

16-Jun-14 RDC

**A Companion to
Rents and Rent Seeking**

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**Edgar Elgar
Proposed publication February 2015**

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Overview

The purpose of this volume is to introduce readers to the depth and breadth of the rent-seeking literature. With this in mind, we have solicited survey pieces on the theoretical parts of the rent-seeking literature and pieces that extend the literature to subjects always recognized as rent seeking. All of the pieces are intended to be accessible to upper-level undergraduates, graduate students, and scholars interested in learning how the rent-seeking literature contributes to our understanding of a wide range of policy and other issues.

Most previous volumes on rent seeking have been collections of previously published work (Congleton, Hillman, and Konrad 2008; Tollison and Congleton 1995). This volume is, with one exception, composed of original pieces. Each chapter focuses on relatively narrow theoretical or applied issues. Some chapters are more mathematical than others, and others more discursive, but most will be of interest to students of politics, economics, or history who take the rational choice perspective seriously. Researchers whose work on rent seeking has focused on particular subfields of the broader literature will also benefit from our collection of accessible surveys of and extensions of research outside their specialties. Together, they demonstrate that the rent-seeking perspective can shed light on a broad range of social phenomena and public policy.

For example, the rent seeking perspective implies that politicians and bureaucrats can be influenced to make decisions that provide privileged benefit. The resources, time, and initiative used in attempting to influence assignment of benefits could have been used productively to add to output and wealth. By restricting the domain of policy making or the discretion of policy makers, a society can be made off because resources that would otherwise be consumed in unproductive contests for influence are freed for more productive uses.

The rent seeking concept emanated from the public choice school of political economy (the interface between economics and politics), which took as a basic premise that the same rational self-interest that guides behavior of buyers and sellers in markets also underlies political and bureaucratic behavior. The public-choice approach provided rational-choice foundations for understanding political behavior and economic policies,

foundations that has become mainstream since the 1990s, and provided the framework for contributions by scholars whose association has not been in particular with public choice scholarship. The concept of rent seeking has also increasingly been brought into the mainstream of economic analysis. The chapters in this volume show the importance of the rent-seeking concept for basic economic understanding and a basic economic education.

The *Companion to Rent Seeking* is organized into three parts. Part I consists of this introductory essay and another by Hillman. Part II summarizes and modestly extends the theoretical literature on rent seeking. That literature began with two pieces by Gordon Tullock (1967, 1980) and has expanded rapidly in the past two decades as game theoretic tools became more commonplace and the importance of net loss-generating contests more widely appreciated. Chapter 3 by Van Long provides an extensive survey of the major results from mathematical studies of the properties of the Tullock and similar contest success functions, together with some recent applications and extensions of that model. Chapter 3 by Epstein and Nitzan provides an overview of models of governmental rent-seeker interactions, including those in which rent-seeking contests are engineered by governments to extract rents. They demonstrate that policies more extreme than those associated with earlier models of policy making can emerge from government/rent-seeker interactions. Chapter 5 by Dari-Mattiacci et al. shows how asymmetries in rent-seeking contests affect the extent of rent-seeking losses and the types of policies adopted. They also extend that literature by analyzing two-stage contests in which bargaining after the prize is awarded is possible. They show that ex-post bargaining can mitigate the Harberger efficiency losses, leaving only the Tullock rent-seeking losses. Chapter 6 by Flamand and Troupounis surveys the literature on rent seeking by groups. When rent seeking takes place by groups or coalitions, as is common in most contemporary polities, sharing rules within the groups have significant effects on individual, group, and aggregate investments in rent-seeking contests. Chapter 7 by Wärneryd explores how organizational structure affects the nature and extent of rent-seeking expenditures, noting that a hierarchical structure can reduce rent-seeking effort and losses. Chapter 8 by Mealem and Nitzan investigates how the ability to favor some contestants over others affects the optimal design of contests by a net revenue-maximizing government. They demonstrate that choosing among all-pay auctions and lottery

contest–success functions vary with the ability of governments to favor some contestants over others and with initial differences in the valuations of the rent seekers themselves. Chapter 9 by Amegashie surveys the literature on sabotage, including both rent-seeking papers and research on industrial and intrafirm sabotage. Although sabotage may be regarded as a form of rent-seeking, it differs from the standard effort-based contests in that sabotage is a public good for participants in the contest. If A sabotages B, then C as well as A benefit from B’s lower probability of winning. Thus, aggregate sabotage tends to fall as the number of players increase, in contrast to ordinary rent-seeking effort.

Part III explores the core applied areas of rent-seeking research: economic regulation, legal contests, rent extraction, and politics. The pieces in this part and the next demonstrate that there are a very wide range governmental policies and institutions that the rent-seeking perspective can account for, that other perspectives cannot. Chapter 10 by Shughart and Thomas uses the rent-seeking and capture perspectives to provide an overview of the theory and practice of economic regulation. Much of the mainstream literature still assumes that regulation is only undertaken to advance genuine public interests. Shughart and Thomas suggest that well-organized rent seekers are often able to obtain the regulations that they want, which typically produce rents by blocking the entry of or raising the average costs of rivals. Chapter 11 by Vaubel explores how rent seeking takes place within international organizations. Agency bureaucrats may seek and obtain higher than market wages, and private organizations may benefit from policies that reduce competition that can be adopted or promoted by international agencies. Examples from the World Bank, International Monetary Fund, and European Union are used to illustrate this analysis. Chapter 12 by Holcombe analyzes conceptual differences between the “politics as exchange” approach advocated by Buchanan and the rent-seeking approach from a constitutional political economy perspective. From the politics-as-exchange perspective, constitutions will (or should) attempt to block rent-seeking activity. From the rent-seeking perspective, the constitutional environment will be used by rent seekers to assure that they can use the coercive powers of government to obtain rents via barriers to entry and transfers in the postconstitutional environment. Evidence of both sorts of constitutional provisions are

noted. Chapter 13 by Parisi and Luppi explores the extent to which litigation in courts may be regarded as rent seeking. This was among the first applications explored by Tullock (1975). Parisi and Luppi survey the work that followed and analyze how procedural rules affect the cost and accuracy of court decisions. Chapter 14 by Brooks analyzes the effects of rent seeking on tax and expenditure policies. Brooks demonstrates that many of the conclusions reached by the mainstream public finance literature need to be revised when rent-seeking activities are taken into account. For the most part this occurs because rent-seeking introduces new sources of deadweight loss that are neglected by mainstream analysis. Chapter 15, by Hillman, compares and contrasts theories of trade policies that include consideration of rents and rent seeking with those that do not. He suggests that much is left unexplained by theories that neglect politics, rents, and rent seeking, but that those theories nonetheless dominate mainstream research. Chapter 16 by Deacon and Rode analyze neglected connections between the resource “curse” problem identified in the development literature and the rent-seeking literature. They suggest that conflict over the rents associated with natural resources can account for much of the observed reduction in economic growth and institutional quality in countries “cursed” by large natural resource reserves. Their discussion includes a broad overview of the resource curse literature. Chapter 17 by Hagen analyzes how foreign aid can similarly promote rent seeking within recipient countries and between countries and grant distributing agencies (???)

Part IV explores how institutions, ideas, and technologies affect the particular modes of rent seeking that exist in given times and places. Chapter 18 by Paldim analyzes rent seeking within a modern welfare state. He notes the size and success of the “welfare coalition,” which consists of all persons who receive a salary or social subsidy from a welfare state. A number of illustrations from the relatively efficient welfare states of the Nordic countries demonstrate that rents have been obtained by employees, nongovernmental organizations, and state-owned enterprises, especially at times of reform. Chapter 19 by Mueller undertakes a comparative study of rent seeking in the private sector in the United States and through the government sector in Europe. He suggests that sizable rents have accrued both to Schumpeterian innovators in the United States and to subsidized industries

and persons in Europe. Chapter 20 by Kang and Qijung examines rent seeking in contemporary China, where a variety of policies encourage rent seeking, as with different price regulations for inframarginal and marginal units of output, where inframarginal units are sold at controlled prices and marginal units (above output targets) are sold at market prices. Both black market prices and preferential access to inputs at controlled prices became possible sources of rents for producers. Many other examples are also noted. Chapter 21 by Mbaku and Kimenyi provides an overview of rent seeking in contemporary Africa. They suggest that a broad range of governmental, ethnic, and industry-level rent-seeking occurs in all African countries, and provide numerous illustrations to make their case. Chapter 22 by Marait provides a similar overview of rent seeking in India, stressing that reform and rent seeking often go hand and hand. Chapter 23 by Levin and Satarov surveys and extends previous work on rent seeking in Russia. The authors distinguish among five sources of rents and three kinds of rent-seeking behavior. A variety of illustrations are used to demonstrate that rents and rent seeking are central to the Russian economy and to its government. Chapter 24 by Moutos and Pechlivanos analyzes post-World War II Greek history from the rent-seeking perspective. They provide evidence that rent seeking affects, not only a wide variety of Greek policies, but core Greek political institutions and procedures. Moreover, they suggest that greater access to international finance associated with membership in the European Union allowed rent seeking and its associated transfers to grow beyond sustainable levels. Chapter 25 by Tridimas analyzes rent seeking at the birth of Greek democracy in ancient Athens. His analysis suggests that rent extraction and rent seeking were both present in ancient Athens, but that many of its institutions had the effect of limiting their extent. It includes a broad survey of policies in ancient Athens, including its procedures of governance, tax policies, use of slavery, and definition of citizenship.

Chapter 26 by Congleton concludes the volume with an analysis of how the prospects of rent-seeking losses have informed the institutional designs of all durable organizations. Were this not the case, he suggests, rent dissipation would have eliminated the net benefits of organizations by returning us to various Hobbesian jungles in which all potential net gains are dissipated through conflict. Formal organizations use recruitment and a variety of internal rules to discourage intraorganizational rent-seeking behavior. This sufficiently reduces the extent and scope of rent seeking to make organizations viable but does not—as the papers in this volume attest—completely eliminate all rent-seeking losses. Rent seeking is not a static activity, but an area in which innovation continually occurs.