

# Impact of rent seeking



**What is “rent seeking” and what problems may it cause for society?**

Rent seeking is a concept which was being labelled by Anne Krueger in 1974 (Tullock, 1998). This term has been widely defined as the “...political activity of individuals and groups who devote scarce resources to the pursuit of monopoly rights granted by governments” (Mitchell & Munger, 1991, p. 525). From the above definitions, it has been supported by the knowledge that rent is an entirely excess payment that might be equivalent or above to the resources and helped to increase the earning power of the resource as gains are often concealed (Parker, 1996). Regarding this, it will be considered as problematic for society as, broadly, many rent-seeking activities are connected and worked closely with the government or economic structures that make a huge influence on society as a whole. As it can be expected, many theorists and social, economic and political commentators have been worked together and recognised that there are numerous problems attached to this particular system. As such, there are needs for discussion over the problem and evaluation on their relevance to society today. In this essay, it will first illustrate the concept of rent-seeking in addition with some examples in real life. Secondly, it will assess different potential problems that may cause for society by identifying issues that directly related to the negative effect which has imposed on national and international economies in similarly before evaluating them critically. Lastly, it will be summarising with a view that the problems which have identified and the importance of rent seeking that have imposed a significant impact on society and welfare and costs incurred in society must be addressed in relation to such behaviours carrying out onwards.

According to the concept of rent seeking, it is not a new system or activities exist in nowadays instead it has been developed throughout past. This type of activities would be able to exist in everywhere or anytime as long as there are individuals or groups which have the power to use their resources as a tool to monopolize their market or the status, and from this they gain benefits from it but without paying back to society. Rent is a source of income that there are payments made to the owner in order to use the possession for e. g. a house, a building or anything that the borrower wants to use it but they do not have the ability or want to own the assets permanently (Smith, 2001). To illustrate this concept more precisely, there is a good example from the China economic structure. Tak-wing and Yongping (2009) has researched the economic situation of China over a period of time, and which how the rent seeking exists and leads to social conflict and problems. In China, coals are being seen as highly regulated and controlled goods by the government. But, after reforming, the power to own these goods are being spread to a certain extent which they make use of this act to obtain the support their policy. Therefore, it could be shown that the concept of rent seeking could be exist in any forms over industry or society and transformed from time to time.

Having a detailed definition of rent seeking, it will take a deep investigation into this concept by assessing the problems for society that are widely associated with it. To begin, rent seeking could be related to the practice of all pay auctions in society which, according to Anderson et al (1997, p. 2), are the pursuit of economic allocations for a specific prize that is founded on the basis of costly activities. Tullock (1998) has outlined the all pay auctions

could cause lots of problems especially the monopolies. Although there are possibilities that waste could be avoided in some circumstances, he suggested an example that is when a weak democratic government is unable and has difficulty to control the bidding process, thus ensuring that profits disperse (Tullock, 1998), which could cause a detrimental effect to society. The above argument is highly believable and trustful as it draws upon the power of the monopolies while opposing to the power of those who controlling the auctions, which is out of proportion in different kind of cases. For this reason, there is no protection being offered for society as a whole. In fact, the above particular example has shown that wastage levels are enhanced where rent seeking occurs. With the evidence offered by Anderson et al (1997), they gave a warning that those individuals or agents who are losing out in the auction are financially worse off eventually as they do not receive any compensation for their trouble. Moreover, Kreuger (1974) stated firmly that the money spent on real resources give a consequence in the rise of annual welfare costs while it is specifically regarding to price and quality controls, which were 7% of GNP in India. In the same way, when there is intensification of economic controls related to rent seeking activity directly, the numbers of corruption has been increased as a result (Kreuger, 1974). This type of corruption can undermine the economic security of society as a whole and make the welfare costs become worsen, thus it is giving assurance to the notion that the system is not beneficiary to society unless there are controls held in place.

Furthermore, the activities of rent seeking may lead to the transitional gains trap exist in society. With reference to Tullock (1975), through the

capitalisation of rental flows into fixed assets which provide a one-off benefit instead of a continuing increased rate of return, the transitional gains gap is the appearance of unprofitability in this government aid programs. This is a fairly straightforward concept but is also the one that is highly difficult to solve for society, as the benefits that are afforded companies under this condition do not pass downwards to the population, instead securing capital losses should the rent be abolished. What is more, there is an ongoing social waste linked with this phenomenon (Del Rosal, 2011). Tullock (1975) defended that under this situation, progressing reform is impossible and therefore the companies benefitting are under no risk of losing out. Certainly, this giving support to Munger's (2006) argued that the existing system "forecloses good competition" but the process is problematic for society undoubtedly beyond loss of competition.

Lastly, the rent seeking activity may cause the problems of the balance of rent seeking between societies as it is importance of this activity. In this particular point, it is perceived as significant in encouraging processes of development (Khan & Sundaram, 2000) and it has been recognised that to give support on the emergence of various economies during their development phase. Regardless of the fact that the shifts in supply and demand curves have been proved as a positive rent seeking (Tollison, 1982), the induced government action by artificial mean to acquire rents has really undermined any potential benefits. On the contrary, the existence of rent seeking can also be severely imposing harm to growth, thus this giving the policymakers with a paradox that has been observed in the developing nations in Asia, most of which experienced widespread rent seeking during

the 1990s onwards (Khan & Sundaram, 2000). From this specific example, it behaves according to the standard of the theoretical principle that economic growth performing badly, thus putting the poorest into a situation that is even deeper into poverty while the organised and beneficial groups employed the state power to increase their own economic benefits directly (Pasour, 1987). Indeed, Tullock (1967) has noted that there are extensive welfare costs being attached with the implementation of all procedures that related to the rent seeking of monopolies and tariffs, and the application of this principle onto this example shows that social costs not only retard the process of growth but can actually reverse it and lead to the shrinking of the economy through a remarkable losses. Therefore for the effect, the problematic dilemma that exist between the harm and good to developing nations in particular cause an attention of the damaging nature of rent seeking.

To conclude, the above problems of rent seeking undoubtedly have imposed an impact on society which attached wastage in every instance and hindered the growth and competition. All pay auctions may leads to corruption and intensify the wastage that was produced throughout the process. Also, the transitional gap and the balancing of the importance and damage of rent seeking for economies brought problematic to society as the former did not benefits to the society and the latter needs to make one's choice over the good and harm. Under all the possible problems that may cause from this activity, action from the government must be balanced continually in long term if issues like the waste caused by monopolies and tariffs are to be solved. Even though it is approved that Tullock is right in that as rent

seeking deep-rooted into economic culture, thus reform is impossible and there are solutions that the government should solved over such problem in order to prevent further economic damage.