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**Why Have Poorer Neighbourhoods Stagnated
Economically, While the Richer have Flourished?
Neighbourhood Income Inequality in Canadian
Cities**

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Neighbourhood Income Inequality in Canadian Cities

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Abstract

Higher income neighbourhoods in Canada's eight largest cities flourished economically during the past quarter century, while lower income communities stagnated. This paper identifies some of the underlying processes that led to this outcome. Increasing *family* income inequality drove much of the rise in *neighbourhood* inequality. Increased spatial economic segregation, the increasing tendency of "like to live nearby like", also played a role. In the end, the differential economic outcomes between richer and poorer neighbourhoods originated in the labour market, or in family formation patterns. Changes in investment, pension income, or government transfers played a very minor role. But it was not unemployment that differentiated the richer from poorer neighbourhoods. Rather, it was the type of job found, particularly the annual earnings generated. The end result has been little improvement in economic resources in poor neighbourhoods during a period of substantial economic growth, and a rise in neighbourhood income inequality.

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Executive Summary

Rising neighbourhood income inequality can change the face of cities. It can result in some neighbourhoods foregoing the economic benefits of a general improvement in economic conditions. As this paper demonstrates, the rising economic tide of the last quarter century has not lifted all neighbourhoods equally. Unfortunately, Canadian research on neighbourhood poverty, inequality and economic segregation tends to be relatively sparse

As we show more formally in the paper, rising *neighborhood income inequality* can result either from an increase in *family income inequality* in a city as a whole or because of *rising economic segregation*, a change in the correlation between family income and neighborhood income (a growing tendency of “like to live with like”). After documenting a rise in neighbourhood inequality between 1980 and 2005, this paper asks which of these processes played the larger role in that increase. It also asks what role changing government transfers and labour market outcomes played in the economic stagnation observed at the bottom end of the neighbourhood income distribution.

The analysis uses data from the 1981, 1986, 1991, 1996, 2001 and 2006 censuses for the eight largest Canadian cities. A neighbourhood is defined as a census tract, a geographic unit within cities that typically has a population of from 2500 to 8000 people, with an average of about 5300.

Between 1980 and 2005, neighbourhood income inequality (measured by the Gini coefficient) grew only slightly in Ottawa-Gatineau (10 percent) and Quebec City (12 percent), somewhat more in Montreal (22 percent) and in the remaining five large metropolitan regions from 36 percent (Vancouver) to a high of 81 percent (Calgary).

We show that most, but not all, of the increase in neighbourhood inequality was driven by the rise in *family* income inequality. Hence, for most Canadians, the rising *neighbourhood* income gap was mainly a by-product of the rising *family* income gap. The overall rise in neighbourhood inequality would have been fairly modest in the absence of the changes in total family income inequality that occurred over the period. Increasing economic segregation, the increased tendency of “like to live with like”, played a much smaller role.

The rise in neighbourhood income inequality was characterized by a stagnation of average family income in the poorer neighbourhoods, while higher income neighbourhoods registered significant gains. For most cities (excluding Ottawa-Gatineau and Quebec city, where inequality grew little), average family income in the poorest 10% of neighbourhoods changed between –4% and +5% over the 1980 to 2005 period, while incomes in the richest 10% of neighbourhoods rose by 25% to 75%, depending upon the city. Communities at the bottom end of the income distribution benefited little from the substantial overall economic growth registered in Canada. This result was likely driven by a number of factors, primarily those influencing the increase in family income inequality. These factors tend to be based in the labour market and changing family formation patterns.

We show that the differential outcome between richer and poorer neighbourhoods was almost entirely the result of differences in earnings growth among members of the different communities. Earnings stagnated or declined at the bottom of the neighbourhood income distribution, while rising substantially at the top. Changes in the distribution of investment or pension income, government transfers and other sources of income played only a minor role in the rising income gap between richer and poorer neighbourhoods.

This result points to events in the labour market, but changing family formation patterns and family labour market participation may also have played a role. Recent research suggests that much of the rise in family earnings inequality was related to changing family formation patterns; the increased tendency of high (and low) earners to live with partners with similar earnings power.

And it was not differential neighbourhood employment and unemployment trajectories that distinguished richer from poorer neighbourhoods. Unemployment is higher in poorer neighbourhoods, but there was not an increased concentration of unemployment in these communities. Rather, it was the type of job found that mattered. The jobs in which members of poorer communities increasingly found themselves were, in most cities, generating lower annual earnings, unlike those found by the residents of the richer communities.