

RENT-SEEKING AND HONG KONG'S TEXTILE QUOTA SYSTEM: REPLY

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MR. LAW misunderstands or misinterprets my paper [3] on rent-seeking in Hong Kong's revised textile quota system. The main objective of my paper was to demonstrate that for purposes of efficiency in the employment of resources, the method by which quotas are allocated is in principle independent of the regulations regarding the use of quotas. This is fundamental to an appraisal of any particular quota system. Unfortunately, based on the evidence I was able to gather about Hong Kong's quota system there was no indication that businessmen or officials in Hong Kong were aware of this basic point, and Mr. Law's comments demonstrate that he, too, does not appreciate its importance. Another way of stating my argument is that the key to an efficiency-promoting quota system in a free-enterprise economy is a system in which private property rights in quotas are well defined and there are no restrictions on the use and transfer of quotas.¹ The allocation of quotas is arbitrary. With such a system, Coase's theorem would tend to hold.² Under the revised quota system, which was introduced in 1976, there are significant restrictions on the transfer of quotas, as I outlined in my paper. Moreover, the mechanism whereby free quota is granted to applicants would be likely to lead to rent-seeking behavior. These restrictions on transfer and the anticipated rent-seeking behavior that firms engage in to gain free quota imply a wasteful deployment of resources. The conditions necessary for Coase's theorem to be valid would not hold in this situation. The perennial problem about Hong Kong's textile quota system over the past two decades has centered on the squabbles

¹ According to Alchian and Allen, property rights "are the expectations a person has that his decisions about the uses of certain resources will be effective. The stronger those expectations are upheld, in one way or another (custom, social ostracism, or government punishment of violators) the stronger are the property rights. Private-property rights in goods constitute the exclusive rights of the owners to use their goods, and only their goods, in any way they see fit, including the right to transfer these rights to other people" [1, p. 158].

² I am grateful to Mr. Law for mentioning Coase's theorem in his comment; but unfortunately, he does not apply it correctly. Mr. Law does not recognize the crucial role played by transferability of property rights, or in the present context, textile quotas. In general terms, this issue is explained in a survey article by Furubotn and Pejovich: "Coase has shown that, in the absence of transaction costs, the *composition of output* in the economy is independent of the structure of property rights—except insofar as changes in the distribution of wealth affects demand patterns. . . . The result just discussed is based on the assumption that transactions costs are zero, but this simplification is recognized as unrealistic. . . [because of such factors as] . . . the existence of legal restraints on the use and exchange of resources" [2, p. 1143].

over which firms will be given quota, the inconsequential quota allocation issue—inconsequential for purposes of efficiency. These squabbles, unfortunately, spill over and affect the crucial quota use and transfer issue. It appears that this problem continues.

REFERENCES

1. ALCHIAN, A. A., and ALLEN, W. R. *Exchange and Production Theory in Use* (Belmont, Calif.: Wadsworth Publishing Co., 1969).
2. FURUBOTN, E. G., and PEJOVICH, S. "Property Rights and Economic Theory: A Survey of Recent Literature," *Journal of Economic Literature*, Vol. 10, No. 4 (December 1972).
3. MORKRE, M. E. "Rent-Seeking and Hong Kong's Textile Quota System," *Developing Economies*, Vol. 17, No. 1 (March 1979).