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Environmental Quality and Economic Growth

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Poster Presentation 7

ENVIRONMENTAL QUALITY AND ECONOMIC GROWTH

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Economic growth is generally considered to have a negative impact on the environment. However, recent literature has suggested an alternative growth pattern. Alan B. Krueger and Nemat Shafik found an initial stage where increases in economic growth cause environmental degradation which is followed immediately by a subsequent stage of improving environmental quality. The result is an inverse U-shape relationship between economic growth and the quality of the environment.

This paper contributes to the existing literature by providing an analysis of this inverted U-curve based on the relative strength of the income and substitution effect: that is changes in consumption patterns with respect to changes in income. The paper also analyzes the responds of the political system to the degrading environment and to society's changing preferences for environmental quality. The empirical research uses a variety of pollutants with different characteristics to confirm that the reaction of the political system affects the shape of the inverted U-curve.