Comment

Tackling regional inequalities: lessons from new research

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Summary of new research on the scale and sources of regional inequalities and policy implications.

Contents

Regional inequalities in the UK are large by international standards. These inequalities span multiple dimensions, including pay and productivity, education and skills, and health and life expectancy. Many of these disparities are highly persistent. For example, most places that were struggling with low wages and employment rates 20 years ago are still struggling today, and the same is true for areas that were flourishing.

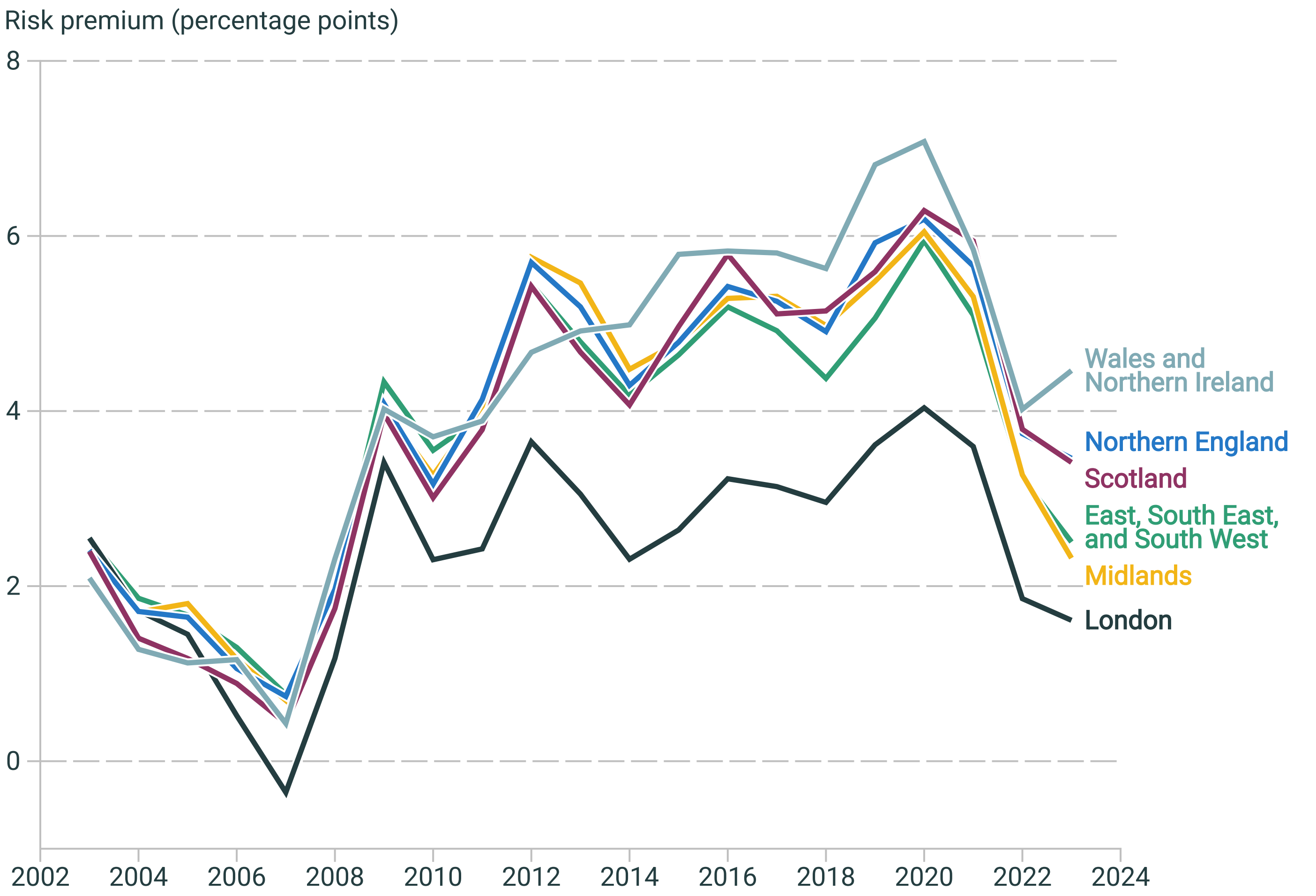
Successive governments have stressed the need to tackle regional inequalities. To inform the design of policies, we brought together three new papers from researchers at the IFS, UCL, University of Manchester and other universities in a symposium issue of *Fiscal Studies*, inspired by Paul Collier's book *Left Behind*, summarised in an overview written by him for this symposium. Taken together, the papers document disparities in opportunities across the country, and trace their roots in financial markets, childhood conditions, the educational system and opportunities to migrate. This comment summarises some of the key findings from the symposium.

Investment in left-behind places

One source of regional inequality in job opportunities and productivity is unequal access to financial capital. Using new data on large-scale real estate investments[i] over the past two decades, Daams, Mayer and McCann (2025) show that, after the 2008 financial crisis, investors began to see London as much safer than the rest of the country. As a result, they were willing to accept lower returns in London but demanded much higher returns to invest elsewhere to compensate for the added perceived risk.

Figure 1 illustrates this pattern by showing regional investment risk premia since 2003 – that is, the extra return investors require above the return on safe government bonds to compensate for risk. The figure highlights a sharp divergence after 2008 between London and other UK regions, which effectively split the UK into two financial worlds: London and its surrounding areas on one side, and the rest of the country on the other, with the UK's second- and third-tier cities facing the highest costs of capital. In fact, the difference in the risk premium investors demand to invest in London compared with these cities is about as large as the difference they demand when lending to the UK government versus lending to governments of much weaker economies, such as Romania and Chile.

Figure 1. Risk premia in London and the rest of the UK



Source: Daams, Mayer and McCann (2025)

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Daams, Mayer and McCann suggest that one possible explanation for this trend is the centralisation of the UK banking and financial system in London, which has accelerated over the last four decades and has left the UK among the most centralised financial systems in the OECD. They argue that lenders are overstating the risk involved in investments outside London, because they understand these places less well than the capital, where they are based. The 2008 financial crisis led to large increases in uncertainty for investors and resulted in 'flight to safety' to London, viewed as a safe haven by investors at the expenses of other places, especially regional cities.[ii]

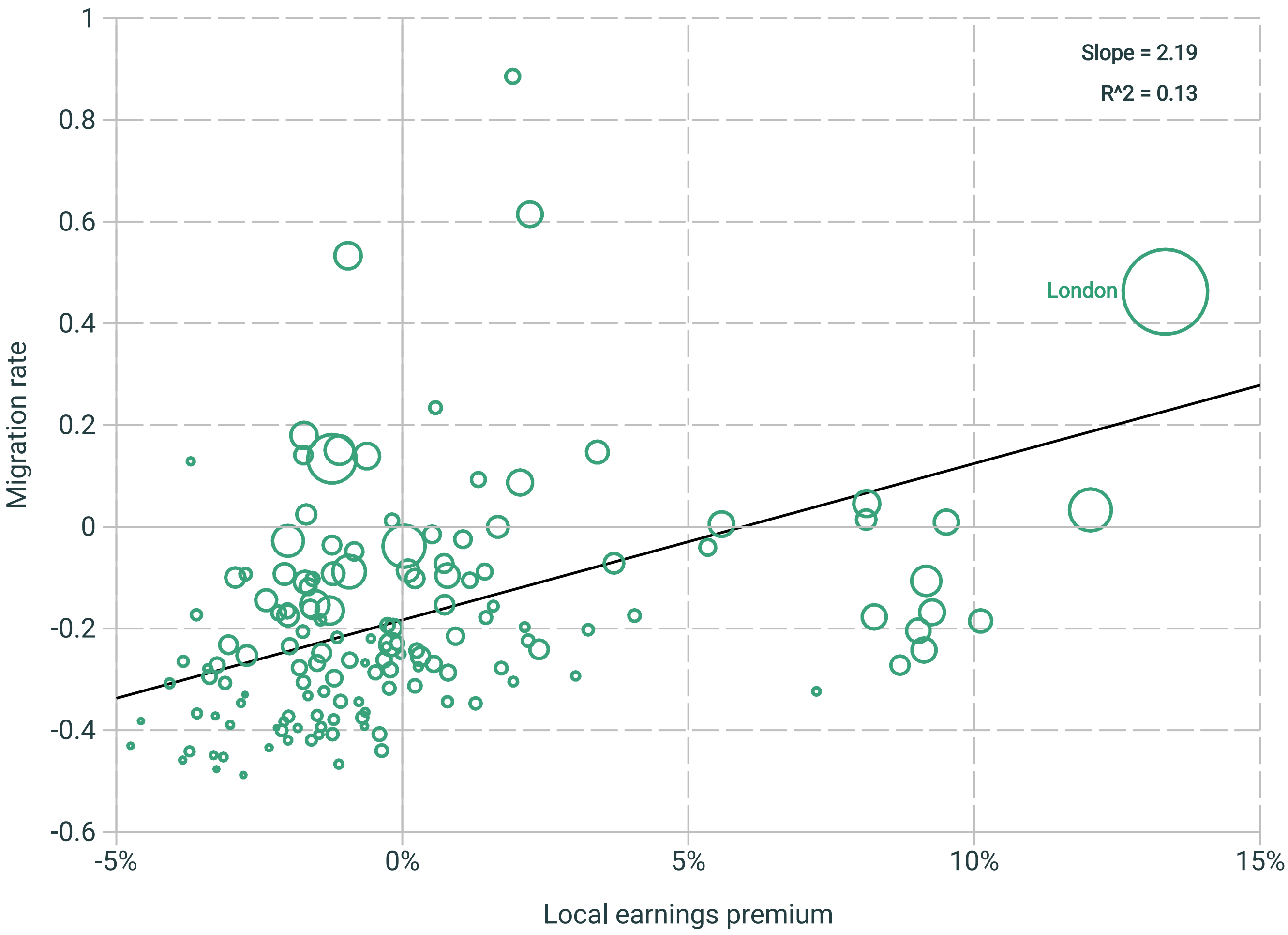
Moving to opportunity

The concentration of investment and job opportunities in London is reinforced by the flow of skilled workers, which further widens regional economic disparities. Xu (2025) shows that young workers in England – especially graduates – are highly mobile, with 44% of graduates living outside their hometown by age 32. Graduates (but not non-graduates) move away from places with weaker economic opportunities, towards places offering better prospects.

This is shown in Figure 2, which plots the net, in- and out-migration rates of graduates in each local labour market against the local earnings premium – how much a given individual can expect to earn there, relative to what they can expect to earn in the average area. In places such as Bude and Bridlington, where expected earnings are more than 5% below the national average, over 60% of graduates leave by age 27 and few graduates move in.

Figure 2. Correlation between graduate migration rates and local earnings premia, age 16–27

Click to switch between: Net migration | In migration | Out migration



Note: Rates refer to the number of net, in and out migrants at age 27 relative to the number of residents at age 16. Size of bubbles denotes the total number of graduates by place of origin. Local earnings premia are normalised to the unweighted average across all Travel-to-Work-Areas (e.g. 5% implies a given individual would expect to earn 5% more there than in the average area).

Source: Xu 2025.

Download data

Nearly a third of all graduate movers from outside the capital end up in London by age 27. And whilst many people leave London in their late 20s and early 30s, as they start to settle down, the majority move to other prosperous places in the South East. Those who move back to their hometowns have lower levels of education. Young workers have become more mobile in recent years, especially graduates, which suggests that migration may be playing an increasing role in widening regional inequalities.

Geographical differences in equality of opportunity

Differences in local job opportunities and people's ability or willingness to move likely contribute to the large place-based gaps in equality of opportunity across England, as documented in the paper by Carneiro, Foliano, Krutikova, Loh and Macmillan (2025). The authors show that in some parts of the country, whether one grows up in a poorer or richer neighbourhood has only a small effect on an individual's position in the national earnings distribution, while in others the effect is much larger. For example, among men who grew up in Hackney, the average gap in adult earnings rank between those from the poorest and richest neighbourhoods is about nine places, compared with nearly 30 places in Blackpool and Bradford.

One of the reasons why this may be the case is that the opportunities for those from more disadvantaged neighbourhoods are better in some parts of the country than others. And indeed, honing in specifically on those who grew up in socio-economically disadvantaged neighbourhoods, Carneiro et al. show significant variation in their earnings outcomes. For example, women raised in poor neighbourhoods in Harrow rank 15 places higher in the national earnings distribution than those raised in similarly disadvantaged neighbourhoods in Hull – an earnings difference equivalent to around 55% of the median for this group.

Large regional cities outside London stand out for particularly poor outcomes among those who grew up in socio-economically disadvantaged neighbourhoods. These cities not only struggle to attract investment (as documented by Daams, Mayer and McCann), they also had lower average educational quality than smaller cities, towns and rural areas when these cohorts were growing up. The results further reveal striking and under-studied gender differences, suggesting that the same local conditions matter differently for men and women. Inner London illustrates this clearly: women who grew up in poor neighbourhoods here earn substantially more than women from similar neighbourhoods elsewhere, while men from the same neighbourhoods have some of the lowest earnings in the country.

Implications for place-based policy

Taken together, the papers point to several reasons for the persistence of regional inequalities. They suggest that without policy intervention, some places may remain trapped in low-growth equilibria. Investors view these places as too risky. Productive firms do not move there because access to capital is limited and the local workforce do not have the skills they need; and the local workforce, in turn, remains less skilled because there are few local jobs that require higher skills, and those who acquire them often move away. These dynamics imply that place-based policy needs to pull multiple levers at the same time to be effective. For example, improving skills in left-behind places – highlighted by Carneiro et al. – is likely necessary but not sufficient. Without local job creation, skilled young people will continue to leave; and without better access to finance, regional cities will struggle to attract the investment needed to support new opportunities, even when skills improve.

We should not expect a one-size-fits-all solution: the broad lesson is that reducing regional inequalities requires policies that tackle multiple, interlocking constraints at the same time. Daams, Mayer and McCann, along with *Left Behind*, argue that the effective development of such policies requires greater decentralisation of financial, banking and public governance systems. They note that the only urban areas outside London where risk-pricing has begun to converge towards London levels are Greater Manchester and the West Midlands – the two largest mayoral combined authorities with the greatest devolved powers. However, these improvements are not (yet) evident in the outcomes of people who grew up in these places: Carneiro et al. show that state-educated young people who grew up in inner Manchester have some of the lowest earnings in England. More research is required to understand what policies are needed to ensure that local residents can benefit from increased investment.

Endnotes

i Real estate is the most important form of entrepreneurial start-up and scale-up collateral, so it affects small and medium-sized enterprises' access to financing more generally. Further, Daams, Mayer and McCann argue that returns on real estate investments are fundamentally about the derived demand for the economic activities operating in different places.

ii The authors argue that investors are failing to accurately price-in regional investment risk post-2008, showing that (in stark contrast to the pre-2008 period) there is no correlation between actual and predicted risk premia, based on the Capital Asset Pricing Model. However, it is possible that 'textbook' methods of pricing risk no longer capture the nature of risks post-2008.

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