Are rents fully dissipated?*

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1. Introduction

If it can be said that the literature on rent seeking has reached a consensus of any kind, it is probably fair to characterize that literature as concluding that the costs of rent seeking are large in proportion to the rents themselves. In the original formulations of Tullock (1967), Krueger (1974), and Posner (1975), free entry into competition for government protection leads firms to incur costs that exactly equal the benefit at stake. Subsequent work by Tullock (1980), Rogerson (1982), Corcoran and Karels (1985), Higgins, Shughart, and Tollison (1985), and others has analyzed the dependence of this result on the technology of lobbying and on conditions of entry into competition for rents in the long run. Still, if we view lobbying, or rent seeking in general, as a constant-cost activity, Tullock's original exact-dissipation result holds. Our purposes in this paper are best served by assuming the constant-returns case, although they are easily generalized to any configuration of rent-seeking technologies. Our question is, under conditions of constant costs of pure rent-seeking activity, are rents fully dissipated?

One surprising aspect of the literature is that it is nearly devoid of attempts to estimate the costs of rent seeking. One exception to this is Laband and Sophocleus (1988), whose estimates imply that rent-seeking costs consume about half of GNP. Another exception is Hazlett and Michaels (1989), whose case study of competition for cellular telephone licenses issued by the FCC finds that only a small fraction of the net value of those licenses was spent on efforts to obtain them. Clearly, efforts to date have not been very successful

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at narrowing the gap between upper- and lower-bound estimates of the costs of rent seeking.

In this paper we propose an alternative way to approach the theory of rent seeking, and also make a few crude attempts at empirical testing of that theory. We suggest that it is incorrect to model rent seeking as a tournament for an exogenously determined transfer, as has been customary in the literature to date. When government transfers are modeled as the objects of conscious policy design, the extent of rent dissipation is seen to be one of several costs of transferring wealth. In the long run, one important aspect of political success should be the ability to design policies that minimize the sum of all costs of transfers (including rent seeking costs as well as deadweight costs) for a given level of redistribution. We also present some data that suggest that extant policies are relatively successful at restraining rent seeking costs.

2. Rent seeking costs with endogenous policy design

We begin with an example. Consider two hypothetical policies, each announced in advance. Policy A consists of awarding $100 to each of the first 1,000 people to arrive at the northeast corner of State and Madison Streets at noon. Policy B awards $100 to each person born on St. Patrick’s Day who arrives at that same corner, when it is known that exactly 1,000 such people live within a $100 round trip to State and Madison, and that at least one of those people lives exactly a $100 trip away. The gross amount transferred under both policies is the same. Are their social costs the same? As we will show later, the answer to this question depends ultimately on the way in which policymakers determine the particular birthdate to be used as a basis for the award. Nevertheless, this example serves a useful expository purpose if we temporarily treat the chosen date as exogenously determined.

The costs of each policy are the sum of travel costs to State and Madison and time spent in line at that location. Under both policies we know that the sum of these costs for the marginal queuer will be exactly $100. If the excess demand for giveaways is to be rationed, the marginal cost of any allocation scheme must equal the per-person bonus. This has no necessary implication for the total costs of any two transfer schemes, however, as the present example makes clear. Under Policy A, the high substitutability among individuals means that marginal and average costs will be equal. The line forms instantaneously exactly H hours before noon, where H hours are worth $100 to each person in the line, so that no net transfers occur. This is the familiar exact-dissipation result. Under Policy B, however, total rent seeking costs depend entirely on the transportation-cost gradient of people born on St. Patrick’s Day. If 999 of them live within a $10 round trip to State and Madison and the 1,000th lives