The Welfare Costs of Rent-Seeking: A Methodologically Individualist Subjectivist Revision

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Abstract: Gordon Tullock is recognized for being the first to recognize the true costs of rent-seeking as including not only the Harberger triangle but also the Tullock rectangle. This rectangle does not constitute merely a lossless transfer of wealth, but it causes a misallocation of resources as rent-seekers invest resources in lobbying. However, a close reading of Tullock's several articles on the subject shows that his arguments are formulated in a holistic fashion, speaking of what is efficient or inefficient for society. Rent-seeking is inefficient because it reduces societal welfare. But according to a methodologically individualist and subjectivist economics, such a claim is invalid. We recast Tullock's argument accordingly, and conclude that we must distinguish between positive economic fact and normative moral philosophy. Rent-seeking does indeed cause a reallocation of resources – as per Tullock – but only normative moral philosophy can pronounce this to be "bad."

Keywords: Tullock; rent-seeking; interest groups; efficiency; subjectivism; methodology

JEL codes: B31; B41; D61; D63; D72

Gordon Tullock is famous for his pioneering the concept of rent-seeking (Tullock 1967) even though the term itself is owed to Krueger (1974). Tullock's simple claim was this: previous economic analysis of monopolies had argued that the allocational rectangle was a mere transfer of wealth from one party to another which occasioned no loss to society (Tullock 1967: 225 in Tullock 2004: 170; Tullock [1987] 2004: 237; Tullock 1998; Tullock 2003: 2). The only true social loss was the "Harberger triangle" of deadweight loss, whose magnitude was calculated to be quite small (Tullock 2003: 2f.). Therefore, the social cost of monopolies was almost negligible. Tullock "simply shifted attention from the welfare triangle to the profit rectangle and asked what self-seeking entrepreneurs would do to access such a profit rectangle from the zero profit environment of a competitive market" (Tullock 1998). His answer was that the "Tullock rectangle" of transfer itself occasioned social losses of its own. Potential recipients of monopoly privilege or regulatory protection would invest resources in lobbying to obtain that protection, with theoretically investing up to the capitalized probability-discounted value of the potential protection to be obtained. Furthermore, potential victims of the monopoly would engage in a similar calculus, investing in counter-lobbying, potentially investing a value up to the capitalized cost which would be imposed on them discounted by the probability of their counter-lobbying being successful. In other words, the investment in lobbying (and counter-lobbying) is based on capitalized expectation of cost and benefit to account for the fact that transfers are continual and not one-time, but discounted by probability because lobbying efforts have less than a guaranteed chance of success (Tullock ([1987] 2004: 239).[1]

1 Hence, it is not that rent-seeking is negative sum because investments are duplicated. When multiple firms each invest in lobbying to secure a single privilege, only one firm can be successful, and all the other firms will have

Potential beneficiaries and victims will invest to the point where expected marginal returns equal expected marginal costs. Thus rent-seeking is "defined as the outlay of resources by individuals and organizations in the pursuit of rents created by government" (Tullock 1998). These investments in lobbying and counter-lobbying resources are a pure social waste with no productive value to society and society loses not only the value of the Harberger triangle but also of the Tullock rectangle. In short, the costs of protectionism include not only the deadweight loss of the protection itself, but also the value of all the lobbying resources which are invested in securing and forestalling this protection. These investments in lobbying are of no productive value and constitute pure social waste.[2]

There is an important flaw in Tullock's argument, however – *viz.* that Tullock evaluates things from the perspective of "society." From that holistic standpoint, lobbying produces waste and loss. But from a methodologically individualist and subjective standpoint, it is not so clear what is or is not a genuine waste or loss. "One man's trash is a another man's treasure," or, if one prefers, *de gustibus non est disputandum*. Only if one can confidently speak in the name of "society" is it possible to declare what is socially wasteful. But if one cannot speak for society, then one cannot declare that investment in lobbying is a net loss. Instead, we must evaluate things from the perspective of individual economic actors. We will find that while the positive side of Tullock's analysis of rent-seeking – the discovery that actors will invest in lobbying – is a perfectly legitimate

wasted their investments. One might argue that it is this duplication which explains why rent-seeking reduces welfare. But in fact, each firm will invest not according to the maximum realizable rent obtainable but the rent discounted by the probability of its successful acquisition. The more firms competing for a single rent, the lower the probability any given firm will obtain it, and the less any one firm will be willing to invest. Of course, this depends on expected not actual probabilities, so we cannot predict *a priori* whether rent-seeking investment will be efficiently based on correct estimations of probabilities. But assuming probability estimations are unbiased and errors are random rather than systematic, we should expect that the probability-discount on investment will prevent the wasteful-duplication aspect of investment in obtaining rents. The total probability of obtaining the rent is equal to approximately 1 (100%), and so the total investment in lobbying by all firms collectively should tend to equal the total value of the rent, which each individual firm investing an amount equal to the rent discounted by that firm's individual probability of obtaining it. Therefore, Tullock says ([1987] 2004: 239),

> In almost all existing lotteries, of course, the total investment of resources by the gamblers is considerably greater than the total payoff, whereas here it is still assumed that the total resources committed to rent seeking equal the total monopoly profits.

2 In one retrospective Tullock also takes note of Harvey Leibenstein's X-efficiency (Tullock 2003: 3 citing Leibenstein 1966). The costs of monopoly are not just the static inefficiency of producing lower quantity at a higher price. Instead, there is also the dynamic inefficiency of the fact that the protected industry does not strive as much to improve product quality and reduce the cost of production. However, Tullock is not satisfied with this answer (2003: 4).

illustration of “that which is seen and that which is not seen” (to borrow from Bastiat), the normative side of Tullock's analysis – his criticism of rent-seeking – dubiously involves methodological holism and illegitimate imputations value of objective value. A normative criticism of rent-seeking which avoids methodological holism and eschews speaking in the name of “society” will have to be conducted on methodological grounds different than Tullock's.

We should admit, however, that Tullock was probably well aware of all our criticisms. As Tullock himself made clear (Tullock 1971: 375), “my work in expanding economics into new areas was, in a real sense, begun by my reading of *Human Action*” by Ludwig von Mises (1949). Furthermore, the underlying methodological claims of this present essay are all essentially put forth in *Cost and Choice* by Tullock's colleague, James Buchanan (1969). Therefore, we are not so presumptuous to claim that Tullock was unaware of our criticisms. It seems more likely that Tullock intended to take the essentials of Neoclassical welfare analysis for granted in his analyses of rent-seeking in order to show that even according to the accepted Neoclassical standards, rent-seeking was more costly than had been realized. In other words, Tullock wanted to fight a battle only on one front, not two, and Tullock did not want to unnecessarily provoke a second dispute concerning the Neoclassical methodology itself. Indeed, as it was, Tullock had a very difficult time publishing his original 1967 “Welfare Costs of Tariffs, Monopolies, and Theft” (see Tullock 1998, 2003: 5 for the full story), and had he argued against the Neoclassical methodology too, his 1967 article would have been even less publishable. Consequently, our argument is not that Tullock was ignorant of the claims that we are about to make, nor even that he would have disagreed with them. Our claim is only that in taking Neoclassical methodology for granted in his analysis of rent-seeking, Tullock neglected to say everything that he could have, and his criticism of rent-seeking was therefore incomplete. Even if Tullock had very good reasons for confining his analysis, there are still things he left unsaid, and it is to these we turn. If our guess is correct that Tullock's original 1967 article deliberately eschewed contesting Neoclassical methodology in order to avoid provoking unnecessary controversy, then today, now that Tullock's rent-seeking concept is no longer controversial, perhaps the time is ripe for us to complete what he perhaps left unfinished. Tullock's original article took Neoclassical methodology for granted, but now we may extend his criticism of rent-seeking to account for the radical methodological individualism and subjectivism of Mises's *Human Action* (1949) and Buchanan's *Cost and Choice* (1969). Our objective is not to dethrone Tullock's analysis of rent-seeking, but only to refine it in a spirit of admiration.

I. What is “Society” and its Welfare?

We begin by observing that Tullock repeatedly speaks of unproductive investments which do not produce wealth for society. The problem is that “society” does not exist as an economic actor; only individuals act. Therefore, we cannot speak scientifically of a loss to society unless literally every member of society suffers a loss, or at least no gain. But where even a single member of society benefits, then we cannot anymore speak of an investment as wasted or socially unproductive. For example, Tullock speaks of "revenues raised by [a] tax [which] are completed wasted, building tunnels, for example, which go nowhere" (Tullock 1967: 225 in Tullock 2004: 171). According to Tullock, "no one benefits from the expenditure" and "the whole economy is poorer not just by the triangle, but by the whole amount of wasted resources" (Tullock 1967: 226 in Tullock 2004: 171). But this is not at all true. The construction industry and the workers it employs have certainly benefited from the government's use of tax revenue to purchase tunnels to nowhere, and they are not complaining about society – of which they are members – being any worse off than before. This industry is the recipient of a government transfer, and within the boundaries of positive economics, it is impossible to say whether society is rendered better or worse off than before by a transfer of wealth from one person or group to another. A methodologically individualist and subjectivist economics makes it impossible to make judgments about societal efficiency.

More generally, Tullock's criticism is that traditional economic theory "assumes that the monopoly is created in a costless manner, perhaps by an act of God, whereas in fact real resources are used to created monopolies" (Tullock 1987 [2004]: 237). Similarly, Tullock argues that investment in lobbying is "wasteful from the standpoint of society as a whole; they are spent not in increasing wealth, but in attempts to transfer or resist transfer of wealth" (Tullock 1967: 228 in Tullock 2004: 174). But the recipients of those real resources do not regard the cost as a cost at all, but instead as a beneficial transfer to themselves. Similarly, when Tullock argues that "[t]he problem is that the possibility of a transfer leads people to invest resources in either obtaining the transfer or preventing it" and that "from the society standpoint the resources invested in the conflict between the two groups are entirely wasted" (Tullock [1971b] 2004: 191), we respond that the lobbying industry, in which the resources are invested, certainly does not regard these resources as being wasted. For that industry, these allegedly wasted resources constitute a beneficial transfer of wealth. As James Ostrowski has noted (2006: 11, 2010: 77), once you understand economics,

> you will no longer be mystified by the so-called waste of your tax dollars. They may be wasted from your point of view, but they are not wasted from the point of view of those who spend your tax dollars: the bureaucrats and politicians and their infinite list of clients. Just as you will spend your funds on your highest and most urgent needs and wants, they too are now spending your tax dollars on their own needs and wants. You may moan and groan about the Defense Department paying $1,000 for a toilet seat, but the manufacturer of that toilet seat was laughing all the way to the bank.

Investment in lobbying is a waste only from the perspective of the victims of transfers and rent-seeking, but not from the perspective of the victors, and certainly not from the perspective of the lobbyists themselves. In fact, the lobbyists would appear to benefit regardless of whether their patrons eventually win or lose. Assuming a given lobbyist has a good enough success record that he is regarded as basically competent and hirable, then he will be happy as long as firms continue to hire him to lobby on their behalf. In any given particular case, whether he succeeds or fails, he will be satisfied as long as he is paid. For the professional lobbyist, the rent-seeking society promotes his own full-employment. Lawyers probably tend to regard the growth of the legal tend similarly: more laws mean more clients. Lobbyists and lawyers – who, don't forget, *are* members of society – are probably shedding few tears at the prospect of reliable employment, no matter how many others deplore their professions as "unproductive."

II. Transfers as Investments and Investments as Transfers

Notice that we have considered investment in lobbying as equivalent to a transfer to lobbyists. This brings us to our next criticism: that Tullock makes an artificial distinction between transfers and investments. According to Tullock, rent-seeking occasions losses because not only is wealth transferred costlessly from one group to another, but resources are invested wastefully as well. In his words (Tullock 1967: 231 in Tullock 2004: 177),

> theft itself is a pure transfer, and has no welfare cost, but the existence of theft as a potential activity results in very substantial diversion of resources to fields where they essentially offset each other and produce no positive product. The problem with income transfers is not that they directly inflict welfare losses, but that they lead people to employ resources in attempting to obtain or prevent such transfers.

Similarly, he states (Tullock 1967: 230 in Tullock 2004: 176),

> Transfers themselves cost society nothing, but for the people engaging in them they are just like any other activity, and this means that large resources may be invested in attempting to make or prevent transfers.

And again (Tullock [1971b] 2004: 193):

> The transfer itself may be costless, but the prospect of the transfer leads individuals and groups to invest resources in either attempting to obtain a transfer or to resist a transfer away from themselves. These resources represent net social waste.

In other words, the problem with theft is not the pure transfer of wealth from the victim to the thief, but rather the fact that victims invest in locks and thieves in lockpicking equipment. Tullock assumes that from a societal perspective, this investment in lobbyists and theft-related equipment is wasteful and decreases total national wealth. By contrast, pure transfers are costless. But in fact, every investment is a transfer and every transfer is an investment. Suppose, for example, the automobile industry obtains a subsidy at taxpayer expense. And suppose that the process of obtaining the subsidy was costless, with no investment in lobbying whatsoever. We might say then that the subsidy constitutes a pure transfer without any wasteful investment. But in fact, this tax-and-subsidy will still alter the allocation of resources. For example, suppose the recipients of the subsidy – members of the automobile industry – live in a geographic region where wine is preferred to beer relatively more than in the rest of the country. When the beer-preferring taxpayers are taxed to provide a subsidy to the wine-preferring members of the automobile industry, the pattern of production and consumption of wine relative to beer will change. We should expect production and investment in beer to decline and that in wine to increase, even though the tax was assessed on say income and the subsidy was a pure transfer to the automobile industry. Although the subsidy was a pure transfer, the recipients of the subsidy still have to spend their newly-obtained money somewhere. Even if they spend their entire subsidy on consumption, this will still indirectly affect investment and production. Even a pure transfer entails reallocation of resources and changes in the societal pattern of investment. If rent-seeking is costly only because it alters the pattern of investment, then even a pure transfer would have to be regarded as costly insofar as the recipients of the transfer have different subjective tastes and preferences for consumption compared to those who paid the tax.

The reverse is true as well: every investment in production is a transfer. Tullock criticizes the fact that in an environment of rent-seeking, there will be unproductive investment in lobbying. But such investments are nothing other than pure transfers to lobbyists. Just as the construction industry is not sorry to build tunnels to nowhere, lobbyists do not complain about the salaries they receive to make their pitches in Washington. Likewise, the manufacturers of padlocks and lock-picking tools do not lament how the pervasiveness of theft alters patterns of investment. Societal wealth has not necessarily been diminished in absolute terms but merely transferred from consumers to lobbyists and to manufacturers of lock-related equipment. From the perspective of lobbyists and lock-industry manufacturers, personal wealth has in fact been increased, not decreased. Lobbyists and the lock industry perceive an increased demand for their products and services no differently than brewers would respond to a shift in consumer preferences from wine to beer. In fact, every alteration of investment and production is just a form of wealth-transfer to the members of the recipient industry. One cannot argue, as Tullock has, that rent-seeking is costly because it occasions malinvestments or misallocations of resources above and beyond the innocuous pure transfers of wealth. In fact, every investment is a transfer and every transfer is an investment.

III. Return to Society

From the methodologically individualist and subjectivist perspective, Tullock's primary mistake is that he attempts to measure value and productivity from the perspective of "society."[3] For example, in one discussion of rent-seeking, while criticizing investment in lobbying services, he claims that "[n]o improvement in efficiency in society is expected from such a transfer" (Tullock [1971b] 2004: 188). He continues that when those who would suffer a loss from rent-seeking, respond by investing in counter-lobbying, the two investments largely

3 But as we remarked earlier, this was probably not really a mistake by Tullock, but instead a conscious decision on his part to avoid contesting more of the Neoclassical analysis than was necessary for him to make his point.

cancel and “it is clear that the action as a whole has not benefited 'society'” (Tullock [1971b] 2004: 190). In a later reflection on his earlier work, Tullock recapitulated that “Irrrespective of which party wins the struggle, the resources invested in the struggle are wasted and society as a whole is worse off” (Tullock 1998, commenting on Tullock [1971b] (2004)). While we agree that there is a sort of Prisoner's Dilemma at work (Tullock [1971b] 2004: 185), we do not agree that it is meaningful to speak of what benefits or costs society. While the majority of citizens may be distressed, the lobbying industry, which benefits from this investment, is not complaining, and lobbyists are every bit as much members of society as anybody else. Therefore, it is not true that “from the social standpoint the resources invested in the conflict between the two groups are entirely wasted” (Tullock [1971b]: 2004: 191), because the lobbyists who receive the transfer of wealth receive a benefit but do not suffer a loss. The positive economist cannot make any argument for why the “social standpoint” should discount the welfare of lobbyists more than anybody else. As Murray N. Rothbard has noted (1982: 59 n.8),

> Social efficiency is a meaningless concept because efficiency is how effectively one employs means to reach given ends. But with more than one individual, who determines the ends toward which the means are to be employed? The ends of different individuals are bound to conflict,making any added or weighted concept of social efficiency absurd.

The same criticism should be applied to Tullock when he says (1967: 230 in Tullock 200: 176) that theft

> would be extremely costly to the society in spite of the fact that the activity of theft only involves transfers. The cost to society would be the investments of capital and labor in the activity of theft and in protection against theft.

But it is not true that society homogeneously suffers a loss. Every investment in padlocks is nothing but a transfer to the members of the lock-manufacturing industry. Moreover, there is no positive economic reason why padlocks are a morally less valuable or worthy investment than anything else. The positive economist cannot say that investment in locks is a more or less wasteful investment than an investment in anything else. After all, it is merely a transfer of wealth from one manufacturing sector to another.

Furthermore, Tullock hypothesizes that “society” might choose to accept Kaldor-Hicks improvement in lieu of insisting solely on Pareto improvements (Tullock [1971b] 2004: 183). But society does not make such choices; only individuals choose and act. It is not scientifically meaningful to speak of what benefits or costs society unless every single member of society is united in sharing the benefit or cost together (or at least, as long as some members are not affected). But as soon as any member of society experiences a benefit from anothers' loss or a loss from anothers' benefit, it is impossible to speak anymore of what benefits or costs society. Tullock should not speak of lobbying and theft-deterrence as socially wasteful because the members of those industries receive transfers and society's loss is their gain. Hence, society as a unitary entity does not really homogeneously lose after all.

IV. Value is Subjective

There is also the problem of subjective value. According to Tullock (1987 [2004]: 239, 243), again discussing lobbyists, there is

> a considerable waste of resources in general, both because these highly intelligent people could otherwise be doing something of higher productivity and because the economy's use of resources has been further distorted by the creation of the monopoly. . . . [T]he large-scale lobbying industry is truthfully a major social cost [because] . . . these highly talented people could produce more in some other activity.

But what does it mean that "these highly intelligent people could otherwise be doing something of higher productivity"? According to whom? From whose perspective? Society's? In fact, value is subjective, and the positive economist cannot say what is more or less productive than anything else. This is a normative judgment. We must just as well say that society suffers loss when religiously observant Jews refrain from work on the Jewish Sabbath and that societal efficiency would be enhanced by the abolition of the Jewish religion. This may well be true from the perspective of gentiles and anti-religious Jews, but from the Jewish viewpoint, this would entail a welfare-loss. But if the positive economist cannot legitimately say that religiously observant Jews "could otherwise be doing something of higher productivity" on the Jewish Sabbath, then he or she cannot criticize investment in lobbyists either. This is the cost of acknowledging the essentially subjective nature of economic value.

V. Rent-Seeking as Immoral, not Inefficient

What then, from the perspective of a thoroughgoing methodologically individualist and subjectivist economics, is the true cost of rent-seeking, the real reason why it should be criticized? It is that the consumers who must pay the taxes and higher prices, find their welfare reduced. When the government offers a subsidy to a rent-seeking interest, it means that somebody else must have involuntarily paid a tax. (Of course, the subsidy and tax may be indirect, in the form of e.g. a regulation which restricts competition.) Every form of rent-seeking is merely a transfer of wealth, but the victims of that wealth-transfer regard it as worthy of serious resentment and criticism. Similarly, every form of regulation which has beneficiaries and victims, aggrieves its victims. For example, any form of licensure harms those who have to pay the cost of obtaining a license. The ethical or normative problem is not that "society" suffers a loss or that economic efficiency is engendered, because such losses or inefficiencies are not really scientifically ascertainable or verifiable (Rothbard [1956] 2011). The problem is that somebody – anybody – suffers an unjustifiable loss, no matter the magnitude; the objection is moral, not economic – deontological, not utilitarian (cf. Rothbard 1982: 61f.). Even if it were true that transfers of wealth did not affect GDP or societal wealth, it would still matter to the specific parties involved who was the donor and who was the recipient (Block 1977). When somebody is forced to surrender wealth to another, his concern is not with whether GDP is affected or whether “society” finds its efficiency impaired, but instead, he cares primarily about what this does to his own personal well-being (Block 1977). Similarly, the problem with government grants of monopoly privilege is not that it reduces societal efficiency or welfare in any calculable fashion, because in fact, the supply and demand curves are simply not given for anyone to measure. Instead, all we can say about monopoly grants of privilege are that they render supply more inelastic, violating the moral right of potential competitors to compete, and violating the right of consumers to seek alternative providers of satisfaction (Leoni 2009 [1965]). At the heart of nearly any criticism of rent-seeking lies the intuitive moral belief that coercion is wrong, that the privileged or powerful do not have a right to use political power to profit at the expense of others.

VI. Monopoly, Entrepreneurship, and X-Efficiency

In addition, there is another cost of monopoly to which Tullock did not credit as much as he could have.[4] As we noted earlier, Tullock also takes note of Harvey Leibenstein's X-efficiency (Tullock 2003: 3 citing Leibenstein 1966), but Tullock is not satisfied with this answer (2003: 4). Leibeinstein argued that the costs of monopoly are not just the static inefficiency of producing lower quantity at a higher price. Instead, there is also the dynamic inefficiency of the fact that the protected industry does not strive as much to improve product quality and reduce the cost of production.[5] According to Tullock, it is hard to believe that a monopolist would rest on their laurels and not make as much profit as they could by cutting costs, and so he rejects Leibenstein's answer (Tullock 2003: 4). But X-efficiency deserves more consideration. According to Israel Kirzner's model of entrepreneurship, entrepreneurs will be constantly on the lookout for new opportunities to make profits (Kirzner 1973; Kirzner 1997; Littleschild 2009 [1978]; Boettke 2012: 213-225, 281-285, 291f.). Every market failure is a profit opportunity, an externality to be internalized. Profits earned competitively indicate that value has been created where none existed before, either by lowering costs of production or else by creating a new product or service which consumers value more than any preexisting alternative (Holcombe 2014).[6] But the act of being constantly alert for new profit opportunities is itself costly and tiring. It is reasonable to suppose that a monopolist, protected from competition, will find it simply not worth his effort to strenuously explore new ways to produce higher-quality products at lower prices. Much less will he attempt to invest totally new, unprecedented products. Yes, he could make higher profits by doing so. But leisure is also an economic good, and it is reasonable to suppose that without the spur of competition, he will invest relatively more in leisure and relatively less in entrepreneurial alertness. Tullock's assumption that even a monopolist would pursue X-

4 Again, we do not claim that Tullock was ignorant of our arguments, not even that he would necessarily disagree with them. We claim only that Tullock did not voice our arguments when he perhaps could have.

5 For a recent, lucid summary of how competition spurs innovation, see Holcombe 2014.

6 Profits also encourage imitation (Holcombe 2014).

efficiency and cut costs to achieve maximum profits, assumes that businessmen do not value leisure as a commodity. In fact, with his monopoly profits, he is making a handsome enough living as it is, and he does not need to engage in the tiresome and exhausting effort of entrepreneurship just to increase the magnitude of his already abnormally high profits. When the monopolist is sheltered by competition, his passivity and laxness means only that he makes lower profits than he otherwise could, but he still makes positive profits. It is only when there is competition that his positive profits can turn negative and he is forced to engage in entrepreneurship just to stay in the black. As Randall G. Holcombe has recently observed (2014: 390f.) concerning entrepreneurship in a competitive market,

> Because some entrepreneurs are looking for innovations that can increase their profits, all businesspeople must be. . . . [A]ll businesspeople have to [innovate], or they will continue to fall behind their entrepreneurial competitors until their normal profits turn into losses. The profit potential that gives some firms the incentive to be entrepreneurial and innovate requires that all firms do so, in order to remain competitive with their entrepreneurial rivals.

With the advent of competition, the monopolist can no longer rest content with laziness that earns him abnormally high profits. Instead, laziness earns him bankruptcy, and relentless innovation and creativity, no matter how exhausting, is the only way for him to even stay in business at all.[7]

VII. The Transitional Gains Trap

Now, we should note that in one place, Tullock suggests that the the welfare cost of rent-seeking is

7 Similar considerations militate against the theory of natural monopoly. Let us grant, for the sake of argument, that in some industries, there is an increasing returns to scale such that a monopolist alone would obtain the most efficient economy of scale. But it does not follow that therefore, we should favor a monopoly, because economy of scale is not the only desirable form of efficiency. We should also seek X-efficiency or the promotion of Kirznerian entrepreneurship. A competitive utility might operate at an inferior economy of scale but more than make up for this by promoting innovation and creativity. According to Walter J. Primeaux, Jr. (1985: 128),

> X-efficiency means that if it does exist, competition could lead to lower costs than a monopoly in any business by improving incentives to operate efficiently. Moreover, to the extent that inefficiency exists in a monopoly electric utility firm, the inefficiency may be so large as to overcome or offset any economies of scale gained from monopoly.

Furthermore, the Misesian problem of economic calculation under socialism and the Hayekian challenge concerning “the use of knowledge in society,” means that it is impossible to scientifically rate-regulate a natural monopoly or public utility. As Nina W. Cornell and Douglas W. Webbink note (1985: 44 n. 16),

> The requirements on an economic regulatory agency that tries to do its job properly according to traditional public utility regulatory concepts are not very different from the requirements on a central planning agency in a socialist or communist country.

something else entirely from what he has been quoted so far as having primarily said. In his original article on rent-seeking, he notes (1967: 226 in 2004: 172, body & n. 8) briefly that,

> The owners of the resources now engaged in inefficiently producing the commodity receive no more than they would have received had the tariff never been introduced and they had been employed in other industries. There might be sizable but temporary rents to the firstcomers when the industry was first established.

This adumbrates the argument he would later make about the transitional gains trap, how the rents from rent-seeking are eventually dissipated until the recipients are no better off than they were before, while their victims are definitely worse off (Tullock 1975). For example, when a taxicab medallion system is first instituted by granting all current taxicab drivers a medallion and forbidding all new entrance into the industry, the first recipients of the new medallions benefit from the restriction on competition. But when the original recipients are all dead and the current generation's taxicab drivers must purchase their medallions, the rents they obtain from higher fares are dissipated when those rents are capitalized into the cost of the medallion which they must purchase. Similarly, the rents from farm-price supports are capitalized into the value of farmland. In such a situation, it is indeed possible for the positive economist to pronounce that rent-seeking is “bad” because some people are hurt and *nobody* benefits. Because absolutely nobody whatsoever receives any benefit, the economist can make a dogmatic normative claim. But notice that the dissipation of rents takes place only after the passage of some time. As long as the rents have not been dissipated yet, then there is still at least one person who benefits, and the positive economist cannot declare that “society” has been harmed, nor can he state that rent-seeking is “bad” on account of its welfare costs. At the moment the rents are being granted by the government, the economist cannot declare the grant to be “bad.” Even if the economist knows that in the future, the rents will be dissipated and render the rent-seeking “bad,” he cannot criticize this normatively because this involves a subjective imputation of value based on his own personal time-preference. If the economist declares that rent-seeking is “bad” in the present because the rents will be dissipated in the future, others may respond, “in the long run, we're all dead.” In any case, if the reason why rent-seeking is worthy of censure is that the transitional gains trap causes rents to be dissipated, then we should notice that this fact is given only two sentences in Tullock's original article (1967), and even less mention in many of his other articles on rent-seeking (excepting Tullock 1975). If rent-dissipation is *the* correct reason why rent-seeking should be criticized, then this still means that most of Tullock's writings on the subject fail to deliver. The rest of Tullock's statements on the subject still neglect to account suitably for methodological individualism and subjectivism, as we have shown, even if in one or two places, he did make the most correct argument. Even if an author considered holistically as a person is correct, if some of his specific statements are dubious, then this should not escape notice.

VIII. Conclusion

I do not wish to be regarded as being unfairly pedantic at Tullock's expense. In fact, I myself am probably guilty as well of speaking of government interventions which “cost society” or which “make all of us poorer”. We often say that the automobile has made “all of us” better off, even though it actually harmed buggy manufacturers and horse-breeders. We all have a tendency to speak in lazy shorthand which is approximately true but which technically contains scientific inaccuracies.[8] Our sentiments are essentially accurate even though technically, they are not quite true, and a laborious reformulation is sometimes necessary to make them accord with technical economic fact. It is something like how every morning, the sun rises in the sky even though no, it really doesn't. For everyday purposes, it is true enough that taxes are involuntary and that the sun rises. For scientific purposes, some more precise restatement is necessary. Which formulation is preferable depends on the context and the audience.

It is in that spirit which I criticize Tullock. It is perfectly true that rent-seeking results in reallocations of resources and alterations in patterns of investment which are economically meaningful and significant. It is the

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8 I owe this point to David R. Henderson, who said to me in personal conversation, “You’re right to be critical of Tullock’s formulation. He is comparing dollar values of gains and losses and he jumps from that to an unfounded conclusion. I sometimes find myself saying that carelessly, as when I say that free trade is good for America.” And in this connection, we note with gratitude that Tullock has excellently observed the error of some lazy, shorthand assertions that payment of taxes is involuntary; as Tullock says ([1971b] 2004: 187):

> There is a sense in which any transaction is voluntary. For example, when the gunman says, “your money or your life,” you make a deal with him which benefits both of you. The involuntary part of this transaction, from your standpoint, is the arrival of the gunman, not the trade you make with him once he has put in an appearance and threatens your life. Indeed, the minor paradox which is sometimes used in teaching – the question of whether this is or is not a voluntary transaction – is very easily answered. There is a trade of the victim's life provided by the gunman against the victim's money, which makes both parties better off; the only thing the victim can complain about is that the gunman, without his consent, placed him in a situation where he faced a decision on such a trade. The appearance of the gunman very sharply reduced his utility. The trade which he later made with the gunman improved both his and the gunman's utility. Thus the transaction can be divided into two acts, the first of which was not Pareto optimal and the second of which was.

By the same token, if someone says that payment of taxes is involuntary, his statement is technically incorrect. When faced with the choice between paying his taxes and being imprisoned, the taxpayer voluntarily chooses to pay the tax. The involuntary aspect is being faced with that choice in the first place. The unjustified coercion takes place at the point where the taxpayer is forced to choose between his money and his life, whereas previously, he was able to have both. But once he chooses whether he prefers his money or his life, at that point, his choice is voluntary.

economist's task to perceive “that which is seen and that which is not seen,” and Tullock has most proficiently highlighted the fact that rent-seeking results in increased investment in lobbying in the same way that theft causes increased investment in locks, lockpicks, and police. The problem is only that Tullock is not quite right in diagnosing what makes rent-seeking normatively “wrong.” Economics tells us where wealth comes from and where it goes, and for this, we are indebted to Tullock's incisive analysis of rent-seeking and how it affects patterns of investment. But economics cannot tell us anything about where wealth *ought* to come from or where it *ought* to go. For that, we must turn to moral philosophy. The moral problem with rent-seeking is not that it alters allocations of resources *per se.* Pure transfers of wealth affect the allocation of resources as well, even when there is no investment in lobbying, And in any case, it is scientifically illegitimate to speak of what benefits or costs “society” - much less can one derive any moral or normative conclusions from that methodologically holistic analysis. Furthermore, the economist cannot legitimately pronounce normative criticism on the reallocation of resources, but he may only point out the reallocations positively and value-neutrally so that others may pass philosophical or ethical judgment. If there is any positive economic criticism to be made of rent-seeking it is that it benefits nobody in the end, due to the transitional gains trap or dissipation of rents. But even that argument involves an appeal to subjective time-preference, for one must argue that rent-seeking should be opposed in the present because of something it does in the future. Instead, rent-seeking should primarily be criticized because it allocates resources differently than consumers and producers themselves would have under a regime of legitimate freedom. All mutually-voluntary transactions are mutually beneficial and produce mutual welfare gains, and the problem with rent-seeking is that it violates consumer sovereignty. Alternatively, rent-seeking is illegitimate because we as subjective individuals – not economists – do not consider lobbyists to be “productive” and morally deserving of their wealth. As Peter Lewin has remarked, “Sans a reliable utility calculus - the ability or willingness to make interpersonal utility comparisons - the notion of 'economic efficiency' cannot be sustained without an ethical component. What we should mean then when we say that rent seeking is inefficient is that we judge those activities to be 'undesirable' - not part of the kind of society in which we want to live.”[9] At the heart of all this is an unspoken, intuitive conviction that it is morally wrong to use political power to enrich oneself at the expense of others.

Tullock may have been aware of our arguments and even agreed with them, deliberately eschewing their expression only to make his arguments more palatable. If so, then all we have done is to use this opportunity to elucidate what Tullock left unsaid. If Tullock would have disagreed with us, then even so, all we have done is to extend Tullock's analysis of rent-seeking to account for the contributions by his inspiration – Mises's *Human Action* (1949) – and by his colleague – Buchanan's *Cost and Choice* (1969). We hope that Tullock would have appreciated this criticism which is meant, after all, only to subtly refine his pioneering contribution, not to fundamentally controvert it.

9 Quoting Peter Lewin from personal conversation.

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