

# **FISCAL POLICIES, ENVIRONMENTAL POLLUTION AND ECONOMIC GROWTH**

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## **ABSTRACT**

This paper develops a model of endogenous economic growth with special consideration to the role of productive public expenditure and environmental pollution; and analyses the properties of optimal fiscal policy in the steady-state growth equilibrium. We consider the level of consumption as the source of pollution. Government allocates its tax revenue between pollution abatement expenditure and productive public expenditure. Optimum ratio of productive public expenditure to national income is equal to the competitive output share of the public input, when productive public expenditure is depicted as tax revenue minus abatement expenditure. However, the proportional income tax rate exceeds the competitive output share of the public input. There is no conflict between the social welfare maximizing solution and the growth rate maximizing solution in the steady-state growth equilibrium. The unique steady-state growth equilibrium appears to be a saddle-point when the growth rate is above a critical level and the steady-state equilibrium growth rate in the market economy is not necessarily lower than the socially efficient growth rate.

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