Momentum 2017

Income Inequality & Economic Segregation

Track 3 (alternatively Track 7)

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Economic and social cohesion between as well as within countries are crucial *European Commission* objectives. Social cohesion aims at promoting well-being of all society members and trust in institutions and society, creating a sense of belonging and fighting exclusion (see OECD, 2012). The issue of a *divided society* thus lists high on the agenda of the political and economic discussion (e.g. see Stiglitz, 2015).
Economic segregation represents not only a phenomenon in the United States, but is also increasing in European countries (see Florida, 2015). The residential segregation of population groups results in a socio-spatial division, separating high, middle and low socio-economic groups from each other. Since in addition income inequality is on the rise, even in most egalitarian European countries (see Dabla-Norris et al., 2015) and reveals to be spatially clustered as well, the connection between economic segregation and income inequality attracts notice. When a society is divided, the spatial space tends also to be divided (see Van Kempen, 2007). Therefore, income inequality can be regarded as a necessary condition for economic segregation (see Reardon and Bischoff, 2011). The clustering of different income groups coupled with high levels of income inequality might lead to the spatial concentration of poverty (see Massey and Fischer, 2000) as well as inequalities of opportunities, social unrest, an increase in crime and a decrease in trust within societies (see Malmberg et al., 2013).

In general, the literature identifies structural key factors, next to income inequality, which are responsible for shaping economic segregation. In this regard, *globalisation and economic restructuring* has influenced economic segregation. The general skill requirements have changed the professional structure resulting in new occupational compositions and subsequently in new spatial divisions. The *welfare state* principally mitigates economic segregation tendencies. Welfare state arrangements are, *inter alia*, related with a *social housing policy* in order to support particularly disadvantaged individuals. The retrenchment of welfare states and accompanied cuts in universal housing subsidies have led to a higher commodification of housing. Since social housing is often spatially concentrated and lower-income groups are overrepresented in social housing, particularly in case of liberalised housing markets, housing market/policy developments might end up in a higher economic segregation (see Tammaru et al., 2016; Musterd et al., 2016). In addition, *globalisation and economic restructuring* (see IMF, 2017; Çelik and Basdas, 2010) as well as the *retrenchment of welfare states* (see Esping-Andersen and Myles, 2009) influence income inequality which might also translate into economic segregation. Thus, direct and indirect effects via income inequality emanate from these two factors.

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According to Tiebout (1956) individuals *vote by feet*, insofar as individuals with the same income sort into neighbourhoods according to their distinct preferences for local utilities and taxes. Wilson (2012) suggests that advantaged (i.e. richer) individuals generate benefits for their neighbours. Following this, individuals prefer to have affluent neighbours and individuals select advantaged neighbours resulting in segregation by income. In contrast, advantaged neighbours might also be regarded as a disadvantage. Poorer individuals have to compete with more advantaged for jobs or social status (see Davis, 1959). In this respect, poorer individuals make comparison, particularly, with more advantaged individuals which might result in individual discontent and relative deprivation (see Runciman, 1966). Poorer individuals, therefore, will avoid having richer neighbours, implying a spatial sorting by income. Moreover, more disadvantaged individuals might be crowded out due to the appreciation of local housing, triggered by richer individuals (see Banzhaf and Walsh, 2008). Economic segregation thus requires income-related residential preferences, an income-based housing market and/or housing policies that link incomes to residential location. Such preferences refer to neighbours' characteristics or local public goods. However, that a preference-induced segregation can occur, a sufficient housing market/policy is required. Otherwise individual preferences might be insufficient to generate economic segregation (see Reardon and Bischoff, 2011).

In Austria 24% of the dwelling regard social housing, whereas this number is particularly high in the Austrian capital Vienna. In Vienna several social housing programmes have been conducted by the *Social Democrats* in order to build the so-called *"Red Vienna"*. However, liberalisation of social housing as well as the housing market in general has been put forward in recent years, which has led, *inter alia*, to increased inequalities between and within the federal states (see Reinprecht, 2014). Moser and Schnetzer (2015) identified spatial patterns for absolute income as well as income inequality across Austrian municipalities. Although Austria is characterised by a comparably low level of income inequality, these references suggest an interplay between income inequality and economic segregation even within Austria. Moreover, Tammaru et al. (2016) and Musterd et al. (2016) point to a lack of research and the need for empirical analysis in this regard.

In my own analysis I will address the main factors for explaining economic segregation, as emphasised in the literature, and will apply them to the situation in Austria. In an empirical analysis I will draw data from *Statistik Austria* by combining register-based census data and wage as well as income statistics. Based on these data at the municipality level, a descriptive and econometric analysis will be employed in order to shed light on the impact of income inequality on economic segregation.

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