

## Rent seeking

The *positive* evils and dangers of the representative, as of every other form of government, may be reduced to two heads: first, general ignorance and incapacity, or, to speak more moderately, insufficient mental qualifications, in the controlling body; secondly, the danger of its being under the influence of interests not identical with the general welfare of the community. (*Italics in original*)

John Stuart Mill

In Chapter 11 we discussed a model of political competition in which politicians provide policies or legislation to win votes, and voters and interest groups provide campaign funding as well as votes. From the discussion up to this point, it seems reasonable to think that the legislation consists of either public goods with characteristics that appeal to given groups of voters or income transfers from one sector of the population to another. The latter might be a tax loophole benefiting a particular group coupled with a rise in the average tax rate to make up for the revenue lost through the loophole. Income can be transferred from one group to another by other, more subtle means, however.

The government can, for example, help create, increase, or protect a group's monopoly position. In so doing, the government increases the monopoly rents of the favored groups, at the expense of the buyers of the group's products or services. The monopoly rents that the government can help provide are a prize worth pursuing, and the pursuit of these rents has been given the name of rent seeking.

### A. The theory of rent seeking

Rent seeking was first discussed systematically by Gordon Tullock (1967c). The term "rent seeking" was first used to describe the activity in question by Anne Krueger (1974). Figure 13.1 depicts the demand schedule for a monopolized product. If the monopoly charges the monopoly price  $P_m$  instead of the competitive price  $P_c$ , the rectangle  $R$  of monopoly rents is created, as is the welfare triangle  $L$  of lost consumers' surplus on the output of the monopolized product, which would have been produced under perfect competition, but is not provided by the monopolist.

