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## The political economy of an idea: The case of rent seeking

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## Abstract

Social loss through resources used to influence politically designated privileged benefit, known as 'rent seeking', is an idea proposed by Gordon Tullock (1922-2014), founder of the public-choice school of economics and of the journal *Public Choice*. With the social costs of monopoly and protection in the U.S. and elsewhere as measured by Harberger deadweight losses having been found to be inordinately low, Tullock (*Western Economic Journal* 1967) proposed that true higher social costs included resources used in rent seeking. An alternative contemporaneous idea, 'X-efficiency', proposed by Harvey Leibenstein, viewed 'slack' in the private sector as the source of un-included social loss (*American Economic Review* 1966). We document the role of ideology in the resistance to Tullock's idea of rent seeking and the acceptance of Leibenstein's alternative idea. We also address the puzzle posed by Tullock (1989, 1993) that rent seeking is not as extensive as suggested by the predictions of theoretical contest models. Although originally ideologically resisted, Tullock's idea of rent seeking has become broadly acknowledged as required for understanding public policy and the behavior of government, in high-income democracies but most particularly in low-income countries with privileged high-income elites.

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## 1. Introduction

In the rent-seeking literature, a rent is an unearned reward sought through a quest for privilege. The seeking of rents is personally beneficial (expected utility is positive) but social loss is incurred because resources are used in non-productive distributive quests. Rents are sought in different circumstances but the rents of primary interest for economic analysis derive from public-policy decisions.<sup>1</sup>

Rent seeking can be but is not necessarily accompanied by corruption. Whether corruption is involved or not, to be a 'rent seeker' or 'rent dispenser' is not exemplary behavior and contradicts the ideology that views humanity as 'good' by nature. 'Goodness' in human nature is manifested in productively contributing to the common good according to personal ability and disregarding sharing disincentives to productiveness and the attractions of rent-seeking opportunities.

Gordon Tullock (2000) ascribed to a view of human nature in which 'people are people', meaning that individuals respond to incentives for personal gain. In Tullock (1967), he proposed that people would rationally compare feasible investments in terms of the private return without regard to whether the investments were socially productive and would engage in rent seeking if rent seeking were worthwhile. Tullock thus challenged the socially progressive view of human nature (or view of how human nature ought to be) in which there is no moral hazard and no exploitative behavior, and there are no 'bad' people, only 'misunderstood' people who can be believed and trusted and with whom cooperation and accommodation are always possible.<sup>2</sup>

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<sup>1</sup> For a survey of the literature on rent seeking, see Hillman (2013).

<sup>2</sup> The ideology predicated on 'goodness' or selflessness is human behavior also calls for transforming human nature in the absence of appropriate social consciousness. 'Re-education' has therefore had a central role when the ideology has been applied in practice. Friedrich von Hayek (1988), in the *Fatal Conceit*, described as unrealistic the idea that re-education through 'social engineering' could change the nature of people from self-

The idea of 'rent seeking' goes further than challenging the 'goodness' of human nature. 'Rent seeking' undermines the ideological foundations of interventionist ideology in proposing that public policies that redistribute income are subject to political response to interest groups. 'Rent seeking' contradicts the premise that people in government necessarily behave with social responsibility to maximize social welfare through ethically justified redistribution.

Ideological resistance can therefore be expected to the idea of 'rent seeking'. We all may have heard: 'I am not like that and people are not like that, and, if they are, they should not be, and you should not publicize this type of non-social self-serving behavior'.<sup>3</sup>

We pursue two themes, the ideological reception to the idea of rent seeking and the scope of the reality of rent seeking. Ideological reception leads us into the criteria for academic approval. In academic economics, where a paper is published can make a significant difference to visibility and reception. We describe how Tullock's 1967 paper setting out the idea of rent seeking was denied visibility through ideological resistance. The reality of rent seeking leads us into a question raised by Tullock as to why rent seeking is not more visible and social losses are not more extensive.

## **2. Ideological resistance**

Something went seriously astray in the process of 'mainstream' evaluation of scientific merit of the contributions of Gordon Tullock to economic thought. Tullock's language of exposition differed from the precision of the 20<sup>th</sup> century post-world-war-II founding fathers of modern economics such as Paul Samuelson

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interested to selfless. Views of human nature influence proposals for appropriate public policy: see Hillman (2009, chapter 10).

<sup>3</sup> That is, 'rent seeking' is a politically incorrect idea. See Hillman (1998) on whether the susceptible young should be taught about 'rent seeking'.

and Kenneth Arrow. Tullock however made significant contributions.<sup>4</sup> Tullock had in common with Milton Friedman the casting of doubt on what can be expected from 'government'; but Friedman, like Samuelson and Arrow, did not question the motives of people in government. Friedman simply said that, with all their good intentions, governments could make mistakes because of inadequate information. Tullock included people in government in the dictum 'people are people'. He wrote not so much about 'government' as 'politicians' and "bureaucrats" – that is, about people.

Tullock was straightforward and unequivocal and was not open to the explanation that he did not really mean what he said. Consider for example his observation (Tullock 1971a) that high-income people who vote for generous income transfers to the poor do so hoping that there will be no majority in favor of the proposals, because their utility is from voting to be generous and not from actually paying the taxes to finance the income transfers for which they had voted. Tullock could here be interpreted as making accusations of hypocrisy. On a more academic level, he was giving an example of identity-confirming expressive voting by people who knew that their individual votes were non-decisive.<sup>5</sup> Nonetheless, Tullock surely knew that, through his paper, which he titled 'the charity of the uncharitable', he would not be endearing himself to the intellectual 'progressive' economics mainstream, even if – or especially if – his claims were correct. He clearly hoped to provoke debate.

At first glance, Tullock's seminal 1967 paper on rent seeking, which he titled 'the social cost of monopoly, tariffs, and theft', could seem more ideologically neutral and less controversial than 'the charity of the uncharitable'. Tullock was, after all, proposing an answer to the question why the efficiency losses from monopoly or tariff protection had been empirically found to be so low

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<sup>4</sup> The scope of Tullock's ideas is revealed in the ten volumes of his contributions compiled and edited by Charles Rowley (2005). See also Rowley (2012).

<sup>5</sup> The extensive literature on expressive voting is summarized by Brennan and Brooks (2013).

when measured by Harberger deadweight losses. Harberger (1954) had found the social cost of monopoly for the U.S. in 1929 to be equal to 0.07 percent of GNP. No estimate for the U.S. or other countries for the social cost of monopoly or tariffs had exceeded 0.2 percent of GDP. Tullock's proposal of additional social losses because of unproductive contesting of rents subsequently became a core concept in the study of economics and political economy (see the influence of Tullock on the literature in Congleton et al. 2008 and Congleton and Hillman 2015). 'The social cost of monopoly, tariffs, and theft' was published in the *Western Economic Journal*, which subsequently became *Economic Enquiry* and is the journal of the Western Economic Association. The *American Economic Review* rejected the paper, as did the *Southern Economic Journal*.

In the Shaftesbury Papers monograph on rent seeking (1993, chapter 3), Tullock compares the negative reception received by 'the social cost of monopoly, tariffs, and theft' at the *AER* with the acceptance for publication in the *AER* in 1966 (the same year that Tullock's paper was rejected) of Harvey Leibenstein's paper on 'X-efficiency'. Tullock and Leibenstein were addressing the same puzzle of empirically low estimates of social losses from monopoly and protection. Leibenstein's proposal was that the source of additional social loss beyond deadweight losses was in the *private sector*, through individuals' not exerting full productive effort or not using resources as efficiently as traditional economic models assumed. Tullock found the source of additional social loss in the *public sector*. He questioned the integrity of people in government who provided incentives for rent seeking. Leibenstein described individuals in the private sector who shirked (or actually just maximized utility).<sup>6</sup>

John Gurley, the then-editor of the *AER*, accepted private-sector 'X-efficiency' for publication but not the idea of social loss due to resources used to influence political assignment of rents. In his rejection letter to Tullock, Gurley

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<sup>6</sup> Leibenstein (1967) primarily relied on data from International Labor Organization productivity missions (table 2, p. 400) as demonstrating discretionary effort. The data were from low-income Asian countries and Israel.

informed Tullock that publication of his paper was not warranted because the idea of 'real resources devoted to establishing, promoting, destroying etc. monopoly .. does not seem significant enough'.<sup>7</sup>

John Gurley was a Stanford economist sympathetic to Maoist political and economic strategy (Gurley 1970, 1976). He believed that there was virtue in Maoist ideology that western economists did not or could not, because of their cultural bounds, appreciate. We quote from Gurley (1970):

"most studies by American economists of Chinese economic development are based on the assumption of capitalist superiority, and so China has been dealt with as though it were simply an underdeveloped United States -- an economy that "should" develop along capitalist lines and that "should" forget all that damn foolishness about Marxism, Mao's thought, Great Leaps, and Cultural Revolutions and just get on with the job of investing the savings efficiently. This almost complete and unthinking acceptance by American economists of the view that there is no development like capitalist development has resulted in studies of China that lack insight and are generally unsatisfactory."

Gurley went on to describe the admirable making of "selfless" communist man (and of course woman). We find Gurley in the immediate company of Galbraith in a compendium of western economists who had expressed admiration for the communist model:

"In 1984 economist John Kenneth Galbraith was still writing that "the Russian system succeeds because in contrast to the western industrial economy it makes full use of its manpower" ... As it became more difficult to see the future in the Soviet model, hopes shifted to the Maoist economy. In the early 1970s, John Gurley, distinguished Stanford economist and

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<sup>7</sup> The *SEJ* editor did not quite understand Tullock's intent and in his rejection letter misinterpreted Harberger (1954) as already having accounted for social losses attributable to the "rectangle" that measured monopoly profits. See Tullock (1993, p. 11).

former editor of the American Economic Review, saw the future in Maoist China".<sup>8</sup>

The merit of Gordon Tullock's idea that there were social losses from political and administrative discretion to assign benefits was thus judged by an editor who saw Maoist China as a role model. We can assume that Gurley thought self-interestedly and rationally. He surely perceived that the essential feature of planned communism was that political and administrative discretion replaced markets and he was aware that the communist system relied for effectiveness on the 'goodness' of human nature through the remade or re-engineered man or woman, who contributed according to ability and was not motivated by personal reward – and certainly did not respond to rent-seeking incentives, which were in any event absent because the 'new' man or woman, when in government or acting on behalf of the Party, did not behave in a way that created rent-seeking opportunities.

Tullock's idea of inefficiency due to rent-seeking incentives that originated in discretion of government was an ideological affront to Maoism. Leibenstein's idea of social loss through insufficient effort exerted by individuals in *private-sector* behavior was ideologically acceptable and indeed could justify the coercion – by Stalin, Mao, and the others – often required in a communist system to transform people to the new selfless economic man or woman.

As a researcher of communism, Gurley could be regarded as committed by ideology to the view that social loss through contestability of politically assigned rents is 'not significant'. With markets absent and some people making decisions within a hierarchy of authority about the well-being of other people, planned communism however provided precisely the maximal incentives for personal benefit from seeking to influence other people's decisions.<sup>9</sup>

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<sup>8</sup> Roberts and LaFollette (1990, p. 139).

<sup>9</sup> The rent seeking endemic in planned communist systems is described in Hillman and Schnytzer (1986) and Levin and Satarov (2000). Anderson and Boettke (1997) have described rent seeking under communism as 'venal'. See also Hillman (2009, section 2.3) on 'life without markets and private property'.



Gordon Tullock's 1967 paper did not use the terminology 'rent seeking'. The name is due to Anne Krueger (*AER* 1974) some years later. Naming is not the same as creating. An idea, as with a baby, can be named by anybody. Creation involves more. Krueger, like Leibenstein, was given the forum of the *AER*. Anne Krueger did not criticize or show disrespect (as Tullock did) for people in government in the U.S. She reported significant social losses through rent seeking, in particular associated with import-quota rents, in India and Turkey. Her primary research field was development economics. She did not return to the literature on the concept to which she gave a name. Of her many publications, none were in the journal *Public Choice* that Gordon Tullock had founded. She had not cited Tullock (1967) paper in her 1974 paper. In her Bernhard-Harms Prize lecture at the Kiel Institute, with the title 'Economists' changing perceptions of government' (Krueger 1990), she observed that economists no longer viewed governments as necessarily benevolent and (still) did not mention Tullock. As an applied development economist, Anne Krueger devoted a considerable part of her career to the quest to guide governments to beneficial outcomes for their people, which she could do from high positions in the World Bank and the International Monetary Fund. She could hardly have begun her many consultative meetings with representatives of governments with the words 'although I know you are all thoroughly rent seekers who create and dispense rents and pursue your personal wealth-maximizing objectives through self-serving autocratic regimes, here nonetheless are our recommendations for how your leaders, by acting benevolently, can help your people achieve development.'

In 1980 Tullock published 'efficient rent seeking', the first paper on rent-seeking contests.<sup>10</sup> Journal publication had been denied and the paper appeared in the volume *Toward a Theory of the Rent-seeking Society* that was to be instrumental in publicizing the rent-seeking idea. When Tullock perceived problems with

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<sup>10</sup> Tullock's contest success function, now known as the "Tullock" function, proposed that rent seekers could be viewed as purchasing lottery tickets in a contest. Tullock's function has been shown to have desirable axiomatic properties: see Skaperdas (1996).

equilibria in rent-seeking games, he described attempts that he regarded as unsuccessful in establishing equilibria as bringing the theory 'back to the bog' (Tullock 1985) or as leaving theory 'in the swamp' (Tullock 1987). This was with reference to an academic debate.<sup>11</sup> 'Rent seeking' introduced a different type of swamp for ideological opponents, who at the beginning could block or shunt Tullock aside, as editor Gurley had done in his evaluation that the idea of resources used in political persuasion was 'not significant'.

When the claim that 'people are people' was no longer heresy – there was a correlation in timing with the fall of communism around 1990 – a school of thought emerged that labeled itself the 'new' political economy. The 'new' political economy evoked debate that could be quite emotional. There were claims as by Blankart and Koester (2006), who took upon themselves to represent the public-choice school, that the 'new' political economy was not at all 'new' but began from the premises of the public-choice school and replicated public-choice conclusions without giving due recognition to the prior contributions of public-choice scholars. The claims were controversial and sensitive in implying that either the authors of the 'new' political economy literature had behaved unprofessionally in not bothering to read the prior public-choice literature, or the prior public-choice literature was being deliberately ignored to make unjustified claims of novelty for personal advantage. Persson, Tabellini, and Allesina (2006), who were prominent among the contributors to the 'new' political economy, replied that members of

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<sup>11</sup> In reply to the equilibrium mixed-strategy equilibrium when the highest bid wins the contest (Hillman and Samet 1987a), Tullock (1987) proposed that the theory had moved to another part of the 'swamp' (renamed from 'bog' in Tullock 1985) because he would not play the equilibrium mixed-strategy and would consequently on average win – which was true, in which case however the other participants would not play the mixed strategy and there would be no Nash equilibrium. Tullock proposed two reasons for disrupting the Hillman-Samet equilibrium: 'I could for example just dislike Hillman and Samet. Or I could feel that I am going to damage them enough so they will be ineffective in the future' (Tullock 1989, p. 69). In principle, of course, the disruption of the mixed-strategy equilibrium by playing a pure strategy is independent of Tullock's personal likes and dislikes. Tullock's reasons for disrupting the mixed-strategy equilibrium were not taken personally. For the reply to Tullock, see Hillman and Samet (1987b).

the public-choice school were protecting their identity as a group that had staked out a field of research for which they wanted special recognition and into which they did not want others to intrude.<sup>12</sup>

Although 'rent seeking' was part of the theme of the debate regarding the originality and motives of the 'new' political economy, Tullock refrained from claims such as those made by Blankart and Koester (2006). The idea of 'rent seeking' had begun to sneak into the mainstream parlance, even though Gordon Tullock could be left unmentioned. In some cases, new names were given to phenomena similar to 'rent seeking', for example 'misallocation of talent'.

### **3. Rent seeking: Tullock's contribution**

Tullock's title of his paper 'the social costs of monopoly, tariffs, and theft' illustrates different aspects of rent seeking. Monopoly profits are rents that, if contested, increase the social cost of monopoly beyond the Harberger deadweight losses. Protectionist tariffs create rents through trade policy.<sup>13</sup> Theft demonstrates the general theme of social loss through rent seeking. Thieves are rent seekers who use time and resources wastefully in attempts to redistribute income to themselves, with a successful thief achieving a favorable income transfer. There may be no merit in the redistributive activities of the thieves or of other rent

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<sup>12</sup> The reply by Persson, Tabellini, and Allesina (2006) includes: "we don't really understand what specific ideas our critics oppose. Nor do we understand the issues that they raise, other than the alleged omission of adequate credit to some predecessors of our own work. To us, political economics is a branch of economics defined by the problems it studies, namely government behavior and the interaction between economics and politics. We look forward to learning from other economists, political scientists, or social scientists from other fields that work on these exciting problems, even if they pretend to belong to a special sect or elite (2006, p. 207)."

<sup>13</sup> See Hillman (1982, 1989), Cassing and Hillman (1986), Hillman and Ursprung (1988), and Grossman and Helpman (1994) on politically motivated international trade policy. As in other fields, the mainstream of models of international trade policy for some time described policy as determined by social-welfare maximizing governments rather than self-interested political decision makers. For a comparison of the two types of models, see Hillman (2015b).

seekers The idea of rent seeking focuses, however, not on the merits of redistribution in any instance but on the compromise of efficiency because of incentives to use resources unproductively to influence distribution.<sup>14</sup>

While mainstream academic economics focused on the social welfare function that governments might beneficially choose to justify compelled redistribution of income – Rawls or Bentham, or some social welfare function in between – Gordon Tullock was proposing that income redistribution is the outcome of contests determined by what some people are able to take from others through the political system. In such ‘transfer’ contests, the rent may be exogenously present to be contested but often is determined by the ability of people to defend their income or wealth. The ‘transfer’ contests introduce ‘rent-defending behavior’. Social losses then include resources used by people in resisting rent seekers (Tullock (1971b; see also Appelbaum and Katz 1986). There are also the questions about how rents come to be created. A complete theory of self-interested political behavior and privileged benefit emerges when rent seeking is extended to political rent creation (Hillman 2015a). Here we find the role of political decision makers as creators of rents through public policy. Tullock’s theory of rent seeking was also the foundation for theories of design of rent-seeking contests for political advantage.<sup>15</sup>

Our objective is not to review the extensive literature that has its origins in Gordon Tullock’s recognition of the social costs of rent seeking.<sup>16</sup> We rather address the existential questions raised by Tullock: if the idea of rent seeking is

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<sup>14</sup> The social loss occurs ex-ante before the successful thief or rent seeker is determined. Because we do not usually observe the outlays of thieves or other rent seekers, contest theory is useful in predicting the extent of social loss through rational behavior in contests (Konrad 2009) – or irrational behavior (Shermeta 2015).

<sup>15</sup> See Appelbaum and Katz (1987) and Gradstein and Konrad (1999) on contests that benefit the contest designers. Epstein and Nitzan (2015) review the literature.

<sup>16</sup> For surveys and summaries of the rent seeking literature, see the summary in the Congleton et al (2008) volumes, the treatise on the theory of contests by Kai Konrad (2009), the general model of rent seeking of Ngo Van Long (2013), and the survey in Hillman (2013).

important, why is more rent-seeking activity not observed and why are rent-seeking losses not greater? Tullock puzzled over these questions. Without an adequate answer, rent seeking lacks empirical significance.

#### **4. The scope of rent-seeking losses**

##### *4.1 Ego rents*

In a quest to find rents and rent seeking, a first observation is that rents need not be money. There can be political competition over 'ego-rents' (Rogoff 1990), which refers to the utility that incumbent politicians and government officials have from status and power over common people. 'Ego-rents' can be the dominant reward sought in political rent-seeking contests in high-income rule-of-law countries. Competition for ego rents can result in high rent-seeking losses through political spending. It is paradoxical that the classical left emphasized the good nature of people who would contribute to society without regard for material reward and insisted on the social responsibility of government when, as Hayek (1944/1972) observed, under communism, the ruler who had won the internal communist rent-seeking contest could be predicted to be an ego-driven megalomaniac who was attracted to the contest for leadership by the complete control over resources and people's lives when markets and private property are absent. Ego-rents for politicians are present when political control is less encompassing. Studies have shown narcissist tendencies in U.S. presidents (Watts et al. 2013)

##### *4.2 Inefficient hidden redistribution*

The early studies of rent seeking drawing empirical implications simply assumed complete rent dissipation, implying social losses equal to the value of contested rents (see however Hillman and Katz 1984). Very early on, at least since 1972, Tullock had however realized that resources used in rent seeking were by an order of magnitude smaller than the value of contestable rents. The significance that Tullock attributed to this puzzle was apparent in his 1989 monograph *The*

*Economics of Special Privilege and Rent Seeking* in which he devoted the entire first half of the book to possible explanations. Tullock's favored 1989 explanation was that in democracies efficient cash transfers are politically infeasible and so transfers or rents need to be disguised and delivered in devious and therefore costly ways that are hidden from voters and taxpayers.

Taking an example from Tullock (1989), rather than directly giving money to bus drivers, unprofitable routes are maintained that allow bus drivers to receive additional income, with no benefit to society and with additional costs of buses driving around near empty. The bus drivers receive a rent  $R$  through this indirect means and society incurs a cost of  $C$  (the salaries of the unrequired drivers and other costs of running the empty buses). There are also deadweight losses of taxation.  $C$  could be converted to money to give the bus drivers a rent of  $(R+C)$ . Because of asymmetric information,  $R$  is contested and not  $(R+C)$ .

The values of rents and social losses from rent seeking are therefore low because of the required indirect way of delivering politically assigned benefits. Why do politicians and rent-beneficiaries play this socially costly inefficient game? They presumably do so because of rent extraction: they succeed in using the creation of the rents  $R$  for political support (Peltzman 1976; Hillman 1982; Shughart and Thomas 2015) or personal income (Appelbaum and Katz 1987; Ursprung 1990). If rents of  $(R+C)$  were provided through direct monetary transfers, a visible rent transfer would diminish political support because of media attention and voter awareness. The political process is thus an inefficient redistribution mechanism whose profiteers are the politicians and successful rent seekers. Voters are rationally ignorant (they lack economic literacy or simply do not know what is going on) and pick up the check, through the taxes that pay for  $(R+C)$ , and in addition incur the excess burden of taxation. In the case of protectionist policies,  $R$  is the value of protectionist rents,  $C$  is the deadweight loss

of tariffs and  $(R+C)$  is the rent that could be provided if subsidies to producers were used.<sup>17</sup>

Tullock's view of the inefficiency of political redistribution can be compared with the Panglossian view of Gary Becker (Nobel Prize in economics 1991). Becker (1993 and again 1995) took the precisely contrary position to Tullock on efficiency of political redistribution. Becker proposed – or indeed assumed – that all political redistribution takes place in the most efficient way possible because everyone gains from increased efficiency because there is more to share. Becker's model of political redistribution described two interest groups competing for political influence to receive a transfer of income from government and at the same time seeking to avoid paying taxes to finance the transfer to the other group (a transfer contest). The transfers were subject to deadweight losses, which everyone had an incentive to minimize. Becker's model did not include resources used in rent seeking. The efficiency losses of political redistribution were the Harberger deadweight losses, which were minimized in the equilibrium of the model, given the amount transferred between the two groups. Donald Wittman in his 1989 *JPE* paper "Why democracies produce efficient results" and in his 1995 book *The Myth of Democratic Failure: Why Political Institutions are Efficient* supported Becker's view and declared that voters are informed and rational and hence political income redistribution would not be hidden – and hence would take place in the most efficient way.

We cannot compare Becker and Tullock with regard to the inefficiency of rent seeking because the Becker model does not recognize the existence of rent seeking. The ideas of Tullock and Becker can however be compared with regard to the more general question whether governments necessarily choose efficient redistributive policies. We need to make our own decisions about whether Tullock was correct in emphasizing the inefficiency of government discretion through rent

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<sup>17</sup> The deadweight losses from taxes and subsidies and the losses from rent seeking are not independent. See Kahana and Klunover (2014).

seeking or, as Becker and Wittman proposed, voters are fully informed and fully rational in seeking redistribution from government in the most efficient possible manner - with by assumption no rent-seeking losses. We note the obvious endearment to Becker and Wittman by adherents to a 'beneficial government' ideology and the contrary for Tullock.<sup>18</sup>

#### 4.3 Interest groups and collective benefits

We return to rent seeking to ask Tullock's question why, given the rents that are available and the predictions of models of rent-seeking contests, more rent seeking and corresponding higher social losses are not observed. One explanation is that which we have described, that rent seeking is of necessity covert or surreptitious to keep voters 'rationally ignorant'. Hence inefficient means of income redistribution are used and hence the accountability of democracy limits rent seeking. A quite different explanation, which is also associated with democratic institutions, notes the difference between individual rent seeking for private benefit and group rent seeking for collective benefit. The basic rent-seeking model with origins in Tullock (1980) describes individuals seeking personal or private benefits, which results in predictions of high rent dissipation.<sup>19</sup>

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<sup>18</sup> Caplan (2005) summarizes various public-choice critiques of Wittman and proposes his own criticism, which distinguishes 'sound' from 'valid' arguments. A 'valid' argument is logically correct and a 'sound' argument is in addition based on premises that are empirically true. Wittman's argument may be 'valid' but Caplan proposes that the argument is not 'sound' in being based on the empirically untrue premise that there is no systematic bias in the beliefs of voters. Caplan proposes that 'irrationality' is a good that people 'consume', meaning that people choose to believe what they want to believe to maximize utility (see also Caplan 2007), which is similar to choosing an identity to confirm through utility-maximizing non-decisive expressive voting (Hillman 2010).

<sup>19</sup> In the standard rent seeking model, *individuals* compete for a rent that is a *private* good. For exposition and extensions of the standard model, see Long 2013 [2015]). With  $r$  indicating returns to scale from rent seeking effort or expenditures, with  $n$  contenders, and with a contender  $i$  outlaying  $x_i$ , the contest-success function gives the probability  $p_i$  of contender  $i$  winning the rent as



In his 1989 monograph Tullock dismissed explanations for absence of large rent-seeking losses in mature democracies other than the need for surreptitious indirect political redistribution. In his 1993 Shaftesbury Papers monograph on rent seeking, Tullock's position changes. Comparing the all-is-maximally-efficient-in-political-redistribution view of Becker (1983, 1985) with the approach of Mancur Olson (1965) in *The Logic of Collective Action: Public Goods and the Theory of Groups*, Tullock endorses Olson, who highlighted the difficulties of mobilizing members

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$$p_i(x_1, \dots, x_n) = \frac{x_i^r}{\sum_{j=1}^n x_j^r} \quad (1')$$

With  $V$  denoting the common valuation of the prize in the contest or the rent, the expected utility of individual  $i$  who participates in rent seeking is

$$EU_i = \frac{x_i^r}{\sum_{j=1}^n x_j^r} V - x_i. \quad (2')$$

From (2'), we establish that, in a symmetric Nash equilibrium all contest participants choose the rent-seeking outlay

$$x = \left( \frac{n-1}{n^2} \right) rV. \quad (3')$$

Expected utility in (2') is strictly positive if

$$r < \left( \frac{n}{n-1} \right). \quad (4')$$

From (3'), the total value of resources used in the contest is

$$nx = \left( \frac{n-1}{n^2} \right) rV.$$

When  $r=1$ , the contest-success function is like a lottery and rent dissipation is

$$D \equiv \frac{nx}{V} = \left( \frac{n-1}{n} \right). \quad (5')$$

When  $n = 2$ , rent dissipation in the Nash equilibrium is 50 percent and, as  $n$  increases, rent dissipation increases. For example, with  $n=10$ , 90 percent of the rent is dissipated. This is the basis for Tullock's puzzle of why there are not more rent seekers (higher  $n$ ) and thereby higher social losses through rent dissipation (higher  $D$ ). Tullock's puzzle is reinforced when in (1')  $r \rightarrow \infty$ . The contest is then an all-pay auction (an auction in which bidders lose their bid whether successful or not) with the individual with the highest outlay or bid securing the rent. As shown in Hillman and Samet (1987a), in that case rent dissipation is complete for any number of individuals in the sense that the expected value of total outlays in the contest equals the value of the rent. Again high rent dissipation is predicted. The issue is then the value of  $r$ .

of interest groups into collective action because of free-rider problems. Along with no social costs of rent seeking, the Becker model has no recognition of the internal costs of organization of rent-seeking groups. Considering in some depth what some years before he dismissed as a doubtful argument that ‘almost instantly occurs to the average economist’ (p. 6), Tullock now emphasized that rent seeking is a collective activity subject to free riding. He concluded that this was rather fortunate ‘since this undoubtedly reduces the total amount of rent-seeking activity and mitigates the resource cost to society’ (Tullock 1993, p. 53).

The formal proof of Tullock’s conjecture had been provided in Ursprung (1990). Consider the standard Tullock contest success function with two groups having respectively  $n$  and  $m$  identical members, and with  $p_1$  denoting the first group’s probability of winning and  $x_i$  and  $y_j$  denoting the individual contributions of members of groups 1 and 2. Then:

$$p_1 = \frac{\sum_{i=1}^n x_i}{\sum_{i=1}^n x_i + \sum_{j=1}^m y_j}. \quad (1)$$

It is straightforward (see Ursprung 1990) to show that, in the simplest case of two competing groups and with linear cost functions, in the Nash equilibrium total rent dissipation is

$$D = \sum x_i + \sum y_j = \frac{v_1 v_2}{v_1 + v_2} \quad (2)$$

which is bounded upwards by the average individual contestant’s valuation

$$\frac{nv_1 + mv_2}{m+n}, \quad (3)$$

where  $v_1$  ( $v_2$ ) denotes the common value of the contested group-specific public good to an individual member of group 1 (2).<sup>20</sup>

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<sup>20</sup> Expected utility of a representative member  $i$  of group 1 is

Moreover, with  $p_2$  the probability of success of group 2, total rent-seeking outlays and the groups' respective probabilities of success as given in

$$p_1 = 1 - p_2 = \frac{v_1}{v_1 + v_2} \quad (4)$$

are independent of the number of members of the two groups. When the basic group contest model is amended to acknowledge that groups and not individuals seek political influence, rent dissipation is therefore much more limited than predicted in models in which individuals compete for a private rent.<sup>21</sup>

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$$\frac{\sum x_i}{\sum x_i + \sum x_j} v_1 - x_i \quad (6)$$

and for a representative member  $j$  of group 2 correspondingly

$$\left( \frac{\sum x_j}{\sum x_i + \sum x_j} v_2 - x_j \right). \quad (6'')$$

Assuming symmetry, individual maximization of expected utility yields the two first-order conditions  $myv_1 = (nx + my)^2$  and  $nxv_2 = (nx + my)^2$  that solve for

$$nx = \frac{v_1^2 v_2}{(v_1 + v_2)^2} \quad (7)$$

$$my = \frac{v_1 v_2^2}{(v_1 + v_2)^2} \quad (7'')$$

where  $x$  and  $y$  denote the individual rent-seeking outlays of the members of group 1 and group 2). Total rent-seeking outlays are thus

$$\frac{v_1 v_2}{v_1 + v_2}. \quad (8)$$

The average valuation

$$\frac{nv_1 + mv_2}{n+m} \quad (9)$$

exceeds total rent-seeking outlays because

$$\frac{nv_1 + mv_2}{n+m} - \frac{v_1 v_2}{v_1 + v_2} = \frac{nv_1^2 + mv_2^2}{(m+n)(v_1 + v_2)} > 0. \quad (10')$$

<sup>21</sup> The public good can be, quite generally, an increased likelihood of a favorable policy response for a group, which is an instance of private contributions to a public good that consists of the group's total persuasive effort. Each individual group member views the public-good benefit or rent as the higher likelihood of obtaining his or her personal benefit from the public good  $v_i$  and not as the total value of benefits for the group  $\sum_{k=1}^n v_i$ . As is well known (see for example Hillman, 2009, chapter 3), there is under-contribution in the Nash equilibrium by members of a group contributing to a public good, compared to the efficient cooperative group contribution. In (3), if individual valuations are equal, rent dissipation reduces to a common *individual* valuation  $v$ . If group members were to internalize benefits to others in the group, they would perceive the benefit from the public

In a mature democracy, rent seeking is by groups rather than individuals. The dissatisfaction of voters if rent seeking were visible would also be greater, we can suppose, if a successful rent seeker were an individual rather than a group.

If in modern democracies politicians are inhibited from dispensing personal benefits and a legally binding or informal “norm” stipulates that only groups of persons or legal entities with a common interest can aspire to seeking politically assignable rents, then the theoretical result of miniscule rent-seeking outlays applies when formal intra-group organization does not overcome free-riding behavior of the group’s members. If internal group organization is not effective, we have an answer to Tullock’s question why more rent seeking is not observed.<sup>22</sup>

#### *4.4 Congestible public goods*

To be sure, if the group-specific public good is congestible, an increase in the size of the group diminishes the value of the contested prize for each member of a group and thereby through the effect on individual contributions decreases the group’s probability of success. Larger groups are then less effective at rent seeking, which is consistent with Olson’s result that free riding is a greater inhibition on collective action for larger groups, but for a different reason.

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good (the rent) as *nv*. Mutual internalization by all group members would result in the efficient outcome.

<sup>22</sup> It is commonly assumed in the theoretical models that the group internal organization (or free-rider) problem has been spontaneously solved. This is so when rent seeking is not explicitly mentioned. For example, in the paper ‘Protection for sale’ by Grossman and Helpman (1995), the industries that benefit from protection are assumed to be organized and able to overcome their internal free-rider problems whereas consumers who lose from protection are unorganized. In Hillman and Ursprung (1988) we viewed the domestic industry that was seeking protection as consisting of firms that make Nash contributions to political candidates who favor the industry’s sought policy. The industry was “unorganized” with the usual free riding that arises with Nash behavior.

#### 4.5 Rent seeking with shared private benefits

It is at least in principle possible for group organization schemes to provide incentives that redirect intra-group free-riding to more cooperative behavior (see Konrad 2009 chapter 6). Whether interest groups manage to organize themselves in ways that allow them to be more internally effective in influencing political processes depends on the character of the contested rent. If the rent is a perfect group-specific public good as considered above, incentives deriving from intra-group distribution of benefits are not an issue. If however distribution of the rent is feasible (Long and Vousden 1987), the individual proceeds  $\pi_i$  from the successfully contested rent  $R$  can be conditioned on the individual rent-seeking contribution  $x_i$  of  $n$  group members; for example, according to the sharing rule proposed by Nitzan (1991) and thoroughly re-investigated by Davis and Reilly (1999):

$$\pi_i = \left( a \frac{1}{n} + (1 - a) \frac{x_i}{\sum x_j} \right) R.$$

This rule specifies a convex combination of uniform and contribution-contingent distribution ( $0 < a \leq 1$ ). Fundamental contest mechanisms suggest that appropriately incentivizing the group members by this sharing rule will crowd out cooperation in formal group organization regimes (Ursprung 2012). Assuming that the design (as portrayed by the parameter  $a$ ) of the rent-distribution scheme needs to be discovered in an evolutionary trial-and-error process, the crowding-out of cooperation is however likely to take a long time. If side-payments to incentivize behavior within the group are not feasible, we are back to ineffective groups with relatively small total rent-seeking outlays.

#### 4.6 Coalitions with different valuations of benefits

Under-dissipation is also indicated when rent-seeking groups consist of coalitions with different interests. For example, environmentalists and protectionist interests may seek the same trade policy but have different valuations of the benefits from a proposed policy (see Hillman and Ursprung 1992). In the Nash equilibrium, only

the group with the higher stake contributes to lobbying and the other free rides. The marked 'under-dissipation' is in this case not a consequence of the average valuation of the group members; it is rather determined by the highest valuation in each group. The result that only the members of the group with the highest valuation are politically active is robust with respect to the specification of the contest success function; it is however an artefact of assuming linear cost. Convex cost functions are well compatible with interior solutions in which all group members contribute. Moreover, given convex costs, total rent-seeking outlays may vary positively with group size, indicating that the Olson presumption does not immediately follow from the fundamentals of contest theory (see Konrad 2009, section 5.5) and needs to be grounded on empirical evidence.

## **5. Institutions and rent seeking**

In democracies, rent seeking can take the form of seeking influence over public-policy decisions such as regarding the environment, the incidence of taxation, budgetary allocation, the minimum wage, and international trade policies.<sup>23</sup> In applying the rent-seeking idea, Tullock was principally concerned with the democracy of the United States, where rent seeking is usually within the bounds of legal political discretion and corruption is not in general involved – although Tullock noted historical evidence (Tullock 1991) that economic freedom in the U.S. was 'accidental' and due to the constitutional limitations on protectionist policies and rent creation by state governments. Mueller (2015) has compared rent seeking in the democracies of the United States and the European Union and proposes that rents are in general greater in the United States than in Europe because of differences in tolerance for inequality. He observes, however, that the United

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<sup>23</sup> See for example Shogren & Crocker (1991), Hillman & Ursprung (1992), Park, Philippopoulos & Vassilatos (2005) and Hillman (2015b).

States offers greater opportunities for *profit seeking* rather than rent seeking. The lack of opportunities for profit seeking in Europe incentivizes rent seeking.

The explanations that we have considered for low values of resources used in rent seeking – the need to be indirect or surreptitious and group rent seeking – are associated with democracy. Yet, even in a democracy with the rule of law present, rent seeking can be endemic when there is a welfare state and the majority of the population has become a net beneficiary of public spending. The rule of law can then become the rule of the rent-seeking majority. Paldam (2015) for example describes successful rent seeking by the majority ‘welfare coalition’ in Denmark.

A culture of privilege in a democracy can also underlie endemic rent seeking. Rent seeking in India was a focus of Anne Krueger’s attention (1975). Mohammad and Whalley (1984) and Marjit and Mukherjee (2015) have described the extensive rent seeking in the democracy of India.

In democracies, just as rent seeking is usually by groups, rent seeking usually requires persuasion of a group of politicians or officials. In an autocracy, to obtain privileged benefit, it may be sufficient to convince one person, the ruler. Rent seeking in autocracy can also be individualistic as assumed in the generic rent-seeking model, with individuals seeking to secure benefits that are decided on by another individual. Mbaku and Kimenji (2015) describe individualistic rent seeking in autocratic states of Africa, where social norms do not constrain personal cash transfers to people in government positions and there need be neither guilt nor shame about rent-seeking participation and success.

Endemic rent seeking persisted in the transition from communism through contests for claims for the property and natural resources that had belonged to the state (Gelb et al 1998; Hillman and Ursprung 2000). In some cases, the state has engaged in rent seeking, to reclaim the assets that the state had lost (on rent seeking by the state in Russia, see Levin and Satarov 2015). Chen Kang and Liu Qijung (2015) describe the forms taken by rent seeking in China before and after economic liberalization.

## 6. Aesthetics of exposition

Rent seeking appears therefore a significant or important idea when judged by real-world relevance. Let us return to the judgment by *AER* editor John Gurley that the rent-seeking idea was 'insignificant'. When Tullock puzzled over why 'X-efficiency' was judged as important but not so 'rent seeking', he could not seem to accept that the criterion used by Gurley had been 'significance' but blamed himself through his simplicity of exposition for his rejection: 'my 1967 article was simple, low tech and brief' (1993, p. 13). Yet Leibenstein's exposition of his X-efficiency concept was also low tech and brief. As Stigler observed (1976) with regard to X-efficiency, it is surely strange that a vague ill-defined concept somehow associated with an unstated principal-agent problem or utility maximization inclusive of effort and leisure could win publication in the profession's leading journal.

Was Tullock aware of ideological bias and was he too much of a gentleman to protest? Let us venture down the path proposed by Tullock that the problem with 'the social costs of monopoly, tariffs, and theft' was insufficient sophistication in exposition. When presented with interesting ideas or novel insight, there are indeed economists who are want to reply 'so what?' They are communicating that having an interesting idea or a novel insight is in itself of no value because academic merit requires setting out a model with formalization at the level of technicality that is the requisite for 'high-quality' professional papers. With aesthetics and elegance added, citations can be maximized because the model can be tinkered with to provide further publications, perhaps reviewed by the expositors of the original technical model.<sup>24</sup>

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<sup>24</sup> In this regard, it has been argued that the absorption of the ideas of the public choice school by 'new' political economy pertained only to the approach that proceeds from the assumption that homo economicus also populates the political sphere. The 'soul' of the public choice school, the analysis of actually existing or at least conceivable political institutions with a view to minimizing political failure, was not acquired but traded off for playing the kind of intellectual games that can bring economics as a science into disrepute (Ursprung 2002).



Gordon Tullock was well aware of academic incentives (Tullock, 1996, chapter 3):

“if the field is one in which there are vastly more people (as a result of the necessity of staffing teaching posts in each field according to the number of students) than would appear justified by the likelihood of making discoveries of any significance, then there will be more pressure to make false discoveries or to present trivial discoveries as major. This kind of situation is one in which all of the people in the field are apt to be looking primarily for an opportunity to do something which can be made to look like research, and the reputation of journals is consequently likely to be dependent on the aid they give in this endeavor. One symptom of the existence of this condition is the development of very complex methods of treating subjects which can be readily handled by simple methods. Calculus will be used where simple arithmetic would do, and topology will be introduced in place of plane geometry.”

Let us suppose that Tullock was right that his 1967 paper was rejected for being low on the scale of display of technical skills and suppose that a good undergraduate student could have written the 1967 paper. The student would have had to realize that, in the familiar introduction-to-economics monopoly-profit diagram, contesting the profits was a worthwhile investment.<sup>25</sup> There was however no such prior recognition by a student or anyone else. Why did others not have the insight that monopoly profits could be contested, so giving rise to an additional social cost of monopoly beyond the deadweight losses of Harberger triangles? Theoretical models of contests have greatly increased our understanding of rent seeking (Konrad 2009) but first Tullock had to present his

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<sup>25</sup> A more aware student would point out that the contest was for the present value of the profits, discounted by the likelihood that re-contesting may be required. See Aidt and Hillman (2008).

original insight that others staring at the same monopoly-profit diagram had missed over the course of the years.

Gurley did not however criticize Tullock's paper as low-tech. He was quite explicit in stating that rejection was based on 'unimportance'. Perhaps Tullock was being 'nice' in suggesting exposition as the reason for Gurley's rejection decision. Tullock was an avid reader, also on matters concerning China where he worked for the government before becoming an academic economist, and we can conjecture that he knew Gurley's ideological position.

## **7. Concluding remarks**

Rent seeking can be present in a contest for acceptance of ideas. Gordon Tullock had to contend with ideological opposition in such a contest in which he perhaps knew he would be outplayed. He had to start his own journal to be given a voice and to give a voice to those influenced by his ideas. Gordon Tullock in another age may have met the fate of dissenters of being burnt at the stake or beheading, or as with Galileo he may have been offered the opportunity of a public recanting of his heresies. In Tullock's time, when introducing his idea of rent seeking, such drastic punishment was no longer possible. The punishment could be no more than 'shunning'. In business and in the corporate world, esteem can be measured in terms of financial remuneration. In politics, esteem can be measured in electoral popularity. In academic economics, esteem is established through recognition of significant intellectual contributions. Tullock was denied esteem. Even with the advent of the 'new' political economy, there could be no mainstream forgiveness for Tullock. He had been banished to the wilderness and was not recalled, and passed on.

Gordon Tullock was not an "armchair" theorizer. He had had opportunities to observe at first hand the functioning of government about which

he wrote.<sup>26</sup> He did not talk in riddles nor did he seek the cover of ambiguity that can be provided by sophisticated expression. There was no mistaking his intent. He never let go of rent seeking. Rent seeking was never a past thought to be forgotten. Through the idea of rent seeking, he lay the foundation for the revolution in mainstream thought that was to come in the change from studying government to studying people in government.

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<sup>26</sup> See Rowley and Houser (2012).

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