

Original Paper

Researching into Preventing Harmful Rent-Seeking Practices: Strategic Policy Interventions Required and Lessons Learnt for Asian Countries

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Abstract

The author of this work argues that rent-seeking occurs in a situation wherein a company or individual seeks special privileges from another party, often the government, but does not reciprocate back. Its examples are (a) license requirements for professions; (b) creating barriers to entry for new businesses, and (c) grants, subsidies, or tariff protection. In the language of economics, rent is defined as “wealth gained via questionable, often manipulative means”.

A closer look at the theoretical perspective and review of related literature is indicative of the fact that identification (and practice) of policy-induced harmful rents have been resorted to in many firms and for various purposes. More specifically, the practice of rent-seeking model has been found to be resulting in both economic ‘gains’, and ‘losses’. The bottom-line is that there is a lack of scientific research evidence and published data on how national governments and donor agencies (from across the regions of the globe) have formulated and adopted rent-seeking approaches. The author of this research essay argues that in view of these contradictions and controversies, it is important for the academic and research community to seek answers to pertinent questions on potential advantages of rent-seeking approach. The questions that need to be debated and researched into are:

- a) what are the approaches to identify policy-induced harmful rent-seeking practices?*
- b) what are their respective strengths and weaknesses?*
- c) how governments and donors have used them in different perspectives?*

The author, in this paper, aims to seek answer to the above prominent and key questions in the context of countries in the Asian region. In terms of research methodology, secondary data (that are largely

'quantitative' in nature) have been used and method of data analysis is descriptive (involving "desk-based research" approach). Data sources have been quoted in the text (including under references). The paper briefly concludes that the rent-seeking activity might be negative, but it might preserve a "growth-enhancing rent". Even if the rent-seeking activity has a positive value, the "outcome-rent" might be negative. Governments, thus, need to be more transparent in adopting rent-seeking practices; people know how laws and regulations are produced. This renewed critical and multidisciplinary approach has important policy implications for the debates over institutional reform in rent-seeking practices for economies in Asia and the Pacific.

In conclusion, the author says that the analysis of rents and rent-seeking practices has been primarily dominated by an economic point of view. This perspective places emphasis on assessing rents in accordance with their impact on "efficiency and economic growth". As against political approach to rent-seeking (which assumes the negative impact of rents and their potential to derive from corrupt activities), monetary policy experts and economists classify rents as "growth-retarding" (or "growth-enhancing").

In terms of implications of harmful rent-seeking practices for monetary policy, the author of this work argues that the rent-seeking framework has to be extended by incorporating policy insights and strategies developed by stakeholders in the governmental sector and institutional economists if it is to explain the anomalous role played by rent-seeking in Asian countries. This mechanism includes detailed analysis of economy in the broader context in countries such as Thailand, Malaysia, the Philippines, and Indonesia (including the Indian sub-continent).

Keywords

rent-seeking, harmful practices, lessons learnt, accountability, competition, lobbying, bribe, corruption

1. Introduction

Rent-seeking (as "an act of growing one's existing wealth without creating new wealth by way of manipulating socio-political environment") has the potential to impact economic growth activities in two ways. It, on the one hand, allows firms to ignore economic competition which, in turn, leads to less innovation. On the other spectrum, it alters the number of firms that are supported in equilibrium. What is obvious from this type of repercussion of rent-seeking approach is that while the former effect is 'negative', the latter is 'ambiguous' (Brou & Ruta, 2013).

Author of this research argues that rent and rent-seeking are interconnected terms used by economists and monetary policy experts. Rents have been found to take different forms: (a) "monopoly profits" (b) "import and export quotas", (c) "extra income from subsidies", (d) "agricultural price supports", and (e) "transfers operated". It is pertinent to note that the excess incomes are obtained through creation, maintenance, and/or transfer of rights (Khan, 2000).

Extra income derived through rents, as outlined above, implies that (strong) motivations and incentives to maintain the rents exist. In the context of present research, the term "rent-seeking" has been defined

as “the activities aimed at creating, maintaining, or changing the rights and institutions on which particular rents are based”. The author has analysed both rents and rent-seeking activities primarily from an economic perspective (in terms of their repercussions on economic growth efficiency). However, it is pertinent to note that the need to distinguish between rents in different sectors has given way to the introduction of political elements.

2. Method

This section on research methods presents information on (a) context (rationale), (b) objectives, (c) type and sources of data used, (d) methodology of data analysis, (e) scope, and (f) significance. Discussion follows:

2.1 Context (Rationale)

Review of related literature reveals that rent-seeking activities aim to take measures in order to secure financial gains (and benefits) by “manipulation of the distribution of economic resources”. Notably, policy experts on economics and related monetary policy subjects look at such activities as detrimental to both (a) ‘economy’, and (b) ‘society’. The practice of rent-seeking has the potential to reduce economic efficiency through the inefficient allocation of resources. Most importantly, this practice, sometimes, results in other damaging consequences, including (a) rise in income inequality, (b) lost government revenues, and (c) decrease in competition, to name a few (Zúñiga, 2021). There is, thus, need to research into harmful rent-seeking practices, including lessons learnt. This forms the rationale of the present research.

2.2 Objectives

The author has classified the objectives of the research work into (a) general objectives, and (b) specific objectives. Description presented below discusses these two objectives.

2.2.1 General Objectives

Above description outlines the rationale and context of the present review research paper. In terms of general objectives, this empirical (or review) research aims to seek answer to three prominent questions:

- a) What are the approaches to identify policy-induced harmful rent-seeking practices?
- b) What are their respective strengths and weaknesses?
- c) How governments and donors have used them in different perspectives?

2.2.2 Specific Objectives

With regards to specific objectives, the author attempts to (a) identify harmful (rents) and rent-seeking tendencies, and (b) offer viable measures needed for preventing harmful rents and rent-seeking practices. Also, the discussion revolves around “key challenges associated with rent-seeking practices”, and “efficient rent-seeking management”. Appropriate and relevant examples have been quoted in support of research statements made in this research work.

2.3 Type and Source of Data Used

Data obtained from secondary sources have been used by the author in the present work. They (secondary data) have been collected from sources, such as books, book chapters, journals, and internet resources. However, data published from only reliable sources (such as government publications and research findings brought out by international agencies and publishing houses) have been used. Scoping review of literature was undertaken by the author for the purpose of collecting the required data. Data sources have presented under reference section; sources appear in same order in which they are quoted (and indicated) in the text. In terms of type, data used are mostly '*qualitative*' in nature.

2.4 Methodology of Data Analysis

With regard to methodology of analysis employed in this work, nature of analysis is 'descriptive' that involves "*desk-based research*". Qualitative data (collected from secondary sources, as outlined under above section on type and sources of data used) have been analysed in descriptive manner; data analysis method does not involve statistical (mathematical) methods and techniques. Examples of appropriate and relevant initiatives have been quoted in the research. At this section of the review paper, the author makes tree specific points:

- 1) *First*, since there is not much scientifically published work on the subject under study, the author has not presented description on review of literature (as expected in research papers).
- 2) *Second*, apart from of analysis of data (collected from secondary sources), this work has also benefitted from interaction of the author with various experts, policy makers, and other stakeholders: both from India and abroad. The author had extensive consultation on rent-seeking practices when he travelled to various countries (like Australia, Austria, Turkey, Sweden, Philippines, Vietnam, Pakistan, Ireland, Canada, UAE, Egypt, USA, South Africa, Tanzania, Kenya, Greece, France, etc.) in the past in connection with presenting research papers at international academic and research conferences, seminars, and workshops.
- 3) *Third*, the author, in very transparent manner, states that plagiarism, to some extent, may be detected in this work. This has happened because of the fact that changing the style of writing the sentences and text beyond a certain limit, sometimes, results in loss of the intended meaning. With full respect to plagiarism ethics in academic and research work, the author is making this ('*honest*' and '*unbiased*') statement.

2.5 Scope

In terms of scope of this research paper, harmful rent-seeking practices have been extensively researched into by the author. Potential risks associated with rent-seeking practices, and efficient rent-seeking management strategies have been looked into. Also, the author has presented brief description on the conceptual framework of rent-seeking. The three terms; namely, state(s), governments(s), and national government(s); have been used interchangeably in this paper, all three carrying the same connotation. However, the inter-related terms, rent and rent-seeking do not have the same meaning.

2.6 Significance

Findings of the present work will give significant insight into modality (strategy) needed for preventing harmful rent-seeking practices. Based on its findings, appropriate financial models can be developed in order to ascertain economies that are more progressive in nature. In addition, the results of the work can be interpreted in favour of both developed (advanced) and developing economies for designing institutional mechanism needed for adequately and efficiently addressing rent-seeking problem. Such a mechanism has, *in turn*, the potential to ascertain desired enhanced developmental outcomes, including: (a) better political and economic stability, (b) effective administrative mechanism, (c) more effective laws and legislation system, (d) adequate public services, and (e) more advanced infrastructure.

3. Result

Rent-seeking (also sometimes referred to as “*rent seeking*”) is considered as an economic activity (or measure) that is undertaken when an entity attempts to acquire added wealth without any reciprocal contribution of productivity. Significantly, it revolves around government-funded social services (including social service programs). In a broader context, the term “*rent-seeking*” indicates to a concept that is used in theory of economics and public monetary policy. From this perspective, rent-seeking approach attempts to increase the existing wealth share, but without creating a new one. The motivating factor behind these types of rent-seeking practices is “*to obtain financial gain by manipulating the internal and external factors without ensuring expansion of economic activities*”. An example of this is a situation wherein an industry (or company) politically lobbies the government (and influences policies) with motive to acquire (special) grants, subsidies, and/or tariff protection (Corporate Finance Institute (CFI) Team, 2021).

4. Discussion

4.1 Variables in Analysis of Rents and Rent-Seeking (Practices)

In this part of the present research, the author seeks to present discussion on geo-political variables that are important in the analysis of rents and rent-seeking practices. Findings of several research studies are indicative of the fact that conventional rent-seeking theories primarily emphasize on the social costs of the resources used for the purpose of rent-seeking activities. In fact, they (research studies) have paid inadequate (or very little) little attention to the value and diversity of rents acquired by rent-seeking activities (Tullock, 1967). From economic and political variable point of view, rent-seeking should be considered as a process wherein its effect on society depends on two factors, namely: (a) rent-seeking cost; and (b) value of the rents (or rights) produced by the rent-seeking expenditure (Khan, 2000).

Further, it is pertinent to note that both input cost and output rent are determined by geo-political, economic, and institutional variables. Study of these variables, therefore, helps one to understand (and explain) the reasons behind varying impact of rent-seeking across countries and sectors (Posner, 1975). *Furthermore*, with regards to the institutional framework, policy makers and economists have compared

rent allocation in democratic and autocratic regimes. They are of the opinion that institutions, at a pure analytical level, have “*indeterminate consequences on rent-seeking*”. They also advocate that there are other contributing factors that determine (and ascertain) high or low cost of “*rent-seeking practices*”. Analysis of data on rapid economic growth in some Asian countries is indicative of the fact that rent-seeking costs, which are independent of the political regime, also (primarily) depend on two factors: (a) level of fragmentation in the society; and (b) the strength of redistributive fractions. For instance, in situations wherein social fractions are weak and economic and key decision-making power are centralized, institutions in an authoritarian regime might produce low rent-seeking costs (Congleton, 1980).

Furthermore, in the context of discussion on variables in analysis of rents and rent-seeking practices, it is also pertinent to note that geo-political situations wherein social fractions are strong and power of the state to suppress them is weak, democratic institutions play significant and meaningful role in achieving low rent-seeking costs. This situation can be understood by the fact that the free flow of information in democratic settings makes the process easier and faster. This is witnessed due to the fact that democratic institutions are likely to awaken lower levels of conflict from excluded groups. They (democratic institutions), therefore, tend to lower secondary rent-seeking costs (North, 1990). With regard to distribution of power, the author of this work argues that outcomes of rent-seeking activities often depend on who is more powerful and, in a position, to inflict the biggest costs on others (during the competition for rents). For example, in developing countries, a significant part of the rent-seeking cost and the distribution of rents take place within patron-client networks. In such situations and contexts (revolving around patron-client networks), maintaining organizational power of patrons is crucial in order to win rent-seeking contests. Importantly, it should be noted that this organizational power is preserved through mechanism of circular flow wherein part of income procured from rents (and created for patrons) will provide the resources for inputs of later rent-seeking expenditures on clients (Shleifer & Vishny, 1998).

4.2 Look at Harmful Rent-Seeking Processes

After discussion on variables in analysis of rents and rent-seeking practices, the author, in this section of the work, attempts to look into the framework within which harmful rent-seeking processes take place in the economy. Most of the studies on rent-seeking have generally assumed that rents are always harmful. Geo-political and economic variables in developing countries in Asia, Africa and other regions (continents) have influenced a negative perception of rent-seeking activities as wasteful expenditures in order to create (and/or protect) value-reducing rents. In this context, it is pertinent to note that these are the countries where (a) “*rent-seeking is high*”, and (b) “*economic performance is poor*”. At the same time, it has been observed that the economic growth of South East Asian countries in recent decades contradicts this argument. Analysis of data derived from South East Asian countries indicate a more complex reality wherein rents can be ‘good’ or ‘bad’. This depends on conditions that determine their (a) value, and (b) rent-seeking cost. The author of this work derives the interpretation that from an economic point of view, rents can be both (a) “*growth (performance)-reducing*”, (b) and/or “*growth*

(*performance*)-*enhancing*” (Zúñiga, 2021). The potential outcomes derived from rent and rent-seeking practices can, therefore, be either good or bad.

Analysis of data derived from related review of literature on rent-seeking processes also point to the fact that different types of rents have different growth implications. Growth implication of monopoly rents, for instance, varies. *Notably*, the factors behind varying growth implication of monopoly rents include: (a) market trends (situations), and (b) technologies and companies involved. There are two significant aspects of rent-seeking processes. On the one hand, in situations wherein monopolies reduce the net social product, this practice can result in lower investments in the economy, resulting in lower economic growth and performance of the economy. On the other hand, there are situations wherein accumulation of profits by monopolistic companies may motivate (and ensure) enhanced investment patterns. *However*, enhanced investments can be ascertained only if deficiencies in capital markets make it difficult for smaller producers to raise capital collectively. *Importantly*, the author of this research essay, at this juncture, categorically argues that rents on natural resources often point to efficiency in resource allocation; this situation may be a pre-condition for economy expansion and resulting potential growth indicators. Efficiency in resource allocation ensures expansion of economic growth (and developmental outcomes) because of the fact that maintaining scarcity rents through creation of property rights prevents “*over-exploitation of the natural resource*”. This phenomenon, *in turn*, has potential to ensure sustainability in all developmental aspects which is need of the hour for all nations on the globe (Zúñiga, 2021).

It should be noted that efficiency and growth implications of politically organized transfers vary across countries and regions of the globe. In developing countries, for instance, national governments do not only redistribute income; they are also involved in creating property rights. In terms of consequences of such practices, outcome of these property rights can vary from “*creation of the first generation of capitalists*” in developing societies (countries) to “*significant wastage (and theft)*”. One glaring example of this is that in developed countries, income derived from production is often lost (or supplemented). This happens as a result of transfers through (a) ‘*taxes*’, and (b) ‘*subsidies*’ (Dal Bo, 2006).

4.3 Ascertaining (and Identifying) Factors for Harmful Rents and Rent-Seeking Tendencies

After discussion on variables involved with harmful rent-seeking processes (as outlined in the above section), it is relevant to ascertain conditions (factors) responsible for harmful rents and rent-seeking tendencies. In this context, the author argues that identification of harmful rent-seeking tendencies is challenging. This is because of consolidation of different conditions and incentives that might alter the outcome of rent-seeking activities (in each case and in each geo-political setting). There are seven identified prominent factors (conditions) that can influence harmful rent and rent-seeking tendencies. They are: (1) role of state (national government) in economy, (2) competition, (3) institutions and social order, (4) collective action and interest group politics, (5) rent-seeking agency, (6) rent-seeking by groups of individuals, and (7) rent-seeking by national government (state). These conditions influence potential outcomes of rent-seeking practices as ‘*positive*’ or ‘*negative*’. Careful and scientific study of these factors

and conditions can bring in desired changes in developmental outcomes, including required enhanced infrastructure for advanced (developed), developing, and weak economies (Fethi & Imamoglu, August 2020). Brief description on these identified conditions that can influence harmful rents and rent-seeking tendencies is presented in the following sections.

4.3.1 Role of State (National Government) in Economy

Involvement of governments (states) in the economy and economic growth activities has implications for rent-seeking tendencies (practices). Some proponents of small government argue that limiting the influence of the state in the economy will reduce the amount of resources that governments can allocate in a discretionary manner in order to support particular interests. This practice, *in turn*, will allow free market to allocate resources more efficiently for the purpose of fostering economic growth (Zúñiga, 2021). The defendants of big government, on the contrary, are of the research view that owing to the existence of market failures, the market cannot ascertain optimal allocation of resources by itself. According to them, state intervention is pre-requisite in order to fix such failures. Despite the efforts to connect big government with higher corruption, empirical research evidence contradicts small government proponents (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000).

Findings of some empirical studies are indicative of the fact that the likelihood of corruption practices in certain sectors might affect the structure and size of the government budget (Delavallade, 2006). Again, the composition of government spending favors large-scale capital investment in infrastructure. This is because of the fact that such projects facilitate the collection of bribes for public officials. Under such circumstances, it has been found that government expenditure in these sectors will increase; however, the productivity of the resources does not (increase) (Tanzi & Davoodi, October 1997). Also, discrepancy between the amount of public investment and the outcome is found in the education sector (wherein no statistical correlation between public spending on education and literacy rates exists) (Harbison & Hanushek, 1992). From this perspective, education is unattractive for rent-seeking. This is because of the fact that provision of education does not require high technology inputs that could be provided by oligopolistic suppliers (Mauro, 1998). The term '*oligopolistic*' in this work refers to a market condition wherein sellers are so few that the actions of any one of them will materially affect price and have a measurable impact on competitors.

4.3.2 Competition

Competition is another important factor that influences harmful rent-seeking tendencies. It is pertinent to note that market competition is often considered as an anti-corruption tool. It is because of the fact that bribe practices are harder to sustain in a competitive market (Emerson, 2006). The conceptual framework behind this type of understanding is that in situations in which officials (and companies involved) are exposed to competitive pressures and operate under a common set of market rules, the incentives for corruption are (likely to be) reduced. Again, there is assumption that uncompetitive markets facilitate collusive deals. This happens because for the purpose of survival, there is no incentive

to cut costs where companies and officials depend on each other, rather than on the market (or the electoral arena) (Rose-Ackerman, 1978).

In the context of competition and its impact on harmful rent and rent-seeking tendencies, it is also observed that when domestic markets are opened up to competition, concerned public officials are inclined to stop expecting bribes. Reason behind this situation is that electoral future of public officials depends on domestic firms staying in business in order to (a) provide employment opportunities for the electorate, and (b) generate revenues for the government (state). Opposing arguments, *however*, state that competition does not necessarily reduce corruption; rather, corruption is absorbed into the system (Straub, April 2005) and (Warner, 2007). At this juncture, it is significant to note that consequences of competition trends on corruption practices depend, to a significant extent, on twin factors: (a) nature of corruption, and (b) reasons for competition. *Further*, unlike rent extraction, corruption that reduces firms' cost is likely to be promoted by market competition (Alexeev & Song, 2010). *Furthermore*, some economists advocate that opportunities that capitalism offers to companies in order to increase profits and market share is an incentive for companies. The companies attempt to seek maximum assistance (favor) from governments in a manner in which they (companies) are in a position to (a) secure benefits, and (b) pay the lowest possible taxes (Wolff, 2014).

4.3.3 Institutions and Social Order

Institutions and social order are other factors that influence harmful rents and rent-seeking tendencies. It is significant to note that social order and institutional setting in a society play significant role in the likelihood of achieving benefits. Benefits are obtained by potential stakeholders through (a) personal connections, and/or (b) economic productivity. There is difference between "*limited-access orders*" (or natural states) and "*open-access orders*". In the former, on the one hand, personal relationships among powerful individuals form the basis for social organization. Rent-creation and limited access creates platform for (a) '*order*', and (b) '*stability*'. In the later (open-access orders), on the other hand, impersonal categories of individuals (citizens) interact, thereby creating the foundation of the social order (North, Wallis, & Weingast, 2009).

4.3.4 Collective Action and Interest Group Politics

Rent-seeking activities (often) involve competition between groups (involving collective action) in order to get favors and privileged rights. More particularly, the study of interest group politics has reference to the collective action theory (Zúñiga, 2021). The author of this work argues that incentives for group action diminish as group size increases. Larger groups are, therefore, less able to act in their common interests than smaller ones. *Further*, incentives to act in larger groups decrease due to the fact that individuals within them (as interest group) are less likely to get benefits from their efforts. *Furthermore*, in situations wherein the group works to provide a public good, likelihood of individuals trying to benefit from the efforts of the others without making any contribution increases. It is "*free-rider*" problem. Therefore, smaller is the group, the larger is the benefit (and consequently, the larger is the incentives to act in their interest) (Olson, 1965).

With regards to competition among groups for political influence to protect their interests, it has been found that influence and outcome of collective action depend, to a large extent, upon (a) how efficient groups are to produce political pressure, and (b) group's size. *Notably*, efficiency of the group is measured in terms of its capacity to control "*free-riding*" activities (practices). According to the author of this research, another aspect that may influence the way groups compete is the lack of knowledge on how far competing groups are willing to go to (a) gain privileges, and (b) protect their interests (Becker, 1983).

4.3.5 Rent-Seeking Agency

In this context, it is pertinent to note that potential influence of rent-seeking agency (agencies) on harmful rents and rent-seeking tendencies is significant. *Importantly*, the conditions under which rent-seeking practices result in the creation of "*socially valuable rents and rights*" (as opposed to "*socially damaging rents and rights*") can depend on (a) who is seeking the rent, referring to rent-seeking agency; and (b) how (Zúñiga, 2021). In terms of who is seeking the rent, there are three distinct scenarios, as outlined below (Zúñiga, 2021):

- a) individuals or groups privately negotiate changes to rights without involving the state.
- b) individuals or groups take the initiative in seeking rents, but it is the state which creates and transfers rights.
- c) state leads initiatives to create and change rights according to its own agenda.

For the purpose of analysis of data in this section of the paper, the author emphasizes on understanding rents created by government (state). Out of three distinct scenarios outlined above, there is need to focus on second and third scenarios. The relevant aspects of these two scenarios are discussed in greater details in the following sections [under sub-headings: rent-seeking by groups of individuals, and rent-seeking by national government (state)].

4.3.6 Rent-Seeking by Groups of Individuals

In this section of the work, scenario number two (as outlined in the previous section: "*individuals or groups take the initiative in seeking rents, but it is the state which creates and transfers rights*") has been discussed. The author argues that under such a scenario, harmful rent-seeking practices are likely to be witnessed, across sectors of the economy. This is because of the fact that (some) individuals (and groups) are likely to attempt to dominate the geo-political affairs and influence the state (government) institutions and machinery. This may be done in the form of spending resources for (a) bribing, (b) lobbying, and/or (c) using political pressure. It should be noted that ensuring "*value-enhancing outcomes*" requires that influence is proportional to the absolute value of '*gains*' and '*losses*'. In the similar fashion, in order to block "*value-reducing outcomes*", losers should have more influencing power when the value of their loss is higher than the value obtained (by the winners). There are, therefore, two main conditions that are conducive to the creation of socially valuable rents in this scenario (Zúñiga, 2021). They are:

- a) spending power of rent-seekers must be proportional to the size of their gains, and
- b) political power of the rent-seekers must be proportional to their gain or loss (Zúñiga, 2021).

Notably, political power is based on the costs a group can inflict on the government (state) through political actions [like (a) votes, (b) strikes, and/or (c) even war (conflict)], if their interests are not considered. Failure in achieving these conditions may result in production of “*value-reducing rents*”. Another important dimension of rent-seeking by groups of individuals is that since political power is not always proportional to the potential gains from rent-seeking, in addition to two conditions (as outlined above), a third condition is necessary. Under this condition, political demands for transfers can be met with a stable set of redistributions. In situations wherein transfers to unproductive groups are being continually re-negotiated, the result is instability. *Additionally*, it should be noted that negative consequences of transfers can be greater (because if excluded groups continue to contest, rent-seeking costs will be high) (Zúñiga, 2021).

4.3.7 Rent-seeking by National Government (State)

Under the third scenario (as outlined in the previous section: “*state leads initiatives to create and change rights according to its own agenda*”), the state itself becomes the rent-seeker. According to considered research views of the author of this work, there are four prime factors that influence and determine this type of rent. They are (a) motives of policy experts and public decision-makers, (b) transaction costs of collecting payoffs, (c) structure of the government (state) that determines which costs and benefits are accounted for, and (d) power of individuals and groups to resist changes that damage them. *Importantly*, under scenario of this type [wherein the government (state) itself becomes the rent-seeker], the *first (and prime) pre-condition* for “*value-enhancing rents*” to emerge is that the concerned officials favor “*value-maximizing policies*”; they should learn quickly from their mistakes. *Most significantly*, this condition also essentially envisages that state officials are functioning and discharging their assigned duties in accordance with (pre-defined) economic objectives of the government. The *second pre-condition* is that costs of collecting bribes or taxes do not differ across groups. *However*, in this very context, it is pertinent to note that the possibility that a self-interested and value-maximizing state (government) creates “*value-reducing rents*” to enrich itself (rather than the society) is reduced (and/or minimized) if the government machinery has a long time-span (Zúñiga, 2021).

4.4 Rent-Seeking Practices: Associated Challenges

In this section of the work, the discussion revolves around key challenges associated with re-seeking practices. In particular, it becomes relevant to ascertain if rent-seeking practices are harmful (in terms of resulting outcomes). In this context, the author argues that identification of harmful rent-seeking practices is challenging for economists and policy makers. Such challenges arise due to dependency (of rent-seeking practices) on the circumstances in each case. However, it is viable to identify certain conditions with explanatory power in order to influence the outcome of rent-seeking practices as either ‘*positive*’ or ‘*negative*’. *Notably*, among prominent conditions (with explanatory power) are: (a) state-market relationship, (b) influence of institutions (and the social order), (c) rent-seeking competition, and (d) collective action dynamics. The author of this work argues that the consequences of these aspects can

(and should) be assessed in relation to (a) level of rent-seeking cost, and (b) value of the rent-outcome resulting from rent-seeking expenditure (Zúñiga, 2021).

4.5 Prevention of Harmful Rent-Seeking Practices-Interventions Required

Discussion presented in previous section of this work revolved around challenges associated with rent-seeking practices. After investigating into challenges, it is relevant to discuss key viable interventions that are needed for the purpose of preventing harmful rent-seeking practices. Before going areas with discussion on intervention measures, it is pertinent to note that rent and rent-seeking practices are not new; they have been found to exist in almost all economies in different regions of the globe (Zúñiga, 2021). The author of this research is of the considered view that there is no need to abolish such practices. Rather, the pertinent question needing answer in this context is: *“how to efficiently manage rent-seeking practices”*?

Some developmental agencies have been found to emphasize that developing economies should limit themselves to (a) creating more efficient working markets, and (b) reforming (re-designing) their investment climate. The experiences of economic performance in the second- half of the 20th century of the governments located in the Asian region, however, suggest that *“market-enhancing policies”* alone are not enough for desired outcomes. The bottom-line is that economic growth initiatives need to be accompanied by required *“government-supported rent management capabilities”* and *“committed and sustained advocacy efforts”* (Schmitz, Johnson, & Altenburg, April 2013).

In this context, it is opportune to note that the model for capabilities required for successful rent management have not yet been fully and successfully developed or explored by the academic and research community, economists, and other experts in the field of monetary policies. *However*, review of related literature on the issue and reflections from analysis of past research data point to these ideas:

- a) to have the institutional and political capacity to ensure that non-performance is not tolerated for too long;
- b) state (government) capacity to monitor and withdraw subsidies in under-performing industries; and
- c) the capacity of governments to learn and create the space for policy experimentation (Schmitz, Johnson, & Altenburg, April 2013).

Over and above, certain conditions are considered pre-requisite (necessary) for effective rent-seeking management. The author of this work suggests two approaches (in the form of pre-requisite):

- a) *First*, it is essential to have a context (system in place) that (a) is free from political constraints, and (b) can prevent the implementation of rent management strategies. On the basis of observation of diversity of outcomes from the implementation of rent management strategies (initiatives) in some countries with different internal political configurations, it can be suggested that success of rent management strategies depends, to a significant extent, on compatibility of institutions with pre-existing political configurations of power and commitment (Khan & Blankenburg, 2009).

- b) *Second*, the condition is that both private and public stakeholders (and actors) should be driven by long-term interests (gains from economic growth over time, for example), rather than by short-term interests (personal enrichment or improving prospects at the next election, for instance) (Schmitz, Johnson, & Altenburg, April 2013).

In addition to two considerations, as outlined above, active cooperation between government and private sector is necessary. In fact, the quality of that relationship is something that will determine the impact of rent management in society (Schmitz, Johnson, & Altenburg, April 2013). In this context of government-private sector alliance, it is essential to identify factors that ascertain whether public-private relationship (partnership) in place has a positive transformational effect or are abused for individual enrichment. Brief description on seven such factors that are crucial for success of rent-seeking initiatives is presented below (Abdel-Latif & Schmitz, 2011):

- a. *Organizational Capacity of Private Sector*: The extent to which a certain sector can deliver visible results in terms of economic growth, exports and job creation will determine the willingness of policy-makers to support that sector.
- b. *Open Public-Private Alliances*: State (government)-business relations driven by common interest and informed by common understanding of problems play an important role in initiating renewed investment plans.
- c. *Upward Accountability of Policy-Makers*: Accountability increases the likelihood of basing public-private relations on trust and collective interest.
- d. *Competitive Pressure*: The protection of internal markets might prevent the abuse of public-private relations.
- e. *Monitoring of Sectoral Performance*: Monitoring and transparency on sectoral performance might prevent public-private relations being abused for private gain.
- f. *Consumer Protection Laws and Agencies*: Consumer protection mechanisms might reduce the likelihood of private-public initiatives that harm the public.
- g. *Freedom of Press*: It reduces the risk of using public-private relations for private interests.

In the context of discussion on interventions required for the purpose of prevention of harmful rent-seeking practices, conducive and positive government-private sector alliance is, therefore, essential. Over and above, part of the necessary change in the relationship between the public and the private sectors is to enhance the learning capacity of both stakeholders (actors). It is equally important to create an institutional mechanism (setting) in which both partners (government and private sector) can join hands together to solve problems encountered in the process of implementation of rent-seeking management practices and policies. In conflict situations, each side should learn about the opportunities and constraints faced by the other (Rodrik, 2004).

The author of this work argues that as a part of strategic interventions needed for prevention of harmful rent-seeking practices, anti-corruption measures [such as integrity pacts (IPs)] can play crucial and very meaningful role in transforming public-private relations that are potentially conducive in preventing

harmful rent-seeking practices. The IPs, as a tool, is considered as agreements between governments and bidders for a public sector contract. *Further*, they are both a legal contract, outlining activities that need to be implemented. *Furthermore*, the IPs establishes the rights and obligations; it identifies institutional mechanism in order to ensure that neither side will pay, offer, demand or accept bribes. Also, it provides a mechanism wherein bidders will not collude with competitors to obtain the contract. *Significantly*, the IPs also establishes monitoring process; a process for determining the occurrence of violations with the corresponding sanctions (Transparency International, 2013).

4.6 Efficient Rent-Seeking Management

It is relevant to address the issues connected with efficient rent-seeking practices. It has been found that increasing presence of rents in almost every economic and political system [prevailing in various countries (regions or continents of the globe)] is leading the reflection on rents and rent-seeking practices towards the prominent question. The question needing answer is: “*how to manage rents (and rent-seeking practices) in order to ensure that they have a desired and positive impact on the economy*”? Its answer lies in scientifically and efficiently identifying conditions like (a) situations that are free from political constraints; and (b) capabilities in the governmental policy-sector (e. g., learning and policy experimentation capacity). The author of this research work is of the considered research view that identifying such conditions and adequately addressing the associated challenges are key ingredients of successful and efficient rent-seeking management. In addition to these considerations, transformation of the relationship between the public and the private sectors towards collaboration, and mutual learning and accountability through tools (such as integrity pacts) are crucial for success in this regard (Zúñiga, 2021). *Above all*, accountability and transparency, at all levels and at all times, should form priority agenda of the national governments for ensuring efficient rent-seeking management. This should be necessarily accompanied by two key principles, namely, (a) ‘*participation*’, and (b) ‘*inclusion*’ (Carothers & Brechenmacher, October 2014).

4.7 Rent-Seeking Practices-Lessons Learnt

In terms of lessons learnt from rent and rent-seeking practices, the author argues that in qualifying rents, it is relevant to differentiate between rents and rent-seeking activities. It should be noted that while rent-seeking activity might be negative (in the form of bribery, for example), it might preserve a growth-enhancing rent. Even in situations wherein the rent-seeking activity has a positive value (lobbying, for example), outcome-rent might be negative (growth-reducing monopoly rent, for example). However, it is worth keeping in mind that sometimes rent-seeking activities, even positive ones, can result in corrupt practices in the economic sector. A national government that is corrupt can, for example, choose to keep a rent deemed as positive in order to increase the opportunities to demand bribes. At the same time, it is worth mentioning, at this point, that irrespective of outcome and costs of rent-seeking, these activities can also be termed as ‘*legal*’ or ‘*illegal*’. The legal aspects of rent-seeking practices, *on the one hand*, are reflected in the form of (a) lobbying, (b) contributions to political parties, and (c) advertisement. The illegal dimensions, *on the other hand*, take the form of: (a) bribery, and (b) coercion. Despite these

arguments, the author of this research is of the considered view that the potential for rent-seeking motivations to lead to potentially corrupt forms has been a matter of concern in different and varying geo-political and economic settings (Zúñiga, 2021).

5. Concluding Thoughts

In concluding part of the work, the author says that the analysis of rents and rent-seeking practices has been primarily dominated by an economic point of view. This perspective places emphasis on assessing rents in accordance with their impact on “*efficiency and economic growth*”. As against political approach to rent-seeking (which assumes the negative impact of rents and their potential to derive from corrupt activities), monetary policy experts and economists classify rents as “*growth-retarding*” (or “*growth-enhancing*”) (Zúñiga, 2021). In true sense, classification of rents as harmful or not harmful does not respond to the characteristics of the different types of rents, rather this classification responds the conditions (and incentives) that make them have a positive or negative impact on the economic activities and performance of different developmental sectors of the economy (Sękowski, 2021). This research concludes that the rent-seeking activity might be negative, but it might preserve a growth- enhancing rent. Even if the rent-seeking activity has a positive value, the outcome-rent might be negative. Governments, thus, need to be more transparent in adopting rent-seeking practices; people know how laws and regulations are produced (Rodrigo, June 2015).

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