

Gordon Tullock: Insights on Rent Seeking and Public Policy<sup>1</sup>  
by  
James C. Miller III<sup>2</sup>

It's common knowledge that Gordon had a biting wit and insulted those he respected. Alex Tabarrok once said, "You have to understand ... that in my profession not to have been insulted by Gordon is to be a nobody."<sup>3</sup> Alex of course, was the victim of one of the greatest Tullock put-downs of all time: when he asked Gordon, "Do you think we should ban child labor?," Tullock responded: "No, keep working."<sup>4</sup> Like most of you, I count it a blessing to have been insulted by Gordon a number of times.

Zachery Gochenour notes another of Gordon's traits: his generosity.<sup>5</sup> As the recipient of Gordon's trove of the Journal of Law and Economics – which I have since contributed to the Buchanan House, and on which I took no tax deduction! – I can attest to Gordon's generosity with his possessions as well as his time.

Gordon's interests were very broad, as exhibited by the breadth of topics addressed in this conference. He contributed to each, but is known for one thing above all others. I won't say it aloud -- just think of it.

Here's a recent quote from our President, condemning those who, in his mind, thwart government policies to promote "clean energy": "That's not the American way. That's not progress. That's not innovation. That's rent seeking..."<sup>6</sup> So, If you can get a president agitated about the application of an idea with which your name is associated, you've accomplished a lot.

I'd like to talk a little more about rent seeking.

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<sup>1</sup> After-dinner remarks at a conference on the scholarship and impact of Gordon Tullock; sponsored by the Department of Economics at George Mason University; Arlington, Virginia; October 2, 2015.

<sup>2</sup> Distinguished Fellow, Center for Study of Public Choice (George Mason University); Fellow, Hoover Institution (Stanford University); and Senior Advisor, Husch Blackwell, LLP.

<sup>3</sup> [http://marginalrevolution.com/marginalrevolution/2006/08/insults\\_from\\_go.html](http://marginalrevolution.com/marginalrevolution/2006/08/insults_from_go.html).

<sup>4</sup> Ibid.

<sup>5</sup> Zachary Gochenour, "Gordon Tullock, 1922-2014," Regulation, Summer 2015, 16-19.

<sup>6</sup> <http://www.politico.com/story/2015/Charles-koch-blasts-obama-121746.html>.

In his seminal “Welfare Costs of Tariffs, Monopolies, and Theft,” Gordon observed:

“Entrepreneurs should be willing to invest resources in attempts to form a monopoly until the marginal cost equals the properly discounted return (footnote omitted). The potential customers would also be interested in preventing the transfer and should be willing to make large investments to that end. Once the monopoly is formed, continual efforts to either break the monopoly or muscle into it would be predictable. Here again considerable resources might be invested. The holders of the monopoly, on the other hand, would be willing to put quite sizable sums into the defense of their power to receive these transfers.”<sup>7</sup>

That, I submit, is what “Washington” is all about: getting rents and protecting rents. Lobbyists get the rents; lawyers protect them. Sometimes the same person serves as both lobbyist and lawyer.

If rent seeking were limited to monopolies or even monopolistic industries, the resource waste would be much more limited. However, rent seeking is practiced by competitive as well as monopolistic firms.

Why would competitive firms seek rents? Everyone knows competitive firms don’t earn rents – right? It’s the difference between static and dynamic views of market processes. Anything government does to increase demand in a competitive industry creates rents, at least for a time. Anything government does to reduce costs in a competitive industry creates rents, at least for a time. Indeed, it’s the existence of rents that lead to adjustments in output that, in turn, eliminate the rents.

Consider any compendium of trade associations and others representing business interests in Washington. For example, consider OpenSecrets’ database on lobbying. The 20 top spenders on lobby activity, by industry, firm, or organization, are as follows: U.S. Chamber of Commerce, American Medical Association, National Association of Realtors, General Electric, American Hospital Association, Pharmaceutical Research and Manufacturers of America, Blue Cross / Blue Shield, American Association of Retired Persons, Northrop Grumman, Boeing Company, Business Roundtable, Exxon Mobil, Lockheed Martin, Verizon Communications, Edison Electric Institute, AT&T, National Cable and Telecommunications Association, Southern Company, National Association of Broadcasters, and Altria Group.<sup>8</sup>

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<sup>7</sup> Gordon Tullock, “The Welfare Costs of Tariffs, Monopolies, and Theft,” Western Economic Journal, 1967, 131.

<sup>8</sup> <https://www.opensecrets.org/lobby/top.php?indexType=s&showYear=a>. Data is for 1998 through 2015.

Please note the following. First, the vast majority of these are in competitive markets, and I'm confident the major players would describe their business environment as fiercely competitive. Second, with almost every one of these entities there is a nexus with the federal government – mostly through regulation, but also through being a vendor or being a recipient of subsidy of some sort.

What I'm trying to say is that Gordon Tullock's key insights about rent-seeking behavior have applicability far beyond what even the academics among us typically perceive. Indeed, activity in Washington is driven by little else! And the costs are immense.

Now, I'd like to close with two recommendations for going forward with Gordon Tullock's work. The first is that in our research we should de-emphasize the problems with American collective decision making and emphasize possible solutions to those problems. Notwithstanding certain gaps in our understanding of the problems we face, we have a pretty good handle on these – enough to conclude that, judged by the metric of economic efficiency, they are serious. What we haven't pursued enough – and certainly haven't communicated well enough – is solutions to the problems we understand quite well.

I'm well aware, of course, that many measures have been advanced by my public choice compatriots to address the issue of excessive government size – the Leviathan problem: constitutional amendments to balance the budget; spending limitation amendments; and less confining requirements such as the Budget Act of 1974 (requiring a concurrent budget resolution each year); Gramm-Rudman-Hollings (which worked well – too well – and was revised, then eliminated); and “pay-go” provisions (that in practice prohibited cuts in tax rates).

But we should be bombarding policy makers with more such proposals to reign in the growth of government. Chip, chip, chip away at the excess. Moreover, we should bring to bear our expertise to force policymakers to restructure government – to achieve the right kinds of government as well as the right sizes of government. And, as an aside, we should help formulate ways of selling such proposals to the public.

The second suggestion I have is for us to suspend all this talk about Gordon Tullock's being passed over for a Nobel Prize. Why would we, as collective choice experts, expect the Nobel committees to be unresponsive to incentives, let alone perfect? As Gordon Brady explained in his comments at the Law School's tribute to Tullock last April,<sup>9</sup> the Nobel folks simply didn't think Tullock had the “right personality” for Nobel recognition. Given the Nobel committees' record of mistakes – especially its committee on the Peace Prize, which is a joke -- we shouldn't spend any more time with their mistake on Tullock. (You see, unlike some of you, I can criticize the Nobel committees without any fear of retribution: a threat not to consider me for the Nobel Prize in Economics would

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<sup>9</sup> <http://www.masonlec.org/events/event/291-gordon-tullock-memorial-service>.

be of no consequence – I wouldn't lose a bit of sleep if that opportunity were foreclosed!)

Looking back at my own academic and public policy career, I realize how much I owe to Gordon Tullock. My work on the military draft, airline and trucking regulation, so-called social regulation, monopoly politics, and the Postal Service all stem from an interest in and understanding of the public-private interface described by Gordon as rent seeking.

I'd bet that when you inspect your own careers, you will find Gordon's influence larger than you expected as well.