

Are Rent-Seeking Contests Harmful to Economic Growth?

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Abstract

The purpose of this paper is to examine how rent-seeking activities affect economic growth in a variety expansion growth model of Grossmann and Helpman (1991) augmented by incorporating rent-seeking contests among private firms to capture the monopoly right producing consumption goods. We show that increasing the number of rent-seeking firms or the productivity of rent-seeking technology reduces the balanced growth. The introduction of the tax imposed directly on rent-seeking activities or the corporate profit tax improves the growth rate.

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