



Spatial Economics Research Centre

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The Spending Review: Jobs

We are told that (more than?) [half a million jobs in the public sector](#) will go as a result of the spending review. As well as trying to figure out which families are hardest hit, the media are full of stories trying to identify which [places are likely to prove least resilient](#).

Abstract from issues about the timing and speed of cuts, it is as interesting to think about the long run impact on the economic geography of the UK. A growing public sector has clearly propped up total employment in some areas that are very bad at generating private sector employment. The direct effects of public sector job cuts simply must be bad for those areas. But the tricky thing to predict is how the economy will adjust to this initial effect. For the private sector in these areas there are two offsetting indirect effects. The first is that public sector jobs create demand for local goods and services so cutting them will be bad for the private sector. High public sector salaries also create distortions in local labour markets - particularly in competing for the best workers - so this cutting jobs will be good for the private sector. The coalition is banking on the second effect being larger than the first. Labour used to think that the latter effect dominated in the South East, but that the former dominated in the rest of the UK. In reality we simply don't know the magnitude of these two offsetting effects.

The situation is further complicated by the fact that the demand response is likely to generate a supply response as people move away from places where demand falls disproportionately as a result of public sector job cuts.

In the end, the balance of these effects are likely to lead to a redistribution of population towards areas that are relatively good at generating private sector jobs. This may be bad for the balance across places, but there are things policy can do (e.g. around the supply of housing) that mean many individuals may be better off as a result of these moves (at least compared to staying put).

I should finish by noting that, in terms of long term welfare, these "job effects", are surely second order compared to the debates about what kind of public goods we want the state to provide. But I doubt that observation will prevent further speculation on the spatial impact of the spending review.

Posted by [Prof Henry G. Overman](#) on [Friday, October 22, 2010](#)

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