

# 3 Rent seeking

## The theory of rent seeking

Up to this point, Tullock's contribution to public choice has only been lightly touched upon. However, he is clearly one of the leading public choice theorists. In addition to his early work with Buchanan, he is probably best known for his seminal insights into the theory of rent seeking. Indeed, rent seeking is perhaps one of the foremost advances in modern economics. In his most recent work on the subject, Tullock defines rent seeking as "the manipulation of democratic [or other types of] governments to obtain special privileges under circumstances where the people injured by the privileges are hurt more than the beneficiary gains" (Tullock 1993, p. 24, cf. p. 51). Rent seeking is a natural outcome of the political process, especially in democratic nations. Special interest groups seek political favors and politicians seek re-election primarily (although cash seeking does play some smaller role) (Tullock 1993, p. 31).

As Boettke notes, "The problem, as Mancur Olson argued in his *Rise and Decline of Nations*, is that as political stability occurs, entrenched interests form which, eventually, through their rent-seeking activity, retard the further economic development of a country" (Boettke 1992, p. 71).

Then as the condition of demoscclerosis becomes more pervasive and critical, rent seeking develops into part of the normal course of business. Firms begin to see various taxes, both explicit and implicit (i.e., via regulation, liability rulings, takings, inflation, etc.) as normal expenses, along with the increased expense of hiring professionals to minimize these taxes. Thus, they seek means to secure rents from the political process that either offset or exceed the tax expense. Once an economy is inundated by rent seeking, the level of distortion in the economy and the level of resource misallocation will be so high that it will be hardly possible to measure the social costs of rent seeking.

Table 3.1 Rent seeking

<p><u>Definitions of rent seeking from Tullock and Buchanan:</u></p> <p>(1) Tullock defines rent seeking as “the manipulation of democratic [or other types of] governments to obtain special privileges under circumstances where the people injured by the privileges are hurt more than the beneficiary gains.”</p> <p>(2) Buchanan says that “the term <i>rent seeking</i> is designed to describe behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus.”</p>
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*Some evidence of the historical tenacity of rent seeking*

Rent seeking effectively grants monopoly power to the successful seeker. Wealth is transferred from consumers to these firms or special interests, with the legislator, bureaucrat, or third party broker receiving a commission from the boodle. Remarkably, while rent seeking has reached unprecedented levels today, it has been a problem previously, especially among democratic societies. Consider the com-

ments of French politician Frederic Bastiat in 1850, who might be considered a forerunner to public choice theorists.

The law has been used to destroy its own objective [to serve as a defense of life, liberty, and property]: It has been applied to annihilating the justice that it was supposed to maintain; to limiting and destroying rights to which its real purpose was to respect.

This fact [that force is entrusted to those who make the law], combined with the fatal tendency that exists in the heart of man to satisfy his wants with the least possible effort, explains the almost universal perversion of the law...instead of checking injustice [it] becomes the invincible weapon of injustice...This is done for the benefit of the person who makes the law, and in proportion to the power he holds...the few practice legal plunder on the many...

It is impossible to introduce into society a greater change and a greater evil than this: the conversion of the law into an instrument of plunder.

As long as it is admitted that the law may be diverted from its true purpose—that it may violate property instead of protecting it—then everyone will want to participate in making the law, either to protect himself against plunder or to use it for plunder.

The person who profits from this law will complain bitterly, defending his *acquired rights*. He will claim that the state is obligated to protect and encourage his particular industry; that this procedure enriches the state because the protected industry is thus able to spend more and to pay higher wages to the poor workingmen. Do not listen to this sophistry by vested interests. The acceptance of these arguments will build legal plunder into

a whole system. In fact, this has already occurred (Bastiat 1990/1850, pp. 9, 11, 12, 18).

Hence, public choice problems are not new. Those whose consciences normally would not permit them to steal from their neighbors are pacified when a law sanctions the plunder. Moreover, since some people are using the law for their profit at the expense of others, many others are determined to do likewise. “Thus, the beneficiaries are spared the shame, danger, and scruple which their acts would otherwise involve...the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime” (Bastiat 1990/1850, pp. 13, 17, 20-21). Sometimes the plunder is purely a matter of the profit motive and other times its true motivation is disguised by a layer of false philanthropy. Furthermore, Bastiat argues that as “government failure” becomes widespread as a result of government fostering legal plunder (i.e., rent seeking), the inevitable result will be revolution, just as there have been relatively frequent revolutions in France. Therefore, politics must receive an education from economics. As Bastiat said, “A science of economics must be developed before a science of politics can be logically formulated” (Bastiat 1990/1850, pp. 66, 67, 71).

Table 3.2 Objectives of a rent seeker

<p>Two goals of a rent seeker: (1) create monopoly power or (2) create artificial scarcity.</p>
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*Rent seeking as positive science: three levels*

Public choice theory is positive science, and as such it is not interested in accusing rent seekers of committing crimes. However, what Bastiat argues is compelling, and is congru-

ent with public choice theory in the sense that he recognizes the natural tendency of men to use the political process for their own gain. It is not that some men are particularly evil and thus they seek rents, but because the natural course for any person, either in business or in politics, is to avail himself of profitable opportunities. The fact that Bastiat points out this very thing over a century prior to the advent of public choice theory demonstrates both his insightfulness and the fact that rent seeking problems have been pervasive and onerous. As Buchanan notes, the existence of rent seeking today should come as no surprise to economists.

Rent is that part of the payment to an owner of resources over and above that which those resources could command in any alternative use. Rent is a receipt above opportunity cost...So long as owners of resources prefer more to less, they are likely to be engaged in rent seeking, which is simply another word for profit seeking...The term *rent seeking* is designed to describe behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus...As institutions have moved away from ordered markets toward the near chaos of direct political allocation, rent seeking has emerged as a significant social phenomenon (Buchanan 1980, pp. 46, 47).

Buchanan goes on to explain his understanding of rent seeking. While entrepreneurs and innovators can secure short-lived monopoly benefits in the market, they are quickly dissipated in the absence of barriers to entry as others rush to capture the potential profits. In other words, competition is a natural check against long-lived monopoly. However, the one who obtains monopoly power via rent seeking causes a long term and socially distortive loss in consumer welfare.

Suppose that, instead of discovering a new commodity or service or production process, an innovating entrepreneur discovers a way to convince the government that he “deserves” to be granted a monopoly right, and that government will enforce such a right by keeping out all potential entrants. No value is created in the process; indeed, the monopolization involves a net destruction of value. The rents secured reflect a diversion of value from consumers generally to the favored rent seeker, with a net loss of value in the process...*Rent seeking*...refers to...the activity motivated by rent but leading to socially undesirable consequences (Buchanan 1980, pp. 50, 51).

A larger public sector will produce greater amounts of rent seeking and vice versa. When rent seeking occurs, it serves to create artificial scarcity—that is, demand for products that would not otherwise exist (Buchanan 1980, pp. 52, 53). Yet rent seeking can take different forms. Buchanan identifies three levels of rent seeking (Buchanan 1980, pp. 56, 57).

- Lobbying for government-sanctioned privileges.
- Excessive waste of resources for training and for campaigns to advance bureaucrats and politicians to positions with better salaries or more power.
- Attempts by special interests to secure political favors or abatement of threatened costs by regulation.

#### *Normative vs. positive rent seeking analysis*

Tollison adds that monopoly rights may be given to rent seekers by (1) venality, e.g., bribery, (2) selling the monopoly right to the highest bidder and giving government officials control over them, likely leading to higher wages for them as a result, or (3) selling it the same way but then dis-

persing the booty to increase expenditures or cut taxes (Tollison 1982, pp. 578-579). However, Tollison argues that rent seeking is not always analogous to profit seeking, and that rent seeking has both positive and normative elements.

The theory of rent seeking involves the study of how people compete for artificially contrived transfers. Like the rest of economic theory, rent seeking has normative and positive elements. Normative rent-seeking theory refers to the specification and estimation of the costs of rent-seeking activities to the economy... The positive side of rent-seeking is directed to the question of what explains the sources of contrived rents in society (Tollison 1982, p. 576).

Table 3.3 Levels of rent seeking

<p><u>Three levels of rent seeking</u> (Buchanan):</p> <ol style="list-style-type: none"><li>(1) lobbying for government-sanctioned privileges,</li><li>(2) excessive waste of resources for training and for campaigns to advance bureaucrats and politicians to positions with better salaries or more power, and</li><li>(3) attempts by special interests to secure political favors or abatement of threatened costs by regulation.</li></ol>
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Normative analysis focuses on competition for rents, consumer reactions, the types of government (if any) necessary to foster rent seeking, and imperfections that might exist to cause efforts to capture monopoly positions to “exceed or fall short of the rents that inhere [occupy] them.” Positive analysis focuses on the effects of monopoly power gained from rent seeking, and “goes behind the facade of micro-economic theory and attempts to explain why some sectors of the economy are sheltered and some not” (Tollison 1982, p. 576).

Rent seeking may be distinguished from profit seeking because the rent seeking operation creates “artificial scarcity” by the state and thus monopoly profits are available for capture. Yet, “aspiring monopolists employ no real resources to compete for the monopoly rents...these expenditures create no value for a social point of view. It is this activity of wasting resources in competing for artificially contrived transfers that is called rent seeking” (Tollison 1982, p. 577). Consequently, a link is made with the Austrian idea of competition as rivalry and the dynamic market process driven by entrepreneurship.

When competition is viewed as a dynamic, value-creating, evolutionary process, the role of economic rents in stimulating entrepreneurial decisions and in prompting an efficient allocation of resources is crucial [Kirzner 1973]. ‘Rent seeking’ or ‘profit seeking’ in a competitive market order is a normal feature of economic life (Tollison 1982, p. 577).<sup>14</sup>

For instance, the desire to obtain rents will deflect lawyers from otherwise normal pursuits, and thus create a disequilibrium in the supply of lawyers that will subsequently lead to “excessive entry into the legal profession.” Therefore, “such rent-seeking costs must be added to the standard welfare-triangle loss associated with monopoly to obtain an estimate of the total social costs of monopoly and regulation” (Tollison 1982, p. 578). Consequently, “rent-seeking analysis tends to magnify the problem of monopoly power over and beyond the traditional measurements made by Harberger...” (Tollison 1982, p. 582).

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<sup>14</sup> Also congruent with Austrian thinking, Tollison notes that “advances in economics do not naturally have to flow from a highly mathematical or statistical approach to the subject.” pp. 597-598.

Tollison, concurring with Peltzman's implication, contends that the costs to consumers from rent seeking are not inconsequential, as "a vote-maximizing regulator trades-off industry price and profits between consumer and producer forces" (Tollison 1982, p. 582). The cost of rent seeking monopolization is thus increased by "the cost of rent-seeking by producers *as well as* any blocking investment made by consumers" (Tollison 1982, p. 583). Since consumers face an upward sloping supply curve, they will have an interest in "forming a buyers' cartel in order to monopsonize against producers" (Tollison 1982, p. 584).

The social cost of monopoly and regulation in this formulation is a variable which is related to the behavior of regulators who set political prices. Past behavior of the regulatory agency is important since it influences the formation of expectations by those affected by the regulatory process. These expectations determine the optimal level of resources that the parties will devote to the 'monopolization-demonopolization' process. It stands to reason that attempts to extract rents will be fought by affected parties unless such a contest is deemed futile. Thus, while the conventional result that rent-seeking expenditures are socially wasteful stands, the extent of such welfare losses is related to the nature of the institutional environment in which rent-seeking takes place (Tollison 1982, p. 584).

Tollison adds that most rent seeking is imperfectly competitive, an idea best developed in Tullock's work on efficient rent seeking which "shows the potential complexity of rent-seeking games" (Tollison 1982, p. 585, 586). Tullock also addresses such games in his recent book *Rent Seeking* (Tullock 1993, pp. 62-65).

### *Rent seeking costs or problems and rent dissipation*

There are a number of costs and problems which complicate rent seeking. The principal-agent problem is an important consideration once both political actors and voters are viewed as wealth maximizers. It is not easy to control the behavior of the agent and thus it is not likely to “always comport with the interest of the principal.” Indeed, “political agents face different constraints than private agents because their principals (e.g., voters and stock-holders) face different incentives to control the behavior of their agents” (Tollison 1982, p. 589).

Table 3.4 Social losses from rent seeking and monopoly

<p>Three social losses from rent seeking besides the dead-weight monopoly loss (the Harberger triangle) that do not represent a mere utilitarian transfer include:</p> <ol style="list-style-type: none"><li>(1) “paperwork contests” that dissipate the Tullock rectangle,</li><li>(2) the displacement of workers from the productive sector to the public sector, and</li><li>(3) the rise in consumer prices due to monopoly power.</li></ol>
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Compounding this problem, Gary Becker suggests that as pressure groups actively try to raise their political influence which in turn leads to considerable competition between groups on account of the scarcity of obtainable rent.

The political budget equation between the total amount raised in taxes and the total amount available for subsidies implies that the sum of all influences is zero, which has a significant effect on the competition among pressure groups (Becker 1983, p. 395).

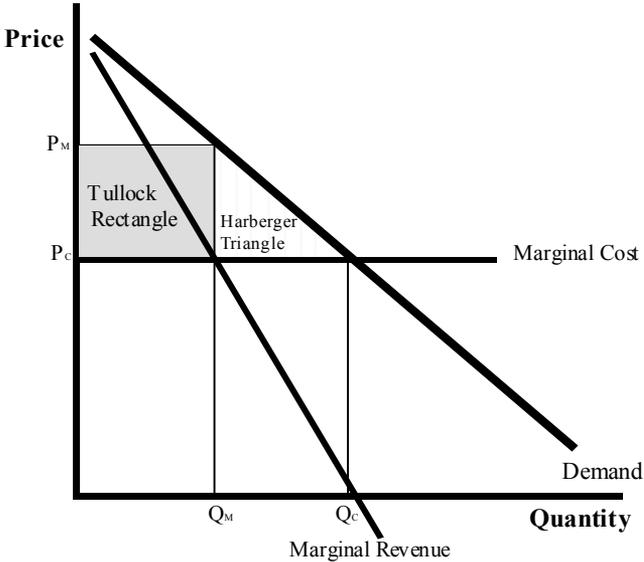
Producing pressure efficiently involves controlling free riding among members, and thus increasing the optimal subsidy or tax reduction available to the rent seeker. “Policies that raise efficiency [that is, lower deadweight costs] are likely to win out in the competition for influence because they produce gains rather than deadweight costs, so that groups benefited have the intrinsic advantage to groups harmed” (Becker 1983, p. 396). Subsequently, government favors to pressure groups are determined by a competitive process. The separation of ownership and control in the principal-agent problem gives government “significant political power” (Becker 1983, p. 396). However, Tullock contends that Becker’s analysis is partly defective.

Becker, who wrote a very good article on interest group competition (Becker 1983) in which he pointed out that the result of certain groups pushing for special privileges and other groups counter-pressuring to avoid being victimized should lead to a balance which is at least arguably some kind of political equilibrium, failed to emphasize the rent-seeking cost of this exercise (Tullock 1993, p. 31).

As previously noted by Tollison, public choice extends the traditional or utilitarian conception of social deadweight costs as proposed by Harberger. Tollison and Wagner suggest that, from a utilitarian perspective, the transfer of benefit from consumers to a monopolist poses no social cost beyond the normal deadweight losses. But Tullock contends that the rent seeker will spend up to that additional portion of benefit in his quest to acquire a monopoly position. Thus, while consumers still pay the higher price, a portion of the captured benefit has been dissipated in the process of seeking the monopoly position. As shown in Figure 3.1, the costs of the intentional monopoly sought via rent seek-

ing are both the deadweight costs and the entire amount of potential monopoly benefit spent by interest groups that compete for it (Tollison and Wagner 1991, pp. 60-61).

Figure 3.1: Rent seeking and deadweight social losses



Likewise, reforming active monopolies that result from rent seeking are costly. The gains from making them competitive will be partly offset by the costs associated with the resistance by the monopolist, and Tollison and Wagner conclude that in some cases it may be best for utilitarian reformers to “leave existing deformities alone” (Tollison and Wagner 1991, pp. 63-64). Conversely, they find that there is some consumer surplus available to successful consumer oriented reformers after the monopoly price and output are set. Thus, there may be some effective counter-rent seeking to capture back a portion of which was taken by the rent seeking monopolist, and the size of the deadweight loss triangle will be diminished. Accordingly, Tollison and Wagner argue that seeking to reform monopolies (which are

usually intentional results of rent seeking rather than accidental) “may be justified from a factional or private-interest perspective, but not from a utilitarian or general interest perspective” (Tollison and Wagner 1991, p. 66). In addition:

[R]eform itself is, at least for the most part, an activity *within* the rent-seeking society. Reformist activity is profitable to those who undertake it, but this is only because reformers do not have to take into account the costs that their activities impose on monopolists, who must step up their defensive activities as the reformers increase the intensity of their agitation. There would be little investment in reform, at least of the backward-looking sort, in a utilitarian or general-interest world (Tollison and Wagner 1991, p. 67).

Richard Higgins and Tollison suggest that rents may not always be dissipated, especially in the case of venality or in wining-and-dining political actors where the rents are merely transferred to them. But rents can be dissipated by other things like “paperwork contests” whereby rent seekers expend all the potential gains trying to demonstrate that they are the most worthy recipient of the rent (Higgins and Tollison 1988, p. 150-151). Moreover, from the point of view of a politician:

[T]o the extent that the method of assigning monopoly rights by politicians resembles exchange, rents are *not* dissipated. Moreover, the value of holding office is, in general, proportional to the efficiency of the assignment mechanism in controlling rent dissipation (Higgins and Tollison 1988, p. 151).

So politicians have an interest in minimizing dissipation and thus maximizing potential gain. To the extent that dis-

sipation occurs there is a social loss, which Higgins and Tollison say is understated by simply looking at welfare triangles.

In the extreme, when all rent is dissipated, the social cost of monopoly is the Harberger triangle plus the Tullock rectangle. Thus, for a given average degree of rent dissipation, the overall social cost of monopoly rises as the amount of government monopoly rises in society. Moreover, as the degree of dissipation rises, the social cost of a given amount of monopoly will rise (Higgins and Tollison 1988, p. 152).

Concurring, Tullock offers this comment about the welfare loss from monopoly.

Even when a monopoly is established, continual efforts to break it up or to muscle into it would be predictable, once again involving a considerable investment of scarce resources. Such attacks would induce the monopolist to invest resources in defense of its monopoly powers. The welfare triangle method of measurement ignores these important costs and hence greatly underestimates the welfare loss of monopoly. Evidently, the ‘Tullock rectangle’ must be added, in whole or in part, to the ‘Harberger triangle’ when calculating the potential loss of welfare associated with monopoly (Tullock 1993, p. 10).<sup>15</sup>

### **Transitional gains and permanent losses**

Tullock says that there are “transitional gains” made available to a favored interest group when government estab-

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<sup>15</sup> Also see a similar explanation of welfare losses from cartels due to rent seeking in Mitchell and Simmons 1994, p. 103.

lishes special privileges. Obtaining this rent is quite a feat, since manipulating the government is difficult—even the most potent organized pressure group cannot completely control it. Worse yet, the transitional gains obtained by the initial rent seekers are similar to bait in a trap. New entrants into an affected market only receive normal profits, but “surviving original owners have opportunity costs equivalent to the price of the entry barrier and consumers are worse off” (Tullock 1975, pp. 671-675).<sup>16</sup> After the transitional gains have been dissipated, there is both a dead-weight social loss and many people who will lose considerably by ending the program originally established because of rent seeking. (They have invested capital in the privilege.) Thus, reform is costly since it may well require compensating those who would be harmed. As Tullock describes:

It is certainly true that this type of institution [fostered by rent seeking] is very widely found in our society and the social cost is great. It is also true that, in general, the benefits are now long in the past. They were transitional benefits at the time the institution was first founded. As of now, there is no one who is positively benefiting from the organization and there is a large dead-weight loss. However, there is [*sic*] a large number of people who would suffer large transitional costs if the institution were terminated. These transitional costs in many cases are large enough so that compensation of the losers would impose upon society an excess burden which would be of the same order of magnitude as the cost of the present institution. (Tullock 1975, p. 677)

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<sup>16</sup> Noting the medallions required to drive New York City taxis, former blue laws (prohibiting commerce on Sunday), and labor unions are examples of the trap.

In a recent restatement of the trap, and implying the relationship between rent seeking and demoscclerosis (without mentioning it specifically), Tullock remarks:

The problem posed by the transitional gains trap is the ratchet-like nature of rent seeking. Once a rent has been successfully sought out through government lobbying, it is very difficult to remove even after it has ceased to produce positive profits for its rent-seeking beneficiaries. Its elimination almost always implies losses for those who now exercise the privilege. To avoid such losses, they will rent seek yet again to retain the privileges. Politicians are rightly reluctant to inflict direct losses on specific sections of the electorate — inevitably a vote-losing strategy (Tullock 1993, p. 68).

Tullock suggests that the best solution to this problem is to simply simultaneously abolish all the privileges to everyone, but he admits that action would be politically unlikely. Thus, perhaps with dour conciliation, he offers this advice.

The moral of this, on the whole, depressing tale is that we should try to avoid getting into this kind of trap in the future. Our predecessors have made bad mistakes and we are stuck with them, but we can at least make efforts to prevent our descendants from having even more such dead-weight losses inflicted upon them (Tullock 1975, p. 678).

### **Tullock's recent discussion of rent seeking**

Tullock suggests that the expropriation from consumers and taxpayers, and subsequent redistribution of the money, obtained from rent seeking is considerable, and that perhaps 90% of government transfers are involuntary charity.

“They are the result of lobbying activities on the part of recipients, combined with ignorance and/or political weakness on the part of those individuals who supply the transfers” (Tullock 1993, p. 15).<sup>17</sup>

Rent seeking can take either legal or illegal routes, as Krueger has pointed out, (Tullock 1993, p. 19) and in some countries it has had a devastating effect. Tullock observes:

The *émigré* Chinese of southeast Asia and the United States perform extremely well, as do the *émigré* Indians of Africa. Only in their own homelands do they fail to perform well. The phenomenon is not peculiar to Chinese, Indian, or Islamic cultures, but rather is located in the traditional government institutions of these various backward societies. Rent seeking offers a powerful general explanation of this apparent paradox. It is not surprising that our common exposure to economic failure in culturally-advanced societies led Krueger, Bhagwati and myself to the rent-seeking explanation (Tullock 1993, pp. 20-21).

Table 3.5 Possible causes of underdevelopment

<p>The three possible causes of being underdeveloped are:</p> <ol style="list-style-type: none"><li>(1) the climate of a country,</li><li>(2) the culture or religion of a country, especially considering the thesis of Max Weber in <i>The Protestant Work Ethic</i>,</li><li>(3) the amount of rent seeking that exists in a country.</li></ol>
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By and large, voters must be responsible for the leaders they choose. However, there is no guarantee that politicians will abide by the will of the electorate. Capturing rents through special interests is also problematic. Tullock notes

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<sup>17</sup> Citing as examples farm subsidies and import protection for steel firms and auto makers.

that while voters are pleased with the rents their favorite special interest groups are able to secure, they also have reason to be unhappy.

Thus, the voter is a rather shaky reed on which to depend if the object is to achieve good government and a government which in particular only spends money on things that are generally worth purchasing. The average voter benefits from the activities of those pressure groups of which he is a member although the benefit may be much smaller than he thinks it is. On the other hand he is injured by all the other pressure groups and the net effect is that he is actually worse off than without any of them. The limits of information, however, mean that he is actually only able to function effectively by promoting pressure groups. In consequence, the outcome is that there is a good deal more wasteful rent-seeking than there would be if somehow or other people were able to vote in terms of their long term interests (Tullock 1993, p. 38).

Table 3.6 Social costs of regulation

<p>The five social costs of regulation are (McChesney 1987, p. 118):</p> <ol style="list-style-type: none"><li>(1) the deadweight monopoly loss or Harberger triangle,</li><li>(2) rent seeking, represented by the Tullock rectangle,</li><li>(3) costs of complying with regulations,</li><li>(4) the diversion of resources to less valuable but unregulated uses, and</li><li>(5) the costs of protecting private capital even when politicians do not have any real inclination to regulate or change a regulation, but simply <i>threaten</i> to do so (a process called “milking”).</li></ol>
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Tullock admits that, due to empirical and theoretical reasons, “good measures of rent seeking cost” are not available

yet. However, he believes that there are good reasons to suspect the costs are high and hidden in

...failed bids, aborted enterprise, uncharted waste and threatened but never activated public policies. We also know that most senior executives of large companies and trade associates now spend a fair amount of time in Washington. In 1890, they never went there at all (Tullock 1993, p. 78).

### **Evidence of rent seeking**

There is evidence that regulation of business emanating from the political process is actually the result of rent seeking activity, especially with respect to legislation in the United States. In many cases, private interests seem to dominate the public interest, at the expense of consumers and taxpayers. Stigler concludes that the Sherman Act was a result of rent seeking, specifically “from small business interests or that opposition came from areas with potential monopolizable industries or both” (Stigler 1985, p. 7). Business interests have given strong support to antitrust legislation. High and Clayton Coppin have shown that rent seeking was a force behind the passage of the Pure Food Act (High and Coppin 1988, pp. 286-309). Donald Boudreaux and Robert Ekelund argue that gains to municipalities and others by rent seeking were the driving force behind the Cable Television Consumer Protection and Competition Act of 1992 (Boudreaux and Ekelund 1993, pp. 356, 390). Extending this notion of municipalities seeking rents from state or federal political processes, Tullock showed how rent seeking has been rationally used by local governments.

In 'Competing for Aid' (Tullock 1975), I illustrated my thesis by reference to public road building programmes. I discussed a situation, common in the United States, in which a higher level of government programme provided assistance to lower-level government organizations in accordance with their 'need'. I showed how lower-level organizations would respond to such a set of incentives by deliberately neglecting road repairs in order to qualify for higher-level subsidies. My arguments were not hypothetical. I showed how the city of Blacksburg had deliberately skewed road repair contracts away from its most damaged roads in order to be targeted for repair by the Commonwealth of Virginia. I showed how the development of divided centre, limited access toll highways during the early 1950s was almost completely self-aborted once President Eisenhower introduced the federally-subsidized interstate system. The local community that allows its road system to deteriorate in order to qualify for state subsidies or that runs down its hospital system in the expectation that the federal government will replace it is in exactly the same situation as the Chinese beggar who mutilates himself to obtain [more] charity from passers-by. In both cases, the action is rational. In both cases, the effect is to lower the welfare of those involved (Tullock 1993, pp. 17-18).

Tullock also cites the post office in the United States as a prime example of successful rent seeking to maintain a monopoly privilege, although a private postal service, *ceteris paribus*, might actually generate more rent seeking (Tullock 1993, pp. 53, 64). So rent seeking is not limited to outside special interests or to politicians. Bureaucrats also seek rents, as Tullock remarks:

[B]ureaucrats themselves actively rent-seek through the political process, often conspiring with powerful interest groups and relevant congressional committees. In some cases, this rent seeking results in excessive rates of output, in others in bloated budgets and in yet others in manifest laziness and ineptitude. It should be kept in mind, however, that bureaucrats are often manipulated by other rent seekers, and that they certainly could not rent-seek as effectively as they do without the widespread compliance of politicians and the rational ignorance of much of the electorate (Tullock 1993, p. 58).

Mitchell and Simmons have documented several interesting and “disturbing” outcomes of rent seeking behavior. For instance, the social losses due to protectionism (via tariffs) are astounding. “The deadweight loss to society of protectionism has been estimated to range from 1 to 6 percent of the GNP, translating into tens of billions of dollars each year” (Mitchell and Simmons 1994, p. 104). Subsidies have likewise been enormous in the United States, as Mitchell and Simmons remark:

Congress is reluctant, for understandable reasons, to sponsor inquiries into subsidies, but on two occasions it has done so and the results are flattering neither to Congress nor to the subsidized organizations. During the late 1970s and early 1980s the federal government spent more than \$250 billion annually on subsidies and subsidy-like programs. In the maritime industry, for example, the income gains were substantial: Every employee in the industry was made better off annually by about \$16,000. The automobile industry negotiate a wage settlement with the United Auto Workers that increased wages by more than twice the average negotiated amount in all other industries. The settlement was on top of em-

ployment costs that were already 60 percent higher than those operating in other manufacturing industries (Mitchell and Simmons 1994, p. 104).

Social waste from the rent seeking of lobbyists has also been substantial. Regarding state-level lobbying in the United States, Mitchell and Simmons note:

For example, more than 500 lobbyists spent more than \$12.5 million to influence Washington's state legislature. With 147 legislators, that amounts to \$85,000 per member. In the state of Oregon, which has a population of only 2.9 million citizens, lobbyists spent more than \$1.6 million in 1989 on workers' compensation legislation alone. These examples illustrate that vast sums are spent on the political process because it is now an unavoidable cost of doing business, just as purchasing raw materials, paying employees, and so on are regular costs of running an enterprise. We believe it is regrettable that so many scarce resources are devoted to this process, but it is understandable, once the rent game begins. Those who do not participate fail to reduce the scope of the game but pay the costs of not protecting themselves. Instead of hearing applause, they are deemed suckers because they must pay for the gains of those who do not play. In any event, tens of thousands of lawyers and others devote their time to shifting money from one pocket to another and make good money doing so (Mitchell and Simmons 1994, p. 107).

The academy is also prone to rent seeking behavior, particularly in public universities that offer tenure. "The professor-monopolist decides what to teach, how to teach it, when, and under what conditions. Although dedicated, student-oriented, humane, and so on, the professor remains a

monopolist and a potential free-rider (Mitchell and Simmons 1994, p. 122-123). While they complain that their salaries are low, in fact their opportunity cost is usually not that high (except perhaps in a few disciplines like business, law, and engineering) and the number of days they work each year is far less, perhaps one-twelfth, of their typical professional counterparts in the private sector. Accordingly, Mitchell and Simmons propose some analysis.

Our age-old depiction of the university as a hallowed, disinterested searcher for truth and exemplar of altruistic values must be subject to the same careful analysis we accord business firms, political parties, interest groups, and other organizations (Mitchell and Simmons 1994, p. 123).

Mitchell and Simmons agree with other public choice theorists that most monopoly power today is derived from political favors. They describe regulation as nothing more than “cartel management” (Mitchell and Simmons 1994, pp. 129-130). Successfully gaining a political favor may be pleasant but, like brass that must be polished, the costs of maintaining it will continue. “Eternal vigilance is the price of rent seeking” (Mitchell and Simmons 1994, p. 132). In the final analysis, everyone must be on their guard against potential predators in a rent seeking society.

We must, therefore, be suspicious of and opposed to claims for safety nets and other protectionist policies that reduce efficient market competition but necessarily increase inefficient political competition (Mitchell and Simmons 1994, p. 128).

Sometimes consumer activist groups can be effective proxies to watch special interests on the behalf of consumers

(Mitchell and Simmons 1994, p. 136).<sup>18</sup> It is plausible that such “reformers” (as Tollison and Wagner call them) are likewise pursuing a rent seeking agenda and must, therefore, be scrutinized like other participants in the political process. Government does not consist of publicly-interested people, so “consumers ought to be wary of their benefactor” (Mitchell and Simmons 1994, p. 139). The state is not necessarily their ally. Instead, Mitchell and Simmons contend that the consumer ought to be concerned over the “real monopolists,<sup>19</sup> our 80,000 governments that simultaneously oversupply some services and fail to provide for many other important daily wants” (Mitchell and Simmons 1994, p. 139).

Perhaps ironically, Mitchell and Simmons point out an insidious element of rent seeking by political actors. “Those who benefit most from any specific policy are rarely those who have fought for it, and those injured are rarely those who opposed it or even know that they have been injured. And of course the unborn cannot possibly oppose their masters” (Mitchell and Simmons 1994, p. 112). Indeed, when looking at a rent seeking society, we do not see a pretty picture. Alternatively, we see a picture of venality, economic distortions and misallocations of colossal proportions caused by government failure.

Nevertheless, Tullock suggests that there is a potential partial solution to the problem of rent seeking.

[C]onstitutional constraints and institutional reforms can mitigate the extent of rent seeking on the part of interest groups (Buchanan 1980a and b). However, as Wagner

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<sup>18</sup> However, Mitchell and Simmons find it odd that “consumers of private goods are assumed by Naderites to be incapable of assessing their own risks but highly capable of voting for public officials who can assess those risks for others” (p. 136).

<sup>19</sup> Mitchell and Simmons note the inefficient or ineffective provision of roadways, mail delivery, public schools, poorly maintained parks and other facilities, national defense and social security (p. 139).

(1987, 1988) has argued, the parchment of the Constitution itself is vulnerable to the guns of special interests unless the Constitution itself can be protected by those general interests that find it so difficult to engage in democratic politics (Tullock 1993, p. 51).

While recognizing that government is an instrument of force and compulsion — and is thus evil — Tullock is hopeful that some good will, paradoxically, come out of it (Tullock 1993, p. 78).

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