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## Are rents fully dissipated? Comment

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The measure of the cost of rent-seeking has been difficult and its theory is complicated. For example, I devoted to the first half of my *The Economics of Special Privilege and Rent Seeking* (1992) to the mysterious fact that the apparent size of the rent-seeking industry is considerably smaller than the resources obtained. This raises the question of whether there are, in fact, concealed expenses or that entrepreneurs are making mistakes.

The Dougan-Snyder (1993) article raises and attempts to answer the problem. They assume a case in which \$100 is distributed to the first 1000 people who are at a given point at noon of a specified day. One would expect that this prize would be wholly dissipated by people coming long distances, getting in early in the morning, etc. They call this rent-seeking, and it is legitimate, although unusual, use of the word.<sup>1</sup>

There is another set of rent-seeking costs. These are costs of impelling the decision or policy makers to make the award. It is this second meaning of the term that attracts most attention from students. To repeat, it is not illegitimate of Dougan-Snyder to talk about the first meaning, but they should not ignore the second. In their model the decision maker simply decides to make a gift to certain people. There is no pressure brought to bear on him; resources are not used to convince him that he should. Altogether, this is quite unlike what we normally see when Congress is handing out money.

I am not alleging that waste in the process of handing out the money is unimportant. However, the pressure brought to bear on policy makers to make the distribution is what has normally been discussed under the title of rent-seeking.

Take the U.S. agricultural program which provides benefits to the farmers at a cost to society very much larger than those benefits. The benefits themselves are modest even to the farmers. The farmers bring a good deal of pressure to bear on the political representatives to keep the program going, and this is what we normally think of as rent-seeking costs, and not the allocative inefficiency waste that the program generates. However, Dougan and Snyder perform a service by bringing these allocative wastes to our attention.

The cost to the United States of the farm program is of the order of \$20–

30 billion dollars a year (depends upon the weather), and the benefit to the farmers about \$2 billion dollars a year. It is even possible that if the program were cancelled, after a painful period of readjustment, the farmers would be as well off as they are now.

Obviously, the farmers would not be willing to put up more than \$2 billion a year for this benefit. On occasion economists list the \$20 billion as the rents derived, rather than the \$2 billion. With these assumptions they find that the rent-seeking costs is very far from being dissipated. In fact, \$18 billion of it is dissipated by the kind of activity modelled by Dougan and Snyder, by the equivalent of people going to the corner where the money is to be distributed.

Still, it doesn't seem as if the direct payments by farmers are any where near \$2 billion. The campaign contributions and other political expenditures seem tiny compared to the amount of money which Congress distributes. Further, congressman themselves when they retire, although, they do not retire to poverty usually do not retire to great wealth, such as, say a Mexican congressman normally does.

There are two puzzles here, one of which is why the money is disseminated in such an inefficient way, and the other is why congressmen don't seem to earn the amount that even disseminated in this inefficient way would be justified on a straight cost benefit analysis.

The answer to these two puzzles is rather simple: the actual decision maker is the mass of voters. The fact that the voters are systematically badly informed and that they also pay the taxes that are used to support these transfers explains much of the mystery of rent dissipation. Ekelund and Tollison (1981) cited by Dougan and Snyder, are right to point out that when the residual claimant was the king, he had motives for being efficient. In spite of these motives it is not obvious that the royal efficiency was very high.

This is the kind of rent-seeking costs that Dougan and Snyder talk about. The other kind that gets the governments to hand out money to favored individuals or groups is somewhat different. If we deal with the latter first it will be easier to understand the former.

Assume then that we are talking about a project to spend \$20 billion dollars benefiting the farmers, and that we have two types of rent-seeking, one of which is actually distributing the money. For the time being let us assume that it is inefficient and costs \$18 billion dollars. The other type of rent-seeking is getting the Congress to undertake the program which is clearly worth \$2 billion dollars to the farmers. Assume that the fundamental decision maker here is the farmer who makes his decision by campaigning and voting for or against the congressmen, and that the congressmen are simply acting as their representatives. This is a little over-simple, but will do no harm.

Assume there are other voters who have to pay the taxes and will not receive the benefit. If they outnumber the farmers, then getting the bill through will

require special arrangements. If the farmers themselves made up 51%<sup>2</sup> of the population so that they could get the thing through on their own, they presumably would either take only \$2 billion in direct cash payments or insist on receiving the whole \$20 billion instead of wasting \$18 billion.

There are a series of problems here. Firstly, the farmers are not a majority. They get the bill through by making deals with other people. In order to get the farm program through, it is essential to have the farm representatives also vote for the Central Arizona Project, for producing a canal paralleling the Mississippi River, making Tulsa a deep water port, and all the other nonsense that we observe the Federal government understanding.<sup>3</sup>

Since only a majority is necessary, it would be possible for such bargains to spend almost \$2 for each dollar that is disseminated to the beneficiaries. The other money would be paid by people who are not members of the bargain. The reader will note that in all of this I am following the log-rolling mod of *The Calculus of Consent*, (Buchanan and Tullock, 1961).

The ideal system from the standpoint of a simple majority would be to make a permanent coalition which regularly exploited the minority and benefitted the same majority of all votes. In practice, these things are not stable, and that is impossible to do. What happens is a rotating series of majorities among groups that have special things they want with a result that almost everybody gets something, but the net cost of the marginal projects for all of them is considerable more than the benefit. Perhaps it may be better than not letting any of the projects through.

Unfortunately, the situation is worse than I have just implied. One of the standard, but rather startling, early results of Public Choice, was that the intelligent voter will not bother to become well-informed about politics. Empirical evidence confirms theory here. Unfortunately the actual ignorance of the voter has particularly perverse effects because it is not symmetrical. The voter is more likely to know of things that directly affect the small minority of which he is a member than of matters of general public interest.

The farmer knows much more about the farm program than he does about the Central Arizona Project unless he is one of that tiny minority who will benefit, and hence he is apt to mistakenly think that when his representative makes a trade of a vote for the farm program with one for the Central Arizona Project, he is getting a benefit without any cost. The fact that he knows more about the farm program doesn't mean that he knows a great deal. Those people in Arizona who thought they were going to benefit from the Central Arizona Project were ignorant of very well-informed criticism by agricultural economists and hydrologic engineers from the university which I now hold my chair.

They ignored this expert advice. Granted the extremely limited incentives for becoming well informed, we can not really criticize them for that. They are now



paying the costs, but for each individual the cost will be fairly low. It is possible that investing resources in becoming well-informed on the project some 15 years ago would have been unwise. Compound interest for 15 years together with the very slight prospect that any voter could change the outcome, might add up to more than the disadvantage of remaining ill-informed.

Even this does not fully explain the gigantic difference between the benefit that many of these projects have and their costs. Dougan and Snyder mention that there are “constitutional” prohibitions on making payments to specific individuals in order to avoid the kind of continuous struggle for money which otherwise would exist. None of these limits are constitutional and how firm they are is not clear, but it is clear that large scale direct cash payments to constituencies are hard to get through Congress. Disguise is necessary. Since the voters are ill-informed these disguises work, but they are expensive and the present method of subsidizing farmers is in essence a gigantic disguise to transfer a rather small subsidy.

To summarize then, the actual distributing of the money discussed by Dougan and Snyder is only a part of the rent-seeking costs. Further, if we look at real government programs, you normally see even that part of the cost is handled wastefully. They are correct that politicians have a motive for spending that money as efficiently as possible, but also they have a motive for concealing the subsidy from the bulk of the voters. Apparently, the second motive tends to dominate the first.

## Notes

1. There is also the additional cost involved in raising the money by taxation. They ignore it, and I will also for the remainder of this comment.
2. 51% is not really needed. A strong group in a large number of constituencies will do. This makes no difference in the analysis, however, and would lengthen an already long comment.
3. State and local governments do some of this kind of thing also, but their resources are smaller and we tend to ignore them.

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