

### **Abstract**

This paper uses data from an ongoing, open-cohort, longitudinal China Health and Nutrition Survey to examine how the environmental regulation aimed at abating sulfur dioxide (SO<sub>2</sub>) alters income distribution. We find that this regulation induces a 14–27 percent decrease in income inequality, depending on the measurement method. An improvement in income inequality is achieved by lowering the wages of high-income groups while keeping the wages of low-income groups (especially blue-collar workers) unchanged. This change in the labor market can be attributed to a policy that primarily targets emissions from power plants while leaving the manufacturing sector unaffected. As a result, the manufacturing sector continues to create jobs and absorb the blue-collar workers dismissed from other sectors, mitigating the widening income gap. Our study sheds new light on the role of environmental policy in reshaping the labor market and its implications for income distribution.

Keywords: Environmental regulation, TCZ policy, Income inequality, Labor market

JEL Classification: D63, Q52, Q58