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THE ENVIRONMENTAL KUZNETS CURVE IN SMALL GEOGRAPHIES

Abstract:

Finding a theoretical explanation of the Environmental Kuznets Curve (EKC) has been difficult. Given that environmental quality improves as income and consumption increase, ceteris paribus, there must be an increase in remediation/abatement activity. In this paper, we provide theoretical conditions for an existence of a locality-based EKC when both output and abatement expenditures are increasing in income. We validate these predictions empirically using a detailed firm-level dataset in which environmental policies are uniform across locations. We also show that firms engaging in abatement activity tend to locate near polluting firms while income also plays a significant role in location choice.

Keywords:

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EKC, Environmental Economics, Agglomeration, Entry and Exit.

JEL Classification: Q50, R00, L00