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Pro-Environmental Habits in a Simple Growth Model

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ABSTRACT

Policies aimed at supporting the transition to a sustainable society are subject to extensive debate. We study how habits in human behavior affect the efficiency of environmental policies. We theoretically investigate the potential link between habit formation in human behavior and how the maintenance of environmental quality, and how habitual behavior affects the steady-state growth rate in the context of a growth model. We demonstrate that once the economy possesses high environmental quality, maintaining or improving this high quality can be more easily achieved via environmental policy efforts than when environmental quality is low. Optimal policy efforts depend on the persistence of the behavior of agents. We demonstrate this by calibrating the model on the real data from the U.S. We assess the impact of human habits on the environment through routine activities, such as food and service consumption, which contribute to carbon emissions by driving production in polluting sectors.

KEYWORDS environmental quality; habit formation; optimal policy; economic growth

JEL Q51, E71, Q58, O44