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Income inequality and willingness to pay for public environmental goods

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# Income inequality and willingness to pay for environmental public goods

**Abstract:** We study how the distribution of income among members of society, and income inequality in particular, affects social willingness to pay (WTP) for environmental public goods. We find that social WTP for environmental goods decreases (increases) with income inequality if and only if environmental goods and manufactured goods are substitutes (complements). We derive adjustment factors for benefit transfer to control for differences in income distributions between a study site and a policy site. For illustration, we quantify how social WTP for environmental public goods depends on the respective income distributions for empirical case studies in Sweden and the World at large. We find that the adjustment for income inequality can be substantial.

**Keywords:** environmental goods, public goods, income distribution, inequality, willingness to pay, benefit transfer, sustainability policy

## 1 Introduction

Estimation of willingness to pay (WTP) for non-market-traded environmental goods has become a major subfield of environmental economics, with growing importance for environmental management (Bateman et al. 2011, Smith 2000). Lately, this development has been particularly spurred by the emergence and now wide-spread use of benefit transfer (Kaul et al. 2013), that is, the transfer of benefit estimates for an environmental good from a study site to another context where this information is to be used for environmental management (“policy site”). Such benefit transfer requires knowledge of how the benefits provided by environmental goods depend on the context’s characteristics, including environmental and socio-economic variables. With this information one can control for differences in the level of these variables when doing benefit transfer.

One important determinant of the benefits of environmental goods, as measured by the WTP for these goods, is the level of income. As individual income determines

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