

**Open-Access Renewable Resources and Urban Unemployment:
Dual Institutional Failures in a Small Open Economy**

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Abstract

This paper investigates how poverty reduction and environmental resource preservation can be compatible in a small-open dualistic economy with urban wage rigidity and rural open-access resources, where rural-urban migration occurs endogenously. At the steady state, the first-best policy calls for an urban wage subsidy with a rural wage subsidy at a *lower* rate. A rural *tax* constitutes the first-best policy when the domestic price of urban manufactured good is sufficiently high. Thus the policy prescription by Bhagwati and Srinivasan (1974) does not apply when the world price of the resource good is low and/or a tariff on the manufactured good is high. Export tax on the resource good reduces the unemployment rate unlike what existing literature indicates. The number of the unemployed also decreases if the domestic price of manufactured good is high enough. A small export tax always improves welfare by mitigating the two institutional failures. Along a transition path, rural resource preservation is compatible with urban poverty reduction.

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