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## **Abstract**

This paper shed light to the main argument and models provided by Michael Toman on his research to determine how environment and natural resource affects the economic growth. Therefore, the paper highlights the problem that the author attempt to solve, and the methodology used. In conclusion, the paper focus on the social science citations that aims to deepen the argument.

The article provides an insight of the relationship between the environment and natural resources and the economic growth. When the modern theories of economic growth were being developed in 1950s and 1960s, the natural resources and environment were not accounted for. Therefore, the article attempt to show how questioning is the absence of the natural resources and environment. From a historical perspective, the land has been playing an essential role in the classical theory of economic progress in 19th century. Due to the Walrasian neoclassical economics and the industrial revolution in 19th century facilitate the decline in concern of the natural capital. However, this scenario has been outweighed by the modern and renewed attention in the growth and natural capital. This article, therefore, rejuvenates the attention of the natural resources and environment and their contribution to the economic growth.

The article's research method involves the development of frameworks that helps to derive the relationship between the economic growth and the natural capital. The wiring diagram framework indicates that there are general links between the two variables. After the general framework, the article develops and discusses frameworks that are applicable to various

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specific sectors of the economy. These sectors include manufacturing, forestry and agriculture. In addition, the article provides a mathematical model of economy-wide framework and also reviews the historical role of environment and natural resources in the economic growth model.

According to the frameworks, the most upfront way that indicates that household wellbeing is directly related to the environmental quality is the health. The framework also shows that the availability of fuel and water can be considered as part of the production sector that relates to the household activities. Although the wiring framework shows that the waste originates from the production sector, the economy-world-wide framework shows that the production includes household production activities. The two frameworks also illustrates that the efficiency issues on allocation of natural resource are related to the externalities. Therefore, if availability of the social mechanism to internalize the environmental degradation cost is not there, the waste production becomes excessive and deficient of environmental remediation and waste byproducts management.

In addition, the article concludes that the inefficiency of natural capital allocation is related to two factors. First, the allocation inefficiency is caused by the institutional and market failures that affect the environment and natural resources. Second, the inefficiency is also caused by the broader institutional and market failures that simultaneously excessively degrade natural capital impede development. It is evident that there is a positive correlation between efficient allocation of natural resources and the economic growth. Therefore, the author recommends the use of the policy that emphasizes on easing the institutional constraints to economic growth.

According to Margolis (2002), the connection between the natural resources inefficiency and the institutional and market failures is not so worthy. He gave an example with a country that has been de facto subsidizing its manufacturing sector via import protection. As a result, the trade liberation is seen as the cause of the increasing demand on the natural capital, which subsequently shifts toward the natural resources or agricultural harvesting and extraction. However, he suggested that whether this shift creates inefficiency allocation of natural capital, the efficiency depends on the scope of the protection institutions and the resource management in the country. In this case, he suggested that the most important component on ensuring the efficient allocation of the natural resources is an effective protection institution and resource management strategies.

The article provides a pedagogical analysis to reveal how the natural capital affects the economic growth and the significant of managing and protecting the natural resource to achieve an efficient allocation. In other words, a country rich in natural resources cannot benefit from the natural capital if there is excessive exploitation of natural resource and environmental degradation. Management and protection of the environment and efficient allocation of natural resource are fundamental factors that can lead to the growth of a particular economy. Therefore, using the recommendations suggested on this article a resource-rich country can be able to avoid the perception of the natural resource curse that is widely known for impending development in such countries.

## Works Cited

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