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Rent-Seeking and the pure theory of distortions and trade

Ali Khan Johns Hopkins University

Abstract

The theory of rent-seeking has had a profound effect in terms of furthering interdisciplinary interaction especially between the disciplines of politics and economics, but this does not fully extend to the shortening of the methodological gap between them. Even within the confines of economic science, the theory can be seen from the viewpoint of three different registers: (i) the Buchanan-Tullock theory of public choice; (ii) general equilibrium theory with domestic distortions as developed by Debreu, Foster-Sonnenschein and their followers; (iii) the Johnson-Bhagwati theory of domestic distortions. This paper has two affiliated objectives: first, to take what appears to be these apparently dissonant points of view and use them to put together an analytically synthetic model that can address a variety of questions posed in the literature. In particular, we ask whether Krueger's analysis can be reformulated through the generalized Harris-Todaro model, and thereby investigate whether these two different phenomena of rural-urban migration and rent-seeking activities can be understood as specific corollaries of the generalized theory of factor- and productmarket distortions. Second, and beyond this narrower objective, to examine what light these three different literatures -- those of public choice, general equilibrium theory and the pure theory of international trade shed on each other.

This is an abstract submitted for possible presentation at the 12\$^{th}\$ international meeting of \$APET\$ at Indiana University, Bloomington, Indiana from June 2 through June 4, 2011. **Submitted:** March 21, 2011.

Rent-Seeking and the Pure Theory of Distortions and Trade^{*}

M. Ali Khan,[†] J. Lake[‡] and M. Linask[§]

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Abstract

The theory of rent-seeking has had a profound effect in terms of furthering inter-disciplinary interaction especially between the disciplines of politics and economics, but this does not fully extend to the shortening of the methodological gap between them. Even within the confines of economic science, the theory can be seen from the viewpoint of three different registers: (i) the Buchanan-Tullock theory of public choice as developed in the original article of Tullock [30] and further developed by him [31, 32, 33], Posner [26], Congleton et al. [11], Hillman [17] and collected in the anthologies [9, 10, 27]; (ii) general equilibrium theory with domestic distortions as developed by Debreu [12], Foster-Sonnenschein [13], Kawamata [19], Sontheimer [28, 29], Mantel [24], Brock-Magee [8], Hatta [15, 16] and Anderson et al. [2]; (iii) the Johnson-Bhagwati [18, 3] theory of domestic distortions as developed in Bhagwati [4, 5, 6] and Bhagwati-Srinivasan [7]. It is of interest that of the four references to pure theory that Krueger [21] cites in her influential article, two are on tariffs and the other two on the Harris-Todaro hypothesis; see [20] for a more-or-less updated survey. This paper has two affiliated objectives: first, to take what appears to be these apparently dissonant points of view and use them to put together an analytically synthetic model that can address a variety of questions posed in the literature. In particular, we ask whether Krueger's analysis can be reformulated through the generalized Harris-Todaro model, and thereby investigate whether these two different phenomena of rural-urban migration and rent-seeking activities can be understood as specific corollaries of the generalized theory of factor- and product-market distortions. Second, and beyond this narrower objective, to examine what light these three different literatures those of public choice, general equilibrium theory and the pure theory of international trade shed on each other. (292 words)

Keywords Rent-seeking, Harris-Todaro hypothesis, domestic distortions, coefficient of resource allocation, theory of second-best

JEL Classification Numbers F11, H21, F13.

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 $^{^\}dagger \mathrm{Department}$ of Economics, The Johns Hopkins University, Baltimore, MD 21218. **E-mail** akhan@jhu.edu

 $^{^{\}ddagger}$ Department of Economics, The Johns Hopkins University, Baltimore, MD 21218. **E-mail** jlake2@jhu.edu

[§]Department of Economics, University of Richmond, Richmond, VA 23173 Email maia.linask@jhu.edu

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