KYKLOS, Vol. 35 – 1982 – Fasc. 4, 575–602

RENT SEEKING: A SURVEY

ROBERT D. TOLLISON*

I. INTRODUCTION

The purpose of this essay is to survey the emerging theory of the rent-seeking society. The initial problem is to clarify terminology. Rent is a venerable concept in economics. Defined as a return in excess of a resource owner's opportunity cost, economic rent has played a prominent role in the history of economic analysis ('corn is not high because rent is paid, rent is paid because corn is high'). In this sense it is a fair guess that most economists would consider 'rent seeking' to be equivalent to 'profit seeking', whereby it is meant that the expectation of excess returns motivates value-increasing activities in the economy. Such excess returns (positive *and* negative) are typically viewed as short-lived (quasi-rents) because competition will drive them to normal levels.

The competitive dissipation of rents, however, is not what is meant by 'rent seeking'. Rents emanate from two sources. They arise *naturally* in the price system by, for example, shifts in demand and supply curves. The pursuit of rents under these circumstances is the sense in which rent seeking is equivalent to profit seeking. Rents can also be contrived *artificially* through, for example, government action. The fact that rents are contrived, however, does not mean that they are exempt from competition, and this is where rent seeking comes into play.

* Federal Trade Commission and Clemson University, Washington D.C. – Thanks go to JAMES BUCHANAN, ROBERT MCCORMICK and DENNIS MUELLER for helpful comments. The usual caveat applies.

Consider the example of monopoly rents. The typical discussion depicts such returns as a transfer from consumers to a monopolist. Treated as such, monopoly rents embody no social costs. Yet if the process by which monopoly rents are contrived is subject to competition (*e.g.*, lobbying), the analytical fiction of these rents as a pure transfer vanishes because resources spent in the pursuit of a transfer are *wasted* from society's point of view. These expenditures add nothing to social product (they are zero-sum at best), and their opportunity cost constitutes lost production to society.

The theory of rent seeking involves the study of how people compete for artifically contrived transfers. Like the rest of economic theory, rent seeking has normative and positive elements. Normative rent-seeking theory refers to the specification and estimation of the costs of rent-seeking activities to the economy. Are contrived rents dissipated by competition to capture them? Are they exactly dissipated by competitive rent seeking, or are there imperfections in rent-seeking processes such that expenditures to capture monopoly positions either exceed or fall short of the rents that inhere in them? What role does the consumer play in the theory of the rent-seeking society? What is the domain of rent-seeking behavior, that is, is government required for rent-seeking theory to be applicable or can rents be contrived and dissipated in private settings?

The positive side of rent-seeking theory is directed to the question of what explains the sources of contrived rents in a society. For example, in normal textbook presentations monopoly is introduced by drawing a downward sloping demand curve and its associated marginal revenue curve. The effects of monopoly are explained, but the issue of why some industries consist of price-takers and others consist of price-searchers is largely begged. Positive rent-seeking theory goes behind the facade of microeconomic theory and attempts to explain why some sectors of the economy are sheltered and some not.

This essay will survey the economic theory of rent seeking. In Section II, a more detailed discussion of the differences between rent seeking and profit seeking is given. In Section III, normative rent-seeking theory and empirical measures are discussed. In Section IV, positive rent-seeking theory is covered. Some concluding remarks are offered in Section V.

II. RENT SEEKING VERSUS PROFIT SEEKING

In economic analysis the definition of economic rent is a payment to a resource owner above the amount his resources could command in their next best alternative use. An economic rent is a receipt in excess of the opportunity cost of a resource. It has been observed that it is not necessary to pay economic rents in order to procure an efficient allocation of resources. This argument, however, is based on a faulty perception of the dynamics of the competitive market process. Over time, the presence of economic rents provides the incentive for resource owners to seek out more profitable allocations of their resources. When competition is viewed as a dynamic, value-creating, evolutionary process, the role of economic rents in stimulating entrepreneurial decisions and in prompting an efficient allocation of resources is crucial [KIRZNER 1973]. 'Rent seeking' or 'profit seeking' in a competitive market order is a normal feature of economic life. The returns of resource owners will be driven to normal levels (on both the intensive and extensive margins) by competitive profit seeking as some resource owners earn positive rents which promote entry and others earn negative rents which cause exit. Profit seeking and economic rents are inherently related to the efficiency of the competitive market process. Such activities drive the competitive price system and create value (*e.g.*, new products) in the economy.

The task at hand is to distinguish what is meant by rent seeking from profit seeking. Consider a simple example in which the king wishes to grant a monopoly right in the production of playing cards. In this case artificial scarcity is created by the state, and as a consequence, monopoly rents are present to be captured by monopolists who seek the king's favor. Normally, these rents are thought of as transfers from playing card consumers to the card monopolist. Yet in the example, this can only be the case if the aspiring monopolists employ no real resources to compete for the monopoly rents. To the extent that real resources are spent to capture monopoly rents in such ways as lobbying, these expenditures create no value from a social point of view. It is this activity of wasting resources in competing for artificially contrived transfers that is called rent seeking.

If an incipient monopolist hires a lawyer to lobby the king for the monopoly right, the opportunity cost of this lawyer (*e.g.*, the contracts that he does not write while engaged in lobbying) is a social cost of the monopolization process. Moreover, the deflection of lawyers from productive to transfer-seeking pursuits will generate a disequilibrium in the market for lawyers, with the implication that there will be excessive entry into the legal profession. As will be presented in more detail in Section III, such rent-seeking costs must be added to the standard welfare-triangle loss associated with monopoly to obtain an estimate of the total social costs of monopoly and regulation.

'Real' rents are different from 'government' or 'fake' rents because rent seeking has productive implications in the first case but not in the second. Just to drive the point home, consider the following example. The return to professional baseball players includes some (inframarginal) rents which leads young children to play baseball rather than practice the piano. This increases the supply of baseball players tomorrow (because young children practiced today), and the amount and quality of baseball is altered (improved?). In the case of monopoly rents lobbying is the analogy to practicing, and lobbying does not increase output because output is fixed by definition. It is the restricting of output artificially that creates the rents.

Rent seeking is the expenditure of scarce resources to capture an artificially created transfer. The implications of the economic wastefulness of rent-seeking activity are difficult to escape once an artificial scarcity has been created [BUCHANAN 1980a]. At one level the king can allow individuals to compete for the playing card monopoly and waste resources through such activities as bribery. Such outright venality is perhaps the simplest and most readily understood level of rent seeking. At a second level the state could sell the monopoly right to the highest bidder and put the proceeds at the disposal of government officials. In this case the monopoly rents will most likely show up in the wages of state officials, and to capture rents at this level individuals will compete to become civil servants. This competition might be thought of in terms of excess returns to bureaucratic agents where these returns are competed away by excessive expenditures on education to prepare for civil service exami-

nations [TULLOCK 1980b]. At still another level should the monopoly right be sold to the highest bidder and the resources dispersed through the state budget in terms of expenditure increases and/or tax reductions, rent-seeking costs will be incurred as individuals seek to become members of the groups favored by the tax-expenditure program. Rent-seeking costs are incurred in each case, and only the form that such costs take is influenced by how the government transacts its business in artificially contrived scarcity values.

III. THE WELFARE ANALYSIS OF RENT SEEKING

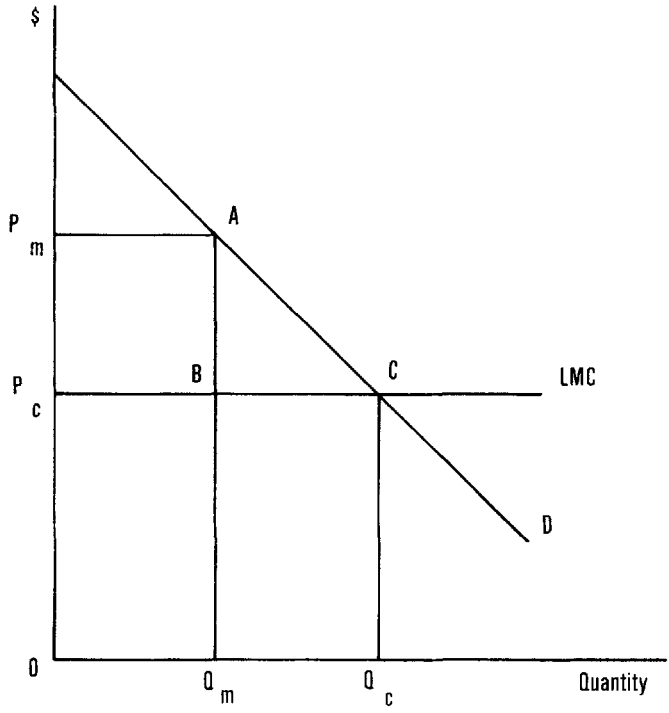
The welfare analysis of rent seeking concerns the issue of how costly such activities are to the economy. It was, in fact, through an effort to assess the nature of these costs that TULLOCK [1967] first analyzed the concept of rent seeking. Subsequent research has concentrated on expanding TULLOCK's theoretical insight and on developing empirical measures of rent-seeking costs.

1. Competitive Rent Seeking

In *Figure 1* a simple monopoly diagram is drawn ($Q_m = \frac{1}{2}Q_c$). This model is sufficient to yield all of the insights generated by competitive rent-seeking theory.

In the standard analysis of monopoly a competitive industry is *costlessly* transformed into a simple monopoly. This analysis is developed as if a snapshot of equilibrium conditions were taken at two instants of time. One photograph reveals P_cQ_c as the market equilibrium and the other P_mQ_m. In this conceptual experiment the welfare cost is the lost consumer surplus given by ABC. In its modern form this partial equilibrium analysis was pioneered by HARBERGER [1954], who developed a reduced-form equation for ABC and used it to measure the extent of such losses in the U.S. manufacturing sector *circa* 1929. His empirical results showed the welfare loss from monopoly to be a negligible proportion (less than 1 percent) of GNP. By modifying the assumptions underlying the reduced-form for ABC (*e.g.*, the elasticity of demand), a variety of subsequent estimates of welfare losses from monopoly have been published.

Figure 1



These estimates generally follow the HARBERGER result in not constituting monopoly as an overwhelming social problem[1].

Commenting upon the relatively low estimates of the welfare costs of monopolies and tariffs, MUNDELL [1962, p. 622] observed that 'unless there is a thorough re-examination of the validity of the tools upon which these studies are founded ... someone will in-

1. Since this paper is concerned with rent seeking and not with the conventional welfare loss from monopoly, a review of the efforts to improve upon HARBERGER's original formulation of the latter problem is not pursued here. The interested reader may consult SCHERER [1980, Ch. 17] and the references cited there.

evitably draw the conclusion that economics has ceased to be important'. TULLOCK rose to this challenge in a 1967 paper in the *Western Economic Journal* (now *Economic Inquiry*)[2]. TULLOCK's insight was simple and straightforward. He argued that any resources spent to capture P_mP_cAB were *also* a social cost of monopoly and that the conventional model of the welfare loss from monopoly, in which monopoly profits are treated as a lump-sum transfer from consumers to the monopolist, was incomplete if potential monopolists spent resources to capture the monopoly right. Since economists typically believe that competition is ever present, the relevance of TULLOCK's argument is apparent – monopoly rights will not generally be exempt from competition and expenditures to capture such contrived transfers are a social cost. The earlier application of this discussion to the employment of lawyer-lobbyist resources by monopoly-seekers need not be repeated here[3].

What can be termed competitive rent seeking implies that the monopoly rents in *Figure 1* (P_cP_mAB) are exactly dissipated. TULLOCK's original formulation of the problem was in these terms, as were the subsequent contributions by KRUEGER [1974] and POSNER [1975]. Consider POSNER's example of how competitive rent seeking might work in practice. A monopoly right is worth $100,000. There are ten risk-neutral bidders among whom there is no collusion. Each will bid $10,000 for the right, an expenditure which cannot be returned if theirs is not the winning bid. The result is that the monopoly returns are dissipated at a social level – $100,000 is spent to capture a transfer of $100,000.

Empirical work with the competitive rent-seeking model is relatively easy to implement. In effect the analyst must estimate the area of a trapezoid rather than just a triangle. Both KRUEGER [1974] and POSNER [1975] have applied variations of such a model to derive estimates of rent-seeking costs. KRUEGER estimated that the value of rents in various parts of the Indian public sector constituted 7.3

2. Also see TULLOCK [1971, 1974] and BROWNING [1974].

3. One immediate implication of TULLOCK's insight, noted by POSNER [1974], is that studies of the distributional effects of monopoly are misleading (*e.g.*, COMANOR and SMILEY [1975]). Monopoly rents are *dissipated* (provided that lawyer-lobbyist earn normal returns) not *transferred*.

percent of national income. She also estimated the rents in Turkish import licenses in 1968 to be approximately 15 percent of GNP. POSNER has presented measures of rent-seeking costs in the U.S. economy. He asserts that such costs constitute roughly 3 percent of GNP, an amount which would have to be added to HARBERGER-type losses in the economy to obtain an estimate of the total social costs of monopoly and regulation. Rent-seeking analysis tends to magnify the problem of monopoly over and beyond the traditional measurements made by HARBERGER, rising to the challenge laid down by MUNDELL.

2. Rent Seeking and Consumers

In the usual presentation of the welfare costs of monopoly, whether of the HARBERGER- or the TULLOCK-POSNER-type, the role of the consumer is entirely passive. No account is made of potential consumer activities to counter monopolization efforts by producers. This assumption of economic impotence is typically made on the basis of stylized facts which portray consumers as an unorganized, widely dispersed group without incentive to try to restrain the political monopolization process.

Two things can be said about this non-treatment of consumers. First, as an empirical issue, it is surely wrong. Since the 1960's there has been a rapid growth in the number and size of organized consumer groups; EVANS [1980, p. 5] lists twenty-one major consumer organizations active in the U.S., including such familiar groups as Common Cause, the American Farm Bureau Federation, and the network of NADER organizations. The major groups concentrate on lobbying Congress and state legislatures, but there are also many smaller local groups which regularly appear in such mundane places as rate hearings to lobby for lower prices. Second, to the extent that welfare analysis does not include a role for consumer lobbying, it is lagging behind developments in the positive economic theory of rent seeking. PELTZMAN [1976], for example, offers a model in which a vote-maximizing regulator trades-off industry price and profits between consumer and producer forces. This formulation is squarely based on the idea that consumers impinge on political prices. As a corollary to PELTZMAN's contribution, it seems useful to expand the

normative theory of rent-seeking to include a role for consumers. Consider briefly how such an extension might be made[4].

A regulated producer is pricing his output at $LMC = LAC$ and wishes to obtain a variance in his license so that he can charge a higher price. He prefers any price above average cost in order to capture some portion of consumer surplus in the form of rent. It is assumed that direct bargaining between producers and consumers is not feasible and that consumers are effectively organized and informed of attempts by the producer to obtain licensing variances[5]. Finally, obtaining a monopoly right or preventing a monopoly price are not certain prospects for producers or consumers. Assume that the regulator decides cases by granting a price (in *Figure 1*) at or near P_m if the producer's arguments are convincing, at or near P_c if consumers' arguments hold sway, and between P_m and P_c if each sides' arguments have some element of merit.

In the determination of (total) social costs the expectations of both producer and consumers groups will play a key role. Given rational expectations on the part of both producers and consumers, social costs will be dependent upon the actual price chosen by the regulator. To the allocative losses resulting from various price-output solutions (between P_cQ_c and P_mQ_m) must be added the cost of monopolization – the cost of rent-seeking by producers *as well as* any blocking investment made by consumers.

The decision by producers to allocate resources to rent-seeking activities will be affected by their expectations regarding the behavior of the regulator. If producers expected that price would always be set at P_c, their investment in rent-seeking activities would be zero. But if they expected a price above P_c, some level of rent-seeking investment would be undertaken, up to the expected value of the prospective rent. Similarly, if consumers expected that P_m would always prevail, then rational consumer expenditures on efforts to lower the regulated price would be zero. When the expected value of the proceeding for consumers is negative, the magnitude is minimized by accepting the POSNER trapezoid loss and avoiding the loss

4. See BAYSINGER and TOLLISON [1980] for a more complete discussion of the following points.

5. See BUCHANAN and TULLOCK [1968] for a neglected analysis of monopoly where consumers and producers bargain directly over market outcomes.

of legal resources in futile litigation. When consumers assign a positive probability to the prospect of a favorable regulatory decision, they will rationally invest resources in blocking efforts, up to the amount of the expected value of such efforts.

The social cost of monopoly and regulation in this formulation is a variable which is related to the behavior of regulators who set political prices. Past behavior of the regulatory agency is important since it influences the formation of expectations by those affected by the regulatory process. These expectations determine the optimal level of resources that the parties will devote to the 'monopolization-demonopolization' process. It stands to reason that attempts to extract rents will be fought by affected parties unless such a contest is deemed futile. Thus, while the conventional result that rent-seeking expenditures are socially wasteful stands, the extent of such welfare losses is related to the nature of the institutional environment in which rent seeking takes place.

Moreover, as should be readily apparent, even the expanded analysis argued for here only scratches the surface of a complicated problem. The competition for rents in any particular case is not likely to be so simply characterized as a struggle between consumers and (constant-cost) producers. Where, for example, consumers face an upward sloping supply curve, their interest will lie in forming a buyers' cartel in order to monopsonize against producers. In this case producers seek monopoly rents, and consumers seek monopsony rents in an analogous fashion. And this model is based on an assumption that when price is above its competitive equilibrium value, it is constrained by demand (buyers cannot be forced to buy), and when it is below its equilibrium value, it is constrained by supply (sellers cannot be forced to sell). There is clearly much work to be done in this virtually untouched area.

3. Non-Competitive Rent Seeking

The use of the competitive rent-seeking model (without the complications of introducing consumers into the underlying theory) results in a tractable estimation procedure. Rents are *exactly* dissipated in this model, a result that avoids the messy problem of formulating an alternative specification in which rents are not exactly dissipated.

Nonetheless, the competitive rent-seeking model began to come unraveled as the result of a loosely organized experimental game.

BRENNAN proposed the following type of game which can easily (and perhaps profitably) be played with one's students. A fixed money prize is offered, for example, ten dollars. Participants are asked to make a sealed bid for the prize under the conditions that: (a) there is no collusion among bidders, (b) bids are not refunded, and (c) the highest bidder wins. The lottery pockets any profit or funds any loss associated with the game. The general analogy of the game to rent seeking is clear.

Although the game has not been run on a carefully controlled basis, the results have been all over the board. Both cases of overbidding and underbidding have been observed, and there appears to be no general tendency toward either type of result, most certainly not toward exact dissipation. Such evidence suggests that competitive rent seeking may not be a viable general theory with which to model cases of rent-seeking behavior.

Work to construct a useful model of imperfectly competitive rent seeking is in its infancy, and TULLOCK [1980a] has done the major seed work along these lines. In contrast to the BRENNAN game, where marginal adjustments in bids are *not* allowed, TULLOCK investigates the outcome of rent seeking where marginal changes in the bids for a specified reward are allowed. The conditions of his experiment are essentially the same as those for the BRENNAN game (*e.g.*, ticket revenues are kept by the lottery), except that he introduces the additional assumption that if there is a correct strategy in the game, all participants will discover it. Under these conditions TULLOCK considers the case of two individuals bidding for a $100 prize. In the BRENNAN game each party would invest $50 as bidders compare *total cost* with *total return.* Yet if marginal adjustments in bids are allowed and players can compare *marginal cost* and *marginal return,* each party will invest only $25 in the lottery, for only at that level is the cost of an additional ticket equated to the marginal expected value of winning. By postulating a game that is not a linear function of contributions, TULLOCK is able to produce an *underbidding* result in the theory of rent seeking[6].

6. A problem with TULLOCK's game is that it does not yield a NASH equilibrium.

TULLOCK goes on in this paper to investigate the impact of the number of players (more rent seeking), the shape of the marginal cost function with respect to rent seeking (a flatter marginal cost function means less rent seeking) and the role of precommitment bids (a game within itself) on the extent of rent-seeking activities. Perhaps more importantly, however, he investigates some of the properties of strategy games in which virtually anything can happen. For example, there are rent-seeking games in which individual players will make contributions larger than the specified prize or in which the sum of players' bids exceeds the value of the prize. While these *overbidding* results seem irrational on the face of it (a player could increase his wealth by not playing), as TULLOCK points out, the general rule of not playing may be vitiated by the fact that if all players followed this rule except one, he could make large profits by playing. As in cartel or oligopoly theory, formal theory is little help in analyzing strategy games. In small-number situations such features as personality, bargaining skills, facial expressions, and, most importantly, the ability to interpret what others will do will be the basic determinants of outcomes.

The importance of TULLOCK's work on efficient rent seeking is to show the potential complexity of rent-seeking games. While the competitive rent-seeking model will continue to be useful in applied, empirical studies, it surely cannot be taken as *the* general rent-seeking model. As TULLOCK's work makes clear, many results are plausible, and institutional parameters will affect observed rent-seeking results.

4. Second-Best Considerations

BHAGWATI and SRINIVASAN [1980] and BHAGWATI [1980] apply the theory of second-best to rent seeking. They draw on earlier contributions to the theory of immiserizing growth where it is shown that additional resources can lead to negative growth in a tariff-distorted economy. With tariff distortions resources withdrawn from a project can have a negative shadow price 'such that even a zero-output "project" ... may be socially desirable' [BHAGWATI and SRINIVASAN 1980, p. 1077]. They produce a similar proof for lobbying expenditures in which the diversion of resources into lobbying

can be welfare-improving if the shadow price of the resources used for lobbying is negative.

The curious aspect of their proof is that it depends on an assumption that part of the revenues potentially available for rent seeking are ruled to be a lump-sum transfer and hence are *not* subject to rent seeking. This virtually guarantees the welfare-improving result in that it rules out the prospect that resources are simply reallocated from one wasteful activity to another, with welfare on net unchanged. Such an assumption poses problems. As argued above, once the state contrives a scarcity value, rent seeking will ensue on the relevant margin, either directly in lobbying activities or indirectly in some other manner. Lump-sum transfers or taxes are hard fictions to sustain in the rent-seeking society, a fact which detracts from the relevance of the type of analysis presented by BHAGWATI and SRINIVASAN.

5. *The Domain of Rent Seeking*

Before turning to the literature on positive rent-seeking theory, a transitional point, which applies to both normative and positive theory, is worth noting. The applicability of rent-seeking theory does not depend on a government-propped up monopoly right. The domain of rent seeking also includes institutional processes in the private sector. A well known example concerns non-price competition among imperfectly competitive firms (CHAMBERLIN [1933]; BUCHANAN [1942]). Many variations of this analysis have appeared in the literature of industrial organization. The basic structure of these models is that non-colluding firms face a prisoners' dilemma with respect to non-price competition. All could increase their net worth by resisting additional advertising expenditures, but unilateral defections from such an 'agreement' appear worthwhile to the individual firm. Yet if all firms defect, 'excessive advertising' and lower average profitability appear in the industry. Moreover, multilateral disarmament is ruled out by antitrust considerations.

There will be no attempt here to take a detailed look at the extensive literature embodying this type of analysis. The point is to draw the implication that rent seeking can readily inhere in a pri-

vate setting. In fact, COWLING and MUELLER [1978] include such assumptions about non-price expenditures in their calculations of the social costs of monopoly in the U.S. and the U.K. Naturally, the problem of monopoly becomes much more significant in such an estimation procedure, and the COWLING and MUELLER paper is a radical but suggestive approach about how the empirical implications of private rent-seeking processes can be handled in terms of their implications for welfare analytics[7].

IV. THE POSITIVE ECONOMIC THEORY OF RENT SEEKING

Rent-seeking theory generalizes in positive economic terms to the interest-group theory of government and legislation. This follows in the sense that the basis for evaluating the welfare costs of rent seeking was primarily related to the nature of the competition among various individuals and groups for government-protected rents. Positive rent-seeking theory seeks to enlarge upon this analysis by proposing *testable* explanations of the behavior of interest groups[8].

1. Self-Interest and Political Behavior

The interest-group approach to understanding government is based on the observation that there is a sizeable gap between standard economic rationalizations for state intervention in the economy and the actual properties of specific instances of state intervention. This theory seeks refutable propositions and predictions about how government agents function in order to explain the divergencies between the prescriptions of economists and governmental practice. The interest-group model implies that the behavior of political actors within given political institutions can be usefully analyzed by

7. A final point about the domain of rent seeking is that the industrial organization literature on non-price competition analyzes rent seeking *across* firms in an industry. A companion problem relates to the potential for rent-seeking behavior and costs *within* firms. See WILLIAMSON [1975], MARRIS and MUELLER [1980], and FAITH, HIGGINS and TOLLISON [1982] for analyses of this problem.

8. This section draws heavily on MCCORMICK and TOLLISON [1981, especially Chs. 1 and 2].

following the guideline that individual economic agents obey the postulates of self-interest.

A paramount difference between politics and the market consists of the different constraints that confront self-interested actors in the two cases. The market is a proprietary setting where individuals bear the consequences of their actions in the form of changes in their net wealth. The political setting is a non-proprietary setting where individual agents do not always feel the full benefit and cost of their decisions. Behavior will differ in the two cases, not because the objectives of behavior are different, but because constraints on behavior are different.

The problem can be discussed in agent-principal terms. An agent agrees to perform a service for a principal. Because the agent and principal are both wealth-maximizers and because it is costly to monitor and control the behavior of the agent, it is not likely that the behavior of the agent will always comport with the interest of the principal. The point is that political agents face different constraints than private agents because their principals (*e.g.*, voters and stockholders) face different incentives to control the behavior of their agents. Managers of private firms have increased incentives to control costs because increased costs come at the expense of firm profitability. Managers of political firms do not have similar incentive to control costs because they cannot receive personally any savings that they effect for their agencies and since it is costly for voters to delimit shirking by political managers (*e.g.*, recall).

2. The Basis of a Transfer Society

Wealth transfers in a representative government must be predicated on the existence of certain types of costs. Without the existence of such costs wealth would never be willingly given up by an individual voter unless a proposed transfer were PARETO-superior in nature. In a world of zero transaction and information costs only welfare-enhancing transfers will be passed by political representatives. When information and transaction costs are possible, some groups will be able to organize and acquire information more cheaply than others, and these differences among groups will give rise to a demand and supply of wealth transfers.

Voting rules are also crucial. A unanimity rule and costless voting would yield no PARETO-inferior transfers. Majority rule will increase the amount of transfers because it lowers the costs of influencing collective decisions. A key to understanding transfers resides in the costly voting side of the problem.

The individual faces two types of information costs with respect to engaging in transfer-seeking. He must spend resources to discover the effects of a policy on his personal wealth and to identify other individuals who will join him on the issue. Several possibilities arise in this regard. (1) Winners and losers are well identified and can easily find out who each other are. (2) Winners and losers are not easily identified. (3) Winners can be easily identified while losers cannot. (4) Losers can be easily identified while winners cannot. The major implication that follows from this taxonomy is the well known result that more transfers are expected in a category such as (3). Politicians will have incentives to search for the issues on which well organized groups gain transfers at the expense of the diffuse general polity.

Another point about organization costs is that these costs are like start-up costs. Once they are borne, they do not affect marginal costs. Groups that have already incurred start-up costs, for reasons unrelated to lobbying, will have a comparative advantage in seeking transfers. This is a point about jointness in production. Some groups will be able to produce lobbying as a by-product of performing some other function, thereby avoiding start-up costs for lobbying. There are many examples of this phenomenon in the economy, among which are labor unions, trade associations, and corporations.

In addition to organization and information costs there are costs which are due to the potential for individuals to 'free ride' on the lobbying efforts of others. Lobbying groups will find it useful to devise institutions which cut down on free riding by members. For example, organized labor relies upon institutions such as union halls, labor bosses and national federations to overcome the paradox of voting and to bring forth a supply of votes from its members. Labor union members will vote because they know that other members will vote and their votes will thus 'count' in an expected value sense[9].

9. For the general analysis underlying this discussion, see STIGLER [1974] and MCCORMICK and TOLLISON [1980].

3. *The Interest-Group Theory of Government and Legislation*

Building on these widely recognized points, the interest-group theory of government has evolved in two dimensions. The first is the theory of economic regulation which seeks to explain *prevailing* government regulation in interest-group terms. The second is the economic theory of legislation which seeks to explain the *origin* of government regulation and other wealth-transfer schemes.

In its simple form the interest-group theory of economic regulation has a long history, primarily in the literature of political science and public choice [POSNER 1974]. The most elementary form of the theory is a 'capture theory' of regulation. In this form of the model there are a small number of producers who are able to overcome free riding costs and organize to wield *complete* (wealth-maximizing) influence over regulators. Despite the losses in real income which they suffer from monopoly-enhancing legislation, consumer interests are left out of account in the pure capture theory because they have no rational incentive to organize to resist regulations in favor of producers (it costs more than it is worth).

This simple version of the capture theory is easy to confuse with Marxism. It seems to suggest that Capital uses the state to capture income from Labor. The confusion with Marxist theory is more apparent than real. STIGLER [1971] presented the interest-group theory in terms of the costs and benefits to various groups of using the state to increase their wealth. He showed that under certain configurations of costs and benefits some large producer groups (*e.g.*, farmers and union members) will find it feasible to seek wealth transfers from the state, while some small producer groups (*e.g.*, automobile firms) will organize mainly to resist negative regulation. Moreover, any group of sellers or buyers potentially qualifies as an interest group in this theory. Labor and capital can form potent interest groups in STIGLER's theory and will sometimes (often?) find themselves allied in the pursuit of a wealth transfer for a particular industry[10].

The most important subsequent contribution to the theory of economic regulation was made by PELTZMAN [1976]. PELTZMAN

10. Another important contemporaneous contribution to this theory is POSNER [1971].

presents a generalization of STIGLER's theory by introducing the role of opposition groups in determining regulatory behavior. He presents a model of equilibrium political prices in which a vote-maximizing regulator trade-offs the rents he gives to producers relative to the costs imposed on consumers in the process of setting regulated prices. PELTZMAN's contribution removes the interest-group theory a step further from the simple capture theory because it demonstrates the validity of STIGLER's conjecture that political price-setting does not always take place in a way that is pure profit-maximizing to the regulated industry. PELTZMAN's vote-maximizing regulator, however, remains a mystery actor in the theory since a voting process is not specifically addressed in the analysis[11].

The second general line of attack in the interest-group theory concerns the role of legislators in promoting wealth-transfer programs. A number of works have appeared dealing with what might be called the interest-group theory of legislation. A basic paper here is again by STIGLER [1976]. The approach taken by STIGLER is to consider political processes as analogous to economic processes and therefore subject to the same analysis as other economic organizations. As stressed above, participants in politics are viewed as utility-maximizers operating under different institutional constraints.

STIGLER models the sizes of legislatures as responsive to desires of group interests. He perceives that representatives are chosen by these groups on the basis of the values that the groups assign to particular policies. These values are found by summing and discounting the net benefits of any particular action over the potentially affected people. There will normally be quite a few issues which affect the welfare of individual voters in a trivial way. Some of the issues will be important, however, and these issues will be responsible for the selection of representatives.

The valuations that interest groups place on issues are perceived as a demand for legislation. This does not automatically mean that every interest group will have its own representatives. As STIGLER stresses, many groups have similar interests and can use the same

11. For other and more recent contributions to the theory of economic regulation, see BROCK and MAGEE [1978], CRAIN and MCCORMICK [1981] and MALONEY, MCCORMICK and TOLLISON [1981].

representatives. Furthermore, some groups will not find it efficient to seek representation (their organizational costs exceed the expected benefits from legislation).

Having taken the view that the political process can be analyzed in a positive economics framework, STIGLER presents a model of the sizes of legislatures. He hypothesizes legislative size (for both U.S. state senates and houses) as a function of population, the rate of change in population, population density and a dummy variable for New England which has unusually large legislatures. His predictions are that larger populations represent more demand for legislators while larger rates of change in population and higher population densities imply smaller legislatures. The model is statistically robust with the exception of the population density variable[12].

STIGLER [1976, p. 31] concludes with the following observation: 'The foregoing discussion of the sizes of legislatures is long on problems and short on solutions. The problems are commended to economists, not only because of their obvious political importance, but also because these problems in general have counterparts in the organization of economic activity.' He offers a powerful brief for this point of view in an earlier paper [STIGLER 1972]. He suggests that the tendency of economists to view politics and the market as fundamentally different institutional processes is misplaced and that the typical *all-or-nothing* characterization of political competition needs to be revised. STIGLER offers a theory of political competition in which, like the market, the output of a political process is construed as ranging *continuously* from failure to success. An implication of his approach is that it is incorrect to label the winning of 51 percent of legislative seats as a victory and 49 percent a defeat. Alternatively, he models political process in marginal and not all-or-none terms[13].

STIGLER, of course, is talking in positive economic terms here. He fully recognizes that one must use care in drawing normative

12. There is a remarkably small variation in legislative sizes across U.S. states. This follows from the fact that transactions costs increase at an increasing rate as size increases in any collective decision making arrangement.

13. For some evidence on STIGLER's characterization of political competition, see CRAIN and TOLLISON [1976] and MCCORMICK and TOLLISON [1980].

analogies between market and political processes. When economists talk about competition in a private setting, certain efficiency implications follow. These same implications do not necessarily follow from competition in political markets.

In a representative democracy voter-taxpayers can be seen as owners (principals) and politicians as managers (agents). Elections are a means to choose political managers to monitor and control the governmental enterprise until the next election. In this light consider three points about elections. First, the right to run the government is not sold to the highest bidder; it is granted in a voting process. As is well known, not only will the size of bids from aspiring politicians be important, but their distribution among voters will be crucial in determining outcomes under majority voting. A major difference, then, between politics and the market is that the highest bidder will not necessarily secure control of the 'political firm'. Second, voter-taxpayers have no way to liquidate their ownership rights in government. Unlike owners of private firms, voters cannot sell their ownership rights to politicians in exchange for a payment before productive activity begins. Contract owners in politics get paid after production has taken place. Third, politicians are elected for their positions on many issues. This is in contrast to market decision making where consumers can unbundle and make marginal decisions.

The point of this discussion is that political competition under one man-one vote conditions does not lead to efficient outcomes in the same sense that such outcomes are produced by competition in private markets. One cannot therefore rely on supply-side forces in politics to generate efficient outcomes. This does not mean that economic efficiency will never impinge on political choices; it means that rent seeking poses costs (lost votes because of welfare reduction) and benefits (rent capture) which the politician will try to equate at the margin.

There have been a number of other useful developments in the interest-group theory of legislation. Perhaps the most important effort is the theory of the independent judiciary proposed by LANDES and POSNER [1975]. They view the independent judiciary as a long-term contracting institution in the interest-group theory. They contend that since judicial decision makers typically resolve legal dis-

putes by enforcing the desires of the legislature which originally enacted the legislation (an empirical observation), granting the judiciary independence (life tenure) and thereby breaking its bond with the current legislature increases the present value of the 'contracts' that legislators make with special interests. Moreover, in a similar vein LANDES and POSNER examine how the rules of the legislature can impart durability to legislation by making its repeal more costly[14].

The interest-group theory has evolved beyond these basic papers in a series of works which essentially treat politicians as an interest group in their own right. CRAIN [1977] models the turnover of politicians with a model which stresses the cartel-like aspects of representative government (*e.g.*, one representative per district). MCCORMICK and TOLLISON [1978] investigate the pay of legislators and find that legislator pay is a function of whether legislators are allowed to set their own pay versus having it set by voters in the constitution. They also offer a theory of the occupational composition of legislatures in which lawyers dominate low-pay legislatures because they are comparatively proficient at procuring outside earnings as legislators. Beyond and inclusive of these papers, MCCORMICK and TOLLISON [1981] present a theory of legislative activity based on the principle that legislation is equivalent to wealth transfers and that a useful way to model legislative activity is in terms of the role of politicians as brokers of transfers.

4. Applications

Several recent applications of rent-seeking theory have appeared in the area of economic history. LANE [1979], in fact, is a neglected precursor of rent-seeking theory, and his discussion of the role of 'protection rents' in the development of the colonial policies of the early nation-states is fascinating, and as DAVIS [1980] stresses, very relevant to modern scholarship in economic history. Also writing in this tradition, EKELUND and TOLLISON [1980; 1982] present a positive economic theory of mercantilism which uses rent-seeking

14. For two tests of the LANDES-POSNER theory, with results favorable to their basic hypotheses, see CRAIN and TOLLISON [1979a, 1979b].

analysis to explain the extensive economic regulation of the mercantile economies. For related and complementary approaches to developing explanations of economic history the reader should also see NORTH [1979] and NORTH and THOMAS [1973].

Also in economic history note should be taken of a recent application of interest-group theory by MARVEL [1977] to explain the origin of the English Factory Acts. The conventional analysis explains the restrictions placed on child and women laborers as inspired by humanitarian motives. MARVEL pierces this rhetoric by examining the intra-industry effects of the output restrictions engendered by the acts. His evidence points to the interests of steam-powered relative to water-powered owners and underscores the important point that an industry is not a monolithic demander of rents from government. Legislation can impact on the intra-industry distribution of rents across firms with differing marginal cost functions, and a struggle for these differential rents will inform the legislation affecting an industry in many cases. Other examinations of intra-industry competition for rents include GUTTMAN [1978], BRENNAN and TOLLISON [1980], LANDES [1980], and MALONEY and MCCORMICK [1982].

International trade is another area in which positive applications of the interest-group model have appeared. PINCUS [1975] presents and tests an interest-group model to explain the U.S. Tariff Act of 1824. Using 1820 structural data, he offers an explanation of 1824 duty levels with his model. CAVES [1976] sets out to explain the variation in tariff protection accorded Canadian industries. To do so he posits three basic political models, one of which is an interest-group model. Empirically, the interest-group model works best in explaining 1963 Canadian tariff rates.

There have been several recent applications of rent-seeking theory in the area of public economics. GOETZ [1978] analyzes tax preferences and the concept of horizontal equity using the principle of rent capitalization as earlier outlined by TULLOCK [1975]. BUCHANAN [1980b] examines traditional prescriptions to internalize external economies in the context of rent-seeking behavior. He argues that the prevalence of direct regulation versus an auction approach to externality problems results from the desire of rent seekers to avoid the dissipation of the potential rents inherent in the solution of

common-property problems. FOSTER [1981] examines the impact of rent seeking on traditional conclusions in cost-benefit analysis. Conventional theory says that when demand- and supply-price diverge and rents exist in the private sector, the reallocation of resources from such activities into public investments should reflect a shadow price *inclusive* of the value of these rents. In other words, a dollar of public investment has an opportunity cost of more than a dollar. FOSTER argues, however, that if private rents are dissipated by rent seeking, all private resources are earning normal returns, both those involved in production and those involved in rent seeking, and hence a dollar of public investment involves an opportunity cost of a dollar of private investment.

Finally, there are a number of recent applications of the interest-group theory in the area of public choice. SILBERMAN and DURDEN [1976] and KAU and RUBIN [1978] examine the impact of economic interests on the pattern of voting on minimum-wage legislation. ABRAMS and SETTLE [1978] apply the economic theory of regulation to explain the recent change to public financing of presidential elections in the U.S. ECKERT [1973] develops an insightful discussion of the incentives of regulators as a function of whether they are full-time civil servants or part-time elected commissioners[15].

V. CONCLUDING REMARKS

Economic rent is not new to economists. Yet as this essay hopefully demonstrates, the full implications of the role of rents in the economy are just starting to emerge. In this sense rent seeking is an interesting intellectual innovation. As a rereading of TULLOCK's 1967 paper would convince virtually anyone, the insight that brought about the idea of rent seeking was exceedingly simple. Rents are competed for, and where rents are contrived, this competition has important normative and positive implications for economic analysis. The moral is perhaps that important advances in economics do not naturally have to flow from a highly mathematical or statistical approach

15. This review of applications could undoubtedly be easily expanded, but the point is not to be copious. It is only to suggest the direction of applied scholarship in this area. Apologies are tendered for any glaring omissions.

to the subject. In this regard TULLOCK's original paper on rent seeking calls to mind COASE's [1960] seminal work on social cost.

REFERENCES

ABRAMS, BURTON A. and SETTLE, RUSSELL F.: 'The Economic Theory of Regulation and the Public Financing of Presidential Elections', *Journal of Political Economy*, Vol. 86 (April 1978), pp. 245–258.

BAYSINGER, BARRY, EKELUND, ROBERT B. Jr. and TOLLISON, ROBERT D.: 'Mercantilism as a Rent-Seeking Society', in: BUCHANAN, TOLLISON and TULLOCK (Eds.): *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980, pp. 235–268.

BAYSINGER, BARRY and TOLLISON, ROBERT D.: 'Evaluating the Social Costs of Monopoly and Regulation', *Atlantic Economic Journal*, Vol. 8 (December 1980), pp. 22–26.

BHAGWATI, JAGDISH N.: 'Lobbying and Welfare', *Journal of Public Economics*, Vol. 14 (1980), pp. 355–363.

BHAGWATI, JAGDISH N. and SRINIVASAN, T.N.: 'Revenue Seeking: A Generalization of the Theory of Tariffs', *Journal of Political Economy*, Vol. 88 (December 1980), pp. 1069–1087.

BRENNAN, H. GOEFFRY and TOLLISON, ROBERT D.: 'Rent Seeking in Academia', in: BUCHANAN, TOLLISON and TULLOCK (Eds.): *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980, pp. 344–356.

BROCK, WILLIAM A. and MAGEE, STEPHEN P.: 'The Economics of Special Interest Politics: The Case of the Tariff', *American Economic Review*, Vol. 68 (May 1978), pp. 246–250.

BROWNING, EDGAR K.: 'On the Welfare Cost of Transfers', *Kyklos*, Vol. 26 (April 1974), pp. 374–377.

BUCHANAN, JAMES M.: 'Rent Seeking and Profit Seeking', in: BUCHANAN, TOLLISON and TULLOCK (Eds.): *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980a, pp. 3–15.

BUCHANAN, JAMES M.: 'Rent Seeking Under External Diseconomies', in: BUCHANAN, TOLLISON and TULLOCK (Eds.): *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980b, pp. 183–194.

BUCHANAN, JAMES M. and TULLOCK, GORDON: 'The "Dead" Hand of Monopoly', *Antitrust Law and Economics Review*, Vol. 1 (Summer 1968), pp. 85–96.

BUCHANAN, JAMES M., TOLLISON, ROBERT D. and TULLOCK, GORDON (Eds.): *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980.

BUCHANAN, NORMAN S.: 'Advertising Expenditures: A Suggested Treatment', *Journal of Political Economy*, Vol. 50 (August 1942) pp. 537–557.

CAVES, RICHARD E.: 'Economic Models of Political Choice: Canada's Tariff Structure', *Canadian Journal of Economics*, Vol. 9 (May 1976), pp. 278–300.

CHAMBERLIN, EDWARD H.: *The Theory of Monopolistic Competition*, Harvard University Press, Cambridge, Massachusetts, 1933.

COASE, RONALD H.: 'The Problem of Social Cost', *Journal of Law and Economics*, Vol. 3 (October 1960), pp. 1–44.

COMANOR, WILLIAM S. and SMILEY, ROBERT H.: 'Monopoly and the Distribution of Wealth', *Quarterly Journal of Economics*, Vol. 89 (May 1975), pp. 177–194.

COWLING, KEITH and MUELLER, DENNIS C.: 'The Social Costs of Monopoly Power', *Economic Journal*, Vol. 88 (December 1978), pp. 727–748.

CRAIN, W. MARK: 'On the Structure and Stability of Political Markets', *Journal of Political Economy*, Vol. 85 (August 1977), pp. 829–842.

CRAIN, W. MARK and MCCORMICK, ROBERT E.: 'Regulators as an Interest Group', unpublished manuscript, 1981.

CRAIN, W. MARK and TOLLISON, ROBERT D.: 'Campaign Expenditures and Political Competition', *Journal of Law and Economics*, Vol. 19 (April 1976), pp. 177–188.

CRAIN, W. MARK and TOLLISON, ROBERT D.: 'Constitutional Change in an Interest-Group Perspective', *Journal of Legal Studies*, Vol. 8 (January 1979a), pp. 165–175.

CRAIN, W. MARK and TOLLISON, ROBERT D.: 'The Executive Branch in the Interest-Group Theory of Government', *Journal of Legal Studies*, Vol. 8 (June 1979b), pp. 555–567.

DAVIS, LANCE E.: 'It's a Long Road to Tipperary, or Reflections on Organized Violence, Protection Rents, and Related Topics: The New Political History', *Journal of Economic History*, Vol. 40 (March 1980), pp. 1–16.

ECKERT, ROSS D.: 'On the Incentives of Regulators: The Case of Taxicabs', *Public Choice*, Vol. 14 (Spring 1973), pp. 83–100.

EKELUND, ROBERT B., Jr. and TOLLISON, ROBERT D.: 'Economic Regulation in Mercantile England: Heckscher Revisited', *Economic Inquiry*, Vol. 18 (October 1980), pp. 567–599.

EKELUND, ROBERT B., Jr. and TOLLISON, ROBERT D.: *Mercantilism as a Rent-Seeking Society: Economic Regulation in Historical Perspective*, Texas A&M University Press, College Station, 1982.

EVANS, JOEL R. (Ed.): *Consumerism in the United States*, Praeger, New York 1980.

FAITH, ROGER L., HIGGINS, RICHARD and TOLLISON, ROBERT D.: 'Managerial Rents and Outside Recruitment in the Coasian Firm', unpublished manuscript, 1982.

FOSTER, EDWARD: 'The Treatment of Rents in Cost-Benefit Analysis', *American Economic Review*, Vol. 71 (March 1981), pp. 171–178.

GOETZ, MICHAEL L.: 'Tax Avoidance, Horizontal Equity, and Tax Reform: A Proposed Synthesis', *Southern Economic Journal*, Vol. 44 (April 1978), pp. 798–812.

GUTTMAN, JOEL M.: 'Interest Groups and the Demand for Agricultural Research', *Journal of Political Economy*, Vol. 86 (June 1978), pp. 467–484.

HARBERGER, ARNOLD C.: 'Monopoly and Resource Allocation', *American Economic Review*, Vol. 44 (May 1954), pp. 77–87.

KAU, JAMES B. and RUBIN, PAUL H.: 'Voting on Minimum Wages: A Time-Series Analysis', *Journal of Political Economy*, Vol. 86 (April 1978), pp. 337–342.

KIRZNER, ISRAEL: *Competition and Entrepreneurship*, University of Chicago Press, Chicago, 1973.

KRUEGER, ANNE O.: 'The Political Economy of the Rent-Seeking Society', *American Economic Review*, Vol. 64 (June 1974), pp. 291–303.

LANDES, ELISABETH M.: 'The Effect of State Maximum-Hours Laws on the Employment of Women in 1920', *Journal of Political Economy*, Vol. 88 (June 1980), pp. 476–494.

LANDES, WILLIAM M. and POSNER, RICHARD A.: 'The Independent Judiciary in an Interest-Group Perspective', *Journal of Law and Economics*, Vol. 18 (December 1975), pp. 875–901.

LANE, FREDERIC C.: *Profits From Power: Readings in Protection Rent and Violence Controlling Enterprises*, State University of New York Press, Albany, 1979.

MALONEY, MICHAEL T. and MCCORMICK, ROBERT E.: 'Environmental Quality Regulation', *Journal of Law and Economics*, Vol. 25 (April 1982), pp. 99–123.

MALONEY, MICHAEL T., MCCORMICK, ROBERT E. and TOLLISON, ROBERT D.: 'Exporting Economic Regulation', unpublished manuscript, 1981.

MARRIS, ROBIN and MUELLER, DENNIS C.: 'The Corporation, Competition, and the Invisible Hand', *Journal of Economic Literature*, Vol. 18 (March 1980), pp. 32–63.

MARVEL, HOWARD P.: 'Factory Regulation: A Reinterpretation of Early English Experience', *Journal of Law and Economics*, Vol. 20 (October 1977), pp. 379–402.

MCCORMICK, ROBERT E. and TOLLISON, ROBERT D.: 'Legislatures as Unions', *Journal of Political Economy*, Vol. 86 (February 1978), pp. 63–78.

MCCORMICK, ROBERT E. and TOLLISON, ROBERT D.: 'Wealth Transfers in a Representative Democracy', in: BUCHANAN, TOLLISON and TULLOCK (Eds.): *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980, pp. 293–313.

MCCORMICK, ROBERT E. and TOLLISON, ROBERT D.: *Politicians, Legislation, and the Economy: An Inquiry into the Interest-Group Theory of Government*, Martinus-Nijhoff, Boston 1981.

MUNDELL, ROBERT A.: 'Review of Jansenn's *Free Trade, Protection and Customs Union*', *American Economic Review*, Vol. 52 (June 1962), pp. 621–622.

NORTH, DOUGLASS C.: 'A Framework for Analyzing the State in Economic History', *Explorations in Economic History*, Vol. 16 (1979), pp. 249–259.

NORTH, DOUGLAS C. and THOMAS, ROBERT P.: *The Rise of the Western World*, Cambridge University Press, Cambridge, 1973.

PELTZMAN, SAM: 'Toward a More General Theory of Regulation', *Journal of Law and Economics*, Vol. 19 (August 1976), pp. 211–240.

PINCUS, JONATHAN J.: 'Pressure Groups and the Pattern of Tariffs', *Journal of Political Economy*, Vol. 83 (August 1975), pp. 757–778.

POSNER, RICHARD A.: 'Taxation by Regulation', *Bell Journal of Economics and Management Science*, Vol. 2 (Spring 1971), pp. 22–50.

POSNER, RICHARD A.: 'Theories of Economic Regulation', *Bell Journal of Economics and Management Science*, Vol. 5 (Autumn 1974), pp. 335–358.

POSNER, RICHARD A.: 'The Social Costs of Monopoly and Regulation', *Journal of Political Economy*, Vol. 83 (August 1975), pp. 807–827.

SCHERER, F.M.: *Industrial Market Structure and Economic Performance*, Rand McNally, Chicago, 1980.

SILBERMAN, JONATHAN I. and DURDEN, GAREY C.: 'Determining Legislative Preferences on the Minimum Wage: An Economic Approach', *Journal of Political Economy*, Vol. 84 (April 1976), pp. 317–329.

STIGLER, GEORGE J.: 'The Theory of Economic Regulation', *Bell Journal of Economics and Management Science*, Vol. 2 (Spring 1971), pp. 3–21.

STIGLER, GEORGE J.: 'Economic Competition and Political Competition', *Public Choice*, Vol. 13 (Fall 1972), pp. 91–106.

STIGLER, GEORGE J.: 'Free Riders and Collective Action: An Appendix to Theories of Economic Regulation', *Bell Journal of Economics and Management Science*, Vol. 5 (Autumn 1974), pp. 359–365.

STIGLER, GEORGE J.: 'The Sizes of Legislatures', *Journal of Legal Studies*, Vol. 5 (January 1976), pp. 17–34.

TULLOCK, GORDON: 'The Welfare Costs of Tariffs, Monopolies, and Theft', *Western Economic Journal*, Vol. 5 (June 1967), pp. 224–232.

TULLOCK, GORDON: 'The Cost of Transfers', *Kyklos*, Vol. 24 (December 1971), pp. 629–643.

TULLOCK, GORDON: 'More on the Cost of Transfers', *Kyklos*, Vol. 27 (April 1974), pp. 378–381.

TULLOCK, GORDON: 'The Transitional Gains Trap', *Bell Journal of Economics*, Vol. 6 (Autumn 1975), pp. 671–678.

TULLOCK, GORDON: 'Efficient Rent Seeking', in: BUCHANAN, TOLLISON and TULLOCK (Eds.): *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980a, pp. 3–15.

TULLOCK, GORDON: 'Rent Seeking as a Negative-Sum Game', in: BUCHANAN, TOLLISON and TULLOCK (Eds.): *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980b, pp. 16–36.

WILLIAMSON, OLIVER E.: *Markets and Hierarchies: Analysis and Antitrust Implications*, The Free Press, New York, 1975.

SUMMARY

This paper offers a survey of the theory of the rent-seeking society. Rent seeking is defined as the study of how individuals compete for artificially contrived transfers. Both the normative and positive implications of rent seeking are covered. The former refers to the estimation of the social costs of rent-seeking behavior to the economy. The latter are attempts to explain the source and form of contrived rents in the political-economic system. Possible extensions of rent-seeking theory are also presented.

ZUSAMMENFASSUNG

Der Aufsatz gibt einen Überblick über die Theorie der *rent-seeking society*. Diese Theorie beschäftigt sich mit der Frage, wie sich Individuen um künstlich geschaffene Transfers bewerben. Sowohl auf die normativen als auch auf die positiven Aspekte wird eingegangen. Bei den ersten geht es um die Schätzung der sozialen Kosten des *rent-seeking*-Verhaltens; bei den letzten um die Erklärung der Quelle und Form der gebildeten Renten im politisch-ökonomischen System. Ausserdem werden mögliche Erweiterungen der Theorie erläutert.

RÉSUMÉ

Cet article présente un résumé de la théorie de la *rent-seeking society*. *Rent-seeking* se définit comme l'étude de la manière dont les individus rivalisent pour les transfers artificiellement imaginés. L'auteur examine les implications normatives et positives du *rent-seeking*. Ces dernières font référence à l'estimation des couts sociaux du comportement de *rent-seeking* dans l'économie. Les premières cherchent à expliquer la source et la forme des rentes dans le système politico-économique. L'auteur présente également des extensions possibles de la théorie.