On the emergence of a classic work:
A short history of the impact of Gordon Tullock's
Welfare costs of tariffs, monopolies, and theft

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Abstract. Gordon Tullock's "Welfare Costs of Tariffs, Monopolies, and Theft" is by now widely regarded as a classic work in public choice. However, like many "classic papers", it was not always so highly regarded. It was rejected at several journals before finding its way into print and arguably took two or three decades to be fully appreciated. This paper discusses developments in the public choice and rent seeking literatures that helped bring Tullock's paper to its status as a classic work in political economy.

Key Words: Gordon Tullock; rent seeking; history of thought; history of public choice; sociology of science; emergence as a classic

1. Introduction

Gordon Tullock's "The Welfare Costs of Tariffs, Monopolies, and Theft" (1967) is widely regarded to be a classic paper. It is said to have launched the rent-seeking literature and that conclusion contains some grains of truth. However, it is easy to exaggerate the role of this insightful piece on the interest-group and rent-seeking literatures that emerged in the decades that followed its publication. In its first seven years, Tullock's piece was cited fewer than 40 times according to *Google Scholar* and, for the most part, by scholars interested in the deadweight losses created by trade barriers, monopoly and crime, rather than interest-group politics.[1] It was initially regarded to be a paper about welfare economics, rather than political economy or allocative processes that generate losses because of unproductive rivalry.[2]

The economics literature of the mid-1960s was more interested in the extent to which monopoly and trade barriers reduced social welfare than in the processes through which monopolies and trade barriers were obtained. That interest doubtless explains why Tullock had trouble publishing his now famous paper. The mainstream literature on losses from market imperfections focused on declines in the extent of trade and associated reductions in profits and consumer surplus, neglecting the fact that obtaining monopoly and trade privileges were themselves costly activities. Tullock argued that the social losses from monopoly, protective tariffs and crime were larger than previously thought because scarce resources are used to establish monopoly and protectionist rents , and also by criminals and persons who attempt to avoid being victims of monopolies, tariffs and crime. Neglecting these resource costs was a major mistake, he argued, because the resources used to establish monopolies and trade barriers could have been productively employed elsewhere rather than used to promote policies that reduce social welfare. Tullock mentions the politics that elicits such efforts, but does not emphasize them.

At that point in the post-war period, relatively little had been written about the "economics of politics" or the negative impacts of interest group politics, although many of the founding books and papers on what would come to be known as public choice or political economy had been published during the previous two decades. Olson (1965), for example, had mentioned the negative impacts of interest groups, but for the most part, his now-famous book focused on free-rider problems that large groups must overcome to lobby to advance their interests.[3] Olson's normative analysis follows the

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[1] See, for example, Posner (1968), Magee, Bergsten and Krause (1972) and Daly and Gerz (1975). Posner was among the first to see the importance of Tullock's contribution for both the theory of monopoly and regulation and for law and economics.

[2] An exception to the rule is Barzel (1974), who cited the paper in his paper exploring how waiting time tends to dissipate the rents associated with goods freely given away on a "first-come, first-served" basis.

[3] Olson's book also was initially undervalued. See McGuire (1998).

well-established approach of Pigou (1920) and Harberger (1954). He completely ignores the resources devoted to the efforts of interest groups and the extent to which the efforts themselves might constitute a social loss.

At the time Tullock's piece was written, the term public choice had not yet been coined and the term political economy was more often used as a synonym for economics, rather than to describe research in which economic and political considerations were simultaneously taken into account. Political considerations were left to political scientists, whom, with rare exceptions, were not interested in rational choice–based analysis of elections, lobbying activities, or institutions.

Tullock's paper came to prominence gradually as the rent-seeking research program emerged in the late 1970s and 1980s and blossomed in the 1990s. Developments in all sciences tend to be incremental, with occasional epiphanies as old research questions are explored with new tools and as understandings of relevant relationships and issues deepen. Thus, Tullock's epiphany initially was taken to be just another incremental step in understanding the deadweight losses of monopoly, trade barriers and crime, rather than a pioneering paper in political economy. However, a series of innovations gradually increased the recognition given to Tullock's 1967 paper and turned a good paper on social welfare published in a second-tier journal into a classic work on political economy. The innovations began shortly after the paper was published.

A series of small conferences and a new journal under the name *Papers on Non-Market Decision Making* had been organized by Buchanan and Tullock at the University of Virginia at about the time that Tullock wrote his 1967 paper. To many of those participating, it gradually became clear that the most fertile ground in nonmarket decisionmaking was at the intersection of politics and economics, rather than at the intersections between economics and moral philosophy or sociology—although those too were of interest. This realization coincided with a shift in leadership at the University of Virginia that indirectly caused a new center and new journal to be founded at Virginia Polytechnic Institute a few years later by disrupting UVA's economic department.[4]

The Center for Study of Public Choice and the renamed journal *Public Choice* stimulated new research in political economy. A small academic society was founded a few years later, the Public Choice Society. The Public Choice Society allowed scholars, intellectually isolated at their home schools, to present their research to informed and sympathetic listeners as well as to share ideas over coffee and meals. Most of the research carried out under the public choice rubric attempted to understand how narrow self-interests affected politics and thereby public policies, economic activity and economic welfare.

2. Analysis of rent seeking in the 1970s

At roughly the same time public choice began to emerge as a field of study, mainstream economics was undergoing a major transformation. Relatively powerful computers—although mere toys by modern standards—had become commonplace at universities, and statistical programs were developed to run on those computers. Programs such as SPSS, SAS and TSP made statistical tests of economic propositions far easier to undertake than they had been previously, and those developments caused a much more extensive empirical literature to emerge during the 1970s. The subset of statistical ideas and methods that economists applied in their research came to be called econometrics.

The mathematics and geometry of microeconomics had also been gradually worked out and refined in the previous decades to create a more fully integrated economic theory grounded on individual utility functions, production functions and the calculus of optimization. Ideas and models from game theory were becoming mainstream during the same period. The new models allowed relatively sharp hypotheses to be developed that

[4] Disagreements between the administration at UVA and the economics department led Buchanan to depart for UCLA and Tullock to leave for Rice University. Tullock was at Rice University as a professor of economics and political science when his now famous 1967 paper finally was published after being rejected several times. He moved to Virginia Polytechnic Institute and State University (VPI) in 1968 and helped organize the Center for Study of Public Choice with Charles Goetz. James Buchanan left UCLA for VPI in 1969. See Brady and Tollison (1991) or Brady (2005) for more details about the early history of Tullock's paper. See Shughart and Tollison (2016) for more on Tullock's career. The second issue of *Constitutional Political Economy* in 2016 includes several overviews of Tullock's broad research program.

could be tested and quantified using econometrics. Mathematical and statistical models became mainstream and began to dominate economic journals.

It was those methodological shifts that allowed statistical tests of Tullock's 1967 arguments to be undertaken. This was done first by Anne Krueger (1974)—although she evidently was not familiar with Tullock's paper—followed by influential papers by Posner (1975) and Cowling and Mueller (1978), which did cite Tullock's paper. All used Tullock's exact dissipation hypothesis and all found significant losses associated with rent-seeking activities. All three of these empirical papers were published in top economics journals: *American Economic Review*, *Journal of Political Economy* and the *Economic Journal*.

The papers focused primarily on losses from monopoly, rather than interest group activity or conflict. Nonetheless, Anne Krueger' s phrase for such activities—rent seeking—gradually became the accepted term for interest group activities in the pursuit of higher profits through monopoly and trade restrictions. The Posner and Cowling and Mueller citations of Tullock's 1967 paper brought his analysis before a broader audience, which significantly increased its citation rate. Tullock's paper was cited 61 times between 1975 and 1980, about 12 times per year, which was about twice the citation rate in its first seven years.

3. Analysis of rent seeking emerges in the 1980s

During the late 1970s, Robert Tollison organized the first edited volume on rent seeking, *Toward a Theory of the Rent-Seeking Society* (1980), with the help of Buchanan and Tullock, all of whom wrote papers for the collection. The book reprinted Tullock's 1967 paper, most prominent papers on rent seeking published after 1967, and new papers by the editors and several members of the Virginia school of public choice (including one by me). It was published by a relatively minor academic press, Texas A&M University Press, but had a major impact. By bringing previously published papers on rent seeking together and encouraging new papers to be written in the spirit of the pioneering scholarship, it revealed a far broader and coherent domain for the study of rent seeking than had been previously recognized. The book accelerated the development of the rent-seeking literature and gave it a more explicitly political-economy orientation.[5]

Three strands of rent-seeking literature emerged during the 1980s. The first was an explicitly interest-group-oriented literature on public policy. It was arguably an outgrowth of the Chicago school approach to economic regulation (Stigler 1971; Pelzman 1976; Becker 1983), but using the word "rent" as opposed to "profit" gave that literature a more critical thrust, because the term "rent" came to be used as a synonym for "unearned" or "undeserved" sources of income and profit. Issues associated with measuring losses from monopoly and trade protection did not disappear from the literature, but that rent-seeking losses accounted for most of those losses was increasingly taken for granted. The main empirical issue was the extent to which public policies were driven by political pressures, e.g., by the rent-seeking activities of organized interest groups.

A second strand was a new contest–based literature inspired by Tullock's (1980) contribution to the rent-seeking volume, which analyzed the extent to which the profits associated with particular public policies are dissipated by the efforts of those seeking those policies. Tullock (1980) demonstrated that characterizing rent seeking as a lottery contest—an idea he had mentioned in passing in his 1967 paper—provided new insights about the extent of dissipation and how the allocative process and technology of lobbying affected dissipation. Tullock's lottery characterization of rent seeking contests was adopted widely in the subsequent analysis of rent-seeking, and his mathematical characterization of such contests came to be known as the "Tullock contest success function" (CSF). It could no longer be simply asserted that full dissipation was the only or most likely possibility. Whether it was or not depended on how contests for allocating rents were structured.

The third strand comprised a smaller literature, related to the second, that explored how institutions could limit losses from rent-seeking activities. The contest–based

[5] This edited volume and Tollison's survey of the rent-seeking literature (1982) are his two most cited contributions, with about 3,000 Google citations between them as of this writing (December 2017). By now, a half-dozen collections of rent-seeking papers have been published, most recently Congleton, Hillman and Konrad (2008).

literature demonstrated that the rules of the game affected the extent of dissipation. Insofar as it was dissipation that generated the losses associated with rent-seeking contests (amounts invested in the contest relative to the prize at stake), institutions potentially could curtail those losses. The institutions that did so would give both organizations and societies an evolutionary advantage. As a consequence, such institutions would tend to emerge without explicit consideration of rent-seeking theory. The value added by such institutions, however, could be understood only through the lens of rent seeking (Congleton 1980, 1984, 2015).

It turned out that all three of the research programs could be extended and deepened in dozens of ways. The effects of rent seeking on policies could be explored one policy at a time, one country at a time, or through various comparative studies. New theoretical results demonstrated that dissipation rates varied with the risk aversion, wealth and relative abilities of the individuals and groups participating in the contests. They also varied with the structures of the contests, which could be single-stage, multistage, repeated, or one-shot games. Other contest success functions could be examined beside the lottery-based winner-takes-all one used by Tullock. The effects of institutions and culture on rent-seeking losses similarly could be examined one policy or country at a time, analytically or in historical context, in a single government or in a comparative context, and so forth. The range of activities that could be interpreted as rent seeking expanded along with the mathematical and statistical tools used to analyze them.

The new and much broader domain of the research agenda that fell under the rubric "rent seeking" and the growing attention to political economy by economists and political scientists caused Tullock's 1967 paper to be read in a different light and added to its importance as a founding contribution. During the 1980s, Tullock's 1967 paper was cited an average of 36 times a year, three times its citation rate in the late 1970s. Two decades after it was written, it was finally on its way to becoming a classic.

4. Further expansion of the domain of rent seeking in the 1990s

In the late 1980s and early 1990s, the research program on rent seeking expanded again as new methodologies and topics were added and as stronger claims were made about the importance of rent seeking. Milner and Pratt (1989, 1991) demonstrated that experimental methods could shed new light on the extent to which rents were dissipated in contests for prizes and privileges. McChesney (1987) and Appelbaum and Katz (1987) argued that at least some rent-seeking contests were created intentionally by government officials, rather than being an unintended consequence of a citizen's or group's right to petition the state. Governments and government officials could profit by establishing such contests.

New evidence and theories suggested that rent seeking was economically and politically more important than previously realized. Laband and Sophocleus (1988) provided evidence that rent-seeking losses (broadly interpreted) in developed countries were far larger than previous studies had suggested. Their characterization of the domain of rent seeking implied that more than 20 % of US GNP was consumed in contests over the distribution of real resources. Murphy, Shleifer and Vishny (1993) went further, arguing that rent seeking and its associated extractive public policies and misallocations of resources account for most of the difference in national economic growth rates and thereby accounted for the differences in standards of living throughout the world. Hirshleifer (1989) went still further, noting that the analytics of rent-seeking contests should include military combat, lawsuits, election campaigns, industrial disputes, and so on. It was a general model of losses from all kinds of conflict.

The broadening of the research program and the greater significance ascribed to that program attracted more time, attention and people to the rent-seeking research program and, as research expanded, citations of Tullock's 1967 paper again accelerated. During the 1990s, his paper attracted about 80 citations per year, more than twice those of the previous decade, and its classic status was no longer in doubt.

It had taken a bit more than three decades for the 1967 paper to reach that status, and its impact continued to increase during the 2000s, about doubling its 1990s' citation rate. That increase doubtless was partly associated with the rise of Google Scholar, which raised citations for all papers and changed citation norms, but also must be attributed to further broadening and deepening of the research program on rent seeking.

5. On the making of a classic research paper

All the above should make it clear that a classic paper is not "classic" simply because of an author's original insights. Epiphanies are a necessary, but not sufficient condition. Insightful papers become classics or not because of the manner in which subsequent research unfolds. Had the public choice and rent-seeking literatures never taken off, it is likely that Tullock's 1967 paper would have remained one of many interesting contributions to welfare economics, rather than a classic work in political economy that helped launch several fruitful lines of new research.

The emergence of rent seeking as a field of research was not simply a product of Tullock's pioneering research, but of the sustained interest of dozens of scholars who focused on various—often quite narrow—issues and puzzles that came to be regarded as contributions to the research program on rent seeking. Tullock played a significant role in the emergence of that research program through his 1967 and 1980 papers and other less-cited books and papers on rent seeking. He also served as editor of the journal *Public Choice*, which was a natural outlet for research on rent seeking, and one that Tullock could encourage through his editorial decisions.

However, without the contributions of dozens of other scholars, Tullock's 1967 and 1980 papers would not be regarded as classics. It was not the quantity or quality of his scholarship on rent seeking or his editorship of *Public Choice* that placed his work at the center of the rent-seeking research program, but rather that his work was early and bridged the various strands of the research that emerged after their publication. His 1967 paper became one of the linchpins that held the research program together and could be used to identify its common core. Other scholars wrote as much or more on the topic and placed their work in better journals, as might be said of Robert Tollison's many papers on interest group politics, Anne Krueger's papers on government failures in developing countries, or Arye Hillman's and Schmuel Nitzan's many papers on the theory of rent seeking. Without their contributions, it is quite possible that the research program would never have taken off in the 1980s. Tollison and Hillman also subsequently played roles as editors of public choice journals in the 1990s and 2000s, and all four wrote influential surveys of the rent-seeking and government failure literatures.

To say that one could imagine a rent-seeking literature without Tullock's 1967 paper is not to say that it would have unfolded in the same way, nor that the 1967 paper was unimportant. The same could be said of many other classic works. It is relatively easy to imagine a transaction costs literature without Coase (1937), a general equilibrium literature without Debreu (1959), and a signaling literature without Spence (1973). That is not to denigrate their pioneering papers, but simply to point out that those authors also benefited from a great snowballing of research that emerged in the period after their papers were published—and that many of those papers would have been written without their pioneering contributions. As relatively early, less specialized pieces, they too provided connections among papers in subsequent specialized research programs that would have been harder to identify and characterize without them.

Few papers are destined to be classics at the moment they are written. Even with an author's natural pride in his or her own work, the subsequent impact of a classic paper must be a surprise to all but the most immodest of the scholars writing them. It thus follows that journal editors should be forgiven for not anticipating the great forests of research that would subsequently emerge from a few extraordinarily fruitful seeds and nuts.

Tullock's 1967 paper has been highlighted in every collection of rent-seeking papers, of which there are about a half dozen by now. It has been given prominence in those collections for several reasons. It was first paper in the research program and provides one of the very best introductions to the main ideas of the literature that emerged in the next half century. It provides one of the clearest discussions of losses from investments in rent-seeking activities. It demonstrates persuasively the wastefulness of efforts to establish monopolies, to erect barriers to trade and to steal from others. By doing so, it identified major mistakes in mainstream welfare economics and new opportunities for research on the political economy of trade barriers. The illustrations are crystal clear—although as often the case in Tullock's papers and books, unmentioned assumptions help generate that clarity. The 1967 paper mentions the challenge of measuring the losses and the lottery-like character of many such contests. It also is among the first papers in neoclassical economics to point out that competition is not always a welfare-enhancing activity. It is the competitive nature of political contests for monopoly rents and trade protection that accounts for most of the losses associated with rent seeking.

As true of many classic papers, its significance took a long time to be recognized, but after it was, it seemed "obvious" that Tullock's 1967 paper on the neglected losses from monopoly, tariffs, and theft would be and should regarded as a classic work.

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