGES

The first clear point is that there are large earnings differentials between different local labour markets in the UK. Table 1 lists the TTWAs with the highest and lowest median gross weekly earnings. The area with the highest median wage is Whitehaven in Cumbria, a small TTWAs with around 37,000 jobs. This is explained by the presence of Sellafield Nuclear Power Plant, which employs around 10,000 people, a significant number of which are employed in skilled trades that command a high wage.[1] London is next, followed by Newbury (home of Vodafone and a thriving software sector), Thurso (Dounreay Nuclear reactor), and Oxford, with its thriving scientific and medical sectors. It is notable that, with the exception of the two remote nuclear power plants, all of the highest wage local labour markets are in London and its orbit.

Table 1 TTWAs with highest and lowest median gross weekly wages, 2022.

Source: Work based travel to work areas. Data available for 205 of the 218 British TTWAs. Note that there are a number of TTWA, most of which are rural Scotland, for which median gross weekly wage data is not available. https://www.ons.gov.uk/datasets/ashe-tables-11-and-12/editions/time-series/versions/3.

RANK	TTWA	MEDIAN GROSS WEEKLY WAGE, 2022	RANK	TTWA	MEDIAN GROSS WEEKLY WAGE, 2022
1	Whitehaven	821.4	196	Skipton	402.5
2	London	700.2	197	Kingsbridge and Dartmouth	400
3	Newbury	670.3	198	Pwllheli and Porthmadog	398
4	Thurso	664.6	199	Berwick	397.5
5	Oxford	618.9	200	Minehead	393.4
6	Reading	613.3	201	Ludlow	388.8
7	Basingstoke	608.7	202	Bridlington	387.7
8	Guildford and Aldershot	600.4	203	Hexham	379.2
9	Slough and Heathrow	595.4	204	Pitlochry and Aberfeldy	373.3
10	Milton Keynes	594.8	205	Turriff and Banff	372.6

In contrast, the lowest wage TTWAs tend to be small, remote, and rural. The Office for National Statistics (ONS) does not publish data for many very small local labour markets, as a result, this is only a partial list. Nevertheless, the remote regions of Scotland, Wales, and Cornwall predominate, with most particularly reliant on agriculture and tourism. The local labour market with the lowest median weekly earnings (of those published), is Turriff and Banff, both an agricultural and tourist area of North Aberdeenshire; the remainder tend to be rural areas with agricultural industrial bases. These are not trivial differences – the median wage in Milton Keynes is approximately 50% higher than the median wage in Skipton. However, as Figure 1 shows, spatial inequality in median wages is not characterized by a polarized distribution – most areas are in the middle of the distribution, with the highest wage areas pulling away. High average wages are found only in London and a relatively small number of places.

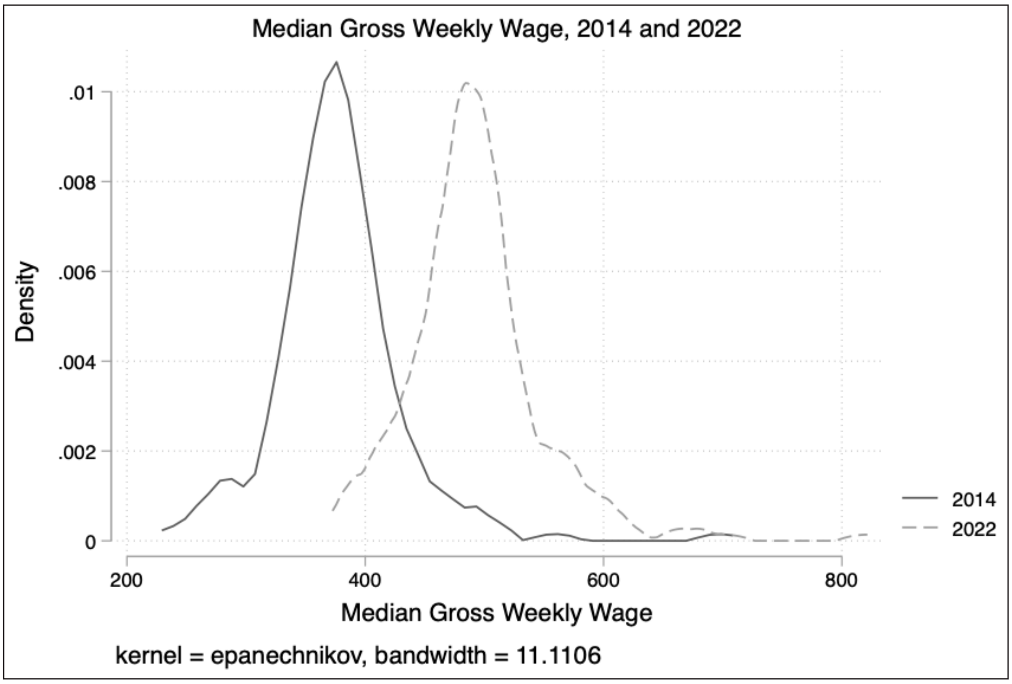

Figure 1 Distribution of TTWA median gross weekly wages 2014 and 2022.

Source: Annual Survey of Hours and Earnings (ASHE) via Nomis.

1 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/traveltoworkareaanalysisingreatbritain/2016.

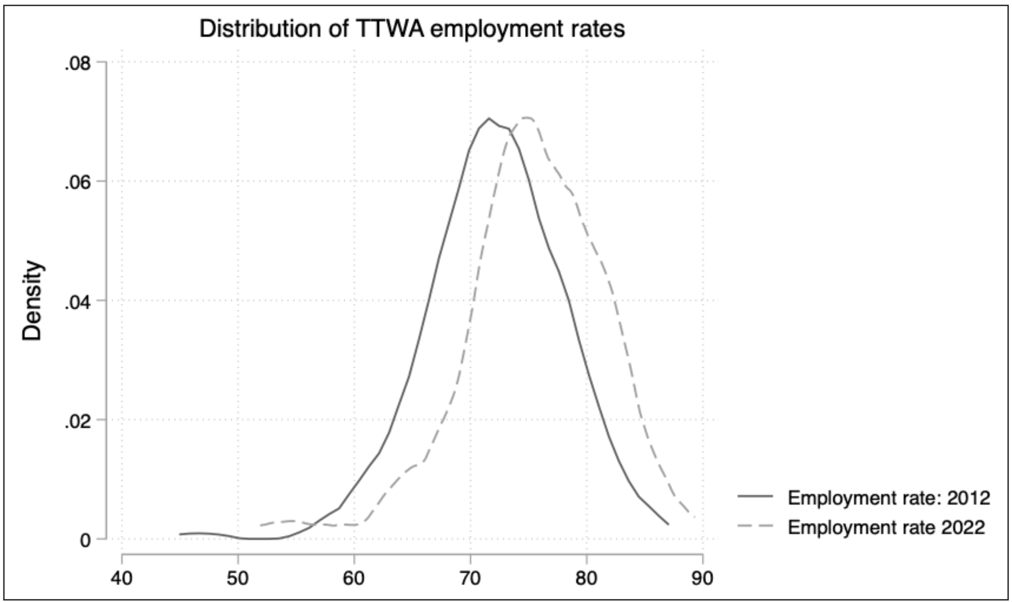

Figure 2 Distribution of TTWA employment rates in 2012 and 2022.

However, as Overman and Xu note is less variation in employment rates than there is in wages [26]. Figure 2 shows the variation in TTWAs employment rates in 2012, just after the global financial crisis, and 2022, a period when the Covid pandemic was beginning to wane. This shows a distribution with only a relatively small number of very high and very low employment rate local labour markets, with relatively tight distribution around the midpoint. This points at a broader problem when considering spatial inequality, which is that the extremes often draw the focus away from the average areas where the greatest numbers are, and where the greatest benefit of policy can be achieved.

FACT 2: THE UK IS HIGHLY SPATIALLY UNEQUAL, BUT NOT THE WORST

Comparing the character of local labour markets in different countries is a challenging endeavour. Bauluz et al. [1] is the most comprehensive attempt yet, constructing local labour market data for Canada, West Germany, France, the UK, and the United States. These are five of the largest OECD economies, but all have very different structures and institutions. Figure 3 shows Bauluz et al.'s measure of spatial wage inequality between local labour markets for these five economies from the period of 1975 to 2019. It is the United States that stands out as the most spatially unequal country.

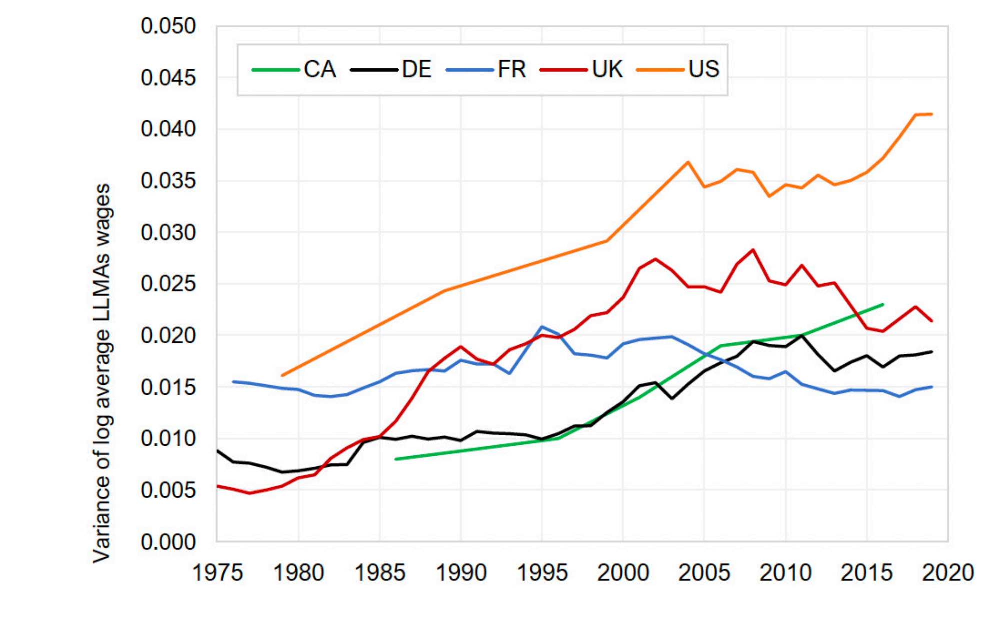

Figure 5: LLMA wage inequality, variance of log mean wage 1975-2019

Note: Full-time workers, 20 +, weekly/daily earnings. Source: CA: CCP; DE: SIAB; FR: DADS; UK: NES/ASHE

Figure 3 Variance in log mean wage in major OECD economies, 1975–2019.

Source : Bauluz et al. (2023) [1].

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FACT 3: SPATIAL INEQUALITY IN THE UK ROSE IN THE 1980S, BUT HAS FALLEN SINCE 2013

Within this data, the UK is notable for how inequality between places accelerated in the 1980s. Figure 3 shows that in the late 1970s spatial wage inequality in the UK was lower than in France or Germany, and far below that of the United States. Yet the 1980s saw a major change in British wage setting, industrial structure, and other labour market regulation that had dramatic effects on equality. No longer having the *lowest* spatial inequality of the four countries then had data for, as it did in 1980, by 1998 it had the second highest. The country overtook Germany in the 1980s and France in the 1990s. Inequality peaked in the UK in the early 2000s, plateaued until 2013, and has since fallen to levels last seen in the late 1990s.

FACT 4: SPATIAL INEQUALITY IS HIGHLY PERSISTENT OVER TIME

Patterns of spatial inequality persists over long periods. To see this, Figure 4 gives unemployment rates between 1981 and 2001, a period which saw Margaret Thatcher's reforms, the decline of manufacturing, the end of large-scale extractive industry, and the rise of service economies in cities. Experts would expect major shifts in the economy to be expressed in changes in unemployment rates. Whilst absolute unemployment rates have changed, the relative position of places in the distribution of unemployment rates is one of persistence rather. Places that had relatively high unemployment rates in 1961 also had relatively high unemployment rates in 2001, andthe same can be said for locations with relatively low unemployment. There is also strong evidence of long-term persistence in entrepreneurship, wages, and other economic indicators.

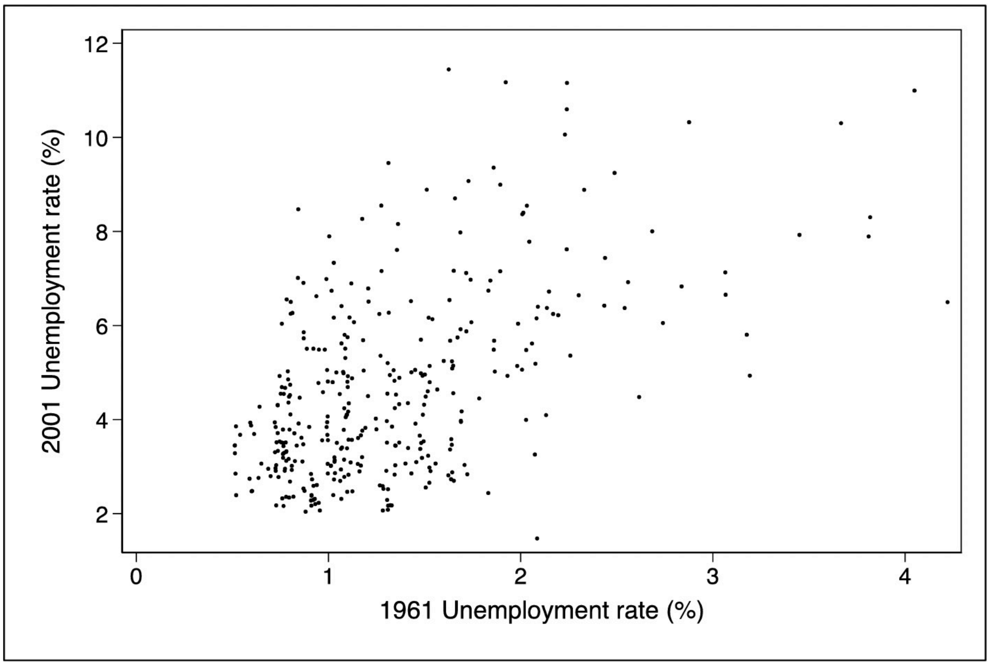

Figure 4 Persistence of local authority unemployment, 1961 and 2001.

Source: McNeil et al. (2023) [11].

This suggests two important implications. First, that processes of economic performance are path dependent. We can see this in a wide literature which shows that economic indicators at a local level tend to be highly persistent over time. For example, Fotopoulos and Storey [5] show that places in the UK with high rates of entrepreneurship in 1921 remained highly entrepreneurial in 2011. These paths can become entrenched, with Han and Lee [6] showing patterns of entrepreneurship surviving major structural breaks, including the rise of Mao in China. This does not mean that economic shocks do not matter. Evidence shows that the rapid deindustrialisation of the 1970s in the UK still scars local labour markets [7]. Even so, the general picture is one of persistence rather than flux.

Second, it suggests that change is slow to become apparent and that the country should be careful not to expect too much from policy too soon. Economic development is hard and requires action which is systemic, coordinated, sustained, and often comes with a significant opportunity cost, especially in the short term. In the UK, money spent on economic development often is relatively small compared to spending from other parts of the public purse, spread thinly, and often allocated according to political priorities or used as a substitute for other parts of the public sector, rather than to drive a strong policy agenda. There is significant evidence that some forms of economic development spending can pay off (see for example Criscuolo et al., [8] on industrial policy), but the collected evidence from the What Works Centre for Local Economic Growth suggests that this is not a universal law. Citizens should not expect it to be: the same policy will have very different impacts in different contexts. Local economies are path dependent and hard to change, and expecting miracles from policy in which we invest relatively little is foolish. On the contrary, just because change is slow does not mean that policy does not matter. Macro policies, such as trade integration, have a major impact at a local level, even if their effects are unevenly distributed (Bailey et al., [9], for example, shows the uneven impact of Brexit on different sectors).

FACT 5: SPATIAL INEQUALITY HAS REAL IMPACTS ON PEOPLE'S LIVES

The facts about spatial inequality in the UK are not abstract statistics, but reflect real differences in standards of living, social mobility, and lifetime outcomes across the country. Measuring the variation in standards of living across the country by earnings is complicated because wages are not as good a measure as real wages (which adjust for housing costs). The result of this can be that because housing costs are so much lower in less economically successful areas, low-income families often have higher real incomes in less economically successful places. For example, the share of the population in a low-income household (before adjusting for housing costs) is lower in London than in the rest of England: in 2021 and 2022, 14% of London's population lived in low-income households, compared to 18% in the rest of England. Yet once accounting for housing costs, Londoners are more likely to be in low-income households than elsewhere, with 25% of London's population living in low-income households, compared to 22% of the rest of England [10].

If policy was to engage with spatial variation in prices effectively, it would acknowledge that a national minimum wage – which does not vary by place – is too blunt a tool. The compression of wages at the bottom of the scale through minimum wage does not fully recompense low-income families for the higher cost of living in economically successful parts of the country. If there are immediate labour market benefits for low wage workers from being in a higher-income local labour market they come from the chances of being in work (the 'extensive margin'), rather than from the higher wages (the 'intensive margin').

This does not mean that there are not costs for people living in low wage areas and areas of high unemployment. McNeil et al. [11] uses data from the British Household Panel Survey to show that for English and Welsh respondents, being born in an area of high economic adversity can have long-term implications for an individual's income for much of their working life. Using data on unemployment as a proxy for local economic adversity show that growing up in adverse situations can have long-term consequences: an individual born in Liverpool in 1971, where the unemployment rate was 10.1%, would earn £677 less per year in adulthood than someone born in East Hertfordshire in 1971 where the unemployment rate was 1.9%. This distinction is preserved even after accounting for their eventual place of residence, parental background, education, and occupation.

What does this communicate about spatial inequality in the UK? In the first place, spatial inequality is bad but not quite as bad as in countries such as the United States. Second , spatial inequality matters and to be sanguine about their effects should not be expected. Thirdly, the narrative that spatial inequalityhas been increasing exponentially may needs updating. The last decade has seen, if anything, a slight decline in labour market inequality. This raises the questions of what caused the increase in the 1980s, why it peaked in the 2000s, and what has caused its minute decline?

2. EXPLANATIONS FOR SPATIAL INEQUALITY

The economic literature has made a number of suggestions about the drivers of spatial inequality in the UK, focusing on two main explanations: the decline of manufacturing and the rise of urban, knowledge based services. One common explanation emphasises the decline of manufacturing in the 1980s, with manufacturing and extractive industry across much of the northern cities and south Wales declining rapidly in response to the loss of subsidies and the early Thatcher government's policy mix [12, 13, 14]. There is some truth to this explanation. As Stansbury et al. [14] show, the UK's manufacturing sector declined relatively more quickly than that in other countries, giving local economies little time to adapt, firms no time to move into high value-added activities, and leaving local economies with workforces specialised in industries which no longer existed and where entrepreneurship was limited. These local economies had limited time to adapt, and policy did little to help them.

A second story is the corollary of the first, which stresses the nature of the of the sectors which grew, and where these sectors best bloom. Urban economists highlight the importance of a shift to a broadly defined knowledge economy (e.g. Moretti, [15]). Based on a reading of the US-dominated literature, the argument here is that (a) the UK economy has become increasingly based on services, (b) these services are increasingly based on deeper labour markets, specialised input output links, and the exchange of tacit knowledge, and (c) these service-based economies have a strong tendency towards spatial concentration. The result is that the sectoral composition of the economy has increasingly been focused on knowledge intensive economic activity which benefits from location in cities. Yet while this argument seems to powerfully apply to London and the surrounding economic activity of the South East, it is hard to reconcile it with the relative under performance of many British cities. This is particularly the case for the tier of cities below London like Birmingham and Manchester where wages are lower than might be expected given the performance of comparable cities in other nations [14]. Indeed, some suggest that the performance of London and the South East – an area which is well connected with commuter rail and road links, is due to their strong connectivity. While there is a weak relationship (excluding London) between city size and wages in the UK, there is a strong empirical link between the broader concept of accessibility, market access and productivity [16].

Both these explanations – the decline of manufacturing and the rise of the urban knowledge economy – are consistent with a pattern of changing spatial inequality in the UK presented in Figure 3. Except there are some reasons to be sceptical or at least question these narratives. France was also subject to similar forces of agglomeration as the UK in the 1990s and 2000s, yet spatial inequality in wages did not increase as much (and sometimes even declined). Narratives about agglomeration and manufacturing decline are good at explaining spatial inequality in the US and UK, but not so much at explaining variation over time and across countries. Similarly, these explanations are incongruous with the decrease in spatial income inequality in the UK after 2013.

A third explanation – changes in labour market institutions – have been less important in the literature. The period when UK spatial wage inequality grew was a period of sectoral change in the economy: as manufacturing gave way to services. However, it was also a period of large-scale labour market reform, as centralized wage bargaining systems were broken up. Similarly, the 2000s and 2010s saw a major focus on labour market activation, as high unemployment rates were seen as a problem, along with the introduction of the minimum wage in 1999 and a sharp increase in 2015. These changes – policy to increase employment rates and reduce wage dispersion at the bottom – will have had major implications for spatial inequality in labour market outcomes. Yet they are often underplayed relative to the impact of agglomeration and the decline of manufacturing.

3. POLICY: LEVELLING UP AND BEYOND

It is not clear how much local policy can address these disparities. However, there is an impetus from central government to do so, and since 2019, the UK government has been preoccupied with the idea of Levelling Up and with addressing spatial inequality through a series of missions which are designed to guide government policy [17]. In terms of name recognition, 'Levelling Up' as a policy was known and understood by the public, significantly beyond those of previous regional development policies such as the Northern Powerhouse [18]. In 2022, Michael Gove – Secretary of State for Levelling Up in the Department for Levelling Up, Housing and Communities – oversaw the Levelling Up White Paper, perhaps the most important document on UK spatial inequality since 1997. The paper took a systemic approach to spatial inequality, in contrast with past efforts, which largely pursued siloed policies. The 12 missions of the white paper encompassed productivity, research and development, transport connectivity, devolution, health, well-being, and crime reduction. Much of the analysis drew upon economic geography theory; identifying six 'capitals' (physical, human, ideas, finance, social, institutional) that need to be more evenly distributed to drive spatial economic convergence. Despite the impressive analysis, there is much to critique about the agenda. The white paper proclaimed a new radical devolution settlement for local government, but ongoing fiscal and regulatory constraint by central government continue to mean that local authorities have limited room for policy innovations. Very little additional funding was proposed in the white paper, with funding of approximately 0.5% of Gross domestic product (GDP), compared to local authority funding cuts during the 2010s of approximately 5% of GDP. Spatial targeting was also limited, with a stated commitment for all regions to benefit.

The UK faces two major problems at a local level. First, the major industrial shift and institutional changes of the 1980s have never been compensated for in a serious way. There has been no meaningful economic development strategy for deprived regions, which under Thatcherism were left to reinvent themselves under the workings of the free market. There has been a tendency to prioritise support for London's dynamic global financial centre, the proceeds from which were used by New Labour to redistribute to poorer regions. There has also been a preoccupation with devoting more resources to Oxford and Cambridge, two rich but slow growing market towns in London's orbit, despite their small size (combined, they accounted for 1.5% of UK GDP in 2020, the same share as in 2001). The UK's obsession with these culturally-lionised 'winners' from the UK's industrial shift has come at the expense of the polycentric set of medium sized cities across the north, which could and should have been connected – via major investment in transport infrastructure – into a larger economic network. In this context, efforts to address the problems in post-industrial regions have been long underfunded and now come very late.

Second, while the problems faced in less prosperous places are often deep-rooted and entrenched, the institutions designed to address them tend to be short-term and limited. The Regional Development Agencies (RDAs) of the New Labour era lasted only a little longer than the Local Enterprise Partnerships (LEPs) which replaced them. These – which each barely lasted a decade – were introduced at the same time, as local government reorganisation and a series of top-down funding pots which reflected national rather than local priorities [4]. The result of such policy-making has been too little sustained government investment in local areas, that in turn, has failed to draw significant business investment.

These problems are partly the result of a political economy which does not seem to focus on economic growth in lagging regions. There is good evidence that politicians respond to the policy preferences of the electorate, at least in terms of introducing new legislation [19]. However, many of the issues of regional development – such as transport and housing – have lagged behind other issues in public interest [20]. While 'the economy' is seen as highly important, it was – perhaps surprisingly – declining as an object of interest between 2012 and 2020 as other issues, notably health, became more important. Infrastructure provision is fragmented, making it hard to build new infrastructure.

The Levelling Up agenda is unlikely to persist in name, but some concern with spatial inequality is likely to remain an important part of government policy, regardless of who forms the next UK government. The opposition Labour Party has committed to a mission to "Secure the highest sustained growth in the G7 – with good jobs and productivity growth *in every part of the country* making everyone, not just a few, better off." (emphasis added).

Given that employment rates are relatively compressed across local labour markets, many local areas do not have an employment problem – they have a good jobs problem. As a result, a focus on job quality and good job creation should become a more important part of policy in this area. Kirsten Sehnbruch has argued that European Union employment policy has tended to have only "a cursory and inconsistent effort to implement policies and actions aimed at boosting job quality" [21], and policy in the UK seems to have even lagged that of the EU.

Research on policy which might create good jobs is moving forward however. For example, Rodrik and Stantcheva [22] have argued that a complementary set of policies can be used to ensure 'good jobs' are created, including (a) active labour market policy, (b) industrial and

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regional policies which target good job creation, (c) innovation policies for labour augmenting technology, and (d) international economic policies aimed at social protection. For all its flaws, the UK model does seem to be doing the first of these, but there is still room to consider good job creation as part of local economic policies. For example, policy could provide subsidies for good job creation, local agencies could work with employers to ncentivize upward pathways in work, staff training, and other employee development activities. At the same time, a strong minimum wage provides an effective floor on wages (although there are concerns it is not well policed [23]).

4. CONCLUSIONS

UK labour market inequality – particularly in wages – is a major problem for policies and the spatial expression of this inequality also matters. The dominant explanations for rising labour market spatial inequality have been focused around agglomeration and the shift to a knowledge-based service economy. This narrative works better, however, for the spatial inequality in economic output, than it does for wages. Labour market institutions which structure social protection – such as minimum wages and employment protection legislation – matters as well, yet this has rarely been considered when thinking about economic development policy. Arguably the most successful recent policy to address spatial inequality in wages has been the minimum wage enacted in 1999 and its major increase in 2015. This policy was successful in increasing the compensation for low wage labour, without decreasing employment rates as some had predicted. However, it has not led to an increased quality of employment and the UK still faces challenges in creating 'good jobs' [24].

The clear impact of labour market policy on spatial inequality and wages in the UK, contrasts with the limited evidence that local economic development policy more generally has mattered. Unfortunately, this is perhaps unsurprising. At a local level, policy has been underfunded, top down, and the impact dwarfed by changes in the macroeconomy. This does not mean that there are not examples of cities and regional economies which have been transformed by policy (e.g., Frick et al., [25]). Citizens cannot starve place-based policy and then conclude that it does not work.

These facts hint at another problem. Economic development policy in the UK has tended to focus on the quantity of job, rather than the quality. This is, with important caveats, no longer the major problem. Instead, many local economies have a job *quality* problem. Any future local economic development agenda needs to consider how high-quality new jobs can be created outside of the core areas.

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COMPETING INTERESTS

The authors have no competing interests to declare.

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