



Spatial Economics Research Centre

Tuesday, 26 June 2012

Regional Benefits

David Cameron may have been right to axe his [regional benefit announcement](#) (and not just because of the politics). As I have argued before, I find the case for [more localised pay in the public sector reasonably compelling](#). But the case for local benefit rates is far trickier.

First, there's the issue of how you would actually do this? With public sector pay you can look at the difficulty in recruiting public sector staff and adjust place of employment. Localising benefits requires adjustment by place of residence with no obvious way of figuring out when benefits are 'too high' or 'too low'. If you want to see how complicated this can get, then look at Housing Benefit - which is (indirectly) adjusted to take account of cost of living.

Indeed, housing benefit, is a second reason to think that localised benefits are trickier. We already adjust benefits for local housing costs - the component of cost of living that varies most across areas. As a result, the 'residual' adjustment - and hence any gains from localising - might be relatively small.

Of course, that still leaves the [issue of distortion of local labour markets](#). It seems reasonable that national benefits may decrease the incentive to work lower wage areas. The problem, however, is that we don't have much evidence that these effects are large. What evidence we do have, looking at the national minimum wage for example, suggests that the effects don't differ very significantly across regions. I'm willing to be convinced, but I don't think there is yet evidence out there which would be particularly compelling.

With localised pay, the strongest arguments are around improving the provision of local public goods (which argue for paying more in high cost areas). Removing distortions in local labour markets, assuming this occurs, is simply an added bonus. In contrast, for benefits, the central arguments revolve around the fiscal benefits and the benefits from removing labour market distortions. Given that HB already does a lot of the adjustment on the cost side the arguments about distortions from the income component of benefits are weaker (especially given the huge costs and complications of implementing such a change).

Posted by [Prof Henry G. Overman](#) on [Tuesday, June 26, 2012](#)

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