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Law and Issues

Privilege-seeking? If you want to understand government in the late 20th century, you had better know something about Gordon Tullock's concept of rent-seeking. It enables you to see Washington for what it really is: a powerful machine that enables special interests to extract money from everyone else.

By Peter Brimelow

WHAT DO THESE PICTURES have in common?

n "Lobbying has become Washington, D.C.'s largest private employer.... There are 125 people working to influence government policy for every member of Congress, up from 31 lobbyists per congressman in 1964."

-From "Washington's Lobbying Industry: A Case for Tax Reform," a memorandum prepared by the office of House majority leader (and Ph.D. economist) Dick Armev (R-Tex.)

n "In 1989 we had essentially no compliance function. Then we hired our first compliance officer. He hired a staff of half a dozen. The whole focus changed from building the business to papering the files. Of course, when there was a [Securities & Exchange Commission] audit, he was a local hero. But it was of no benefit to the clients. We never had any intent to deceive them. And if we had, we could still have done it. He [the compliance manager] became a partner. I left."

-Disgruntled Wall Street money manager

n "I signed the Family Leave Act; it was my very first bill. And I'm proud of it because it symbolizes what I think we ought to be doing.... [It] has let 12 million families take a little time off for the birth of a child or a family illness without losing their job. ...I never go anywhere, it seems like, where I don't meet somebody who's benefited from the Family Leave Law. In Longview, Tex. the other day I met a woman who was almost in tears because she had been able to keep her job while spending time with her husband, who had cancer.

-Bill Clinton, in second presidential debate, Oct. 16, 1996

answer: They all involve what economists call "rent-seeking"-the use

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political or institutional power to extract "rent" (essentially, unavoidable payments) from the rest of the economy.

("Rent-seeking-it's a terrible name," says economist David Henderson of the Naval Postgraduate School in Monterey, Calif. Henderson speculates that the name's repellent clunkiness may have delayed general recognition that rent-seeking, parasitic and pervasive, is a fundamental economic reality in the modern world. His suggestion: "privilege-seeking." Hey, these are economists, not poets.)

Whatever its name, this is how rent-seeking works:

n The Washington lobbyists are public-sector rent-seekers. They are being paid to extract rents by influencing legislation on behalf of their corporate clients.

And they succeed. One example from Congressman Armev's collection: Sugar import quotas raise the price American consumers pay for sweeteners by about \$1.4 billion annually. This benefits a remarkably small number of sugar producers and processors. One family alone, the Fanjuls of Osceola Farms, Fla., earns an estimated \$65 million annually in artificial profits because its lobbyists have persuaded Congress to make it possible for the family to sell sugar at more than its natural market price.

n The empire-building Wall Street compliance bureaucrat is a private-sector rent-seeker. He is diverting profits earned by the firm's productive activities to himself and his empire.

Note, though, that he is able to do so because of a sort of tacit alliance with the public-sector regulators. They make his job necessary.

n The First Rent-Seeker was congratulating himself on a newly popular subcategory of rent-seeking: so-called mandated benefits. The government uses political power to extract rents from the general public. Then it directs them to favored constituencies. The numbers can be very large: The Society for Human Resource Management estimated in 1989 that the Family Leave Act-no matter how nice a thought-would still cost nearly \$440 million a year.

The government is still in effect buying votes with other people's money. But rent-seeking-in this case rent-giving-tactfully avoids the need to raise the money first through taxation, which often causes such distress. Employers and, ultimately, all consumers pay. A (relatively small) class of employees benefit. Plus, of course, the politicians. They can crow about how "caring" they are.

Rent-seeking matters-a lot. Its cost to society is not just the rents transferred but also "rent-avoidance"-resources expended in trying to

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bel efforts to extract rents, for example, by hiring your own lobbyists. As Gretchen Morgenson showed in our last issue (Sept. 8), any business that neglects to hire a lobbyist is likely to become a victim of other rent-seekers who do have lobbyists.

Surprisingly, however, the realization that rent-seeking exists dawned on economists only quite recently. Too bad, because it's a valuable concept that helps us understand what the politicians are doing to us when they say they feel our pain and offer to assuage it.

The father of the rent-seeking concept is Gordon Tullock, a quizzical, quirky, somewhat owlsh 75-year-old professor of economics and political science at the University of Arizona in Tucson. Tullock was long associated with Nobel economics laureate James M. Buchanan, now at Virginia's George Mason University, in the development of what is now called "Public Choice Theory," the application of economic analysis to political and governmental action.

Many observers were surprised that Tullock was not included in the Nobel Prize Buchanan received in 1986. The omission was particularly striking since Buchanan and Tullock had actually coauthored the classic public choice text, *The Calculus of Consent* (1962). Speculation continues that Tullock will eventually win a separate Nobel Prize for his work on rent-seeking. In January 1998 he will be made a Distinguished Fellow of the American Economics Association. ("A plaque-no money," he says.)

Tullock was not trained as an economist-and beneficially, he argues with characteristic wryness. This, he argues, is an advantage in understanding economics. (He compares the economics profession's current preference for abstract mathematics to the drift from science to theology in classical Alexandria-and suggests that its function is merely to avoid political conflicts with noneconomists in the faculty lounge.) In 1947, after three years' wartime service as an infantryman, Tullock took a J.D. degree in a University of Chicago Law School accelerated program. He has no bachelor's degree because, in a decision possibly reflecting his Scottish heritage, he declined to pay the required \$5 fee.

Tullock then joined the State Department and was posted to the Chinese city of Tianjin. He observed the city's fall to the Communists in 1949 and began his study of monetary cycles amid the disastrous inflation accompanying the Chinese Nationalist collapse. Thereafter, he was seconded to Yale and Cornell for three academic years to study Chinese. He notes gleefully that by reading Austrian economist Ludwig von Mises' *Human Action* in his spare time during this period, he found himself in key respects better prepared technically than an economics Ph.D. temporary.

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It is universally agreed that Tullock does not have a diplomat's temperament. He eventually resigned from the State Department. In 1959, while a post-doctoral fellow at the University of Virginia's economics department, he began working with Buchanan on what became *The Calculus of Consent*.

In 1987 Tullock moved to his present post in Arizona. A lifelong bachelor, he spends holidays with his sister's family in Iowa. In an unusual departure for an academic economist, he is a major stockholder ("best investment I ever made") and longtime director of the family's Dodger Co., a small Iowa-based firm that makes sports clothing, and its Whink, Inc., which makes industrial cleaners. He says this experience contributed greatly to his education in economics.

Tullock's stint in China was crucial to his rent-seeking insight: "See, you go into these cultures where people have produced just immense cultural achievements but are living in bitter poverty, and you discover very quickly they have a dominant government and the government is corrupt. Conventionally, economists have argued that a corrupt government doesn't really cost anything because the man who receives the bribe gains what the man who pays the bribe loses. Well, you can't really believe that if you're in China."

Similarly, Tullock points out, China provided the evidence for a key effort by Anne Krueger—now an economics professor at Stanford University—to quantify his insight. (Krueger must also take the blame for coining the term "rent-seeking.") Krueger had estimated that the cost to Turkey and India of the bribes necessary to get around their various regulations amounted to 7% to 15% of GNP. This cost was not simply the expense of the bribe, but also the resources wasted by individuals in acquiring otherwise useless credentials and intriguing for appointments in the appropriate government bureaucracy.

Every major economics journal rejected "The Welfare Costs of Tariffs, Monopolies and Theft," Tullock's original article on rent-seeking. It was finally published three years later, in 1967, in the *Western Economic Journal*, then new and little-read.

As an intellectual pioneer, Tullock is a connoisseur of such rejections. (He began his 1980 presidential address to the Southern Economics Association by celebrating the fact that the association's journal would be compelled to publish it, after years of rejecting his submissions.) He savors the irony that because a standard textbook quickly picked up his rent-seeking concept, "there was a period when a lot of brand-new elementary [economics] students knew about it and no one else did."

Tullock's serene but somber conclusions on the inefficient nature of intellectual market: "The safe article for the young academic is one

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t makes a short, sound step forward in a well-established direction."

Sounds like good advice.

But it's advice that Tullock himself-author of 15 books (the sixteenth, *On Voting: An Introduction to Public Choice*, due January 1998) and over 150 papers, on subjects ranging from game theory to "The Coal Tit As Careful Shopper," part of his little-known, but highly respected, contribution to biological theory-has somehow never quite gotten around to taking.

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