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Rent-Seeking, Trade Policy and Economic Welfare

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Abstract

The objective of this paper is to assess the impacts that rent-seeking arising from government intervention in international trade has on welfare. More specifically, the focus is on how the granting of special import regimes promotes rent-seeking practices, which have negative effects on welfare. We present two concepts of nominal protection: legal tariffs and the actual import tariffs. In addition, we construct three measures of welfare: from the legal tariff; from the actual import tariffs; and from the actual import tariffs when rent-seeking is present. Finally, we compare the various measures of protection in terms of their impact on welfare. The results show that trade policies based on exceptions - such as those establishing the special import regimes - tends to decrease welfare.

Keywords: Legal Tariffs, Actual Import Tariffs, Welfare, Rent-Seeking

1. Introduction

The effects that imposing an import tariff have on trade and, consequently, on the level of welfare, have been broadly discussed in the literature [1-6]. Statically speaking, the results obtained indicate that a reduction in the levels of welfare arises from protection costs, which stem from various factors, including resource allocation, failure to obtain significant economies of scale, and the loss of consumption opportunities. However, such welfare losses might be reduced by using trade policy instruments that reduce the effects of import tariffs. In this paper, we will highlight special import regimes aimed at reducing the level of nominal protection as examples of such instruments. It can be said that these special regimes, when acting as tariff rate reducers, tend to reduce the import burden, thereby encouraging importation.

Given the capacity of special regimes to reduce the tariff burden on foreign trade, it would be feasible to evaluate whether this hypothetical economy would obtain welfare gains in relation to an economy in which the import tariffs are charged in full. However, the results of this evaluation are significantly modified when we draw correlations between the special regimes and rent-seeking activity. Specifically, the demand for special import regimes would shift resources from production to rent-seeking activities, which would negatively offset the welfare gains obtained through the implementation of such special regimes. As observed by [7], there would be resource expenditure aimed at the transfer of wealth, rather than at the creation of wealth. The use of resources in order to obtain this transfer would lead to welfare losses.

Since special import regimes represent state intervention in trade policies, they create a favorable environment for the development of rent-seeking activities. In other words, given the possibility of obtaining income from import regimes, resources will be spent in an unproductive manner. Consequently, the development of policies through partial import tariff reduction, rather than having positive effects, can lead to welfare losses, which are the central focus of our analysis.

The remainder of this paper is organized as follows: Section 2 describes and analyzes the nominal protection. Our analysis focuses specifically on the nominal protection provided by legal tariffs and the actual import tariffs. Section 2 also introduces the concept of special import regimes, which, in turn, will be considered in the construction of the actual import tariffs. Section 3 assesses the impact that the imposition of nominal import protection has on the level of welfare. The analysis will be based on two alternative constructs of nominal protection: legal tariffs and the actual import tariffs. Section 4 introduces the concept of rent-seeking and relates it to the special import regimes. Section 5 discusses how the analysis of welfare is altered by incorporation of the rent-seeking arising from special import regimes. Section 6

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presents our conclusions.

2. Nominal Protection within Special Import Regimes

Nominal protection is related to government intervention in trade policies, through which protection against competition from imported goods is granted to domestic productive sectors. As we will see further in this article, the use of this mechanism generates distortions in the functioning of the economy, which in turn have a negative impact on welfare.

This article will address nominal protection from two viewpoints: that related to legal tariffs and that related to the actual import tariffs.[1] There are differences between these two protection mechanisms in terms of their function and different effects on the level of welfare.

According to the legal tariff criterion, nominal protection can be defined as the percentage excess of domestic prices in relation to the prevailing prices worldwide, as the result of the application of a measure of protection, such as an ad valorem import tariff or a specific import tariff. Since the ad valorem import tariff is the most commonly used mechanism, we have adopted it as the measure in the present analysis. Therefore, supposing that the ad valorem tariff is the only protection mechanism and that this tariff is not prohibitive, one can define the price of an imported good as equal to the sum of the import value (at international prices) plus the value of the tariff, and nominal protection will be expressed as a percentage of the imported value, as outlined by [8]:

$$P_i = P_i{*}\left(1 + t_i\right) \tag{1}$$

where P_i denotes the domestic price of the good *i*, $P_i{*}$ denotes the international price of the good *i*, and t_i denotes the level of nominal protection of the good provided by the legal tariff.

Therefore, the following expression is obtained for the nominal protection defined by the legal tariff

$$t_i = \frac{P_i - P_i{*}}{P_i{*}} \tag{2}$$

Legal tariffs, as measures of protection, have various problems, although the discussion of such problems is beyond the scope of this paper. For example, special import regimes are not considered in the construction of legal tariffs. They distort and overestimate this measure of protection. Special import regimes are government concessions made to firms or industries, so that those firms and industries can import products at partially reduced import tariff rates.[2] In other words, the special import regimes represent a tariff exemption on imports.

Given the previous discussion, it is necessary to obtain a measure of nominal protection that considers the effect of the special import regimes. To that end, the actual import tariffs will be constructed.[3] This measure of protection considers not only the effects of legal tariffs, but also the portion reduced by the special import regimes. Therefore, as observed by [9], "(···) the actual import tariffs subtracts the effects of the special import regimes from the legal tariffs, providing a more robust measure of protection. In other words, the actual import tariffs subtracts the effects of the reduction and exemption from the import tariff, thereby allowing a more accurate measure of protection to be estimated."

The domestic price of the imported good, under the actual import tariffs, can be determined through the linear combination of the imports levied by legal tariffs and those also levied by legal tariffs obtaining reductions due to special regimes:

$$P_i' = \alpha P_i{*}\left(1 + t_i\right) + \left(1 - \alpha\right) P_i{*}\left[1 + \left(t_i - t_i^{rei}\right)\right],\ 0 < \alpha < 1 \tag{3}$$

where P_i' denotes the domestic price of good *i* imported under the special import tariff regime, and t_i^{rei} denotes the tariff reducer formed from the special import tariff regime concerning the imported good. Thus, $\left(t_i - t_i^{rei}\right)$ represents the legal tariff reduced by the special import tariff regime.

The nominal protection provided by the actual import tariffs can be determined through the linear combination of the legal tariff and the legal tariff reduced by the special import tariff regime:

$$t_i^v = \alpha t_i + \left(1 - \alpha\right)\left(t_i - t_i^{rei}\right),\ \ 0 < \alpha < 1 \tag{4}$$

where t_i^v denotes the actual import tariffs on the good *i*.

3. Effects of Tariff Protection on Welfare with Special Import Regimes

As previously stated, the effects that import tariffs have on welfare are discussed extensively in the literature on international trade. These analyses are based, primarily, on static arguments. One of the most important studies in this area is that conducted by [1]. That study demonstrated that interference with international trade tends to

[1]A third criterion to assess nominal protection would be the implicit tariff or the comparison of international prices. Under this criterion, the protection granted to the domestic productive sectors is obtained through the difference between internal and external prices.

[2]For this article, we will assume that special import tariff regimes are obtained by firms or industries through demand from government agencies. In practice, special import tariff regimes can be obtained by firms or industries (productive sectors) and can even favor a certain geographical area of the country or contain other specific considerations.

[3]The actual import tariff is defined as a ratio between the amount of import tariff collected and the value of the imports.

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distort the national and international allocation of resources. As a consequence, the availability of goods is lower than it could be with better resource allocation. In this context, international trade restrictions will generate losses related to consumption opportunities, which primarily reduces the consumer surplus and the surplus in productive export sectors. We can also cite the losses arising from the failure to obtain significant economies of scale, as detailed by [10-12].

This article will focus on the analysis of welfare losses deriving from tariff-induced distortions in decisions related to consumption and production. However, in our analysis, we will assess not only the effects of legal tariffs on the level of welfare, but also the effects of the actual import tariffs. We will show that these two factors have different effects on the level of welfare.

The model proposed by [13] will be used in order to measure the levels of welfare derived from nominal protection. Feenstra decomposes the effects that trade policies have on welfare into four possible channels: 1) deadweight losses arising from distortions in consumption and production; 2) possible trade gains obtained from terms of trade; 3) gains or losses arising from changes in the production scale of firms; and 4) gains or losses arising from changes in the profits among countries.

This study will examine the variations in the level of welfare arising from the distortions of consumption and production caused by the levying of an import tariff.[4] First, the following equation for determining the variation in the level of welfare will be applied:

$$dB = \sum_i \left(P_i - P_i^*\right) dM_i \tag{5}$$

The term on the left-hand side denotes the variation in the welfare, while that on the right-hand side denotes the loss of economic efficiency resulting from a change in the volume of imports $\left(dM_i\right)$.

First, as presented by [13], the legal tariff to be applied to a single good will be considered, and it will be assumed that the prices of other goods remain constant. Eliminating the terms in subscript, Equation (5) can be rewritten as follows:

$$\frac{dB}{dt} = \left[\frac{dP}{dt} dM + \left(P - P^*\right)\frac{dM}{dt}\right] \tag{6}$$

Analyzing the first term on the right-hand side of Equation (6), we have $dP/dt > 0$, given that an import tariff tends to increase the domestic price of the imported good, and $dM < 0$. The second term on the right-hand side presents $\left(P - P^*\right) > 0$, resulting from positive legal protection of the economy. On the other hand, an import tariff (legal tariff) makes imported good more expensive, reducing the imports, which implies that $dM/dt < 0$. Consequently, the application of a legal tariff on imports results in a reduction in the level of welfare (*i.e.*, $dB/dt < 0$). Using Equation (3) in Equation (5), taking into account not only legal tariffs but also the effects of the special import regimes, we obtain the following equation for variation in levels of welfare:

$$dB' = \sum_i \left(P_i' - P_i^*\right) dM_i \tag{7}$$

In contrast with the [13] model, the actual import tariffs to be applied to a single good and the prices of other goods will remain constant. Eliminating the terms in subscript and making use of Equation (4), Equation (7) can be rewritten as follows:

$$\frac{dB'}{dt^v} = \left[\frac{dP'}{dt^v} dM + \left(P' - P^*\right)\frac{dM}{dt^v}\right] \tag{8}$$

Rewriting Equation (8) in order to decompose the effects that legal tariffs, as well as legal tariffs partially reduced by special import regimes, have on the level of welfare, we obtain the following equation:

$$\frac{dB'}{dt^v} = \alpha\left[\frac{dP}{dt} dM + \left(P - P^*\right)\frac{dM}{dt}\right] + \left(1-\alpha\right) \times \left[\frac{dP}{d\left(t - t^{rei}\right)} dM + \left(P - P^*\right)\frac{dM}{d\left(t - t^{rei}\right)}\right], 0 < \alpha < 1 \tag{9}$$

Analyzing the effects of a legal tariff on imports under special regimes has on the level of welfare, the results obtained differ from those obtained using Equation (6), which measures only the impacts of legal tariffs.

The interpretation of the first and second terms on the right-hand side of the Equation (9) is identical to that of Equation (6). However, whereas the analysis in Equation (6) is for all imports, the analysis in Equation (9) is for only part α of the imports. On the other hand, due to the special import regimes, the third and fourth terms on the right-hand side of the equation will imply a relatively smaller negative variation in the level of welfare than that represented by the variation deriving from the application of legal tariffs. This issue deserves further discussion.

Although the application of a legal tariff on imports is partially reduced by the special regimes, it has fewer negative effects on welfare than does the full application of legal tariffs. The necessary, sufficient condition for this is that $t > t^v$. In other words, supposing a situation in which all goods are imported under the special import regimes (assuming that $\alpha = 0$), we therefore have,

[4]In our analysis, we will consider a small economy open to trade and therefore not capable of influencing international prices. In addition, the analysis of welfare will focus on the distortions in consumption and production, keeping constant, by simplicity, the terms of trade.

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$$\left[\frac{dP}{dt}dM+\left(P-P^*\right)\frac{dM}{dt}\right]>\left[\frac{dP}{d\left(t-t^{rei}\right)}dM+\left(P-P^*\right)\frac{dM}{d\left(t-t^{rei}\right)}\right],$$

in module, and, consequently, $B<B'$, that is, the negative variation in the level of welfare is lower under special import regimes.

Advancing and defining the above discussion, we can state that the granting of a special import regime by the government would not necessarily change the domestic prices of the imported goods, given that nominal protection is defined by the marginal import tariff and not by the mean import rate. Therefore, the collection of taxes on trade would be transferred from the government to the beneficiaries of the special import regimes. From this standpoint, rather than an alteration in the level of welfare, there would be a mere transfer of income.

Tariffs cuts, however, can lead to a decrease in the prices effectively paid by the importers and thus to alterations in the level of welfare. The introduction of the special regimes could result in part of the nominal protection becoming redundant,[5] which would lead to the use of nominal protection that is effectively lower than that declared (legal tariff), as argued by [14]. Prices would fall, imports would increase, and goods would be imported within the parameters of the special import regimes. Therefore, Equation (9) would be converted into the equation below, where α is equal to zero:

$$\frac{dB'}{dt^v}=\frac{dP}{d\left(t-t^{rei}\right)}dM+\left(P-P^*\right)\frac{dM}{d\left(t-t^{rei}\right)} \tag{10}$$

where t^v, in this case, is the nominal protection without tariff redundancy.

In summary, the special import regimes would reduce nominal protection, which would then reduce the distortions in consumption and production. As a result, the level of welfare might be higher than when such regimes are not in place.

4. Effects of Tariff Protection on Welfare with Special Import Regimes and Rent-Seeking

Rent-seeking activity is not aimed at obtaining income through the development and creation of productive activities. On the contrary, the objective of rent-seeking is to receive income, and, to that end, expend resources in a nonproductive manner, through relationships with public agents in general and by using the discretionary power on the part of such public agents[6] to take advantage of and legal loopholes, regulatory exceptions etc.[7] Discussions of rent-seeking that focus on international trade analysis, the object of this article, can be found in [20-25].

As stated by [20], rent-seeking stems from government restrictions on economic activity, such restrictions or interventions generating income that is, in turn, demanded by the economic agents. Competition for such income among the economic agents induces the shifts resources from productive activity to rent-seeking activity, thereby making it more costly for society as a whole. Again according to [20], such competition can be either legal or illegal. When rent-seeking involves illegal activities, it takes the form of bribery, corruption smuggling and so on.

Rent-seeking related to international trade (imports) was defined by [9] as "(···) unproductive activities that commence when the economy presents high levels of protection for its productive sectors. Such activities include smuggling, under-invoicing by importers, lobbying, procurement of import licenses through the solicitation of government employees connected to foreign trade, *competition for special import regimes* etc."[8] One of the forms of rent-seeking behavior, as seen in [21], is the allocation of time and resources by firms or their representatives in attempts to obtain concessions such as import licenses. This form of rent-seeking will be discussed and adopted as a measure in this article.

The analysis made in the previous section showed that the goods imported with the tariff reduction provided by special import regimes have fewer negative effects on welfare. These results, however, do not consider special import regime incentives to rent-seeking activities.

Exploring the condition presented in the previous paragraph, we should consider that the firms, or their representatives, will expend resources in attempts to influence the government bureaucracy in order to obtain import permits under special import regimes. In addition, a fixed number of permits will be considered. In order to import under the special import regimes, firms will compete for a limited number of permits, which gives rise to competitive rent-seeking.[9] Furthermore, rent-seeking will supposedly occur only in relation to the goods imported under the special import regimes.[10]

Based on the considerations above, Equations (7) and

[5]We would then have effective application of the actual import tariffs.

[6]Rent-seeking does not necessarily involve public agents. However, in the case of trade policies, there is a high probability that representatives of the public sector are involved. One good example of this was the procurement of import licenses, through import substitutions, during the industrialization in Brazil, especially in the 1950s.

[7]Detailed definitions and analyses of rent-seeking can be found in [15-19].

[8]Emphasis added.

[9]This premise is highly relevant to the operation of the model.

[10]This supposition might constitute a significant limitation of the model However, facts related to international trade show that it coincides with events occurring today. Given that most legal tariffs are subject to regional and multilateral agreements, such as those mediated by the World Trade Organization, the nation-states find strong resistance to the alteration of such tariffs.

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(9) will be altered so as to include the effects of rent-seeking. Therefore, the following equation presents the variations in the level of welfare, taking into account the effects of legal tariffs, of legal tariffs partially reduced by special import regimes, and of rent-seeking derived from special import regimes.

$$dB'' = \sum_i \left(P_i' - P_i^*\right) dM_i + (1-\alpha)\sum_i \frac{n_t}{L_t^{rei}}\left(Y_i - Y_i^{rei}\right) \quad (11)$$

where n_i represents the firms that import the good *i*; L_i^{rei} represents the licenses, or permits, in a fixed number, for the import of goods under the special import regime of the good *i*; Y_i is the income related to the productive activities arising from the good *i* (trade, distribution, etc.), and Y_i^{rei} represents the resources expended for obtaining the permits related to the special import regime, that is, the resources allocated for rent-seeking. We can conclude that $\left(Y_i - Y_i^{rei}\right)$ corresponds to the portion of income originating from the shifting of resources from production to rent-seeking.

The equation below can be obtained by applying the actual import tariffs (nominal protection without tariff redundancy) to Equation (11) and eliminating the terms in subscript:

$$\frac{dB''}{dt^v} = \frac{dP}{d\left(t - t^{rei}\right)} dM + \left(P - P^*\right)\frac{dM}{d\left(t - t^{rei}\right)} + \frac{n}{L^{rei}}\frac{d\left(Y - Y^{rei}\right)}{dt^{rei}} \quad (12)$$

Analyzing the effects on levels of welfare from the adoption of the actual import tariffs in the presence of rent-seeking, the results will be altered when compared with those obtained in Equations (6) and (10). The interpretation of the first and the second terms on the right-hand side of Equation (12) is identical to that of those subjacent to Equation (10). The third term, however, requires additional considerations. That term represents the rent-seeking originating from the special import regimes, which tends to have additional negative impacts on the level of welfare.

Analyzing the term resulting from rent-seeking, we conclude that *n* and L^{rei} are positive. On the other hand, $d\left(Y - Y^{rei}\right)/dt^{rei} < 0$, given the possibility reducing their tariff burden on imports through special import regimes, firms will expend resources in order to obtain permission to import under such regimes. Resources will consequently be allocated to unproductive activities, thus reducing $\left(Y - Y^{rei}\right)$. So when rent-seeking is present, the introduction of the special import regimes will generate additional losses of welfare.

Finally, the three hypothetical situations presented in the article can be compared. When rent-seeking occurs because of special import regimes, the actual import tariffs is not preferable than legal tariffs in terms of welfare. In the presence of rent-seeking, the actual import tariffs will be strictly preferable to legal tariffs only in the following condition.

$$\left\{\left[\frac{dP}{d\left(t - t^{rei}\right)} dM + \left(P - P^*\right)\frac{dM}{d\left(t - t^{rei}\right)}\right] - \left[\frac{dP}{dt} dM + \left(P - P^*\right)\frac{dM}{dt}\right]\right\} > \left|\frac{n}{L^{rei}}\frac{d\left(Y - Y^{rei}\right)}{dt^{rei}}\right| \quad (13)$$

Assessing the condition above, and taking into account the event that the economy is under competition among firms for rents arising from a fixed number of import permits under special import regimes, we can conclude that the welfare gains related to the actual import tariffs, in comparison with legal tariffs, can disappear completely when rent-seeking is present. In addition, since rent-seeking has been increasing in relation to the number of firms, the economy might be in a worse situation than that in which there are only legal tariffs on imports.

The previously cited hypothesis - that there are a fixed number of import licenses under special import regimes - needs special attention. Underlying this (highly plausible) hypothesis is the possibility that the number of licenses is lower than is the demand for import under conditions favored by the special import regimes. Therefore, there will be effective competition, as well as unproductive expenditure of resources for the procurement of licenses, although not all petitioners will obtain such licenses. As a result, as stated by [18,19], the total amount expended in the procurement of the premium might be higher than the value of the premium itself. In the proposed model, in order for the welfare losses resulting from rent-seeking to be greater than the effects that tariff reduction has on international trade - in view of [7,18,19] - the number of "players" need only be sufficiently higher than the number of licenses that will be made available by the official foreign trade agency of the country.[11] Therefore, in observing Equation (13), the higher the ratio between the number of firms (*n*) and the number of import licenses (L^{rei}), the greater the practice of rent-seeking is expected to be, along with the ensuing adverse effects of the special import regimes on the level of welfare.

5. The Cost of Rent-Seeking and the Brazilian Case Equations

Other considerations can still be made regarding the

[11]Another relevant factor would be the marginal cost of influencing the chances of obtaining an import license under the special import regime.

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proposed model. Ideally, the validity of a mathematical representation should be tested empirically, and this is also important for the case in question. Taking into consideration Equation (13), the terms on the left-hand side of inequality could be obtained, for instance, by using the triangles devised by [1].[12] The terms on the right-hand side of the equation, however, are more difficult to obtain empirically. A measure of the incentives of the economic agents for the expenditure of resources in rent-seeking, arising from the introduction of a special import regime, would be necessary. It would be necessary to determine at least the number of firms engaged in seeking the rents; the expected value of the rents, and the chances involved, as well as the costs deriving from the attempt to capture income.[13]

However, the valuation suggested in the previous paragraph is not easily collectable, so as to provide empirical data. Discussing the effects of rent-seeking on welfare, [20] also affirmed that the various forms of competition for rents are, by nature, difficult to observe and quantify. In addition, [20] stated that the empirical results obtained can be questioned.[14]

The empirical difficulty related to the valuation of rent-seeking is mitigated by the qualitative results that can be obtained. A fixed number of import licenses under special import regimes will give rise to competitive rent-seeking behavior, as has been seen. The motivation for such behavior is the premium; in this case, the importing of goods at partially reduced duties via the special import regime. Therefore, the resources will be directed toward obtaining the premium rather than toward expanding the availability of goods and services. Inefficient allocation of resources, having negative impacts on welfare, will result. In the model constructed, if the expenditure for the capture of rents is greater than the welfare gains attributable to the goods imported under the special regimes, there will be welfare losses.[15] However, if the introduction of the special import regime does not alter the domestic price of the imported goods or the volume of imports[16] - there being a mere redistribution of resources from the government to the importers - greater rent-seeking activity can be expected. This would derive from the fact that the rents had been fully appropriated by the importers.[17] Otherwise, the premium deriving from the special import regime would be higher, as would the investment in the capture of income, the result of which would be greater deterioration in the level of welfare.

Returning to the discussion of the Brazilian case, we can assume that the special import regimes had greater importance prior to the 1990s, before trade liberalization. During that period, imports were limited due to problems relative to external restrictions - imbalances in transaction accounts - as well as to industrial policy objectives, specifically import substitution.[18] In the scenario prior to the lifting of trade barriers, special import regimes effectively made imports feasible.

Currently, with the trade liberalization in terms of quantum of imports, special import regimes have lost the importance.[19] The liberalization of quantity of imported goods, despite increasing the degrees of freedom, does not rule out the discussion of prices. Therefore, if the agents, in attempts to maximize their results, are able to reduce the price paid for the imported goods, they will do so, provided the cost incurred in obtaining the tariff reduction (rent-seeking through foreign trade) is lower that the effective tariff reduction.[20]

6. Conclusions

Government decisions regarding the trade policy to be adopted take on added importance due to their impact on the level of welfare. Each of the possible policies, as well as each combination of such policies, has different effects on the economy. The optimal choice should obviously favor the maximization of the level of welfare. If

[12]The equation below could be applied as a proxy for the variations in the level of welfare resulting from a tariff variation deriving from the imposition of a special import regime:

$$\sum_{t=1}^{n} dW_t = -\frac{1}{2}\left[\sum_{t=1}^{n}\left(dM_t \times dt_t\right)\right],\ t = 1, 2, \cdots, n$$

where *dW* represents the variations of the level of welfare; *dM* represents the variations in the value of imports, and *dt* represents the variations in the import tariff rate, including those occurring under the effect of special import regimes.

[13]References [26-28] established that the total rent-seeking expenditure, on competitive balance, will be equal to the expected amount of the rents. However, this outcome is not assured if the number of petitioners outweighs the income available. That is to say, some agents would have a positive return on their investment (*rent-seeking*) and would capture income, whereas others would have a zero return, meaning that they would not capture income despite the investment.

[14]According to [20], a tariff has both production and consumption costs and it has been shown that rent-seeking entails costs in addition to those of a tariff: "Many forms of competition for rents, however, are by their nature difficult to observe and quantify and one might therefore question the empirical content of the result so far obtained." (Emphasis added.)

[15]In the event of tariff redundancy.

[16]In this case, the tariff redundancy would not be provoked.

[17]Lower prices are not passed on to consumers.

[18]In fact, external restrictions and the import substitution model are closely related. Among other factors, a lack of balance-of-payment equilibrium justified the adoption of the import substitution model in the 1930s.

[19]According to [29], the principal special import regimes currently in existence are those that benefit export activities. Among such regimes are the drawback regime, the *Regime Aduaneiro Especial de Entreposto Industrial sob Controle Informativo* (Recof, Special Customs Regime of Industrial Warehousing under Information Control), the industrial production in the Free Trade Zone of Manaus, and the automobile industry.

[20]On the basis of [26-28] devised an axiom showing that, in the long-term competitive balance, the total value of rent-seeking expenses will be equal to that of the rents expected.

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the intervention is suboptimal, trade interventions should be aimed at minimizing welfare losses.

This study has presented two measures of government intervention in foreign trade and has specifically discussed the nominal protection afforded by legal tariffs. Another measure of nominal protection has also been shown. That measure was constructed on the basis of the actual import tariffs, which differs from measures based on legal tariffs in that it considers the effects of the special import regimes

Two measures of welfare have been created, one based on legal tariffs and the other based on the actual import tariffs. The actual import tariffs, due to the tariff reduction provided by the special import regimes, initially proved to be a more efficient trade policy measure, according to the criterion of welfare. Within this context, one could say, in principle, that the resources not withheld by the government (*i.e.*, those transferred to the private sector) - from the standpoint of their effect on welfare - simply constitute income redistribution.[21] However, the resources allocated in order to redistribute income redirected to importers could be deemed to have been expended in an unproductive manner, thus negatively affecting social welfare.

Therefore, special import regimes stimulate firms to engage in rent-seeking activities, motivating them to transfer resources to such activities. Due to the competition for the right to import goods under the special regimes, there is unproductive expenditure of resources. Consequently, as the result of rent-seeking, the protection provided by the actual import tariffs, in terms of welfare, can be worse than that provided by the legal tariff.

Special import regimes can cause other economic imbalances. Such imbalances would originate from the import tariff (legal tariff) exemptions themselves. These (non-linear) exemptions would create distortions in the price structure, thereby resulting in inefficient allocation of resources. The loss of economic efficiency would result in additional welfare losses, which should be added to those resulting from rent-seeking activities.[22] Therefore, we can conclude that the trade policies of a country should not be founded on the concession of special regimes, exemptions, and exceptions. The elimination of such mechanisms would allow greater transparency, simplification of the procedures, and clarification of the incentives, all of which would lead to the greater economic efficiency and hence to a higher level of welfare.

In conclusion, we have discussed the effects that the norms imposed by government agents, as well as the ensuing rent-seeking, have on welfare. The discussion of trade policies is currently of less importance than it has been in previous periods, especially between the 1930s and the 1980s - prevailed when, for example, import substitution in Latin America countries. Nevertheless, there is scope for analysis. In addition, in assessing its importance as a line of research to be pursued in future studies, one must consider that the mechanism addressed in this article and its framework can be adapted to other aspects of economy and society.

The instrument can be applied to various elements in discussions of the government agenda. As examples, we can cite the environmental, industrial, and regulatory policies for which the delegation of infrastructure to the private sector (concessions and privatization) is currently the focus of vigorous debate. Finally, we can conclude that the regulatory and normative activities of the government remain in place, allowing the continued existence of potential loopholes for rent-seeking practices and their potential effects on welfare - all that changes is the forum for discussion.

[21]Supposing there is a central planner to maximize welfare, one should assess whether the redistribution of resources could be considered desired.

[22]See [30].

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