

Fiscal policy for sustainable economic growth with environment

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Abstract

We expand Barro (1990) considering the evolution of the environmental quality and the negative externality of its degradation on the economy. First, we found the optimal tax set of income tax rate and pollution tax level that maximizes the growth rate in SBGP (Sustainable Balanced Growth Path). Next, we show under the above tax policy the dynamical stability of SBGP can be saddle point. Therefore the tax policy to maximize the growth rate in SBGP is compatible with one to realize sustainability with environment.