Rent-Seeking Behavior

In economics and political science, rent-seeking behavior refers to situations in which an individual or a group attempts to gain economic benefits through actions in the political arena. Typical examples include lobbying for advantages (such as protection from international competition or subsidies) by industry groups or unions, or attempts by firms to appropriate monopolies controlled (and often purposefully created) by the state. A key insight of the literature is that an agent engaged in rent-seeking will be willing to devote resources to the rent-seeking activity that are almost as large as the benefit that the agent is attempting to capture. For example, if an interest group is seeking to gain benefits worth *X* million dollars, it will be in their interest to spend almost the same sum on lobbying efforts to obtain those benefits. As such, rent-seeking activities are seen as being directly unproductive because they do not involve the creation of new wealth or resources, but simply involve a given group of agents attempting to appropriate economic rents that already exist. Moreover, given the magnitude of the benefits that may be at stake, the size of rent-seeking activities *per se* may be substantial, up to and including the willingness to engage in (very costly) violent conflict. In terms of economic terminology, rent-seeking therefore constitutes a pure negative externality.

Why the Word *Rent*?

The use of the word *rent* is often confusing to noneconomists. Its origins are historical and go back to David Ricardo's definition of a rent as being a payment in excess of opportunity cost, for example a factor of production being paid more than what would be needed to keep it in its current use. The economic concept of a rent is intimately associated with the notion of market power. Rent-seeking behavior is by definition associated with departures from perfect competition, since, in a competitive allocation, all economic rents down to zero, in which case there would be no interest in pursuing rent-seeking activities.

Gordon Tullock, Anne Krueger, and Beyond

The economist Gordon Tullock, who did not coin the term, is at the origin of the concept. In his seminal 1967 article, he considered monopoly profits, which, if contested by various pretenders through costly lobbying activities, would lead to an efficiency loss above and beyond the usual deadweight loss triangles introduced by Arnold Harberger. He also considered trade policy, which, through protectionist tariffs (and nontariff barriers), creates rents that can be appropriated through costly lobbying. As such, the successful appropriation of rents is akin to theft—hence the title of his paper "The Welfare Costs of Tariffs, Monopolies and Theft." His highlighting of the fact that market power leads to inefficiency not just from the habitual efficiency loses, but from the tendency of agents to expend resources in order to capture the underlying rents, was a key component of the then emerging literature on rational public choice being developed by Tullock and James Buchanan.

The term *rent-seeking* was introduced (without citing Tullock) by Anne Krueger, a development economist who held various influential policy positions at the

World Bank and the International Monetary Fund, in her analysis of import–quota rents in India and Turkey. She saw rent seeking as a pervasive phenomenon in developing countries, a key driver of corruption, and as an underlying cause of their low level of economic development.

Rent seeking has, since these early precursors, become a workhorse of many strands of political economy and is usually modeled using standard game-theoretic tools, using some form of the contest success function approach. In the civil war literature, for example, rent seeking is often held to be behind the motivation of a rebel group to engage in violent conflict, not for ideological reasons (grievance), but in order to capture rents associated with natural resources located in a particular region of a country (greed). Foreign aid, for example, may improve the welfare of the recipient population, but the rents it generates may encourage rebel activity. Similarly, in the large literature dealing with the so-called curse of natural resources, which attempts to explain why, *ceteris paribus,* resource-rich countries grow more slowly, pervasive rent-seeking behavior is often seen as a key element of the explanation, in addition to the usual Dutch disease (currency overvaluation caused by exports of primary commodities) causes.

The answer to the inefficiencies generated by rent seeking is often seen to lie in the strengthening of economic, political, and legal institutions, thereby weakening the tendency toward moral hazard faced by state decision makers. This is because simply increasing the size of the pie solely through economic growth may create more rents that will then be dissipated by further rent seeking by various pressure groups. By reducing the magnitude of available rents through institutional reform, rent-seeking activity may be curbed, leading to the double benefit of a lesser degree of departure from efficiency through a better allocation of resources, and a reduction in costly rent-seeking activity.

Jean-Louis Arcand

See also Civil Wars; Collective Action; Economics and Political Behavior; Greed Versus Grievance; Lobbying; Moral Hazard; Pressure Groups; Rational Choice

Further Readings

Congleton, R., Hillman, A., & Konrad, K. (Eds.). (2008). *Forty years of research on rent seeking*. Heidelberg, Germany: Springer.

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