

**The health impacts of income shocks and local inequality:
Evidence from linked administrative Canadian data**

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Aside from the well-documented repercussions of rising inequality on social cohesion and productivity, recent research on the deaths of despair suggests that changes in the income distributions might affect individuals' physical and mental well-being. Indeed, the feeling of *falling behind* has been pointed to as a potential driver for the rise in morbidity and in mortality among certain groups of the population for whom absolute levels of income have not necessarily declined. In this paper, we use four years of Canadian hospitalization records linked with individual-level census data to investigate how people's health can be affected by, respectively, changes in their absolute and relative levels of income. We propose an empirical approach that exploits exogenous variations in the price of oil, which affect individuals' income differentially based on their industry of work, to address the endogeneity of income as an input in the health production function. We also take advantage of the importance and the geographic concentration of the extractive industry in Canada, where changes in the price of oil also influence the shape of local income distributions based on how the underlying workforce across different industries. We exploit the resulting alterations in local income distributions to separately identify the health impacts of changes to relative income from that of changes absolute income at the individual level. Overall, our findings shed light on the mechanisms through which changes in people's relative income trajectories may contribute to the development of certain severe health conditions, linked to the deaths of despair. Indeed, while our results suggest that absolute income matters, and that neighbour's income may have a protective impact preventing against hospitalizations in general, we find that relative income does have a small impact on episodes such as alcohol-related hospitalizations.