Rent seeking: The idea, the reality, and the ideological resistance

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Abstract

Social loss through the use of resources to influence politically or administratively assigned 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. as measured by Harberger triangles having been found to be inordinately low, Tullock (1967) proposed that true higher social costs included rent-seeking losses. Tullock’s idea of government as the source of social loss met with ideological resistance. Another idea that ‘slack’ in the private sector was the un-included source of social loss met with ideological acceptance. We describe the ideological resistance to ‘rent seeking’. We also consider the reality of ‘rent seeking’. We address the question posed by Tullock (1989, 1993) why rent seeking has not been more visible given the substantial rents ostensibly available. Returning to ideology, we conclude that willingness to acknowledge rent seeking is essential for understanding public policy in applied fields such public, international, and development economics.

Keywords: Rent seeking; indirect transfers; private provision of public goods; interest groups; free-riding incentives; publication criteria; ideological bias

JEL classifications: B3, H1, Z1
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.¹

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’ is manifested in productively contributing to the common good according to personal ability and disregarding disincentives of high taxes and the attractions of rent-seeking opportunities. Gordon Tullock (2000) proposed that ‘people are people’, meaning that people 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.²

¹ On the scope of rent seeking, see Hillman (2013). On rents created through public policy, see Hillman (2009, chapter 2).

² The ideology in which people are by nature good calls for transforming human nature to ‘goodness’ if ‘goodness’ is not already present. ‘Re-education’ has 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 ‘social engineering’ could change the nature of people from self-interested to selfless. On the view taken by ideology of human nature and the consequences for public policy, see Hillman (2009, chapter 10).
'Rent seeking’ challenges the ‘goodness’ human nature but also goes further in undermining the ideological foundations of interventionist ideology. ‘Rent seeking’ proposes that public policies that redistribute income are subject to political response to interest groups. ‘Rent seeking’ thereby contradicts the premise that people in government behave with social responsibility to maximize social welfare through ethically justified redistribution.

We can expect ideological resistance to the theory 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’.3

We pursue two themes related to rent seeking, the ideological reception and 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 the visibility and reception of the paper. We describe how Tullock’s 1967 paper was denied visibility through ideological resistance. The reality of rent seeking leads us into the question raised by Tullock as to why rent seeking is not more visible. Gordon Tullock could have trumpeted his idea of social costs of contestability of rents but opened for discussion the question why rent seeking was not more empirically prominent.

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. His language of exposition differed from the precision of the 20th century post-world-war-II founding fathers of modern economics such as Paul Samuelson and Kenneth Arrow but his ideas were no less enlightening. The scope of his ideas is revealed in the ten volumes of his contributions compiled and edited by Charles

3 ‘Rent seeking’ is politically incorrect (Hillman 1998).
Tullock had much in common with Milton Friedman in casting 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. 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 apologetic explanation that he did not really mean what he said. Consider for example his observation (Tullock 1971a) that ‘liberals’ (those on the left in the U.S.) vote for generous income transfers to the poor, 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 another level, he was giving an example of identity-confirming expressive behavior by people who knew that their individual votes were non-decisive. Nonetheless Tullock surely knew that, through his paper, which he titled ‘the charity of the uncharitable’, he was not endearing himself to the intellectual ‘progressive’ mainstream, even if – or especially if – his claims were correct. He chose not to silence himself to seek appeasement with adherents to an ideology with which he did not agree. 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 when measured by Harberger deadweight losses. Harberger (1954) had found a

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4 See also Rowley (2012).
5 On the extensive literature on expressive voting, see Brennan and Brooks (2013).
social cost of monopoly for the U.S. in 1929 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 (see Leibenstein (1966, p. 393). Tullock’s proposal of additional social losses through unproductive activity in contesting 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. 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).6

John Gurley, the then-editor of the AER, accepted private-sector ‘X-efficiency’ for publication but not resources used to influence political assignment of rents. In his rejection letter to Tullock, Gurley declared ‘rent seeking’ not to be an important idea. He informed Tullock that publication of his paper was not

6 Leibenstein (1967) primarily relied on data from International Labor Organization productivity missions (table 2, p. 400) as indicating discretionary effort. The data were from low-income Asian countries and Israel.
warranted because the idea of ‘real resources devoted to establishing, promoting, destroying etc. monopoly .. does not seem significant enough’.7

John Gurley was a Stanford economist sympathetic to Maoist political and economist 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). In a compendium of western economists who had expressed admiration for the communist model, we find Gurley in the immediate company of Galbraith:

"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

7 The SEJ editor did not quite understand what was going on and in his rejection letter simply 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”.

Gordon Tullock’s paper drawing attention to social losses from political and administrative discretion to assign rents was thus judged by an editor who saw the role model for the future in Maoist China. 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 that 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 women, when in government or acting on behalf of the Party, did not create rent-seeking opportunities. Tullock’s description of people responding to rent-seeking incentives that originated in political and administrative discretion of government was an ideological affront to a Maoist sympathizer. 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 – that was in general required in a communist system to push people to transform themselves into the new selfless economic man or woman.

As a researcher of communism, Gurley could be regarded as disingenuous (or in denial) in regarding social loss through contestability of rents as ‘unimportant’. With markets absent and some people making decisions within a hierarchy of authority about the well-being of other people, planned communism provided precisely the maximal incentives for personal benefit through influence on other people’s decisions.

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8 Roberts and LaFollette (1990, p. 139).

9 On the endemic rent seeking in planned communist systems, see Hillman and Schnytzer (1986) and Levin and Satarov (2000). Anderson and Boettke (1997) have described the
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 associated with import-quota rents in India and Turkey. Her primary interest was in development economics, for which showed that rents and rent seeking prominently matter. She did not return to the literature on the concept to which she gave a name. Perhaps she realized into where she had inadvertently stumbled and who her bedfellows would be if she remained in the field of ‘rent seeking’. Of her many publications, none were in the journal Public Choice that Gordon Tullock had founded. Nor had she cited Tullock’s 1967 paper. In her Bernhard-Harms Prize lecture at the Kiel Institute, ‘Economists’ changing perceptions of government’ (Krueger 1990), she observed that economists no longer view 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.’

endemic rent seeking under communism as ‘venal’. See also Hillman (2009, section 2.3) on ‘life without markets and private property’.
In 1980 Tullock published ‘efficient rent seeking’, the first paper on rent-seeking contests. 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 setting the rent-seeking research program on its course. When Tullock perceived problems with 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. ‘Rent seeking’ introduced a larger different type of bog or swamp for Tullock’s ideological opponents, who at the beginning could block Tullock, as editor Gurley had done in his cursory evaluation that the idea of resources used in political persuasion was ‘unimportant’. Or Tullock could be ignored. 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 quite emotional debate. 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

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10 Tullock’s contest success function, now known as the “Tullock” function, proposed that rent seekers be viewed as purchasing lottery tickets in a contest. The theory of rent seeking introduced by Tullock transcends any particular contest-success function. Tullock’s function has been shown to have desirable axiomatic properties: see Skaperdas (1996).

11 In reply to the 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 1987 Tullock did not yet know Hillman personally and he was never to meet Samet (both authors were from Bar-Ilan University in Israel although Hillman was on leave at UCLA between 1985 and 1987 and Samet moved to Tel-Aviv University). 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 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), prominent among the contributors to the ‘new’ political economy, replied members of the public-choice school as seeking to retain a separate identity as a group that had staked out a line of research into which they did not want others to intrude.12

Tullock refrained from claims such as those made by Blankart and Koester (2006) although ‘rent seeking’ was part of the theme of the debate regarding the originality and motives of the ‘new’ political economy. The terminology ‘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’. Tullock also confronted the problem that, although that he had recognized the social loss through rent contestability in “the social cost of monopoly, tariffs, and theft”, he did not use the name ‘rent seeking’. There could be attributions to Anne Krueger (1974) who had invented the name.

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12 A 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).”
3. Rent seeking: Tullock’s contribution

Tullock’s ‘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 triangles. Protectionist tariffs create rents through trade policy. The case of theft is illustrative of the general theme of social loss through rent seeking. Rent seeking involves a transfer of income to successful rent seekers, as to successful thieves. The concept of rent seeking focuses however not on the merits of the redistribution but on the compromise of efficiency through incentives to use resources unproductively. While mainstream of academic economics was 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 or prize may be exogenously present to be contested but often is determined by how people can defend their income or wealth. The ‘transfer’ contests introduce ‘rent-defending behavior’. Social losses then include resources used in defending incomes and wealth (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

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13 See Hillman (1982, 1989) and Hillman and Ursprung (1988) on politically motivated international trade policy. Grossman and Helpman (1994) describe the case in which a politically decision maker offers “protection for sale”. As in other fields, the mainstream of models of international trade policy for some time stressed social-welfare government rather than political self-interest and the political creation and assignment of rents. On the models of international trade policy with and without rents, see Hillman (2015b).

14 Thieves compete by investing resources and time to steal your money. Only one thief is eventually successful. Before the successful thief is known, the thieves will have unproductively used resources in positioning themselves to succeed in theft. The social loss occurs ex-ante before the actual theft takes place and is measured by the amount of the rent dissipated through the rent-seeking investments of the thieves. Because we do not usually observe the rent-seeking investments of the thieves, contest theory (Konrad 2009) is useful in predicting how in predicting the extent of social loss through rational behavior in contests – or irrational behavior (Shermeta 2015).
benefit emerges when rent seeking is extended to political rent creation (Hillman 2015a). Here we find the role of political decision makers, who can create 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.\textsuperscript{15}

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.\textsuperscript{16} There is rather an existential problem raised by Tullock that we need to address. If rent seeking is important, where is the rent-seeking activity and where are the rent-seeking losses? Tullock puzzled over this question. Without an adequate answer to this question, rent seeking lacks empirical significance.

4. The scope of rent-seeking losses

4.1 Ego rents

If we are looking for 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 greatly paradoxical that the classical left insisted on the good nature of people (who would contribute to society without regard for material reward) and the social responsibility of government when, as Hayek (1944/1972) observed, under communism, the ruler who had won the internal


\textsuperscript{16} Surveys and summaries of rent seeking are readily available. See for example 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).
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 all people’s lives when markets and private property are absent. Ego-rents for politicians are, of course, 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 indeed costs because the buses drive 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 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, political support would be diminished by media attention and increased voter awareness because of the overt rent transfer. The political process is thus an inefficient redistribution machine 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.17

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. Becker proposed – or indeed assumed – that all political redistribution takes place in the most efficient way possible because everyone gains from increased efficiency, which results in 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 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 solely 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

17 The deadweight losses from taxes and subsidies and the losses from rent seeking are not independent. See Kahana and Klunover (2014).
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 can make our own decisions about whether Tullock was correct in proposing social costs of rent seeking or, as Becker and Wittman proposed, voters are fully informed and are fully rational in seeking from government redistribution in the most efficient possible way – with by assumption with no rent-seeking losses. We note the obvious endearment to Becker and Wittman by adherents to a ‘beneficial government’ ideology.¹⁸

### 4.3 Interest groups and collective benefits

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 general issue between Tullock and Becker is whether efficient policies are chosen.

We now return to the inefficiency of rent seeking contests to ask Tullock’s question why, given the rents that are available, more rent seeking is not observed. One explanation is that which we have described, that rent seeking is of necessity covert or surreptitious to keep voters ‘rationally ignorant’, and this why inefficient means of income transfer are used. Another quite different explanation also associated with democratic institutions is that in democracies rent seeking in general takes place by groups in quest of collective benefits.

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¹⁸ Caplan (2005) summarizes the 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 it is not sound, because of the untrue empirical 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).
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 to explaining the role of interest groups (Becker 1983 and 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 of interest groups into collective action. 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 that is subject to free-riding behavior of group members and he concluded that this is 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). There had also been discussion between Tullock and Ursprung at the conference at Bar-Ilan University that resulted in the volume *Markets and Politicians: Politicized Economic Choice* (Hillman 1991). 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:

\[
p_1 = \frac{\sum_{i=1}^{n} x_i}{\sum_{i=1}^{n} x_i + \sum_{j=1}^{m} y_j}.
\]

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

\[
D = \sum x_i + \sum y_j = \frac{v_1 v_2}{v_1 + v_2},
\]
which is bounded upwards by the average individual contestant’s stake
\[
\frac{nv_1 + mv_2}{m + n},
\]
where \(v_1\) (\(v_2\)) denotes the common value of the contested group-specific public good to an individual member of group 1 (2). Moreover, total rent-seeking outlays and the groups’ respective probabilities of success as given in
\[
p_1 = 1 - p_2 = \frac{v_1}{v_1 + v_2},
\]
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 much more limited than predicted in models in which individuals compete for a private rent.

In a mature democracy, it is natural to consider rent seeking as being by groups. The dissatisfaction of voters if rent seeking were visible and known would also be greater, we can suppose, if a successful rent seeker were an individual rather than a group.

If it is true that 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 contestable 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 are left with Tullock’s caveat that casts doubt on small amounts of rent-seeking money being able to generate large politically-provided benefits (Tullock 1989, p. 6).\(^{19}\)

\(^{19}\) A common assumption in the theoretical models is that the group internal organization problem has been solved. This is so when rent seeking is not explicitly mentioned. For example, in Grossman and Helpman (1995), the industry that would benefit from protection is organized to overcome all free-rider problems but consumers who would lose
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 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.

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, 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

from protection are unorganized. In Hillman and Ursprung (1988) we viewed the domestic industry seeking protection as consisting of firms that make Nash political contributions. The industry was organized in the sense of Nash behavior, which is more generally a form of internal group behavior in an Olson context.
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.\(^{20}\)

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 (as in 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 stake of the group members; it is rather determined by the highest stake in each group. The result that only the members of the group with the highest stake 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.

\(^{20}\) An increasing the probability of an industry benefiting from protection through private contributions of firms is a case of private provision of a public good where the benefits from protection are private in the form of a share of the protectionist rents. On contests with shared rents, see Long and Vousden (1987).
5. Institutions and rent seeking

Tullock was principally concerned with the United States where rent seeking is usually within the bounds of legal political discretion and corruption is not in general involved.\(^{21}\) In democracies such as the U.S., rent seeking appears involved in various public-policy decisions, such as policy responsiveness to environmental externalities, the incidence of taxation, budgetary allocation, and international trade policies.\(^{22}\) The two principal explanations 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) describes successful rent seeking by the majority ‘welfare coalition’ in Denmark. Without a welfare state, a culture of privilege in a democracy can also sustain endemic rent seeking. See Mohammad and Whalley (1984) and Marjit and Mukherjee (2015) on rent seeking in 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 it may be sufficient to convince one person, the ruler. Rent seeking can then 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) have described such individualistic endemic rent seeking in autocratic states of Africa, where social norms do not constrain personal cash

\(^{21}\) Although ‘people are people’, there is substantial economic freedom in the United States. Tullock regarded the economic freedom as ‘accidental’ and due to the constitutional limitations on rent creation by state governments (Tullock 1991). Mueller (2015) compares rent seeking in the United States and Europe. He proposes that rents are in general greater in the United States than in Europe because of differences in tolerance for inequality, and that the United States offers greater opportunities for profit seeking, the absence of which in Europe incentivizes rent seeking.

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), leading the state in some cases to engage in rent seeking to reclaim what 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 after economic liberalization.

6. Aesthetics of exposition

Let us return to the judgment by AER editor John Gurley that the rent-seeking idea was ‘insignificant’. Tullock puzzled over why ‘X-efficiency’ was ostensibly important but not so ‘rent seeking’. He could not accept that the criterion used by Gurley had been ‘importance’ and blamed 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 hardly ‘high tech’. As Stigler observed (1976), 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 he was a victim of insufficient sophistication in exposition. When presented with interesting ideas or novel insight, there are 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, also 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.\textsuperscript{23} Gordon Tullock was well aware of the 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.\textsuperscript{24} There was however no such prior recognition by a student nor anyone else. Why did others not have the insight that monopoly profits could be contested, so giving rise to an

\textsuperscript{23} 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 have brought much of economics as a science into disrepute (Ursprung 2002).

\textsuperscript{24} 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).
additional social cost of monopoly beyond the deadweight losses of Harberger triangles? Theoretical models of contests have greatly increased our understanding of rent seeking but first Tullock had to present his original insight that others staring at the same monopoly-profit diagram had missed over the course of the years.

Gurley did not 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

In business and in the corporate world, esteem can be measured in financial remuneration. In politics, esteem can be measured in electoral popularity and success. In academic economics, esteem derives from the outcome of competition for 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, such drastic punishment was no longer possible. The punishment of ‘shunning’ was however possible. 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.

Gordon Tullock was not an “armchair” theorizer. He had opportunities to observe at first hand the functioning of government about which he wrote and he had observed the incentives.25 He did not talk in riddles nor did he seek the cover of ambiguity that can be provided by sophisticated expression. There was no

25 See Rowley and Houser (2012).
mistaking his intent. He never let go of rent seeking. Rent seeking was never a past thought to be forgotten. Through the concept of rent seeking, combined with political rent creation and rent extraction, he lay the foundation for theoretical and applied developments not surpassed in influence in economics. Rent seeking can be present in contest in which the gains are psychic utility of promoting or downplaying ideas. Tullock had to contend with ideological opposition in a contest in which he 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. Economics as a science of enquiry has reason to be grateful to him for his ideas.

References


