

PERSPECTIVES ON POSITIVE POLITICAL ECONOMY

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The costs of special privilege

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The first time I saw Milton Friedman was at a public debate on free enterprise versus socialism at the University of Chicago. He based his entire lecture on what a benevolent dictator would do. Admittedly, he intended this simply as a rhetorical device to argue for a free economy. Of course, Friedman himself was not in favor of a dictatorship. He was, however, using a benevolent dictator as a means of avoiding all discussion of politics.

In this, he was typical of the economists of that time. They investigated optimal policies and considered what well-intentioned people would do if they had control of the government. Insofar as they had an argument for this approach, it was based on the division of labor. They would have said that politics was best left to political scientists. As a matter of fact, political scientists were not doing very well with politics, essentially because they lacked the tools that economists had. Public choice is, in the real sense, the use of economic and economiclike tools developed for special application in a field that political scientists traditionally taught.¹

Let us turn to the more scientific aspect of public choice. I am going to give an example of the kind of work we do. This example is particularly interesting because it is a case in which for some two hundred years economists were simply wrong. Furthermore, they erred not solely in their analyses of government activity but also in their analyses of the private market.²

Economists were wrong in a very simple and straightforward way. In dealing with the social costs of monopolies, they considered the monopolists themselves members of society so that those people's gains to some extent counterbalanced the losses of others. Economists thus counted total monopoly profit as a mere transfer from some members of society to others. Socially, it was neither a gain nor a loss. Even

though economists noticed and proved that monopolies were generally harmful to society, they considered the actual costs of them were small.

Economists erred in failing to notice that the creation of monopolies would require resources. They had no reason to believe that resources invested in the creation of monopolies would be more profitable than those invested in anything else. After all, if greater profits were to be earned by creating monopolies, we would expect people to shift their resources out of building factories until such time as the returns from building factories and creating monopolies were about equal. This rather simple insight – that resources would be consumed in creating monopolies – increased the estimated cost of monopolies by a factor of at least ten. Monopolies were a much more important problem than had been previously realized.

This chapter explores several consequences of that insight in shaping the politics of organizing for special privileges. We compare the social cost of monopolies to the costs those seeking to create monopolies incur. This gives a better idea of the returns available from this sort of activity. We also explain why the resources actually consumed in seeking monopoly appear small compared to the potential benefits monopolists might gain. The explanation lies in a requirement to use inefficient technology, and we discuss the roles of voter ideology and ignorance in that requirement.

RENTS AND RENT SEEKING

In order to understand economists' mistake about monopolies and its correction, together with a later correction of the correction, consider Figure 8.1, adapted from Tullock (1988). On the horizontal axis we show some commodity, we will call it wheat, that can be produced at a price of CC . There is a demand for wheat, shown by DD , and tracts of land of varying fertility. A competitive market would produce Q units because the demand curve, DD , crosses the cost line at that point. (We assume the situation involves perfect information and no transaction costs.) In equilibrium, the price is thus P , and land of poorer quality to the right of Q is not farmed. The Ricardian land rent is the area above CC and below P , and the owners of the land wheat is produced on collect it.

Now, the wheat producers could invest to lower the cost of production, as described in Tullock (1988). Or they might organize a cartel, or monopoly, to drive up prices by restricting production. This second behavior is what we call rent seeking. Today most monopolies are organized by getting the government to put some kind of restraint on competition, but this has not always been so. In the nineteenth

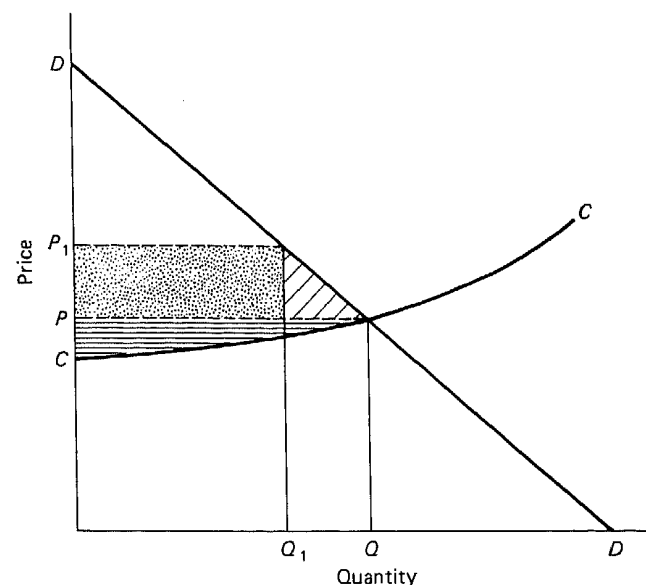


Figure 8.1. Costs of monopoly

century, monopolies were far more likely to be organized privately. Even today some monopolies do not depend on government support, although they are rare. The result of this rent seeking, of organizing this monopoly, is that production is restricted to Q_1 , with a consequent increase in price to P_1 .

The traditional argument, one that I taught for so many years before I saw the error of my ways, was that the reduction of production to Q_1 and the rise in the price to P_1 had two consequences. First, an amount corresponding to the dotted rectangle in Figure 8.1 was transferred from consumers to monopolists; second, society lost an amount represented by the slant-lined triangle. This triangle represented the benefit consumers would have obtained from buying the units between Q_1 and Q if the price had not been raised. Economists normally said that monopolists and consumers were both members of the same society and hence that the dotted rectangle was merely a transfer between them and not a cost when looked at from the standpoint of society as a whole. My students always objected to this view, and my eventual discovery that they were right was a little embarrassing.

Since my first article (Tullock 1967) in this area, a hidden assumption has been realized: that monopolists get their monopolies through

divine favor. In the real world, they have to work for them. Whether this work involves complicated, devious market manipulating by J. P. Morgan, or complicated, devious manipulating in the halls of Congress, so as, for example, to get quotas on car imports, it clearly has a cost. Further, this cost should be about the same as that of any other investment bringing in an equivalent return. If an automobile company can make a better return on its money by investing in manipulation in Washington than it can by building a new and improved factory, then it will not build the new plant but will instead put resources into congressional manipulation. Over time, the two rates of return will be brought into equality.³

I have not here exhausted the topic of total cost. The bulk of the literature stops here, but recently I have realized that there is a further cost, shown in Figure 8.1 by the horizontally lined region. This cost is the gain that society would have made had the resources being used to create these rents (the lobbyists in Washington, etc.) instead been used constructively.⁴ For instance, as I discuss elsewhere (Tullock 1988), the same costs could have been applied to investment to reduce the costs of production CC.

I have been accused here of double counting, so let me go through the reasoning carefully. Suppose that a contractor uses a bulldozer to repair roads. If the contractor just stopped using the bulldozer one day, society would incur a cost equivalent to the full amount the bulldozer would normally produce. If on the other hand, the contractor begins digging large holes in a road with the bulldozer, then the cost to society is both the holes in the road *and* the work that the bulldozer would otherwise have produced. The dotted rectangle in Figure 8.1 represents the holes in the road, and the horizontally lined area below it represents the work the bulldozer would otherwise have produced.

In general, the slant-lined triangle in Figure 8.1 is a deadweight social loss, the dotted rectangle is a transfer that results from rent seeking (for example, what might have been consumer surplus becomes producer surplus), and the trapezoid is an additional social cost from resources directed not to socially productive activity but rather to achieving the transfer. It should be pointed out that there is no necessary reason for the latter two areas to be exactly the same size. Indeed, in my construction they are not. Which is bigger cannot be deduced from pure theory, but the difference should not be great.

Let me turn to a real-life example, although I am going to be drawing on an account in William Faulkner's *The Reivers*. In the early part of this century, roads in the United States were in a horrible state, and cars, newly introduced machines, tended to get stuck in mud holes. Farmers would then turn up with their teams and, in return for a fee,

pull them out. It occurred to some farmers that this was a business opportunity and that they could either artificially create mud holes or improve existing mudholes. They therefore would plow up pieces of road. Note that this is a completely private creation of a negative externality, although it was illegal and farmers had to have enough political pull to be sure that they would be kept out of jail.

The first cost of this activity was, of course, the inconvenience to car owners. But a second cost was the loss to society of the wheat that farmers would otherwise have produced had they not been plowing up roads. If the farmers had simply stopped work, their output would have been reduced. When they not only stopped work but also used their equipment to cause positive ill to society, then the cost was even greater.

Economists frequently have difficulty with this point. I think the basic reason is that if contractors or farmers simply stopped work the cost of that stopping would fall entirely on them. Presumably, if they stopped voluntarily, they had some reason, so that in the real sense society was no worse off. If instead of stopping farmers shifted to some other activity, let us say growing corn, then society loses the wheat that they would have produced but gains the corn. If they stopped producing wheat to produce mud holes, however, society loses on both sides.

Rent seeking as we defined it is the collusive pursuit by producers of restrictions on competition that transfer consumer surplus into producer surplus. Returning to Figure 8.1, rent seeking would cause the horizontally lined trapezoid and the slant-lined triangle simply to disappear. They are things that might have, but as a matter of fact have not, come into existence. The dotted rectangle, however, should come into existence. We would expect that the rectangle would represent actual work, possibly by lobbyists in Washington or by other things. In any event, it in fact involves the use of resources to generate something, and the resources should be detectable.

THE SCALE OF INVESTMENT IN RENT SEEKING

The problem which immediately concerns me is that the resources we can detect seem to be too small for their apparent value. To take but one example:

Overall, the allegedly altruistic tax-writing politicians accepted striking amounts of money during the Ninety-ninth Congress. The fifty-six members of the House Ways and Means and Senate Finance Committees raised \$6.7 million from PACs and \$19.8 million overall in 1985 as the tax season got underway. This compares with \$2.7 million received from PACs and \$9.9 million received by these members overall in 1983, the most recent nonelection year. Though the members of the tax committees comprise only ten percent of the

Congress, they garnered almost a quarter of the PAC money given in the first half of 1985. Moreover, these figures do not include the contributions received during 1986, when tax reform became an even bigger issue.

(Doernberg and McChesney 1987, p. 901)

An interesting feature of this particular quotation is that the Tax Reform Bill involved literally billions of dollars – even tens of billions – compared to which the contributed amounts are, indeed, very small.⁵ Indeed, if we multiply these numbers by ten on the grounds that the publicly disclosed expenditures are only 10 percent of total expenditures, they still look trivial. This is nevertheless true of many contemporary political situations.

New York Congressman Mario Biaggi, for example, intervened with the federal government to save, temporarily, a gigantic Brooklyn dockyard from bankruptcy. He was tried and convicted for having accepted from the management of the dockyard three Florida vacations valuing a total of three thousand dollars.⁶ This appears to be a minute sum compared to the amount of money potentially involved in the bankruptcy.

As another example, Chrysler paid the lobbyists it hired to promote its federal bailout a total of \$390,000 (Reich and Donahue 1986, pp. 204–205). Once again, this seems a trivial amount. In both cases, there were probably some additional payments that were not publicized. Even if those payments were ten times as much as the payments made public, however, they would still be insignificant compared to the size of the government actions.

By the same token, campaign contributions also seem too small. If we assume that in the average election contributions total \$500 million (that is probably an overestimate), that amount is still small compared to the various restrictions imposed on the economy to benefit particular groups. For example, the direct budgetary costs of our agricultural program, not counting increases in prices, run between \$15 billion and \$30 billion a year. Total campaign contributions from farmers equal only a small part of that.

Further evidence of this lack of proportion can be found in the life-styles of U.S. politicians. Unlike some Third World leaders, U.S. politicians do not retire with vast wealth. They are no doubt well-off, but their life-styles indicate that they are far, far from extremely wealthy. Considering the value of the benefits they have conferred on special interest groups, let alone the total social cost of the resulting distortions that they have imposed on the economy, this seems odd.⁷

To take a specific example, the members of the Texas Railroad Commission conferred benefits worth many billions of dollars on the oil industry. The commissioners were elected officials, and their life-styles,

both when on the commission and when retired (one served for thirty-three years), indicate that they lived mainly on their modest salaries. These were, of course, frequently supplemented by elaborate dinners and visits to expensive resorts, but their returns were small compared to the effects of their decisions (Libecap 1987).

INEFFICIENCY AND RENT DISSIPATION

The disparity between the benefits politicians confer and the payments they receive is the first observation that seems to contradict existing rent-seeking theory. The second is simply that the rents are normally transferred extremely inefficiently. Giving someone a monopoly is generally a socially inefficient way of transferring profit to that person. Furthermore, in most cases where valuable production controls are politically provided, they are not awarded to one single person or organization but to a considerable group of producers. These producers enjoy a higher price than they would get from an unhampered market, but because of the difficulties of coordinating their activities, each increases production competitively in order to take advantage of that price. Libecap (1987) demonstrates that the Texas Railroad Commission did not even come close to maximizing the profits of the Texas oil producers.

At the same time, in the case of airline regulation,

the CAB [Civil Aeronautics Board] controlled price competition, but allowed airlines to compete for customers by offering non-price frills like free drinks, movies and half empty planes. The airlines competed away, through additional costs, the rents granted them by the prices the CAB set.

(Mueller 1989, Ch. 15)⁸

In the later days of regulation one transcontinental airline actually had a piano bar on its flights. Such attempts at attracting passengers at the CAB price simply reflected the fact that most planes were half empty. The airlines were, in fact, not making markedly higher profits than they do today, when seats are closer together, more fully occupied, and cheaper.

Why, then, do we observe both inefficient rent seeking and the dissipation of rents through competition? (Note that I have given no extended citations to other cases because I presume readers can simply look around.) My answer to this question will be given later, but I should warn readers that it is not uncontroversial. In Figure 8.2, I show a situation in which rent seekers confront technical difficulties. Specifically, they can only get their rents by choosing an inappropriate technology of production. In order to simplify the diagram, the horizontally lined and slant-lined areas of Figure 8.1 have been omitted.

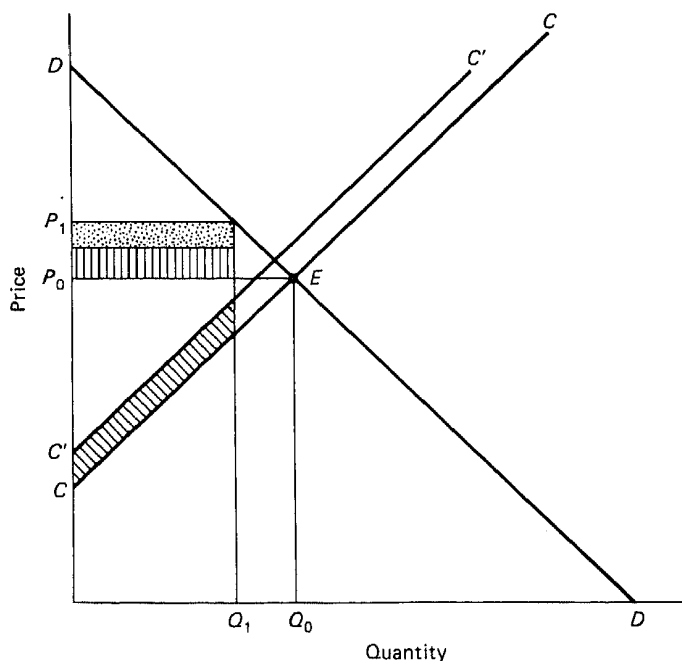


Figure 8.2. Hampered rent seeking

These are still costs, but they do not affect the argument here. I defer discussing why rent seekers would be forced to choose an inappropriate technology until I have explained the basic theory.

Figure 8.2 contains the usual demand and supply curves. The supply curve (CC) in this case is variable cost. The triangle CEP_0 is the rent owners of fixed resources in this industry derive. If we consider the resources to be land for growing wheat, this is a Ricardian rent. Suppose that the producers now organize and obtain a government-mandated price rise to P_1 . The specific details of the restriction would be determined by political considerations that are outside the scope of this article.

Assume here, however, that the trade restriction producers obtain carries with it adoption of a less efficient production method shown by the increase of cost to $C'C'$. With the price rise to P_1 quantity falls to Q_1 . The standard rent-seeking rectangle is shown to the left of Q_1 between P_0 and P_1 . I have broken the rectangle into two categories in the figure for reasons that will become obvious later.⁹

If the rent-seeking activity has carried with it not only a restriction but also a requirement to use inefficient technology, the cost line goes up to $C'C'$, and a net loss from the inefficient technology is shown by the area within the slanting lines. Because the people still remaining in the industry – that is, those not eliminated by the restriction – have to use this technology and it raises their costs, I have transferred this area up to the rent-seeking rectangle, where it is shown by the vertically lined lower part. The actual return on rent seeking for those who organized it, then, is the dotted upper part, a return much smaller than the total increase in price. This, of course, is a consequence of the need to net out the cost of having to use an inefficient method.

In farming, for example, the present program results in wheat production using less land and more fertilizer per bushel. Assume that the additional cost of production from this nonoptimal farming method is shown by the vertically lined area. The direct return to rent seeking would be the smaller dotted area above it. "Lobbying" expenses would not exceed the amount this rectangle represents, hence they would be much smaller than the \$15 billion to \$30 billion direct cost of the agricultural program. Part of the social cost would be eaten up by the necessity of using more expensive production technology, shown by the slant-lined area. Presumably the amount spent in hiring lobbyists and so on would not exceed the amount this rectangle represents.

While we are examining this construction, let me point out that empirically it immediately explains one of the two problems I mentioned earlier. The reason that the apparent payoffs to people who arrange the rents are so low in our society is that the actual "profit" to the beneficiaries of the rents is much, much lower than the traditional measure of the value of rent seeking. Thus, Congressman Biaggi may, in fact, have obtained the full value of his intervention.

But consider agriculture. The government program, in general, has taken the form of restricting the amount of real estate used in producing crops. This led farmers to change their production technology to an inefficient one using less land and more fertilizer and other resources. This change resulted in a higher production cost. (Were it not higher, farmers could have used this new production technology before.) Furthermore, the present system prevents certain technological changes that might improve efficiency. The long-run gain to farmers is much less than the price increase.

Most government restriction programs will have this effect. They are cartels without any binding restriction of the quantity of resources invested. Farmers, for example, for many years faced a restriction on the amount of land they could use but not on other resources. People can

and do invest resources and change technology because of restrictive arrangements, and hence profits to the producers are considerably less than costs to purchasers. This occurs in addition to the deadweight loss the Harberger triangle shows. The situation should be described as handicapped competition rather than monopoly or oligopoly.

But for true rent seeking, the total cost in Figure 8.2 is not measured only by the dotted rectangle or even by the dotted rectangle plus the vertically lined area, which is the traditional rent-seeking cost. There is also the loss of what would have been produced if the same resources had been used productively (see Tullock 1988). The resources used for creating rents – for example, lobbying the government for some restriction – are not only wasted but are positively detrimental, as in the case of the Luddites, who devoted their energies to destroying machines. Their cost is the sum of the positive damage and the simple waste of those resources.

But what about the use of the inefficient technology in this case? The arguments so far appear to apply only to the dotted rectangle, or possibly the dotted rectangle minus the loss of standard Ricardian rents shown by the lower small triangle. Resources used in producing inefficiently would appear to be simply wasted. We have here what amounts to a metaphysical problem, one that has to do with the meanings of waste and of injury. Since we are assuming that the government requires this particular wasteful method of technology as a payoff for the restriction, the resources involved in producing the technology are also part of the resources used to reduce production.

The professional lobbyist the farm lobby hires tells farmers that if they really want to get a government subsidy, they must take the subsidy in a form that lowers the agricultural sector's technological efficiency. They must use less land and more fertilizer. The change in technology is as much an effort to reduce total product and gross national product as was the money directly spent on (or by) the lobbyist.

The total costs of inefficient production methods as part of rent-earning activity may be quite hard to measure. This is because such inefficient technologies may generate external effects on people who are not even in the industry in question. The arrangement under which airlines flew half-empty planes across the continent was supposed, among other things, to increase the demand for planes; it quite possibly did, although this is a subject of dispute. What we can say is that the industry itself will only fight for a system under which the costs of the inefficient technology are less than the benefits it obtains from the restriction. Further, it will use resources in the usual rent-seeking way (for example, in lobbying) up to the point where the rent-seeking activity fully absorbs the surplus above production costs under

the inefficient technology and the price that can be derived under the restriction.

As readers who have seen my "Efficient Rent-Seeking" (Tullock 1980) and the various articles that have come out of it (see Rowley, Tollison, and Tullock 1988, pp. 91–146) will know, I am not sure that this is true. But, the standard approach to the cost of rent seeking from the time of "The Welfare Costs of Monopolies, Tariffs, and Theft" to the present has been to assume that there is no reason for the return on lobbying and other rent-seeking activity to differ from the return on investment in, let us say, building a steel mill. If that is so, then the rent-seeking cost would always fully absorb the present discounted value of the restriction in equilibrium.

Manufacturers planning on making money would be indifferent to the choice between improving their steel mills and trying to get a quota on Japanese steel imports from Congress. In spite of the doubts raised in "Efficient Rent-Seeking," I am going to use that assumption throughout this chapter. I sincerely hope that the present state of the "Efficient Rent-Seeking" debate, which is mired in paradox, is simply a transitional stage. With luck, someone will solve the problem in the near future.

IDEOLOGY, IGNORANCE, AND INEFFICIENT TECHNOLOGY

So far, readers may be a little unhappy with this chapter. I have discussed rent-seeking costs under the assumption that rent seeking normally requires not only that prices be increased but that inefficient technologies be adopted. I have so far offered no explanation as to why the latter should be so, although, as I have pointed out, it quite commonly is so if we look at how government actually functions. Let us then turn to why it is so. Briefly, it is because of voter ideology and lack of knowledge. As we shall see, these are not entirely bad things.

Consider an efficient transfer scheme. For the purpose of illustration, let us use what we will call the Tullock Economic Development Program. This involves placing a dollar of additional tax on each U.S. income tax form and paying the resulting funds to Tullock, whose economy would develop rapidly. All of my readers will agree that were I to propose this measure, politically, regardless of its desirability, it would have not the slightest chance of being adopted.

Let us compare the Tullock Economic Development Program with the Tucson Air Quality Improvement Program. Tucson, like many cities, has an air pollution problem; it is not very serious, but it is real. It has a lot of people excited about it. No one, however, really wants to incur the expenses and suffer the inconveniences that would be neces-

sary to reduce the pollution. This is normal. A number of gestures that have a minor effect on pollution but make people feel good and do not cost much are the most that we can expect.

In order to understand the Tucson Air Quality Improvement Program, we must realize that Tucson has a heavily subsidized bus line. Part of the subsidy comes from the federal government, part from the city of Tucson. Since the buses are much underused,¹⁰ transportation cost in terms of passenger miles must be extremely high. The buses also probably increase total pollution. They run all the time, whether empty or with only a few passengers, and generate more pollution than I believe cars would generate carrying the same number of passengers. The subsidized buses are, however, supported by three pressure groups: their drivers, the people who actually do depend on them, and environmentalists.

The Tucson Air Quality Improvement Program itself consists of doubling the size of the bus line while at the same time starting a research project. This project will naturally be allocated to the University of Arizona's Economics Department, and two friends of mine, one an engineer and the other a locational geographer, will share in it. The grant for Tullock in this program is \$30,000. A research grant, of course, is not the same as \$30,000 in cash, but it is not too different. Each of my friends would also get \$30,000, and there would be additional funds for such things as hiring research assistants, because we would actually do some research. Basically, however, the bulk of the money would simply go to buying and subsidizing more buses.

Given my choice between the Tullock Economic Development Program and the Tucson Air Quality Improvement Program, I obviously would favor the first. But, if I had to choose one to put \$10,000 of my own resources (in the form of lobbying effort or building a supporting coalition) into, I would choose the Tucson Air Quality Improvement Program. I estimate that I might have about a 50–50 chance of getting my \$30,000 as a return on the \$10,000 in this program. My chances of getting many millions of dollars for putting \$10,000 into lobbying for the other are so small that its present discounted value is far below the \$5,000 (net of lobbying cost) of the Tucson Air Quality Improvement Program.

Economically, if one ignores rent-seeking costs, the Tullock Economic Development Program is an efficient transfer. Economically, the Tucson Air Quality Improvement Program, which we will assume has exactly the same cost, is a ghastly mistake. Nevertheless, I would predict that any democratic legislature would pass more programs like the Tucson Air Quality Improvement Program than like the Tullock Economic Development Program.

We see the same thing in the farm program. From the very beginning and right up to the present, the farm lobby has fought vigorously against any proposal to pay farmers directly in cash.¹¹ But at much less cost to the rest of us, we clearly could give farmers the same benefits they now receive in their present program by instead giving them direct cash payments equal to the discounted value of that program, but with no crop restrictions. Superficially, this is a little puzzling.

However, the explanation is simple and straightforward. Farmers are aware that such a program would be too raw – voters would not buy it. In another paper, I referred to public image (see Rowley et al. 1988, pp. 51–63) as a problem for rent seekers. To please its citizens, the government has to cover over any transfers to the well-to-do that it undertakes. Changing the technology with which something is produced can frequently disguise the government's real objective – say, improving total production or helping people without directly paying them. Direct payments would not work.

To take one example, from the Civil Aeronautics Board's organization until very nearly its end, it permitted no trunk line carrier to enter the industry. Suppose instead of preventing entry to the industry the government had simply put a tax on all trunk line airplane tickets and paid the resulting cash to the companies operating trunk lines at the time the legislation creating the CAB was enacted. For the airlines and air travelers, this procedure would obviously have been superior to the system that was in fact adopted. Like the Tullock Economic Development Program, however, it would obviously have failed to pass Congress. The risk-prone entrepreneurs who had entered the airline business in the 1930s had to adapt to the inefficient method if they were to be offered any aid at all.

Moreover, something a bit like this also applies to private monopolies. When we look at the history of such monopolies, and it is, of course, a long one, we note that almost never do monopoly organizers openly avow raising prices and increasing profits as their motive. They claim instead to be concerned with stabilizing prices, improving quality, guaranteeing a production reserve for possible use in war, and so on. These slogans are less effective when private monopolies use them than when government-sponsored monopolies do, but even private monopolies rarely admit to purely exploitative motives.

The cover of public interest the government uses to hide its motivations for its restrictions is thicker and much, much more expensive both to rent seekers and to society as a whole. Thus, if Figure 8.2 represented a private monopoly the rent-seeking rectangle to the left would have very little motivation to adopt inefficient technologies. The vertically lined area would be very small, and the dotted area showing

the resources invested in obtaining the monopoly would be very large. When we deal with the government, the reverse situation is likely to be true.

Public misunderstanding of the actual situation is more or less necessary for the average rent-seeking activity. There, total losses are greater than total gains, and hence a superior strategy is obviously available to people if they are fully informed and can coordinate their activities. Furthermore, as a normal rule, the number of people who gain is much smaller than the number who lose.

Logrolling in legislatures, of course, can frequently pass laws that benefit a minority at a dispersed cost to the majority. This is easier to do, however, if you can deceive the majority so as to minimize their opposition. Hence, in a democratic system, a straightforward transfer from the poor to the wealthy wheat producers would certainly not occur. There are then two ways such a transfer can be accomplished. People can be deceived about or simply not informed about the action. Minor revisions in proposals to benefit small groups are frequently implemented by the latter strategy.

Obviously the average citizen cannot possibly be familiar with all the clauses in even one major bill, so proposals can always slip through legislatures. This procedure is, however, decidedly risky. Scandals attract newspaper attention, and the public is likely to be indignant about them. For example, at the time I drafted this chapter (May 1987), Colorado's Democratic Senator Gary Hart had just withdrawn from the 1988 U.S. presidential race after being accused of committing adultery. Simultaneously, the U.S. Congress was investigating the possible illegal diversion of \$10 million to \$12 million to aid the Nicaraguan contras. Both of these defaults, from the standpoint of the normal functioning of the U.S. government, were trivial, but they both attracted attention and developed into major scandals. In trying to sneak something past the public, a special interest must always realize that such a public reaction is possible.

More commonly, programs are designed so that at least superficially plausible explanations account for them. Designing programs to have such superficial plausibility makes it necessary to use inefficient means. Direct cash payments are usually the most efficient way of helping interest groups, but they will not do. The costs of inefficient methods may be very great, particularly because, in general, a good deal of complication and indirection is desirable.

Political scientists have realized since Downs (1957) that if voters do not pursue politics as a hobby, they are usually very badly informed about it. Indeed, if they rationally choose subjects to read in newspapers, they will be "rationally ignorant" (Tullock 1976). Recently, an-

other problem has been realized. In voting people may be motivated not by the actual outcome of the matter up for vote but by a desire to express their own emotion, feeling of virtue, and so on.¹² They may, in fact, vote directly against their interests because they realize that their votes have very little, if any, effect on the actual outcome of the election. Hence, they can get a feeling of moral satisfaction out of casting a virtuous vote without bearing a significant cost. Expressive votes may well lead to more waste than corrupt votes.

Ideology is also of great importance in voting. Whether this ideology is devotion to the nineteenth-century economic encyclicals of the pope or socialism, it is, in any event, not likely to lead to highly efficient policies. When it comes to rent seeking, we almost by definition are dealing with inefficient policies.¹³

CONCLUSION

I can think of no formal test of this hypothesis. I believe, however, that if readers consider the matter a little and think about how members of Congress act, how newspapers report political activities, and so on, they will accept it. Consider automobile quotas. The squabble is not just between U.S. auto manufacturers and unionists and potential purchasers of new cars. Other Americans not directly involved are apt to vote ideologically, if the matter is brought to their attention. Therefore, measures must be packaged so that they appear to voters to be somehow in accord with their ideology. Quotas are far better ways of doing that than are direct taxes and subsidy combinations.

Moreover, people not directly involved in an issue are overwhelmingly more numerous than special interests on either side. They must, therefore, be kept from intervening. Inefficient technology is the answer, and once again, it is what we observe. Politicians balance the interests of direct gainers and losers against each other. However, overwhelmingly important additional players – outsiders to a particular squabble – must be convinced that something other than a simple fight for pork is involved.¹⁴

My position that an inefficient technique is necessary to deceive voters is empirically fairly easily, but somewhat subjectively, testable. I have mentioned various efforts to have minor special interest provisions inserted in bills in the hopes they would not attract attention and the dangers of such efforts. An empirical study of cases in which secrecy has failed and matters have been brought to public attention would do. Additionally, the dissolution of the Civil Aeronautics Board and the current sharp restriction on the Interstate Commerce Commission both seem to have come about, at least in part, because the mo-

nopolylike managements of these two organizations became well-known. Derthick and Quirk's (1985) careful study agrees.

I would like to end by pointing out that, although I have been arguing that the required use of inefficient techniques is very expensive to society, it may be cheaper than direct cash payments. If obtaining special privileges requires the use of highly inefficient production techniques, then the resources that will be put into rent seeking for them are much lower than they would otherwise be. It is likely, therefore, that less of this restrictive special interest legislation will be passed than would be passed if direct payments were permitted.

Consider, for example, two proposals, one to make a direct cash payment to some group of people, the other to hire them at a price somewhat above their opportunity costs to build a dam somewhere. Assume that \$1 million is available. In the first case, it would be paid directly to them, but in the second they would make a net profit of \$100,000 after spending \$900,000 building a dam (which we will assume is totally useless). The net social waste in each case is the same.

Nevertheless, the amount of rent seeking that we would expect is quite different in each case. Where direct payments to special interests are permitted, the resources invested in rent seeking are much larger: in the above case, \$1 million as opposed to \$100,000. Clearly, more special interest legislation would be passed under those circumstances. Thus, common citizens, in requiring that those government acts that do come to their attention fit into their ideas of what government should do, are probably doing good.

There is another advantage to this type of inefficiency. Almost all economists, whatever they say, are actually reformers who would like to improve the world. Their particular tool in this campaign is their ability to analyze various economic projects. A project that gives special benefits to some interest group by employing an inefficient production technique is the kind of thing economists are in a good position to attack. Pointing out that direct cash payments to farmers could give them the same amount of money that they get from the current program at less expense to consumers is fairly easy. It is also politically devastating to the farm program. Indeed, that is probably the reason the farmers have always been so violently opposed to talking about it in these terms.

Average voters, as we said above, are apt to be badly informed but interested in scandals. The inefficiencies we have described allow economists to convert special interest programs into scandals with the tools of their profession. A direct cash payment does not have this disciplinary connection, although economists, like political scientists or even philosophers, could complain about it. Hence, even though the main

objective of this chapter has been to make the rent-seeking literature accord more with what we observe in everyday governmental activity, we end with the suggestion that what appears to be an extremely inefficient characteristic of democracy may actually improve the total efficiency of the system.