

Local development: for people, not places

This evidence briefing is aimed at policymakers working on economic and social disparities between areas of the UK. The research evidence provides a better understanding of drivers of area disparities and should inform policy measures aimed at improving local development.

Key findings

- The main driver of wage disparities between places is the composition of types of workers in different areas ('sorting'), which accounts for at least 70 per cent of area disparities in the study. At most, 30 per cent are caused by area-specific effects (where the same types of workers experience different outcomes depending on the area they work in). The most conservative estimates suggest that area-specific effects account for only 10 per cent of area disparities.
- Despite many decades of policy intervention the places with the worst area effects have seen little catch-up with better places. There is no compelling evidence that initiatives such as the Regional Development Agencies, 'clusters' or targeting small businesses have affected catch-up.
- Any catch-up in disadvantaged areas has been offset by a greater sorting effect of people, where for instance higher skilled people have moved to more productive areas. Wage disparities between areas are therefore persistent over time.
- Area income averages are of little use as wellbeing indicators in themselves, without taking into consideration costs of living and local amenities. High nominal wages tend for instance to be offset by high house prices or low quality of life.



Background

Regions, cities and neighbourhoods throughout the UK appear very unequal, with differences in terms of average earnings, employment and other socio-economic outcomes persisting over time. However, these figures simply show the aggregated outcomes for people who live and work in different places. While it is relatively easy to measure aggregate differences between places, it is much harder to work out how these differences affect people who live and work there.

The differences between people living and working within the same local area could far exceed the differences between areas. In other words, knowing whether 'between-area' or 'within-area' disparities dominate is important in understanding the role policy might play in helping address individual disparities. To develop policy we need to know to what extent area disparities arise because of the characteristics of people in an area (sorting) versus different outcomes for the same types of people in different places (area effects).

Wages represent a good indicator of productivity and variation in income. Moving from the worst-off to the best area, average wages increase by just over 60 per cent. However, wage disparity is mostly due to individual characteristics (ie. sorting). Area effects contribute only a small percentage to the overall variation of wages, and are not very important for understanding overall levels of wage disparity.

Policy relevance and implications

- Policy should be assessed by impact on people, not places. In the recent past, policy has arguably been too heavily focused on public expenditure to turn around declining places, and paid too little attention to individuals, housing costs and amenity differences.
- Skills policy issues need to be resolved, such as clarifying decision making and delivery, deciding whether focus should be on local employment needs or general skills, and training and education should be funded when newly skilled people move away from declining places.
- ‘One size fits all’ policies for land use and housing are not beneficial for disadvantaged areas. Increasing housing supply in declining places with low house prices simply reduces relative house prices further, while increasing housing density has side effects on costs and congestion. National policies emphasising

brownfield land, high density, city centres, mixed-use, and further building regulations increase the costs of new development which may disproportionately affect disadvantaged areas.

- Policy should focus on encouraging labour market activity and removing barriers to mobility, by expanding housing supply and reducing costs of living in relatively successful places. This will require a softening of restrictive planning and national top-down guidelines, large enough incentives for local authorities and appropriate compensation for existing residents to ensure development is agreed.
- Policy measures have traditionally focused on public expenditure to turn around declining places, but these policies have not been very successful. There is a need to identify priority areas of expenditure and consider more radical changes – such as reforming land use planning – to help address issues arising from spatial disparities.

Brief description of the research

The drivers of spatial wage disparities in the UK have been examined by Dr Steve Gibbons, Professor Henry Overman and Dr Panu Pelkonen at the Spatial Economics Research Centre, based at the London School of Economics and co-funded by the ESRC. They use detailed data on individual wages, house prices and amenities to consider the relationship between wages, cost of living and the quality of life.

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