

Regional economic inequalities: challenges and opportunities

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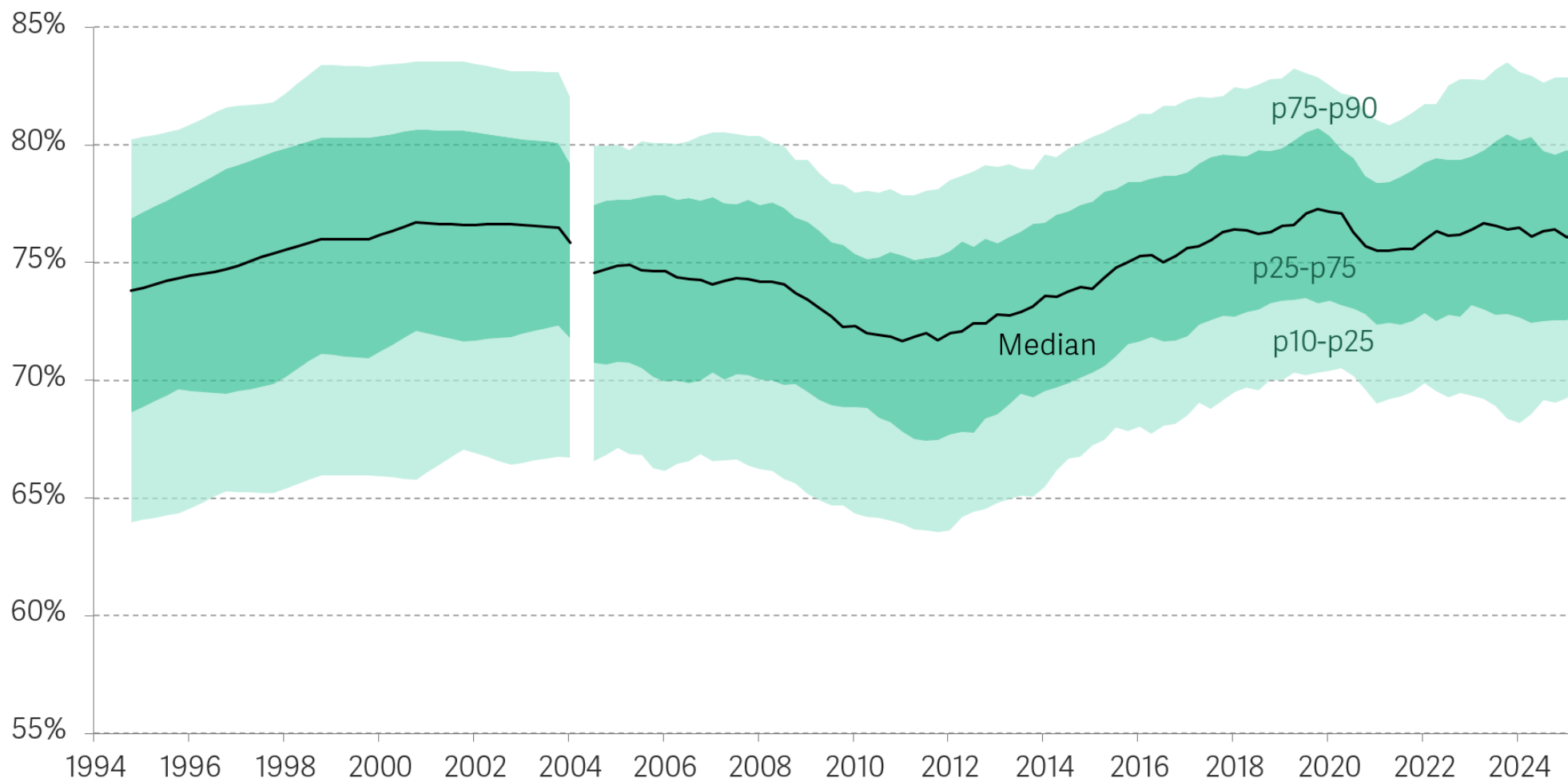
Agenda

1. Stock take of regional economic inequalities
2. Policy priorities going forward

Regional inequality: the good, the bad and the ugly

The good: employment gaps have shrunk

Employment rates at different points of the distribution across local authorities: UK

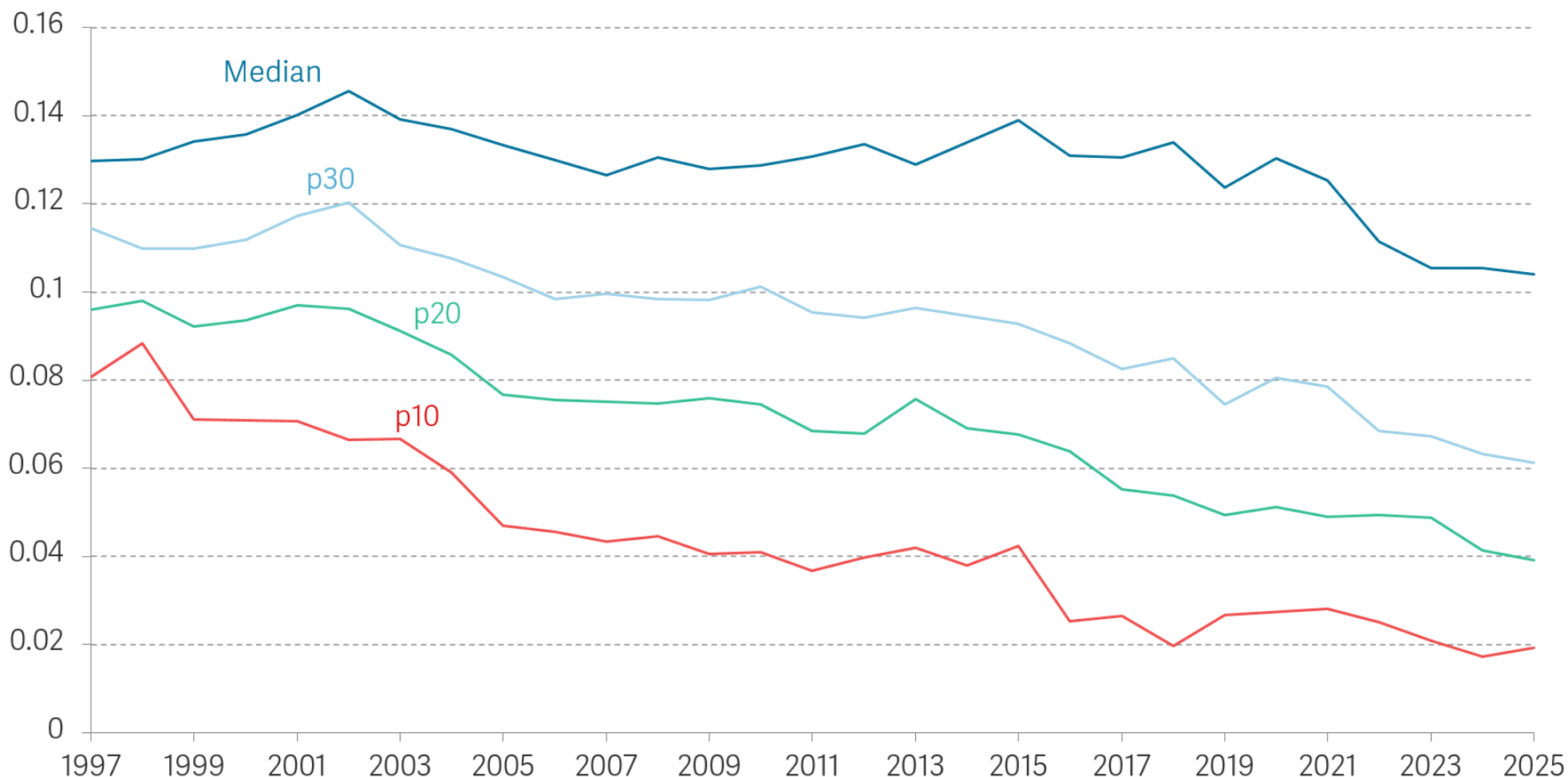


Over the 2010s, the gap between low-employment (10th percentile) and high-employment (90th percentile) areas shrank by 3 percentage points. It's easier to find employment in today's low employment areas than it was in the past.

Notes: Dashed lines indicate change of survey. Percentiles are defined in each year.
Source: RF analysis of ONS, Annual Population Survey, Annual Labour Force Survey & Local Area Labour Force Survey.

The good: pay gaps have shrunk thanks to a rising pay floor

Coefficient of variation at different points of the hourly pay distribution across travel-to-work-areas: UK



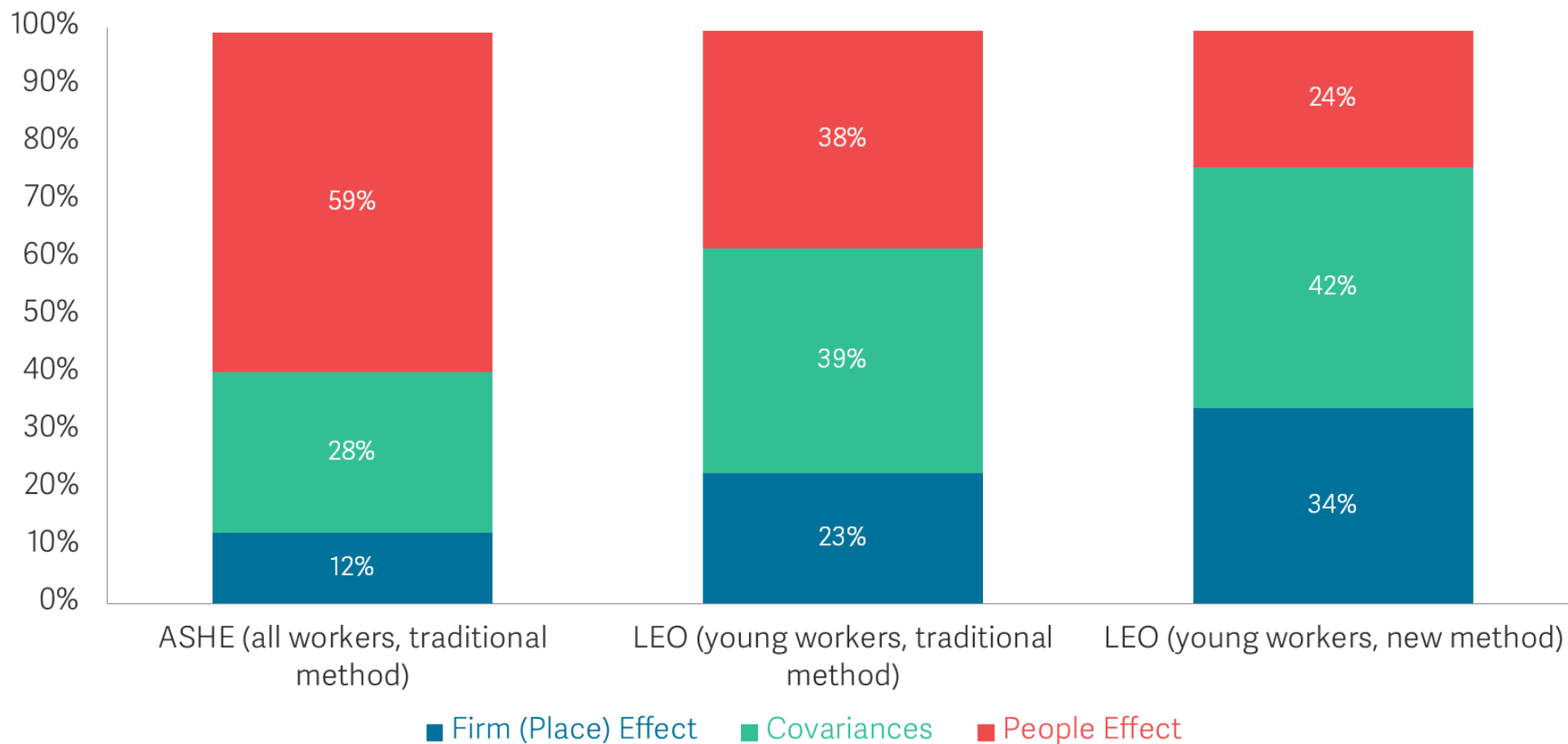
Wage gaps have come down, primarily at the bottom of the pay distribution, thanks to a rising minimum wage.

And the minimum wage has 'spillover' effects further up the pay distribution - playing a role even in reducing median pay gaps.

Notes: The coefficient of variation is the standard deviation divided by the mean.
Source: RF analysis of ONS, Annual Survey of Hours and Earnings.

Place effects explain about 1/3 of regional earnings inequality

Variance decomposition of log earnings across travel-to-work-areas, using different methods: GB / England



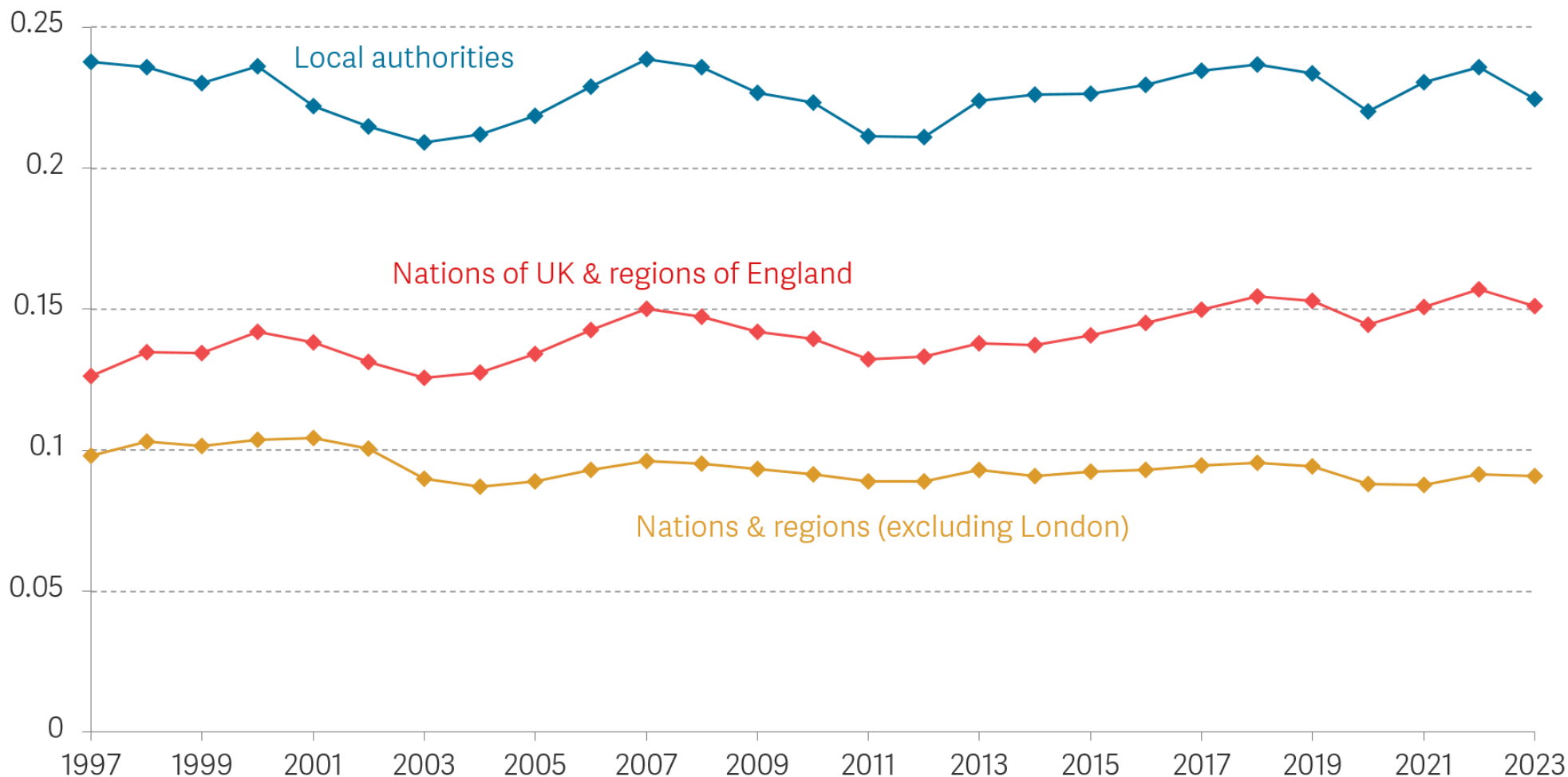
This chart shows the sources of regional variation in pay.

About one-third is due to 'place effects' (employers paying higher wages in some places than in others to otherwise identical workers).

A further 42 per cent is driven by the sorting of the highest-earning-potential workers (with the highest 'people effects') into the highest-paying labour markets (with the highest 'place effects').

The bad: income gaps are large and stubborn

Coefficient of variation of income per capita (GDHI cash measure), across local authorities and nations and regions: UK



Geographic variation in average household income per person is much higher when we look at the level of the local authority as opposed to the region.

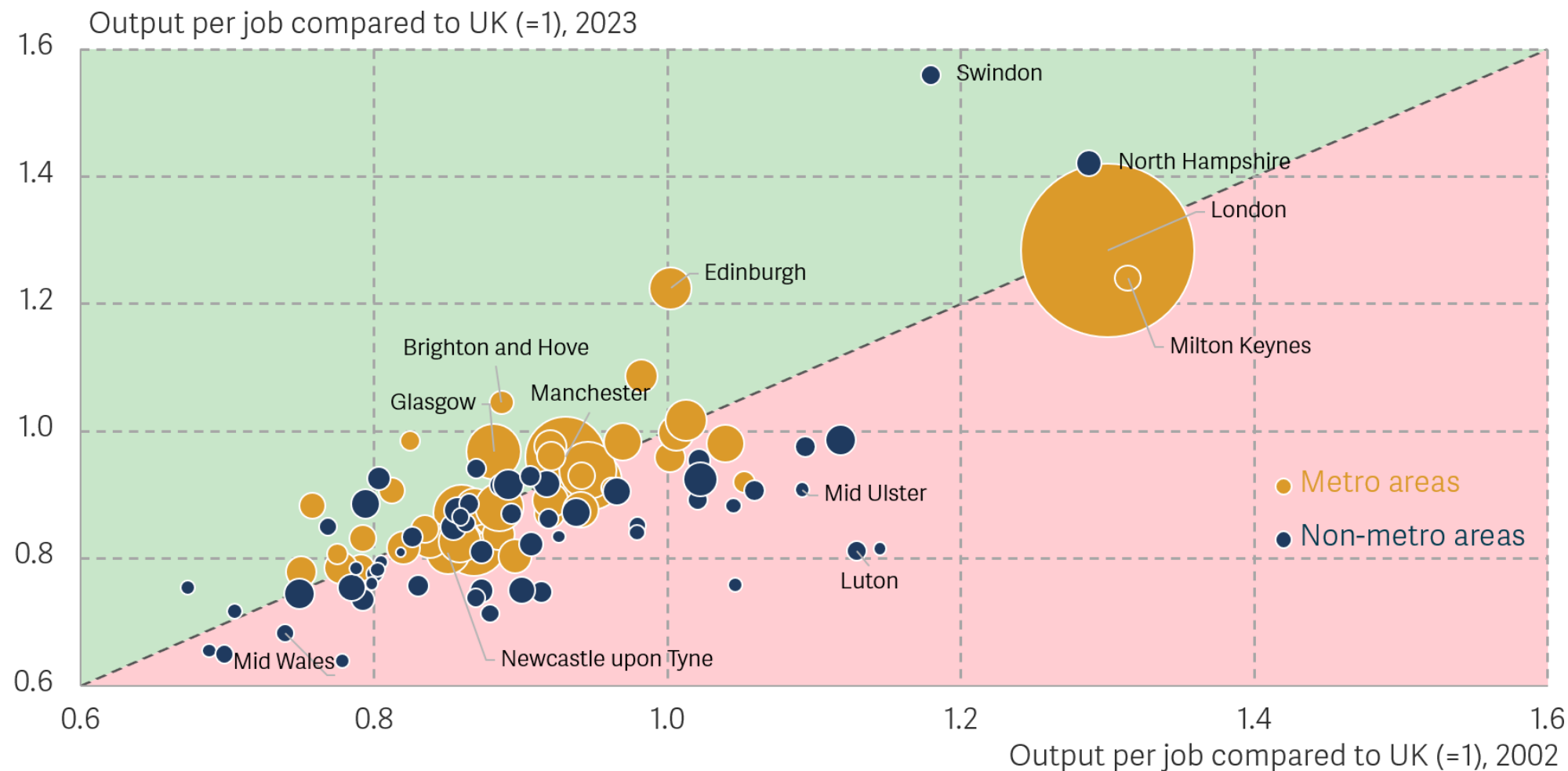
The amount of spatial inequality has broadly stayed the same over this 26-year period.

Notes: Cash measure of income previously developed by Resolution Foundation using the GDHI dataset. We set out our methodology out in detail in: L Judge & C McCurdy, Income Outcomes: Assessing income gaps between places across the UK, Resolution Foundation, June 2022. The coefficient of variation is the standard deviation divided by the mean.

Source: RF analysis of ONS, Gross Disposable Household Income.

The bad: productivity gaps are stubborn

Output per worker compared to whole UK (= 1) in metro and non-metro areas: 2002 (horizontal axis) and 2023 (vertical axis)



Why are income gaps large and stubborn? Although minimum wage and higher employment rates support the bottom of the pay distribution, earnings more generally are linked to productivity.

Productivity gaps between places are also both large and persistent.

Notes: Spatial units are OECD metropolitan and non-metropolitan areas, with metros defined on a functional economic (including commuting-zones) basis. Circle size represents the number of jobs in the area.
 Source: RF analysis of ONS, Subregional Productivity.

The ugly: poor-performing areas have tended to remain so

Proportion of local authorities staying or moving income per-head quintiles: UK, 1997-2023

1997 ↓ / 2023	Q1 (poorest)	Q2	Q3	Q4	Q5 (richest)
Q1 (poorest)	54%	25%	18%	1%	1%
Q2	33%	44%	19%	1%	1%
Q3	13%	25%	43%	17%	3%
Q4	0%	6%	19%	61%	14%
Q5 (richest)	0%	0%	0%	19%	81%

The gaps are not only large and persistent, but lots of places have been stuck in their relative position.

This story of low and high performing areas remaining so is true for a range of measures of living standards – including employment, pay, incomes and productivity.

Notes: Cash measure of income previously developed by Resolution Foundation using the GDHI dataset. We set out our methodology out in detail in: L Judge & C McCurdy, Income Outcomes: Assessing income gaps between places across the UK, Resolution Foundation, June 2022
Source: RF analysis of ONS, Gross Disposable Household Income.

Policy priorities going forward

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NEETs policy:

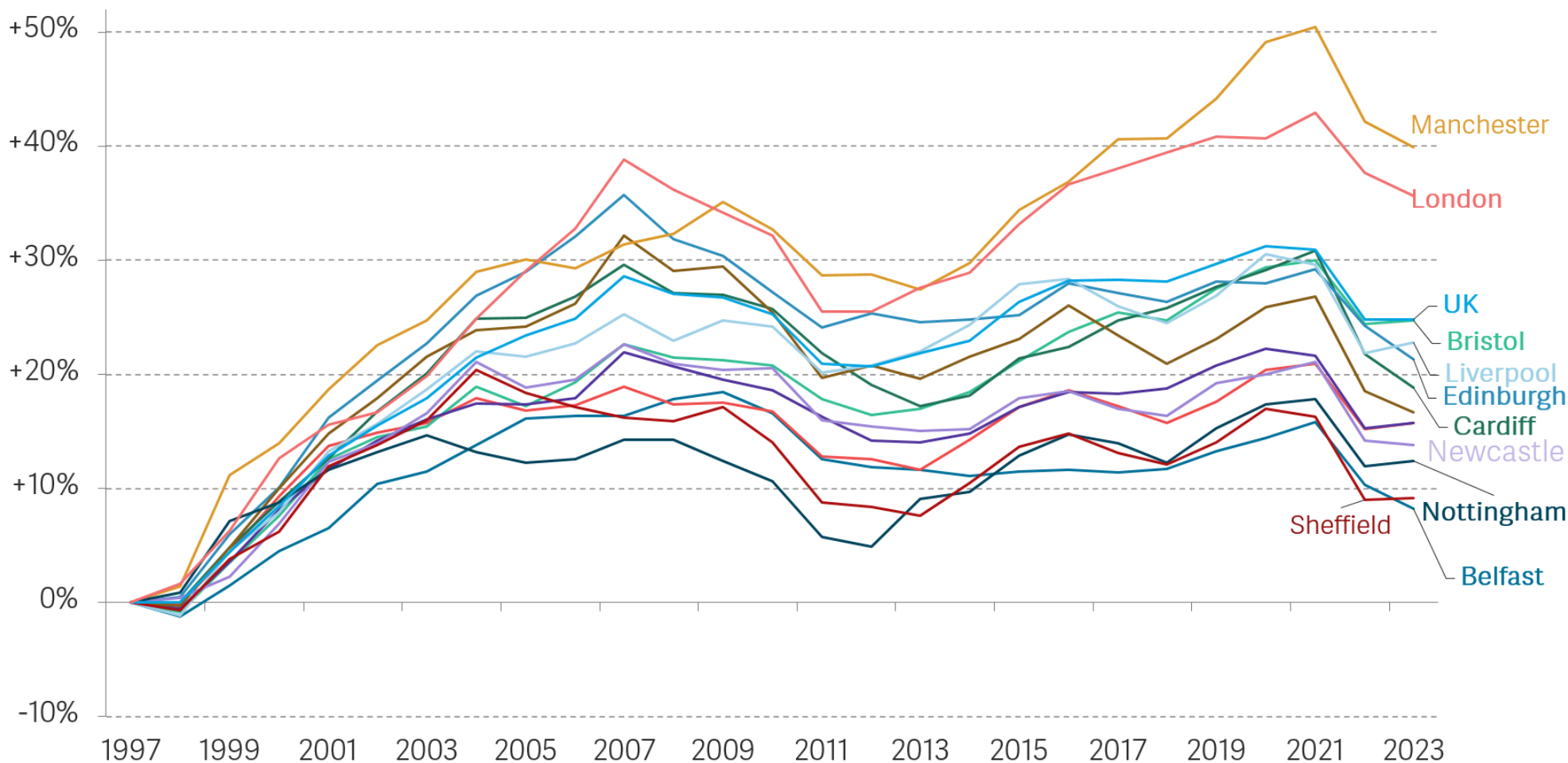
- Expand mental health provision.
- Greater (and highly personalised) engagement with DWP.
- Boost FE funding.
- Prioritise apprenticeship funding for under-25s.

Regional inequality:

- Targeted investment in transport and housing.
- Focus on our second cities.

Is Manchesterism the answer?

Change in real gross disposable income (GDHI) per head since 1997, UK 'core cities'

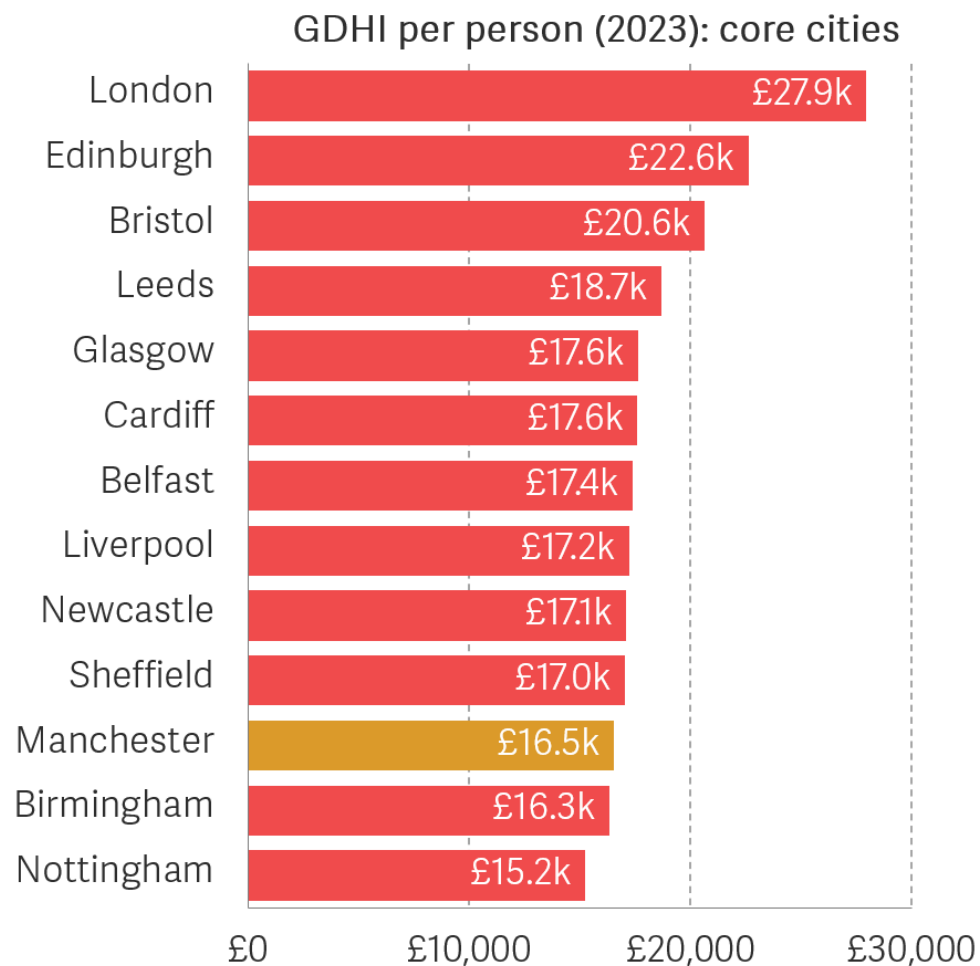
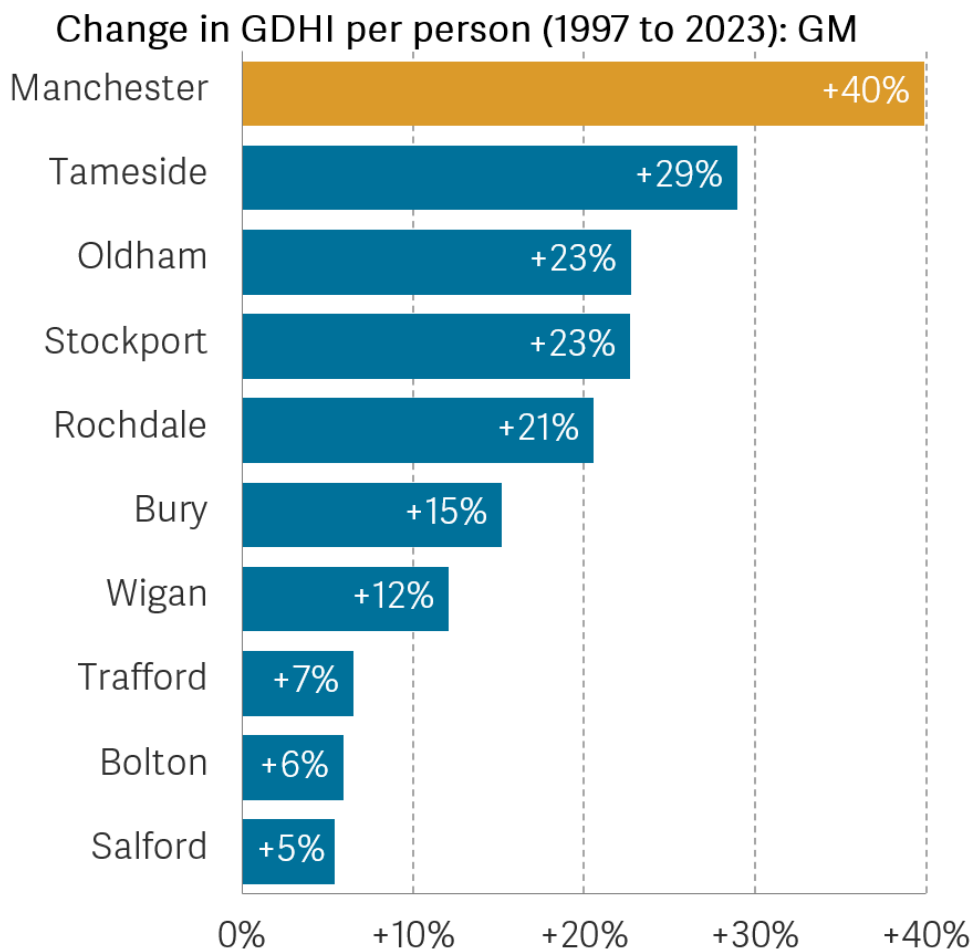


Manchester's GDHI per person grew two-fifths (40%), in real terms, between 1997 and 2023 (compared to 36% in London and just 8% in Belfast). Manchester had the highest GDHI change every year since 2017.

Source: RF analysis of ONS, Gross Disposable Household Income.

Is Manchesterism the answer? Not quite...

Change in real gross disposable income (GDHI) per head since 1997 across Greater Manchester (GM) and real GDHI in 2023 across UK 'core cities'



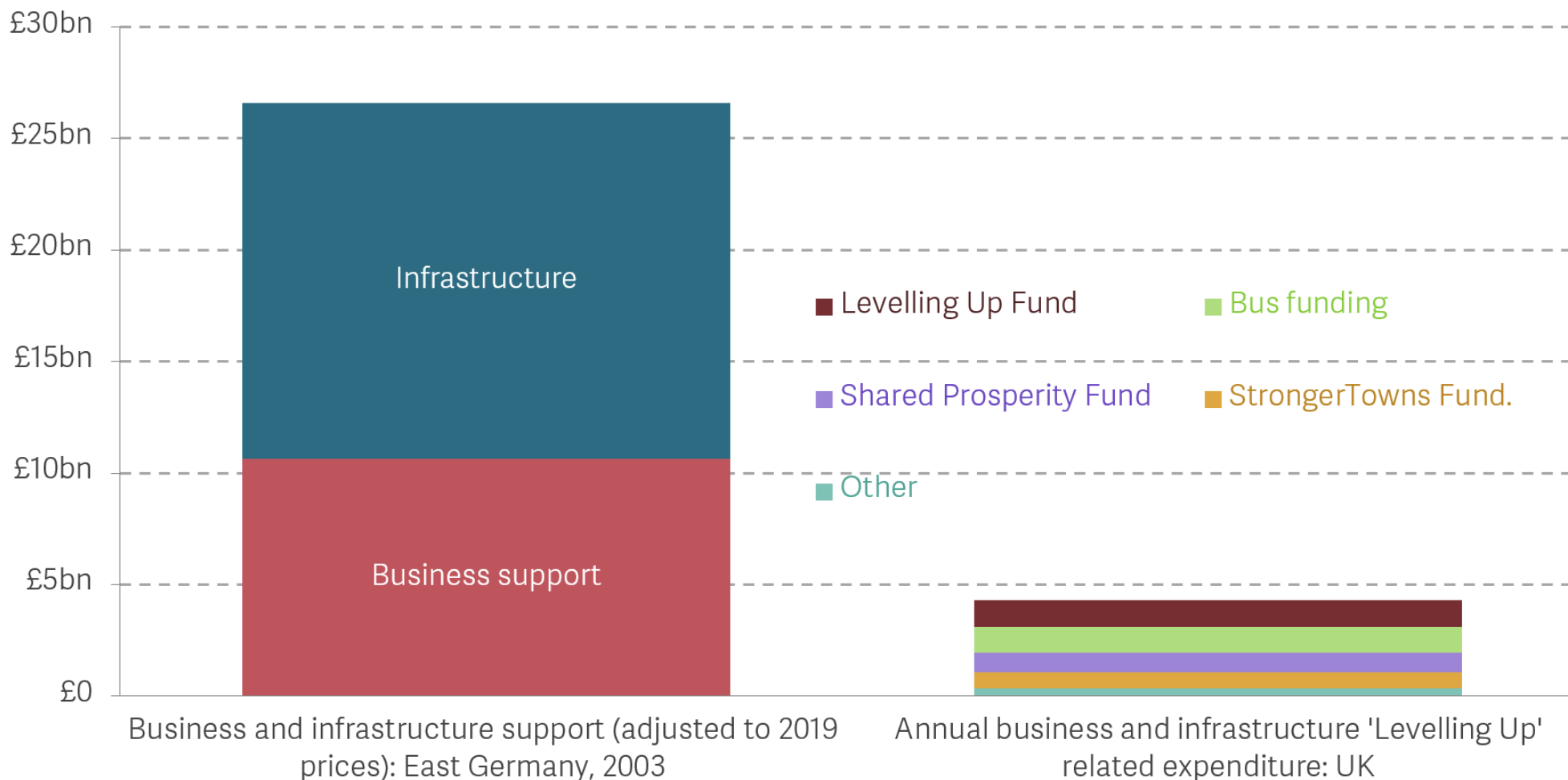
Manchester has seen substantially more growth in GDHI between 1997 to 2023 than all other Greater Manchester areas.

Despite this remarkable progress, Manchester's income per person in 2023 was two-fifths lower than London's (£16.5k versus £27.9k) – and marginally lower than Sheffield (£17k), Newcastle (£17.1k) and Liverpool (£17.2k).

Source: RF analysis of ONS, Gross Disposable Household Income.

Closing regional gaps demands substantial commitment

Spending on infrastructure and business support: UK and Germany, 2003 and 2022



Narrowing these deeply entrenched gaps will require serious, sustained investment, focused on boosting Britain's second cities.

In 2022, total committed spending in the UK on infrastructure and business support broadly aimed at levelling up, amounts to around roughly £4.3 billion annually, while Germany spent more than £27 billion in 2003 on equivalent categories in its post-reunification project.

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