

Income inequality and residential segregation

Che-Yuan Liang

This SNS research brief presents a description of the development of income inequality and residential segregation by income in Sweden. It also investigates the extent to which income inequality affects residential choices and segregation by income.

Che-Yuan Liang, Associate Professor in Economics at the Institute for Housing and Urban Research at Uppsala University

Since the 1990s, income inequality and residential segregation by income have increased substantially in Swedish municipalities. My data shows that income inequality has risen both due to the fact that there are more low- and high-income residents today, but also due to low-income residents having become relatively poorer and high-income residents having become relatively richer. Moreover, segregation has grown in terms of the concentration of both low- and high-income residents in different neighborhoods.

Income inequality exists if there are income differences between residents in a geographical area, such as a municipality, whereas residential segregation appears if there are income differences between neighborhoods in a municipality. If everybody has the same income, residential segregation by income is not possible. Income inequality is thus a prerequisite for residential segregation by income. However, residents with different incomes could choose to live in the same mixed neighborhoods, which is why inequality does not necessarily lead to segregation. This SNS research brief not only presents a detailed description of developments in Sweden but also investigates the extent to which income inequality affects residential choices and segregation. I also discuss if and how one may reduce inequality in order to reduce segregation. This research brief is based on research carried out together with Xiao Hu at the Swedish University of Agricultural Sciences.

I show that inequality with respect to gross income before tax and transfers, primarily composed of labor and capital incomes, could explain the entire segregation surge since the 1990s. Particularly, growing municipal poverty rates have generated a higher concentration of poor residents in certain neighborhoods. People tend to locate where their neighbors have a level of education similar to themselves. Such patterns could arise if residents with higher levels of education value certain types of housing (e.g., single-family buildings) or public goods (e.g., better schools) relatively higher. Alternatively, they might prefer to interact with neighbors similar to themselves.

Sweden has an extensive public redistribution through progressive taxes and means-tested transfers, such as housing subsidies. Disposable income (i.e., what residents have left after redistribution and are able to spend on things such as housing) thus differs from gross income. I find a correlation between inequality and segregation also with regard to this income measure. However, this correlation exists because seg-

regation has led to differential income trends in high- and low-income neighborhoods over time. The reason may be that residents in low-income neighborhoods experience negative neighborhood effects due to a lack of beneficial social networks. When I account for such trends, I find limited residential sorting effects of disposable income inequality on segregation.

My results imply that more public redistribution would likely not have affected residential choices in a way that prevented the rise in segregation. I can also conclude that raising the earning ability of low-income residents is likely effective in terms of reducing segregation. The results suggest that educational policies, such as labor market programs targeting working-age residents who have been unemployed for a long time or outside the labor market, could prevent residential segregation. In the long run, I believe that improving school attainments and cognitive abilities of the weakest-performing children should be a top priority.