The theory of 'rent seeking': some reflections[1]

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Abstract. Rent seeking theory is concerned with the deployment of interest group power to manipulate government in order to obtain special advantages. The normative side of the theory argues that the resources used in seeking these advantages are essentially wasted, because they result in the redistribution of income and wealth rather than its creation. The positive side of the theory is concerned with interest groups: under what conditions do they form and when are they most successful? The normative issues raised are fundamentally too conservative to be persuasive. The positive issues are unproven. And there is another way of viewing these issues that has considerable appeal. It involves the interaction among a number of intersecting games. The novelty of the latter is that the role of the media is emphasized.

La théorie de la 'recherche de rentes' : réflexions préliminaires. La théorie de la 'recherche de rentes' (rent-seeking) analyse les efforts par les groupes de pression pour obtenir certains avantages en manipulant les instances gouvernementales. Dans ses aspects normatifs, la théorie suggère que les ressources utilisées à cette fin sont essentiellement du gaspillage puisqu'il n'y a pas création de richesse mais simplement une redistribution de revenu et de richesse. Dans ses aspects positifs, la théorie étudie les conditions susceptibles de donner lieu à la formation de groupes de pression et ce qui va déterminer si leurs efforts vont réussir. Il semble que les dimensions normatives de la théorie soient trop fondamentalement conservatrices pour emporter l'adhésion et que les dimensions positives restent encore à prouver. L'auteur suggère qu'il existe une approche de rechange à ces problèmes qui semble prometteuse: c'est l'approche qui met l'accent sur l'entrecroisement de jeux. La nouveauté de cette approche c'est qu'elle met l'accent sur le rôle des médias.

'Rent seeking' can be defined comprehensively as investments of real resources undertaken by individuals or groups (coalitions) of individuals with similar interests in the expectation of

- obtaining an increase (avoiding a decrease) in their income wealth as a result of securing (blocking) changes in legal rights; or
- maximizing the benefit (minimizing the cost) of earlier policy changes that created non-exclusive rights.

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1 The theory of rent seeking was developed following a lead provided by Gordon Tullock (1967). The term is attributed to Krueger (1974). An admirable, comprehensive survey of the literature can be found in Tollison (1982). See also Buchanan, Tollison, and Tullock (1980).

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Thus rent seeking is concerned with neither Ricardian rents nor the quasi-rents that arise temporarily under private-sector profit seeking. It is directed at 'contrived' as distinct from 'natural' rents.

By ignoring the underlying distributive purpose of many and perhaps most public policies, whether or not stated or admitted, economists have ignored, at least until recently, the significant resource costs involved in lobbying for the introduction or modification of policies and in struggling to obtain benefits or escape the costs imposed under existing policies. The theory of rent seeking provides a potentially useful conceptual framework whereby political / distributional considerations can be taken into account in positive economic analysis.

Despite the apparent success achieved in incorporating public policies into some rent seeking models, for the most part government is treated as a 'blackbox,' or as just another interest group, or is ignored altogether. For some problems these simplifications may well be satisfactory, but some non-trivial questions remain unanswered. Why do some interests prevail while others do not? Why did interests that once succeeded subsequently fail? How do the incentive structures that impinge on policy makers affect their rent generating or rent extinguishing decisions? Near the end of this paper some tentative steps are taken towards the identification of the basic elements of the public policy decision making process that may assist in placing the theory of rent seeking within a more comprehensive framework.

This paper consists of four sections. The first critically discusses the normative interpretation of rent seeking theory; the second briefly reviews and comments critically upon one of the most recent and comprehensive analyses of the interest-group theory of government – the positivistic dimension of micro-economic rent seeking theory. The third section sets forth an alternative gaming approach. The stress is upon the circumstances under which interest groups are likely to succeed. A final section offers a few concluding remarks.

NORMATIVE RENT SEEKING THEORY

The essence of the normative analysis of rent seeking relates to the transactions costs entailed in competing for changes in rights that bestow transfers or in competing for the maximum benefit (or minimum loss) under existing non-exclusive rights. The resources entailed are diverted from the production of goods and services that yield utility. Hence they are said by the rent seeking theorists to be 'wasted' or, in Baghwati's (1983) less than subtle phrase, to constitute 'DUP activities' (where the acronym is pronounced dupe). The theory at this level is little more than definitional; for if rent seeking is concerned only with transfers (redistribution) and transfers are 'nothings,' so to speak, then the resources devoted to rent seeking might as well be destroyed or lost. On the other hand, if transfers are 'somethings,' then the economist cannot say whether or not they are worth the cost, because interpersonal utility comparisons are involved.

Tullock's (1967) original formulation dealt with the costs of monopoly. He argued that the 'Harberger type' deadweight losses of monopolies grossly understated the full cost, because they ignored the costs of securing the monopoly in the first place.

He showed that when a monopoly right is for 'sale,' a perfectly *competitive* bidding process would use up social resources exactly equal to the value of the monopoly rent.[2] That is to say, the rent would be entirely 'dissipated.' It is *not* to say, however, that a transfer would not take place. Consumers through higher monopoly prices *do* make a transfer to the successful competitor for the right but the transfer has been 'bought' by society via those who together competed for it.

Subsequent work by Tullock and others has shown that when competition is les than perfect or non-existent, the 'dissipation' may be more or less than the rent, as explained by Tollison (1982). This does not negate the basic point that rent seeking is resource costly, but it still leaves open the crucial non-economic question: are the distributional consequences worth the cost?

Steven Cheung's (1974) analysis of rent control also deals with the dissipation of rents, but under an exogenous non-exclusive right. It is his argument that rent controls can be treated as analogous to a common property resource like a fishery. Here, the competition between landlords seeking to minimize their losses under controls and tenants seeking to maximize the benefits will completely dissipate the right, because, as John Dales (1983) has shown, under exclusive rights resources are devoted to the activity until average costs equal average (and constant) revenues, rather than to the efficient point where marginal cost equals marginal revenue.

In the case of rent controls the dissipation takes the form of landlords converting properties to other (non-optimal) uses, allowing deterioration through lack of maintenance, incurring legal costs of rent reviews, and similar proceedings. For the tenant the property deterioration imposes own maintenance costs and legal costs related to the control process, as explained by Cheung (1974, 59–65).

Whether the dissipation of the non-exclusive right will be exactly exhaustive is open to question; presumably the degree of competition is the issue. Again, whether or not dissipation is complete does not alter the fact that transfers are entailed, at least before the adjustment process is completed. Here, too, the economist cannot say whether the resulting transfers are worth the cost. He can emphasize, however, that there *are* significant costs – superficial appearances to the contrary.

What is troublesome about the work of some rent seeking theorists is the implicit assumption that the resulting transfers are 'nothings' and the costs entirely wasteful. Transfers obviously are far from nothings to those who receive them or to those who are unfortunate enough to have to pay them.

While one cannot but be sympathetic with those who are sceptical of many if not most government policies, the idea that any and all attempts to change the law are inherently wasteful is surely absurd. Our existing law and constitution have evolved for millenia. Why the status quo is to be treated as sacrosanct is far from obvious. If all current rights should be cast in concrete, why not all rights circa 1783 AD or 1983 BC for that matter?[3]

Neo-classical economics is based on the proposition that individuals seek to maximize their utility, given both their respective resource endowments and the

2 For an elaboration of this thesis and estimates of monopoly costs see Posner (1975).
3 See Samuels (1983).

prevailing constraints – including institutional rules and processes. It can be argued that such a world is always Pareto optimal because *all* mutually advantageous exchanges are always undertaken – bearing in mind that transactions costs preclude some potential transactions. From this viewpoint there are no market imperfections, since the costs of eliminating them, by definition, would exceed the benefits. It would seem to follow that all government policies ostensibly designed to correct or compensate for market imperfections are either misguided or rent seeking in disguise. Believers in rational expectations would further argue that individuals do not long hold erroneous expectations. The rent seeking interpretation then becomes the only interpretation. While for reasons set forth in the third section one maybe sceptical that persistent error is as rare as the rational expectations school would have it, the *presumption* that most government policy changes are the result of rent seeking activities seems to be helpful to our understanding of government policy making. That is the starting point for the positive analysis in the balance of this paper.

THE INTEREST GROUP THEORY OF GOVERNMENT

The positive version of rent seeking theory is the interest group theory of government – which in turn might be designated as a branch of public choice / Chicago school economics. The latter might be thought of as a counter-revolution to Pigovian welfare economics that set forth the role of government as the corrector of market imperfections. As McCormick and Tollison (1981, 3–4) put it:

> Economists in the public choice [and one might add Chicago School] tradition have reacted to the Pigovian approach at a very general level essentially by stressing that it is not a very *believable* theory of government action and, moreover, that it is flawed by the unwarranted assumption that government can be called upon to correct imperfect markets in a perfect and costless manner ... Indeed, although imperfections in the economy may be lamentable, lamenting is the best that can be done if the consequence of government action is to decrease rather than improve economic welfare.

Although the interest group theory of government has dominated American political science under the label of 'pluralism'[4]; and although Mancur Olson's (1965) *The Logic of Collective Action* (a theory of interest groups and their relationship to government decision making), had been published six years earlier, the rent seeking theorists look upon the basic argument of Stigler's (1971) article, 'The theory of economic regulation,' as the beginning of insight. Peltman's (1976) generalization of Stigler is the next landmark. In his conceptualization Peltzman considers regulation as the result of the competition between contending interests mediated by a 'regulator' (i.e., politicians). Tollison says of this regulator: 'Peltzman's regulator, however, remains basically a mystery actor in his theory. He presumably maximizes votes in selecting 'political' prices (i.e., regulated prices – the bone of contention between the interests), but this is not a very well-defined category of behaviour'

4 See Lowi (1979).

(McCormick and Tollison, 1981, 9). Stigler himself and a relatively small number of others, of whom Tollison is perhaps the most prominent, have since worked towards rectifying this deficiency within their emerging framework.[5] It is not the purpose of this paper to survey this body of literature. However, a brief description of one part of the most recent formulation by McCormick and Tollison perhaps will convey the basic purport of their approach.

These two authors conceive of politicians as 'brokers' of wealth transfers between interest groups. Because the transfers are coercive, the term 'broker' seems a little far-fetched, but let that stand for the moment. Who will be recipients of the transfers and who the unfortunate donors? The 'answer' lies in the level and disparity of information and organization costs among actual and latent coalitions of individuals. In an ingenious formulation they derive demand and supply schedules for wealth transfers and thus determine an equilibrium 'price' of transfers. The demanders – the low cost coalitions – pay this political price (which may be in money or votes or other benefits in kind) to politicians in exchange for the transfers extracted from 'suppliers' by politicians by enacting 'policies.' The suppliers of transfers are the latent (high-cost) coalitions. They 'agree' to supply the transfers, because it is cheaper 'to give' than to fight – which would involve bearing the cost of information and organization *plus* paying the political price.

It should be noted that McCormick and Tollison assume that politicians have the same objective as others: the maximization of their financial net worth. Thus, competing for election is an investment undertaken when the financial return is attractive relative to the cost (including opportunity cost of time), given the risks involved. The return takes the form of legislative stipends plus in some cases extra legal benefits plus, say, the extra work put in the hands of the politician's law firm. A seat in the legislature thus has a present value.

Based on the conceptualization sketched earlier and given the view of political objectives just stated, the two authors develop a model of the relationships among: interest group expenditures on the purchase of legislative influence as the means of increasing the income of the members; the wealth of a community (it is assumed that higher income means higher opportunity cost for political monitoring by voters and hence more interest group success); population size (it is assumed that with a large population the influence of any one voter decreases and the costs of transfers per capita are smaller); and size of the legislature (it is assumed that it is more costly to influence legislatures with a large number of members and more costly, too, when there are two houses with a disparate number of members).

In the spirit of Stigler (1971), who argued that regulation was primarily in place for the benefit of special interest groups, McCormick and Tollison use the expenditures on protective inspection and regulation for each U.S. state as one of several proxy measures of the effectiveness of interest groups in influencing legislators. Using cross-section data for the U.S. states they conducted several econometric tests. They found that, with the exception of the per capita income variable, which had the right

5 See Tollison (1982) for references.

sign but was not statistically significant, their hypotheses were supported (McCormick and Tollison, 1981, 56–7).

The foregoing brief summary of a part of the work of two scholars certainly does not do justice to the full range of positivistic interest group theorizing, hypothesizing, and testing, but it perhaps adequately conveys the current state of the art. Relative to the disparate, unintegrated material that preceded it, the McCormick and Tollison (1981) accomplishment is impressive. Like all significant innovations it raises, however, a host of questions, as their final chapter fully acknowledges.

One question that immediately arises for a non-American is the extent to which a modified version of the model (as distinct from the conceptual framework) would apply to other jurisdictions. The role of party discipline under a parliamentary system is entirely different, as is electoral timing, the role of the second chamber in the legislature (where it exists), and the division of powers between the federal government and the provinces. Some of the across-state testing could reasonably be replicated for the provinces of Canada (a sample of one-fifth the size would pose problems). Perhaps some inferences could be drawn concerning the significance of the difference between the two constitutions. International comparisons would be even more exciting, potentially.

On a more critical note several points can be made.

1. While certainly an ingenious expository device, the demand / supply analysis of wealth transfers conceptualization adds little to what is known: interests that have low information and organization costs will 'buy,' through the aegis of politicians, transfers from unorganized interests for a 'price.' The notion that there is some kind of involuntary exchange with politicians acting as 'brokers' seems too contrived. 'Extortioners' would be a better word to describe the function being performed.[6]
2. The econometric tests were based on no data with respect to either organizational costs or actual lobbying expenditures, although these are the key concepts in the conceptualization and theory.
3. The theory 'predicts' that small legislatures with bicameral houses of equal sizes would have the lowest costs of lobbying and hence have more self-seeking legislation. The econometric results are not inconsistent with this hypothesis. But there are other plausible hypotheses.
4. George Stigler (1976, 26), in 'The size of legislatures,' the article that raised the issue in the first instance, stated: 'so legislative size is largely governed by the relative efficiencies of "different sizes of legislatures."' This might equally well be said of bicameral houses of equal size. If this is the explanation, then one would expect that the efficient legislatures will simply pass more legislation per time period – both special interest *and* general interest legislation. Had they annual sessions of the same length and had they existed for the same period of time, one would expect that the stock of self-interested legislation would be greater in the

6 There is a most tenuous relationship between the conceptualization of the wealth transfer process and the theoretical model; for the latter does not consider information and organization costs of lobby groups – only lobbying 'expenditures' by extant organizations.

states with efficient legislatures – *as would the stock of general interest legislation too!*

5. One of the tests reported by McCormick and Tollison (1981, 53–6) in fact bears out the efficiency hypothesis. Efficient legislatures *do* pass more bills per annum.
6. Other econometric results reported suggest that one might hypothesize that populous states, with large aggregate personal incomes and many trade associations (i.e., the most industrialized states) have more efficient legislatures and more self-interest legislation (McCormick and Tollison, 1981, 48, 53, 55).
7. The authors' treatment of the prices paid for wealth transfers by special interest groups to politicians is exceedingly vague – maybe money, maybe votes. They acknowledge that 'practically' speaking, each legislature transaction will carry a separate price (McCormick and Tollison, 1981, 31). In the next section some factors that may affect these 'prices' are considered.

A GAMING APPROACH[7]

One way of conceiving of the government decision making process is four games that are intersecting sets: the political game, the bureaucratic game, the interest group game, and the media game. Within each game there are many components or subgames. Each game is hierarchical in nature. The term 'game' denotes that each has its own unique set of rules of entry and egress, rules of play, and rules of reward and punishment. Informal rules are often more important than formal rules. Because all players do not share the same information, strategic behaviour (horizontally and vertically) is the order of the day, both within each game and sub-game and between each pair of games.

All the *players* in all the games have at least one thing in common: they seek to maximize their own utility. In order to do so, however, they must play by the rules of their own game, because these rules constitute the unique set of shadow prices that prevail in that game.

All the *games* have at least one thing in common: the success of the individual players is contingent on their ability to extract the gains from trade, often by forming coalitions or though log-rolling, or both.

With this by way of background, some of the salient characteristics of each of the games can be set forth. Before doing so, however, a brief discussion of some of the attributes of voters is necessary.

The fundamental characteristic of voters, it is assumed, is their firm commitment to the pursuit of self-interest, which can be conceived of as an attempt, given a particular level of current consumption, to maximize their Comprehensive Net Worth (Hartle, 1979, 39–58) – the bundle of rights (net of obligations) from which all flows of utility, past, present, and future, are derived, directly or indirectly.

Traditionally it is also assumed in economics that individuals pursue their

7 I first developed this approach in Hartle (1979). Lynn (1982) has since – and no doubt completely independently – developed and extended the same approach as it applies to bureaucratic behaviour.

self-interest in a rational manner. This assumption should, I think, be qualified in three ways. First, as Herbert Simon pointed out many years ago, human rationality is bounded; there are constraints that differ from person to person concerning capacities to reason and to store and retrieve information. A draft paper prepared by Russell and Thaler (1982) entitled 'The relevance of quasi-rationality in competitive markets,'[8] provides, among other things, a review of recent laboratory tests on the choices made by a sample of individuals among mathematically identical but seemingly different gambles. The differences lay in the 'framing' of the choices, not in the choices per se. It was found, and confirmed in another experiment by another investigator, that through the framing of the question, a majority of those who preferred a safe gamble in fact could be led to choose the risky gamble, because they approached the question heuristically (adopted fixed rules of thinking). Although the term 'cognitive dissonance' is unlikely to be congenial to most economists, this finding will come as no surprise to academics who have formulated an untold number of examination questions over the years.

Secondly, rational ignorance is another aspect of human decision making. Being informed requires an investment of time, effort, and sometimes real resources. Individuals, because of their bounded resources as well as bounded rationality, will select those issues for which the prospective rate of return is likely to warrant the cost, and conversely.

Thirdly, symbols and ideologies play a role. Both can be thought of as means to reducing information costs.[9] The symbol provides a signal that is taken as a reflection of a complex phenomenon that need not be investigated except, perhaps, when over time the reality diverges inordinately from the signal. But even here, as Akerlof and Dickens (1982, 307–17) have argued, there may be prolonged 'cognitive dissonance … the beliefs may be inconsistent with objective reality byt be tenaciously adhered to if they accord with some unconscious benefit-cost analysis – that is to say they are emotionally satisfying.' With cognition dissonance individuals screen out information that fails to confirm their beliefs and hence are able to maintain those beliefs over long periods of time. Akerlof and Dickens (1982) in their article explain that much psychologically oriented advertising involves the exploitation of these kinds of beliefs: brands of cosmetics buy sex appeal, brands of beer buy friendly companionship, brands of automobiles buy sophistication, and so on. Would it not be unusual if political parties did not pander to the same human limitations or foibles in selling themselves at election time?

I turn now to a brief comment on the particular objectives and rules of play of each of the four games.

The political game

I address the parliamentary system of government only. The object of the individual politician is to be the head of government or at least to hold a senior portfolio in the

8 I am grateful to Stanley Winer for bringing this paper to my attention. See references cited in the Russell and Thaler (1982) paper.

9 See Downs (1957) and Edelman (1976).

cabinet. Personal election is a necessary but not a sufficient condition, because the politician must be a member of the party with a plurality of seats in the House. Election requires, first of all, that the politician appeal to the maximum number of marginal (uncommitted) voters in his own constituency, where the proportion of committed voters to other parties does not preordain defeat. Secondly, it means that his party must appeal to the maximum number of marginal voters in marginal constituencies, defined as those that have a high proportion of uncommitted voters.

Securing marginal voter support requires offering a policy platform that consists of a bundle of 'characteristics,' to use the language of Lancasterian demand theory (Lancaster, 1971), that has greater appeal than do the bundles offered by opponents. The weight attached to particular characteristics will vary, of course, from marginal voter to marginal voter, as *will the perceptions of different voters considering the same characteristics*. These perceptual differences are of great importance in reconciling conflicting interests, because they make it possible to give signals that convey different information to different voters, as will be discussed later.

The bureaucratic game

The object of the bureaucrat is to secure advancement to positions of ever greater relative influence and hence relative prestige -- and almost invariably commensurate remuneration. Because there is a hierarchy of bureaus as well as a hierarchy within bureaus, and because the functions of bureaus are extremely diverse, the means to advancement are also diverse. Most bureaucratic positions require the incumbent to perform, in varying proportions, three functions: administering, negotiating, and advising. The more lofty the position in the hierarchy of a particular bureau, and the more prestigious the bureau in the hierarchy of bureaus, the greater the weight on negotiating and advising and the less the weight on administration -- the function that can be most readily delegated.

To discuss the bureaucratic game in detail would take us too far afield for the present purpose. Laurence E. Lynn Jr. (1982, 482–3) has admirably summarized the nature of the play of the bureaucratic game: 'An effective executive, according to this extended metaphor, is one who (1) knows the difference between games that must be played and games that may be played, as influenced by circumstances such as the behaviour of political superiors and subordinates; (2) is able to identify the levels of play at which he has a relative advantage and to identify opportunities to increase his advantage by shifting the play from one level to another; and (3) allocates effort – his own and that of his staff -- among games so as to maximize overall achievement.' The essence of the outcome can be captured as follows: 'Bureaucrats, in advocating policies to their political overseers, will have a tendency to favour policies that have a heavy bureaucratic orientation, entailing more jobs, large budgets, and more power and prestige. The virtues of non-collective, decentralized forms of resource allocation are likely to be depreciated' (Trebilcock, Hartle, et al., 1982, 33).

What comes into the bureau is interest group pressure: the output from the bureau is a response to those pressures. But the responses are likely to be altered by 'non-market failures' to use Charles Wolf's (1979) terminology, that arise from the exigencies of the political market *and* the bureaucratic incentive system(s). These 'exigencies' are in turn a reflection of the shadow prices that prevail in the political and bureaucratic markets.

Special interest groups

It was Mancur Olson (1965), the economist referred to earlier, who first developed the economic theory of the formation of interest group organizations in *The Logic of Collective Action*. In his latest book, *The Decline and Fall of Nations* (1982, 31–2), he sets forth succinctly his basic proposition as follows: 'the larger the number of individuals or firms that would benefit from a collective good, the smaller the share of the gains from action in the group interest that will accrue to that individual or firm that undertakes the action. Thus, in the absence of selective incentives, the incentive for group action diminishes as group size increases, so that large groups are less able to act in their common interest than small ones ... [Moreover] The number of people who must bargain if a group-optimal amount of a collective good is to be obtained, and thus the costs of bargaining must rise with the size of the group.'[11]

With falling average benefits and rising average costs, small groups are much more viable, indeed feasible, than large groups without special incentives. And these incentives, such as social pressure, are rarely possible with large groups. Rising information and organizational costs, including those generated by the free-rider problem (non-exclusion of non-payers), *usually* doom large groups to be 'latent,' to use Olson's terminology. Among the exception are groups, such as trade unions or trade associations, that have some significant non-lobbying raison d'être, and free-riding is less of a problem – or no problem. In these cases the marginal cost of lobbying is small.

It should be recognized that small groups can offer only money, or the things that money can buy (e.g., an advertising campaign), to politicians. The members face not only information and organization costs but also a levy to finance the group's quid pro quo to politicians or its equivalent. The expected rate of return on such an investment is obviously of importance. The probability of success is presumably based on the past experience of the group and other groups (Stigler, 1974).

Media game

The media game is often overlooked in analyses of decision making, despite the obvious fact that, to a major degree, aside from those activities in which they have a direct involvement, 'reality' to voters and most of the players is what the media portray. Events that are not media events are, for political purposes, non-events.

Although one might question whether or not the media have much impact on public opinion directly – the editorial material seems to have extremely limited persuasive power – the selection of and the prominence given to particular news items substantially affects, if it does not determine, the public policy agenda. This seems to be particularly true of newspapers. Television, on the other hand, seems to be a

11 See also Stigler (1974) and McCormick and Tollison (1981, 42–4).

remarkably powerful instrument for the creation, and destruction, of images. Politicians are made and broken by these images that, one might suppose, are taken as proxies or signals for an enormous range of unattainable and / or unintelligible information about the likely future policy stances (bundles of characteristics of uncertain credibility) of political persons and parties.

Because the media are predominantly owned by profit seeking organizations, the key to their financial success lies in advertising revenues, and these are determined by the advertising rates charged per unit of space or time. These rates, in turn, are determined for the mass media by the number of viewers or subscribers. The search for viewers and subscribers thus determines the content; because of the screening procedures followed by most of us most of the time, as alluded to above, technical material and complex material consequently is given scant coverage. It is costly to obtain and does not attract volume viewing or reading. The converse holds for the superficial, the scurrilous and the titillating.

The highly specialized publications, on the other hand, can survive and even prosper, despite small subscription lists, because the advertising sales can be raised to reflect the precise market targeting that is achieved. Subscribers to such publications want technical detail and complex information, because it is of great relevance politically or in other ways to their political or other interests. As a consequence, there are many distinct levels of communication proceeding simultaneously. Politicians now do not need to tell different stories at each whistle stop of the train as it proceeds across the country; they may tell the same story but reach different audiences with different messages.

POLICY MAKING AS POLITICAL BARGAINING OVER RIGHTS

Ronald Coase (1960) established the four necessary conditions for *optimal* private sector bargaining. They are as follows:

1. All those affected by the outcome of the bargain are party to the bargain: that is to say, bargaining is comprehensive.
2. Transactions costs are zero.
3. Damages are known.
4. Rights and liabilities are clearly specified.

If, following Samuels, the 'rules of the game' are taken as the functional equivalent of property rights, political bargaining can be considered to have the same dimensions without introducing any notion of optimality.

Comprehensive Bargaining: In political, as distinct from economic, bargaining, each affected individual cannot personally be party to the bargain. The adequacy of their representation in the bargaining process is the question. With the plurality voting rules that usually exists, and there are three political parties, representatives often are elected who obtain substantially less than one half of the votes of their constituents. Moreover, the party in power may not include representation from whole regions even under a majority government. With strong party discipline, even the fact that the party in power has members from all regions does not guarantee that all regional interests are represented in bargaining. For the reasons emphasized above, there is no doubt that there are many latent interest groups that are not organized and consequently are unrepresented in public bargaining.

Transactions Costs: Political bargaining is, more often than not, extremely costly: data collection, assembly and analysis; the writing of briefs or presentations; the expenses of hiring experts to take part in proceedings that can and do continue for months and months. An interest group may be organized but be an ineffective player for lack of means relative to other competing groups. The allocation of economic endowments among individuals, that are markedly different, can and often do overshadow their political endowments, that are nominally equal. Nor is there any entirely satisfactory way to compensate for disparities in capacity to participate in political bargaining, as Trebilcock (1976) has analyzed in his article "The Doctrine of Equality of Bargaining Power", although *some* improvements could be made.

Known Damages: In the course of political bargaining it is exceedingly rare that the losers are made aware of their losses except, possibly, when the benefits are in the form of direct cash payments from the purse. Even here the *a priori* costs frequently fall far short of the actuals. The cost of benefits obtained via tax expenditures and particularly regulations are seldom known by all of the parties in the course of bargaining – and most often not after the event either.

Clearly Defined "Rules of the Game" (Rights and Obligations): Precariously organized or unorganized interest groups are not even aware that a bargaining game is in progress, much less are they fully informed concerning the formal and informal rules being followed. Not being aware how to play the interest group lobbying game is, of course, in large part, a consequence of the inadequate financing of large, dispersed interest groups that precludes hiring acknowledged experts at such game playing. No doubt too, the rules shift from time to time depending upon the subject and circumstances. Indeed, it seems valid to generalize that in regulation generally the policy instrument chosen reflects a desire on the part of politicians to be able to alter the rules of the game if they find the outcome uncongenial. For example, most federal regulatory statutes that establish quasi juridical proceedings permit the Cabinet to set aside or amend the decisions of the agency. The result is that the known rules of the formal proceedings are superceded by another set of unknown rules.[12]

Given the nature of voters' desires and perceptions, the characteristics of the several games and the dimensions of political bargaining, it is possible to make a few general statements concerning the circumstances under which government rent generating policies are likely to be the outcome of political bargaining – which is not to say optimal bargaining.

1. Interest groups may 'buy' rents by making campaign contributions (in cash or in kind) that in turn can be used to 'buy' the support of marginal voters. Obviously, the politicians are not willing to 'sell' rent generating policies that cost marginal votes for less than the estimated amount required to at least offset the loss – plus a risk premium.
2. When the interest group is geographically concentrated, it may be argued plausibly by the group that plurality support in identifiable constituencies can be delivered by the group to the party in power if particular geographic specific rent yielding policies are adopted. (The converse holds if existing policies with these characteristics are threatened with withdrawal). Resource industries are a case in

12 Hartle (1979) references to Janisch therein cited.

point, as are industries that for historic reasons have concentrated in particular areas.

The political costs of providing benefits to these geographic specific interests will be minimal when the rents are extracted so broadly and hence thinly that they are unlikely to be perceived, because rational ignorance will keep most individual rent-payers uninformed about matters that are expected to affect them relatively little. Should the imposition be perceived, perchance, the transactions costs of organizing opposition, given the large number of individuals adversely affected, will be prohibitive relative to the damage on a per loser basis.

3. The situation faced by non-geographic specific interest groups such as financial institutions, for example, is not as straightforward. In order to confer rents, the logic suggests that the party in power has to be convinced that the interest group can, one way or another, affect, directly or indirectly, the decisions of a significant number of marginal voters across the nation. What do the chartered banks, individually or collectively, have to offer politicians in the governing party that explains the rents the banks obtain through, for instance, the limitations placed on foreign banks operating in Canada?

   The obvious answer would be campaign contributions or equivalent benefits in kind. However, recent legislation requires political parties to publish the sources of their funds. Large contributions are now more likely to be a source of embarrassment to the banks than a help. This is particularly true because the regular review of the Bank Act by parliament is such an open process.

   An alternative 'answer,' if such it be, seems to turn on some perverse, at least in this instance, nationalistic sentiment apparently shared by a significant number of marginal voters. These voters presumably are perceived by politicians to be willing to pay a price for a Canadian owned and controlled banking system, even though the price of such 'independence' is unknown to them. The simple answer may be the best: withdrawing the protection of the Canadian banking system would lose more marginal votes – the nationalists – than the 'efficient' policy would gain, because the current losers (aside from non-resident banks) are unaware of their losses or are too numerous to organize.

Nationalism, however, is not the only possible refuge of rent seekers. Another strategy an interest group can adopt is to threaten dire consequences not only for the industry but for the economy as a whole, if certain rent generating rights are not provided or are withdrawn. Life insurance companies and the professions are examples of groups that have proved to be past masters at stirring up voter misapprehensions when confronted with the possibility of a partial withdrawal of rights. As Randall Bartlett (1973, 27) put the matter: 'To the extent that an interested external agent is able to affect the acquisition of information, he will be able to influence the decision and hence the behaviour of the (internal) agents question. Most often this influence will result from the ability of the influencer to change the relative prices of different types of information faced by the decision maker. The process of influence production is not only economic in nature, it will also alter the behaviour of all agents in the economic and political system ... '

Signalling may also be a significant consideration. The rent seeking group may be conceded its demands, even though it is narrow and of little concern per se to a significant number of marginal voters, but its favourable treatment is taken as a positive signal by others who are enjoying rents or are seeking them. Complex instrumentalities for conferring rents make it possible to send out such signals in such a way that they are received by those to whom they are addressed without entering the perception of the rent payers.

Economists generally and quite rightly give illusions little weight in their explanations of events. And in markets where the marginal buyers are well informed, such as financial markets, the assumption may not be unrealistic. In political markets, where the marginal voters perforce are ill-informed on most policy issues simply because of the costs of being informed relative to the prospective return on being informed, politicians can and do express vote getting non-truths or partial truths for extended periods that are widely accepted by hordes or marginal voters; the claimed virtues of rent control and minimum wage legislation are cases in point. It is not that the winners under these policies are unaware of the source of their gains (although that is not infrequently the case), but that the losers often do not perceive the source of their losses. Indeed, one suspects many losers support the perverse policies in these instances.

In short, winning coalitions of voters can be created by providing rent generating policies, because the political costs can be minimized by one or all of the following strategies:

- adoption of a policy instrument that spreads the costs widely and thus thinly so that the losers rarely perceive their losses and, when they do, cannot organize their defences because of the inordinate transactions costs involved;
- costs may be imposed on inframarginal voters whose firm commitment to one party means that they will pay significant rents without flinching, so to speak;
- associate the payment of rent as the necessary price to be paid for some symbolic goal – economic independence;
- provide benefits and implicit costs through extremely complex instrumentalities that give the right signals clearly to the initiated rent recipients while giving no signals at all to the rent payers or potential rent payers.

SOME CONCLUDING COMMENTS

1. Most economists would agree that most of the time most markets adjust reasonably well to changing circumstances. However, these adjustments are rarely costless in resource terms. Those who would categorize as 'waste' all resources involved in trying to change institutional rules and procedures (legal rights) would, presumably, deny the legitimacy of institutional adaptation. Surely, as Samuels (1983) has pointed out, lobbying presumably maximizes, or is thought to maximize, individual utilities. The fact that the maximization proceeds indirectly does not differentiate it from conventional work or investment.

2. One cannot but be concerned, nevertheless, with the enormous resources, particularly human talent, devoted to lobbying and tax minimization, submission of grant and subsidy proposals, regulatory interventions, federal-provincial negotiations, and the like. Labelling these costs as waste is simply the substitution of name calling for analysis. The question is whether there are ways and means of resolving conflict that are less costly – for conflict over resource command is an inherent aspect of the human condition. The relevant comparison is not costless conflict resolution but the costs of war and revolution.
3. The recognition that political intervention is more likely to be motivated by attempts to build winning electoral coalitions than by any attempt to correct for market imperfections for the abstract purpose of increasing economic efficiency, coupled with the recognition that the 'internalization' process within non-market organizations provides ample opportunities for a different kind of (internal) rent seeking in the implementation of the policy, would improve much policy analysis.
4. The interest group theory of government, the positive branch of rent seeking theory, offers, in the work of McCormick and Tollison as a prominent and recent example, a rigorous theoretical framework and econometric testing of hypotheses. Although I am sceptical that the latter lends the support to the former that they claim, the direction seems promising.
5. The crucial question is this: under what circumstances do different kinds of lobby groups form, survive, and succeed? And conversely. Some parts of the answer(s) are known; but there is much that remains to be discovered. In particular, while the existence and survival of the major trade associations has little mystery, the survival and seeming success of groups like Pollution Probe is less obvious. Nor is it obvious how the 'price' exacted by politicians for rents provided through legislation varies from issue to issue. Does the form of 'payment' differ from group to group or issue to issue in a systematic manner? I have tried to suggest some of the considerations, but the formulation of more rigorous hypotheses and testing, if only by means of case studies, clearly is required.

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