

WAGE INEQUALITY AND EMPLOYMENT POLARISATION IN BRITISH CITIES

Wage inequality and employment polarisation – where employment is increasingly divided into high- and low-skilled jobs – are seen as important social problems, which a number of cities have attempted to address at a local level. This study investigates the geography of wage inequality and employment polarisation in British cities, their determinants and implications.

Key points

- Cities in the south of England – such as London, Reading and Milton Keynes – tend to have the highest levels of wage inequality and employment polarisation. The Gini coefficient of wages (a measure of inequality) is 0.337 in London, the most unequal city.
- Smaller cities and those that have experienced industrial decline – such as Sunderland and Burnley – tend to have the most equal labour markets. The most equal city, Sunderland, has a Gini coefficient of only 0.237.
- The main driver of urban inequality is affluence. Cities with higher average wages and knowledge-based economies tend to be more unequal. Cities with weaker local economies generally have lower levels of wage inequality and employment polarisation.
- There is a strong argument for addressing inequality locally by focusing on the bottom of the labour market, particularly by improving working conditions for low-skilled workers. Unequal cities often have a higher cost of living, with housing costs being the main component. Reducing these should be an important goal for local policy-makers.
- Urban policy-makers should be cautious about focusing on the high wage earners who drive local inequality. Efforts to reduce inequality at the top of the distribution are probably more effective at a national level.
- Because they may have demand for low-skilled labour, unequal cities also need to ensure labour markets are inclusive, giving all residents the skills and opportunities needed to enter the workforce. In polarised cities, it is important to provide opportunities for progression in low-wage work.

The research

Neil Lee, Paul Sissons and
Katy Jones, The Work
Foundation.

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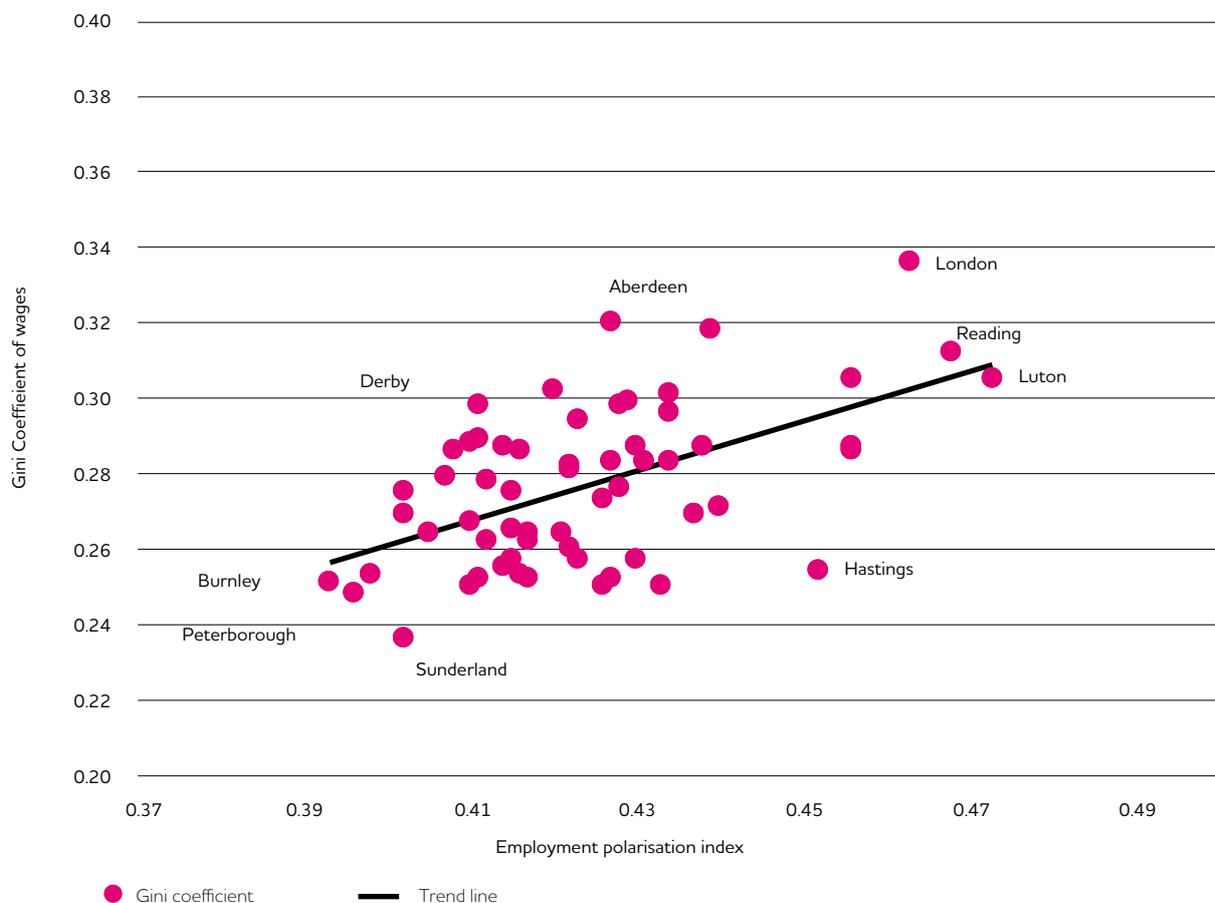
BACKGROUND

There is widespread concern about wage inequality and employment polarisation in Britain. At the same time, cities are being given new powers over policy areas such as skills, transport and economic development. A number of cities have established 'fairness commissions' looking at how local areas can address inequality. Yet there is little evidence on the geography, determinants and implications of urban inequality and employment polarisation. This study considers these issues for British cities.

The geography of inequality and employment polarisation in Britain

This study uses pay data from the Annual Survey of Hours and Earnings (ASHE) and the Annual Population Survey (APS) to investigate which cities are most unequal and why. It also uses case studies and interviews in four cities: Liverpool, Brighton, Bradford and Edinburgh. The findings show that – while levels of wage inequality vary considerably depending on the measure used – the most unequal cities tend to be in and around London and the South East. An important caveat is that we only look at inequality within the labour market, rather than the related concepts of poverty or income inequality.

Figure 1: Wage inequality and employment polarisation in British cities



Source: Annual Survey of Hours and Earnings, 2010. Data for 60 Travel to Work Areas. Employment polarisation index calculated following Jones, P. and Green, A. (2009) "The quantity and quality of jobs: Changes in UK regions, 1997 – 2007". *Environment and Planning A*, 41(10): 2457-2495.

What makes cities unequal?

Cities with high levels of labour market inequality generally have successful, knowledge-based economies. They tend to be near London. Figure 1 shows the relationship between income inequality and employment polarisation. There is a clear link between the two, with cities such as London and Reading being both polarised and unequal.

The most unequal cities have large shares of highly skilled jobs and affluent residents. Conversely, where few residents earn higher wages this makes cities more equal. Cities such as Sunderland have few high-earning residents and relatively low levels of wage inequality.

The consequences of urban wage inequality and employment polarisation

The study also considered the potential consequences of urban inequality and employment polarisation. Even when controlling statistically for other characteristics such as age or ethnicity, low-skilled workers (defined as those qualified below NVQ level 2) are more likely to be in employment and, when in employment, are likely to earn higher wages in cities with high levels of wage inequality.

However, the study also shows that housing costs tend to be higher in unequal cities. This means that while low-skilled workers are more likely to be in employment and earn higher wages, their disposable incomes are not necessarily higher.

How does inequality play out in different cities?

The study also considers four cities with different levels of inequality – Bradford, Brighton, Edinburgh and Liverpool. Of these, Bradford and Liverpool are both relatively equal – they have faced industrial decline and have relatively high shares of employment in the public sector. Neither city has a high average wage and both have high levels of unemployment.

In contrast, Edinburgh has relatively high levels of inequality. The high wages of skilled knowledge workers make the local labour market unequal. In contrast, inequality in Brighton is lower than might be expected given its highly skilled population and good commuter links to London.

At a local level, the people we interviewed were more concerned with poverty than inequality. Inequality was seen mainly as the difference between rich and poor neighbourhoods, rather than an overall measure of wage inequality. However, two of the cities, Brighton and Liverpool, were also explicitly targeting inequality. One way of doing this was by attempting to raise wages at the bottom of the labour market through Living Wage campaigns.

Conclusion

Because urban wage inequality is driven by affluence amongst residents, it is both hard and potentially detrimental to address directly at a local level. Local policy-makers face a dilemma: they want to attract skilled workers and increase their share of high-value, knowledge-based employment. Yet success in either of these aims will increase inequality. However, this increase in inequality may be accompanied by improved wages and employment chances for low-waged workers, albeit with a risk of an increased cost of living.

Local policy-makers in unequal cities should do three things. First, they need to ensure that less skilled workers are able to share in the gains of successful urban economies. One way of doing this is to improve the skills of those at the bottom of the labour market – particularly entry-level service work. Second, they should seek to use policy levers to ensure low-wage workers have opportunities for promotion and advancement. Third, they should develop wider policies that seek to grow the number of 'good jobs' locally and should also take a lead in supporting the Living Wage campaign and working to extend its coverage.

It is also clear that policy-makers need to consider the consequences of urban wage inequality. Local cost of living is particularly likely to be a problem, and low-waged workers may face higher housing costs, especially in cities with more affluent residents. Reducing the cost of living for low-wage workers should be an important goal of local policy-makers. The focus needs to be on reducing housing costs.

About the project

These findings are based on an analysis of the Annual Survey of Hours and Earnings (ASHE) and Annual Population Survey (APS) for Great Britain, investigating the patterns of wage inequality and employment polarisation. Case studies were conducted in four cities – Edinburgh, Brighton, Bradford and Liverpool – which involved a review of the secondary literature and interviews with experts and policy-makers.

FOR FURTHER INFORMATION

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF.

The full report is published by The Work Foundation and is available to download at <http://www.theworkfoundation.com/Reports/334/Inequality-and-employment-polarisation-in-British-cities>

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Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
Tel: 01904 615905

email: publications@jrf.org.uk
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