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**AGGLOMERATION AND WELFARE: THE
CORE-PERIPHERY MODEL IN THE LIGHT
OF BENTHAM, KALDOR, AND RAWLS**

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Abstract

The objective of this paper is to apply different welfare approaches to the canonical model developed by Krugman, with the aim of comparing the only two possible market outcomes, i.e. agglomeration and dispersion. More precisely, we use the Pareto criterion, the compensation criteria put forward by Kaldor, as well as the utilitarian and Rawlsian welfare functions. No clear answer emerges for the following two reasons: (i) except for small range of transport cost values, there is indetermination when compensation schemes are used and (ii) the best outcome heavily depends on societal values regarding inequalities across individuals. In particular, our analysis cautions against the use of utilitarian welfare functions as a foundation for regional policy recommendations.

Keywords: agglomeration, welfare, economic geography, compensation mechanism.

JEL Classification: F12, R13.

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