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An Expansion of the Neoclassical Horizon in Economics:

The Rent-Seeking Research Program Brings in the Nuances of Social and Political Control

By JERRY EVENSKY*

ABSTRACT. The terms of discourse in the *Neoclassical school of economic theory* have constrained its ability to develop the connections between the *economic* and the *social* and *political spheres*. Building on the logic of the *rent-seeking research program* a systematic connection is developed. A taxonomy of *distribution* is presented in which *rent* and *profit* are identified as distributions to control over *productive factors*. The structure of *control* embodied in social and political *institutions* largely determines who controls these productive factors and therefore who receives the distributions to control: profit and rent. The distinction between profit and rent relates to *opportunity cost*. Profit is a distribution to control equal to opportunity cost and is therefore allocatively necessary. Rent is a return above and beyond opportunity cost and is not allocatively necessary. By clarifying the role of rent and profit in Neoclassical theory the interconnection between the social, political, and economic spheres is systematically *integrated* into the theory.

I

Introduction

THE INTERCONNECTION between the social, political, and economic spheres of human society was clearly recognized by the great Classical economists¹ and remains the focal point of Marxist theory and of Institutionalists economists and historians. This interconnection has not, however, been systematically integrated into the core of Neoclassical economic theory. Neoclassical theory has been criticized from within and without for abstracting from the institutional milieu surrounding the economic system. Theodore Schultz, a highly respected member of the Neoclassical mainstream, has written that:

It is currently a mark of sophistication in presenting economic models not to mention institutions . . . in thinking about institutions, the analytical cupboard is bare. Yet it is obvious that particular institutions really matter, that they are subject to change and are, in fact, changing. . . . Instead of omitting or impounding these institutions in the 'state of nature,' or introducing them on an ad hoc basis, the analytical task is to bring them into the core of economics [Schultz, 1968, pp. 1113–1114].

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The issue Schultz eloquently pinpoints is the narrow scope of the Neoclassical vision. Currently Neoclassical theory sees the economic system very clearly, but does not systematically recognize its connections to the surrounding social and political systems. If Neoclassical economists desire a place at the debate over institutional change, they must not arrive at the debate with a theory of society which abstracts from those institutions. The scope of the Neoclassical vision and the framework of the theory built from that vision must be expanded to encompass systematically the forces generated within social and political institutions that play an active role in the economic system.

If terms are our tools of discourse, including scientific discourse, then language is our tool kit. The content of our language determines what we are able to conceptualize and communicate. The inability of Neoclassical economists to systematically represent the interconnection between political and economic spheres has been due to limitations in the language of Neoclassical theory. Success in overcoming this problem must be, as it was for John Maynard (Lord) Keynes fifty years ago, accomplished by escaping "from habitual modes of thought and expression" (Keynes, 1973, pp. xxi-ii).

The rent-seeking research program has expanded the scope of theory, as did Keynes, by altering the language of economic discourse. The concept that has been added to the language of Neoclassical theory and that has made it possible to extend the scope of the model is "rent-seeking."² This concept³ is the analytical tool that allows the connection between political decision making and economic considerations to be formalized.

We can place the rent-seeking research program's contribution to the development of Neoclassical theory into a larger context by setting it into Schumpeter's model of the scientific process.⁴ Schumpeter lays out the steps in the scientific process as follows. First comes the scientist's "vision." Vision is the foundation or the "ground floor" of the process. It is a "preanalytic cognitive act," a mind's-eye view of the order the scientist seeks to represent. Next the analysis begins. This is the formalization of one's vision. The first step in analysis is to define terms and to specify assumptions. In Schumpeter's terms, this is assembling a "tool kit." It is crucial that terms be precisely defined and that assumptions be carefully specified. Vague definitions or assumptions make it difficult for others to follow the model. Such vagueness also makes the definitions and assumptions underlying the model malleable. As a result the model becomes a tautology because falsification can be avoided by adjusting definitions or assumptions as results warrant.⁵

Beyond this point the scientific process becomes an erector set exercise. Following a theoretical design that is based on one's vision and using the tool kit one has assembled, the model is constructed by identifying the relationships among terms. When the construction is complete the model is tested to see if

it will stand the weight of objective scrutiny—to validate it by confronting it with the facts. According to Schumpeter, successive iterations of this process lead to scientific progress. However, he adds the caveat that, due to ideology, objectivity is in the eye of the beholder.⁵ To the degree that objectivity is violated, progress will be retarded.

James Buchanan has been a leader in the rent-seeking research program. Placing his work into the context of this Schumpeterian model of the scientific process, we find that Buchanan does not offer new iterations of the formal structure of analysis or more sophisticated ways to test the predictions of such analysis. He is working at an earlier stage in the process. His contribution has been to improve the tool kit with which the model is built. In doing so he has provided the equipment necessary to strengthen and extend the model.⁷

Following Buchanan's lead, this paper is an effort to contribute to the strength of the model by improving the Neoclassical tool kit. As in Buchanan's work, this paper will offer no new iterations of formal analysis nor any more sophisticated methods for testing the model. Rather, it will present refined tools and it will suggest ways in which these tools can contribute to the internal consistency and predictive power of the model.

As noted above, the tool that Buchanan adopted in order to give new strength to Neoclassical theory was an adaptation of a term in the taxonomy of distribution: rent. In doing so Buchanan and the other members of the rent-seeking research program have improved the value of the taxonomy of distribution. It will be suggested in what follows that further clarification of the often vaguely defined terms in the taxonomy of distribution can make that part of the tool kit even more useful. Specifically, doing so makes it possible to generalize Buchanan's insights from political/economic relationships to the social/economic interconnection and to extend the implications of the analysis from social welfare issues to issues in personal distribution theory. This paper is an effort to represent this extension.

In the next section we will review the contribution of the rent-seeking research program. In the third section we will present a clarified taxonomy of distribution. The fourth will demonstrate how this clarified taxonomy allows us to extend the scope of analysis in order to represent the connecting principles between the social and economic spheres. Finally we will conclude with some observations about the implications of this expanded scope of the theoretical analysis.

II

The "Rent-Seeking" Research Program

ACCORDING TO JAMES BUCHANAN in his introduction to *Toward a Theory of the Rent-Seeking Society*, "Rent-seeking is a term that was introduced to economics

by Anne O. Krueger. . . . The modern literature of rent seeking, to our knowledge, dates from Gordon Tullock's 1967 paper in the *Western Economic Journal*' (Buchanan, 1980, p. ix).

Tullock argues in his 1967 paper that "the present method for measuring . . . [welfare] costs . . . pioneered by Professor Harberger"⁸ is inadequate because it gives "an underestimation of the welfare costs of tariffs and monopolies" (Tullock, 1967, p. 224). What Harberger's triangles ignore, according to Tullock, are the enforcement, avoidance, and inefficiency costs generated in pursuit of income transfers derived from market advantages. For instance, in pursuit of a protective tariff "domestic producers would invest resources in lobbying for the tariff until the marginal return on the last dollar spent was equal to its likely return producing the transfer" (Tullock, 1967, p. 224). Such behavior is counterproductive from a social standpoint because a significant portion of society's resources are squandered in pursuit of this redistribution. Tullock's emphasis is on the question of efficiency, not on the distributive issue.

Building on this foundation, the rent-seeking research program has, according to Buchanan, turned "much of modern economics inside out." He writes that while rent-seeking analysis "is little more than applied price theory of the traditional variety," it approaches the issues from a new direction. Instead of beginning with a "presumed structure of an ordered market" and "spinning out ever more elegant and rigorous 'proofs' or 'theorems' about the idealized model of the competitive process. . . .

The analysis of rent-seeking, . . . shifts attention to interactions and to institutions outside of and beyond the confined competitive market process, while applying essentially the same tools as those applied to interactions within the process. The analysis of rent-seeking is, therefore, properly designated as *institutional economics* in a very real sense [Buchanan, 1980, p. 14].

Roger Congleton specifies the difference between the traditional Neoclassical view and the new "rent-seeking" research program's view. He writes that in traditional Neoclassical theory "the ingredients that determine an individual's opportunity set are essentially unalterable features of the world. . . ." Thus, "[i]n the world normally modeled by economists" one finds that "no resources are devoted specifically to the conflicts" because "the cost of conflict is effectively infinite. . . ."

The rent-seeking research program relaxes this strong assumption and allows that "one's opportunity set is not entirely determined externally by forces beyond the influence of an individual actor. . . ." In this world

situations are very likely to arise in which an economically rational individual will use the resources at his disposal to influence his range of options at the expense of others. Resources will be devoted to activities that are purely redistributive. . . . [Congleton, 1980, p. 154].

Congleton's insight can be formalized by adopting the concept of neutrality. A neutral structure of political institutional control is one which orders the process without skewing it to favor any individual or coalition.⁹ It is a formal expression of the "fair race" concept. Traditional Neoclassical theory assumes perfect competition, a "fair race," for its strongest case. This simplifies analysis by abstracting from the influences of nonneutrality in the structure of control.¹⁰ In doing so it also abstracts from all the redistributive issues related to the actual malleability of the structure of control, specifically: rent-seeking. The contribution of the rent-seeking research program is its systematic integration of the political structure of control into the core of Neoclassical analysis. Congleton summarizes this contribution and its limitations as follows:

[T]he right to alter rights seems to be one of the most enduring, though the methods that must be used vary greatly from place to place and time to time. Attempts to model the disposition of economic resources that ignore these important uses of economic wealth will miss important aspects of the process of resource allocation and distribution. It is within this world that the rent-seeking literature attempts to shed light [Congleton, 1980, p. 154].

By focusing attention on this "right to alter rights" the rent-seeking research program represents a significant breakthrough in the development of Neoclassical theory.

As noted above, efficiency issues are emphasized and distributive issues are deemphasized by the rent-seeking research program. This focus is determined, as we will see, by the particular usage that the research program adopts for the terms rent and profit. It will be argued that this usage, while superior to alternatives, is still too narrow and thus it constrains the scope of the research program's analysis. In order to identify the nature of this usage and to correct the problem we turn to an examination of the taxonomy of distribution.

III

The Taxonomy of Distribution

THE TERMS INCLUDED in the taxonomy are rent, profit, wages, and interest. The definition of each of these terms embodies two characteristics: a distributive and an allocative characteristic. The distributive characteristic relates to the generating force of the share. In order to call a resource into use a distributive share must be generated. The distributive characteristic of the share identifies the nature of the generating force that called the resource into use. The allocative characteristic relates to the size of the share. The allocation of a resource among its alternative uses is determined by the largest available share size. The allocative

characteristic of a share identifies the relationship between share size and opportunity cost.

In the wage and interest definitions both characteristics are clearly identified and the definitions are consistently applied. The rent and profit terms, however, have been subject to some confusion due to usages that identify one characteristic vaguely or that give a narrow emphasis to one characteristic. Such practices undermine the power of Neoclassical theory. The objective of this section is to clarify these terms.

The distributive characteristic of wages is that it is a return for choosing to expend physical exertion¹¹ with a compensating differential for conditions of employment including risk.¹² The generating force here is the existence of attractive alternatives to physical exertion which make it necessary that a reward be offered if the effort is to be exerted. Clearly, if exertion is not rewarded and conditions are not compensated with a share of the fruits of that labor, a worker will not choose to expend the effort under those conditions. The size of this distributive share is determined by the opportunity cost of allocating the exertion to the given activity. If the share from that allocation were any smaller an alternative would have been chosen. Thus we can say that the size of that share is allocatively necessary, and we identify the allocative characteristic of the wage as allocatively necessary. These distributive and the allocative characteristics together define the term wages.

Similarly, the definition of interest is based on an identification of its distributive and allocative characteristics. Most writers agree that roundabout methods of production are more fruitful. Adam Smith's pin factory is the classic case in point. Roundaboutness requires a period of waiting between the expenditure of labor and the realization of the final product. If individuals have a positive time preference in consumption then a positive compensation must be generated in order to encourage the sacrifice waiting entails. Interest is the return for choosing to forgo a preferred time structure of consumption in order to provide resources for production with a compensating differential for conditions including risk. As with the wage, the size of the interest return is determined by the opportunity cost, so the return is allocatively necessary.

We see then that the wage and interest definitions are both solidly built on an identification of their generating force, a distributive characteristic, and a specification of the determinant of share size, an allocative characteristic. Such definitions provide the theory with powerful analytical tools. The allocative element is related to opportunity cost and therefore reflects efficiency conditions. The distributive characteristic is identified with the generating force, and therefore the distributive implications of the connection between a share and its generating force are not lost during the process of analysis.

When we turn our attention to the terms rent and profit, we must identify a reference point in order to identify the generating forces of these shares. Our reference point is the Neoclassical version of an undistorted production and exchange environment, the world of a General Competitive Equilibrium. In that context the structure of economic and political control is neutral and all participants enjoy equal access to the entire set of available opportunities. In this simplified world the allocation of factors in production, labor and time, and the distribution of the fruits of that production, wages and interest, are simultaneously determined. Under standard assumptions¹³ there will be no surplus. Each factor's distributive share will be equal to its real contribution to the productive process. In such an environment a two member taxonomy of distribution, wages and interest, is all that is necessary.¹⁴

Since the neutral production and exchange environment can be analyzed with a two member taxonomy of distribution, the generating force that gives rise to rents and profits is eliminated by the neutrality assumption underlying a rent and profit-free Neoclassical General Competitive Equilibrium. Relax the neutrality assumption and rents and profits appear. The force which generates both of these shares is the exploitation of non-neutral control over resources. Thus the distributive characteristic in the definition of each term must reflect this common generating force, while their respective allocative characteristics must clearly identify the difference that warrants the distinction between the two terms.

In practice, however, this has not been the case. One common usage reflects the two shares' common distributive characteristic but distinguishes their allocative characteristics on the basis of context. Specifically, profit is associated with non-neutral control over capital and rent is associated with the non-neutral control over land, genetic endowments, or learned skills. Unfortunately, context serves poorly as a basis for the allocative distinction between the two terms because context is often vaguely defined. This leads to unsystematic usage. The problem is most obvious at the borders between contexts or in new contexts wherein the choice between the terms rent and profit is often an ad hoc decision.

An alternative is Buchanan's usage in which profit is defined as an allocatively necessary payment which is required to attract resources to a particular employment, while rent is defined as a "receipt in excess of opportunity cost . . . an allocatively unnecessary payment not required to attract the resources to the particular employment" (Buchanan, 1980, p. 3). By using allocative necessity versus non-necessity as the distinction between the allocative characteristics of rent and profit, Buchanan maintains continuity with the allocative criterion used in the wage and interest definitions, and he makes the difference between the terms rent and profit clear, avoiding the problem of the context-based usage.

The problem with Buchanan's usage is that focusing on the point of distinction between rent and profit obscures their common distributive characteristic, the exploitation of non-neutral control.¹⁵ It is precisely this narrow usage which constrains the analytical vision of the rent-seeking research program. The research program further constrains its scope of analysis by its attachment of the term "seeking."

In our clarified taxonomy both characteristics of each definition are given equal attention. Profits are the returns to advantages¹⁶ that have continuous alternative uses. The level of profits is determined by the opportunity cost of exploiting an advantage in one way rather than another. A rent exists when the alternative uses of an advantage are not continuous and when the return to the second best use is discretely different from that to its optimal use. The discrete difference is the rent.

IV

Beyond Rent-Seeking

AS NOTED ABOVE, one problem with the rent-seeking research program is its exclusive focus on *rent-seeking*. This focus reflects an ahistorical perspective. In focusing on the rents generated by marginal changes in the structure of control, the rent-seeking research program loses sight of the rents generated by that part of the structure of control which is not changing. The vast majority of rents are not newly minted; they are returns to long standing rent-generating structures of control.

This lack of attention to the ossification of the structure of control obscures the importance of the distributive issue and robs the research program of one of its most powerful implications. Further, because so little is made of the rents generated by the inherited structure of control, little attention is given to the immense resources expended on preserving these rents. The very name of the research program, rent-seeking analysis, points to its emphasis on marginal changes in the structure of control. A more general analysis must encompass not only these marginal changes, but also the inherited structure of control and the rents generated by it.

A second problem with the research program is that its attention is almost entirely directed to social welfare cost or efficiency issues. Little attention is directed to distributive issues. While it is important that the effect of rent-seeking in diminishing the size of the pie society produces be recognized and analyzed, it is equally important that the effect of rent-seeking on the distribution of so-

ciety's pie be recognized and analyzed. Failure to do so denies us the use of an analytical tool that can systematically draw the connection between the structure of institutional control in society and the personal distribution in society.¹⁷

Finally, the rent-seeking research program constrains its own analytical power by its focus on the interconnection between the political and the economic spheres. In doing so it ignores the fact that social structures of control also have the power to generate distributions to control, profits and rents.

The clarified taxonomy identifies the distinction between profit and rent while at the same time specifying the relationship of both to the structure of control. This enables us to trace the lines of connection from society's structure of control to the distribution of its product. The course of this connection runs as follows: Society's institutions are the gatekeepers for access to many of society's opportunities. It is the structure of control embodied in these institutions that determines who will enjoy access to these opportunities. The distribution of these opportunities is in turn a key factor in the determination of income distribution. By acquiring (total or shared) institutional control, individuals are able to skew the distribution of opportunities and, thereby, to generate a profit or rent. Thus our tool kit allows us to construct a connection between the structure of control through the distribution of society's opportunities to the distributive outcome. It is clear from this connection that rational individuals¹⁸ will seek to take or to maintain institutional control as long as the net private benefits of doing so are positive.

Our improved tool kit still allows us to represent the important insights that are the significant contribution of Buchanan and the rent-seeking research program. Rent-seeking and profit-seeking do, as Buchanan recognized, provide a powerful motive for political behavior. The clarified taxonomy allows us to build on this logic by taking the analysis back from the margin of institutional change into the ossified structures of control. Extant rents and profits are *prima facie* evidence of some distortion away from neutrality in the structure of control.¹⁹ In terms of efficiency this implies that resources are not only spent on seeking control but also on maintaining control. Furthermore, given the fact that fundamental change comes so slowly in these structures, it seems reasonable to suggest that the resources spent on rent and profit maintenance are much more significant than those that go into rent and profit seeking.

It should be noted that, as Bhagwati points out, in the face of existing distortions new distortions occur "in a second-best situation and hence need not represent a social loss but may well be beneficial" (Bhagwati, 1982, p. 994). However, Bhagwati also notes that relative to a distortion free (neutral) environment, a distorted environment is definitely Pareto inferior (Bhagwati, 1982, p. 997).

Such potential indeterminateness is not, however, an issue with respect to distribution. The application of our tools suggests that the structure of control is a significant predictor of the distribution in society and that individuals who increase their advantage with respect to the structure of control will increase their relative share of the distribution. In other words, an individual's personal distribution will be significantly determined by his or her relative position with respect to the structure of control.

This is not a rejection of the proposition that distributive shares are related to marginal productivity. Rather it is a clarification which places into focus the fact that the productivity of a resource can be artificially enhanced or diminished by manipulating the flow of that resource as well as of competing and complementary resources in production. For empirical support of the proposition that one's position with respect to the structure of control plays a significant role in determining the size of one's personal distributive share, consider the following article that appeared in the July 26, 1983 *Syracuse Post Standard*, entitled "Found Baby's Future Dictated by Apartheid." It captures the essence of this interconnection between the social, political, and economic systems. It reads in part:

JOHANNESBURG, South Africa (AP)—Lize Venter is 4 weeks old and nobody knows who her parents are. In a society where the races are separated by law, that means the government will decide if she's black, white or of mixed race—and set the course of her life. . . .

The decision on her race will determine who can adopt her, where she goes to school, what neighborhood she may live in, who she can marry, whether she can vote, where she can eat—what she can hope for in life.

This is decreed by the Population Registration Act of 1950, adopted by the governing National Party two years after it took control of the White minority government.

Lize Venter's share of society's opportunity set and, therefore, her future share in the society's distribution were determined by where she was placed in the social and political pecking order. For most children the decision is clear at birth—determined by sex, race, and other indices.²⁰ While it is not impossible to overcome disadvantage or to waste advantage, on average the relative advantages participants bring to a competition determine the outcome. Lize's experience in South Africa (along with that of millions of other Black, Mixed, and White children) is a classic case in point.

Note that our analysis has extended the scope of theory to another dimension of society: the social sphere. Custom is a case in point.²¹ John Stuart Mill recognized that distribution is significantly determined by human institutions, and cited the most powerful of these as being custom.²² While the political structure of control can impose differential opportunity sets in society, ossified structures of control generally rely more on custom for their maintenance. This is so because

custom is a less expensive form of control maintenance than police. Whether it be the custom of South Africa reinforced by law or the custom of the United States that is no longer reinforced by law, the power of custom to control opportunities available to individuals cannot be denied. Thus we see that social as well as political institutions are an important part of the structure of control in society and that both kinds of institutions have significant influence on the distribution in society. Our tool kit allows us to trace these connections systematically.

v

Conclusion

THE PRIMARY CONTRIBUTION of the rent-seeking research program is the recognition that rational individuals allocate productive resources to the unproductive activity of seeking political control in order to acquire a larger share of the economic pie. The clarified taxonomy of distribution broadens the theory's perspective on this issue of control exploitation beyond the political realm that has been the focus of the rent-seeking research program. It allows us to systematically connect all kinds of institutional control seeking and maintenance behavior to economic considerations through the associated concepts of rent and profit. Thus the institutional analysis of Neoclassical theory is extended to the three dimensions of the human order. Exploitation of control in economic, political, and social institutions is systematically integrated into the core of theory. Our clarified language also preserves the valuable efficiency implications that the rent-seeking research program presents and at the same time it places the equally important distributional issues on a theoretical par with the efficiency issues. Furthermore, by shedding light on the control-maintaining as well as control-seeking behavior of rational individuals, the model's scope is expanded to encompass not only the implications of malleability in the structure of control but also the distributive impact of the extant structure of control.

Social and political institutions largely determine the distribution of society's opportunities among its members. While it is legitimate for the purposes of economic analysis to abstract from these social and political institutions when modeling the economic system, that is not the level of abstraction at which inquiry must end. The interweaving of social, political and economic forces to form the social fabric is too obvious and too important to be ignored. To repeat what T. W. Schultz has written, "Instead of omitting or impounding these [social and political] institutions in the 'state of nature,' or introducing them on an ad

hoc basis, the analytical task is to bring them into the core of economics" (Schultz, 1968, p. 1114). The clarified taxonomy does this. It provides a tool kit for what Lakatos refers to as a "*progressive theoretical problemsbiff*" that is "content increasing" (Lakatos, 1978, p. 49). Rather than *responding* to the obvious cases with ad hoc explanations,²³ the model is equipped to deal with those systematically and, more significantly, to *dig* deeply into the more subtle nuances of the relationship between the structure of social and political control and the economic system.

Notes

1. See for instance (Evensky, 1987) on Adam Smith.
2. This concept has been called a "subset of the broader class of . . . DUP [Directly Unproductive, Profit-Seeking] activities" (Bhagwati, 1982, p. 990). That assertion is based on the view that rent-seeking is not a broad enough term to capture all kinds of economically motivated political behavior. Herein we assume the broadest possible application to that interconnection, so rent-seeking and DUP activities become interchangeable terms.
3. Gordon Tullock deserves credit for reviving this issue of "advantage" seeking, a concept familiar to Adam Smith and J. S. Mill, and Anne Krueger actually coined the term rent-seeking. See below for more on this.
4. See Schumpeter (1954, pp. 41–47).
5. See Popper (1965, p. 37), or Lakatos (1978, p. 67) for more on this.
6. A point on which he criticizes Karl Marx. See Schumpeter (1954, p. 36).
7. Lakatos refers to this as a "*consistently progressive theoretical problemsbiff*" (Lakatos, 1978, p. 49).
8. See Harberger (1959).
9. This is analogous to the concept that Bhagwati refers to as a "distortion free" world. See Bhagwati (1982, p. 991).
10. Don Martindale writes that "[S]ocial control includes all processes that implement the legitimate order of a given community. The institutions which carry out social control (that is, the organizing and maintaining the decision processes of a community or its social power) include political, legal, and military and police institutions" (Martindale, 1978, p. 56). I would concur if the term legitimate is deleted. What is legitimate is in the eye of the beholder. There are many effective structures of control that, nevertheless, from some perspectives are deemed to be illegitimate (e.g., apartheid or the Mafia, or, in former times, the Steel Trust).
11. Note that the return to human capital investment can be appropriately referred to as an interest payment.
12. Here we define "risk" as a condition under which there are multiple outcomes possible that can be assigned probabilities. This is in opposition to "uncertainty" under which probability assignments are not possible.
13. Production functions are homogeneous of degree one.
14. See Jan Pen's *Income Distribution* where he writes that in a true "neoclassical equilibrium, all 'profit' is really wage or interest, and pure profits do not exist" (Pen, 1971, p. 208).
15. Doing so also leads Buchanan to mistakenly suggest that rent-seeking imposes social costs

and is therefore “bad” while profit-seeking “generates external economy” and is therefore “good” (Buchanan, 1980, p. 4). In fact both activities impose welfare costs on society.

16. “Advantage” is the term Adam Smith uses to reflect distortions of the natural order that are eliminated where competition is free (Smith, *Wealth of Nations*, 1976, p. 116). Here we use it to represent a distortion in the neutral structure of control. If they were temporary distortions that would be eroded by the forces of competition we would, following Marshall, call the returns to these advantages quasi-rents and quasi-profits (Marshall, 1961, p. 424 fn.). Here, however, we are referring to advantages that exist precisely because the structure of control inhibits competition and thus to returns that persist so long as their supporting structure of control exists.

17. Having such a tool allows us to resolve some of the confusion that Gian Sahota identifies in the analysis of personal distribution (Sahota, 1978).

18. This entire analysis is based on the traditional rationality assumption. If that assumption is relaxed and behavior such as Sen’s “commitment” (Sen, 1977) is accepted into the model, then the analysis becomes much more complicated. McPherson makes this point in the closing remarks of his chapter in (Colander, 1984). See Colander (1984, pp. 83–84).

19. See Marshall (1961, p. 577) for precedent in identifying these kinds of returns as providing a “*prima facie* case for . . . the possession of a differential advantage for production. . . .”

20. For more on the concept of indices see Michael Spence, “Job Market Signaling” (Spence, 1973).

21. It may well be that this connection is the key to understanding the issues that underlie what is referred to as the comparable worth controversy. If custom directs women into a small number of careers, then even in the absence of legal barriers to entry into alternative careers, “women’s sphere” will be crowded and there will be distributional discrepancies between the “men’s sphere” and the “women’s sphere” with respect to the pay for jobs of apparently comparable worth.

22. He dedicated a chapter of his *Principles* to the “Influence of Custom.” This chapter begins with the statement: “Under the rule of individual property, the division of produce is the result of two determining agencies: Competition and Custom” (Mill, 1929, p. 242). In his “Preliminary Remarks” Mill writes: “Unlike the laws of Production, those of Distribution are partly of human institution: since the manner in which wealth is distributed in any given society, depends on the statutes and usages therein obtaining” (Mill, 1929, p. 21).

23. A method that Lakatos criticizes, see Lakatos (1978, p. 67).

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