

## Political economy and political correctness \*

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Accepted 28 October 1997

### 1. Introduction

Political correctness is a complex topic, if only because those who hold that something is politically correct are not inclined to be open to critical evaluation of the merits of their political correctness. Such unwillingness to entertain open discourse is a characteristic of all social systems with supreme values (see Bernholz, 1991, 1993); thus under communism questioning the politically correct position that the society was on the path to Marxist Utopia could result in confinement in an asylum for the insane.

Socialism espouses that the proper functioning of an economic system requires political allocation, and the subjugation of individual preferences and freedoms to a higher social order of priorities. The economic and social philosophy of political economy of the economic right takes the precisely opposite view, that market allocation is preferable to political allocation, and that individuals are better judges of the requisites of their own welfare than social planners.

Yet, in the western economics literature, neither political economy, that of the left nor that of the right, has been politically correct. The political incorrectness of the political economy of the left can be understood in the denial of personal freedoms, if not in the inadequacies of the results achieved in practice by economic systems that sought to apply socialist principles.<sup>1</sup> My purpose here is to evaluate the basis for the political incorrectness of the political economy of the *right*, and to consider how this political incorrectness has influenced the literature of economics, with particular reference to the manner in which government is portrayed in economic models. In order to proceed, we shall require consensus on a definition of political correctness.

\* Presidential address, European Public Choice Society, Prague, April 1997. In preparing the paper for publication, I have benefitted from the helpful comments of Vani K. Borooah, Jack Hirshleifer, Dennis Mueller, Pierre Salmon, and Christian Seidl.

That is, we require an acceptable specification of political correctness which neutralizes the controversies associated with the designation of a proposition as politically correct or incorrect.

The criterion which I propose for political correctness is educational. We should accept as politically correct a position or proposition which conforms to the norms of behavior and conceptual thinking which a society wishes to designate as exemplary for its young.

This leaves open the possibility that, beyond the education of the young, those who so wish can view political correctness as an intellectually unworthy restriction on open intellectual academic debate. A broader disdain for political correctness in intellectual discourse need not contradict the position that societies should be permitted to choose fundamental moral and ethical norms as the basis of a desirable education of their young.

I would admit that the educational criterion for political correctness is not devoid of potential controversy. Indeed the controversy regarding the principles that should be chosen to form the basis of the education of the young is central to my subsequent discussion. The margins can be also fine in defining who are the *young*, and the simple non-discretionary norms appropriate for small children can differ from less qualified educational principles that societies may choose to set before more mature students. A criterion of educational paternalism nonetheless appears reasonable for political correctness – and we are confronted with the observation that all societies do in practice choose principles of education for their young. By this criterion, the question of political correctness becomes one of designating the educational principles that should be chosen by an enlightened society.<sup>2</sup>

As indicated, in considering the political incorrectness of the economic right, I narrow the focus to the conception of government, and thereby to the question: *when is an economic model of government politically correct, by the criterion of setting desirable educational norms before the young?* An appropriate point of departure for seeking an answer to this question is the concept of rent seeking.

## **2. Rent-seeking models as politically incorrect political economy**

Models of rent-seeking behavior describe the use of resources and time in contests for influence over political allocation.<sup>3</sup> Although the objective of rent seeking is distributional (to evoke favorable change in income distribution or asset ownership), the activity of rent seeking gives rise to losses of an efficiency nature, and the unproductive resource allocation which is due to rent seeking thereby supplements the deadweight efficiency losses that an economy incurs because of market imperfections.<sup>4</sup> The idea of social loss due

to rent-seeking incentives was first expounded by Tullock (1967).<sup>5</sup> Nitzan (1994) provides an excellent survey of the subsequent extensive literature.<sup>6</sup> The models of this literature provide the analytical underpinnings for the proposition that societies are impoverished by discretionary political allocation of income and wealth.<sup>7</sup> The rent-seeking models also explain why governments intervene to *create* rather than to correct market inefficiencies or distortions, and why government policies might benefit the more fortunate in society at the expense of the less fortunate.

The nature of rent seeking limits the empirical evidence. Government statistical offices cannot be sources of data, nor can evidence in general be based on direct observation, since in most societies it is dishonorable and politically costly to be openly seen to be seeking or dispensing rents, and attempts are accordingly made to hide rent seeking.<sup>8</sup> The evidence is, as a consequence, often indirect or informal, and is reflected more in the outcome of rent-seeking activities than in the observation of the activities themselves.<sup>9</sup>

Since the prizes secured by successful rent seekers are often quite visible while the underlying rent-seeking behavior is not, the literature has focused on inferring the value of the resources used in the contests from the observed value of the prize, by considering the outlays that would be made by rational individuals who are confronted with rent-seeking opportunities.

Although it is the case that the *incentives* for rent seeking by individual optimizing agents are in place *wherever* there is discretionary political allocation of income or wealth, there is an identifiable schism between economic models which recognize rent seeking as a component of rational economic behavior, and models where rent seeking is absent. To explain the schism, I propose that we look to the educational criterion for political correctness. For *educationally unsatisfactory* behavioral attributes are present in all rent-seeking models. The unsatisfactory behavioral attributes concern the manner of behavior of both political agents and private-sector individuals.

Regarding first political behavior, when economies are modeled as guided by benevolent welfare-maximizing governments, no rents exist to be sought and there can be no role for rent seeking. A belief in *modeling* virtuous benevolent government thus eliminates rent seeking from economic analysis. Models that do incorporate rent-seeking behavior on the other hand raise questions concerning the origins of the rents that are contested, and draw into question the motives of policy makers in creating and assigning rents. A line of inquiry is initiated that leads in directions away from allocation by the invisible hand of the market, to allocation by political discretion. This line of inquiry can become compelling if there is evidence that rents are assigned by deliberate political calculation, and if the political assignment is seen to benefit the political agents assigning the rents. In these circumstances, it is difficult to

avoid the supposition that rents are politically created in order to be politically assigned for political or personal benefit – in which case political-support and private-benefit motives of political agents become intertwined with economic incentives in ways that are inconsistent with benevolent government.

Regarding further private-sector behavior, rent-seeking models portray personal income and wealth as attained by individuals' seeking politically assigned privilege and favor. Unproductive activity is rewarded and personal gains are ill-gotten. A more educationally exemplary description of sources of incomes and wealth would point to the roles of education, human capital, competence, and experience in determining market-assigned rewards, and would portray individuals whom government assists not as successful rent seekers but as the deserving unfortunate and disadvantaged in society.

That is, to summarize, the rent-seeking models depart from an educationally satisfactory model of government by portraying people who have made their careers *within* government as creating and dispensing rents for personal gain. And people *outside* government are shown in an educationally unsatisfactory manner, as seeking wealth and income not from productive personal endeavor, but by devoting time and effort to influencing political allocation. To see how this perceived political incorrectness has influenced economic analysis, I turn now to the literature on international trade policy and then literature on broader endogenous economic policy.

### **3. Political economy and political correctness in international trade policy**

#### *3.1. Contradictions and reconciliations*

The idea that free trade is desirable has a long history that has survived many assaults (see Irwin, 1996). Because of the broad consensus that free trade is the socially optimal policy for governments to follow, political correctness has required conciliation of the politically correct model of benevolent government with the manifestly present protectionist policies. The conciliation has taken different forms. Bhagwati (1971) has shown how, in a second-best world, protectionism can be efficiency-enhancing. Another approach looks not to efficiency justifications for government intervention, but to social justice as the basis for conciliation: Corden (1974) has proposed that protectionist policies permit benevolent governments to ensure that their citizens are not unreasonably disadvantaged by changes in international comparative advantage.<sup>10</sup> Bhagwati and Corden have both explained protectionist policies in politically correct ways. For Bhagwati, benevolent government does its best to achieve efficiency, subject to the presence of pre-existing market

distortions, and the efficient policy could be protection, so if a benevolent government is choosing protection rather than free trade, there could be a second-best reason. For Corden, a benevolent government helps the disadvantaged. In neither case can the political discretion that is required for rent seeking be present.

Political-economy models of international trade policy do not seek conciliation between socially desirable and the observed distortionary policies. The political-economy models begin from the premise that policy makers have personal and political objectives which are not necessarily consistent with efficiency or social justice.<sup>11</sup> Rent seeking is present, if not necessarily by that name, and implicitly if not explicitly.<sup>12</sup>

The co-existence of politically correct and incorrect views of government behavior with regard to the same phenomenon is demonstrated by answers given to a fundamental question of the international trade policy literature: why do governments grant protection to retard the decline of domestic industries that are losing their comparative advantage in international markets? The second-best answer is that protection is the efficient policy given other market distortions in place, and the social-justice answer is that governments are benevolently assisting people who have been disadvantaged by a change in a country's comparative advantage. The same policy of protection for declining industries is however *also* predicted by a politically incorrect model which shows self-interested policy makers as choosing trade policies to maximize political support (see Hillman, 1982). The politically correct and incorrect explanations of protection are complemented by similarly politically correct and incorrect ways to answer the question why governments choose to *liberalize* international trade. A politically-correct benevolent government liberalizes trade to correct for past protectionist misadventures. In a political-economy model consistent with the "exchange of market access" terminology that *trade negotiators themselves use to describe reciprocal trade liberalization*, trade liberalization reflects political self-interest in allocating rents between export and import-competing industries.<sup>13</sup> For policies that restrict or liberalize international trade, the literature thus confronts us with a choice between politically correct and incorrect explanations.

Besides the *answers* that are given, political correctness affects the permissible *questions* that can be asked about international trade policies. A politically incorrect political-economy model permits questions to be asked such as, what leads governments to choose different policy instruments to create rents by restriction of trade (see Cassing and Hillman, 1985; and Hillman and Ursprung, 1988), why do governments at times permit precipitous collapse of import-competing industries (see Cassing and Hillman, 1986), and with whom are third parties such as environmentalists or multinational firms to

be expected to be bedfellows in seeking to influence international trade policies (Hillman and Ursprung, 1992, 1993)? Such questions are incompatible with a politically correct model wherein governments are necessarily benevolent and are not susceptible to rent-seeking approaches of private agents. Questions relating to contingent protection (anti-dumping actions, etc.) also require a rent-seeking context (see Leidy, 1994). Implicit political incorrectness is also present in Cassing's (1996) very elucidating portrayal of the principal-agent problem between diversified shareholders and management of import-competing firms. Cassing observes that diversified shareholders benefit from free-trade policies that maximize both a country's aggregate national income and the value of a diversified personal investment portfolio. Incentive-performance schemes for management also benefit shareholders, but provide an incentive for management to lobby for protectionist policies – against the interest of the diversified shareholders. The questions raised by Cassing could not be asked if the implicit model were one of politically correct government. The shareholder-management principal-agent problem can only exist because of a more fundamental principal-agent problem between shareholders (as voters) and policy makers. That is, if policy makers were not susceptible to the rent seeking of managers, the principal-agent problem described by Cassing would not arise to confront shareholders.

### 3.2. *Strategic trade policy*

The politically-incorrect political-economy models also have in particular shared the stage with another politically-correct model of government intervention in international trade, that of “strategic trade policy”. A “new” international trade theory<sup>14</sup> beginning in the 1980s has developed on the assumption of imperfect competition in international markets. The imperfect competition gives rise to the presence of rents. “Strategic trade policy”, which can be placed in the taxonomy of Bhagwati's second-best cases for intervention, asks how a government can best go about ensuring that the rents accrue to “home” rather than “foreign” firms. Once the government has intervened to ensure that the “home” firm has secured the rents, the captured rents can be used to improve national welfare. James Brander, one of the pioneers of the literature, has written an excellent survey of the literature (Brander, 1995).<sup>15</sup> It is notable that although rents are present, and are sought and redistributed, rent seeking plays no part in the theory of strategic trade policy. Yet one can well expect that there will be many potential private domestic beneficiaries of the government-induced foreign rent transfers;<sup>16</sup> there will indeed be as many potential industry-specific beneficiaries as there are imperfectly competitive international markets with domestic and foreign participants (see Moore and Suranovic, 1993). A political-economy perspective on the behavior of self-

interested private and political agents finds it difficult to avoid pointing to the incentives that are *inherently present* for governments to shift rents to domestic firms *without* the strategic trade policy advice. Governments in the strategic trade policy models are of course politically correct. The models portray a government which shifts rents to chosen meritorious domestic firms, from whence the rents are benevolently dispensed for the social (national) good.

I wish to point now to the anomalous relation between the attention which the literature has devoted to theory of strategic trade policy, relative to the empirical content of the theory. Political-economy theories of international trade policy are complemented by a vast number of empirical studies confirming the principles that policy decision makers are not always concerned with the efficiency consequences of their decisions (distortions are introduced rather than corrected), and are not always concerned with social justice (the shareholders and other owners of capital who gain when industries are protected from foreign competition are not necessarily the unfortunate and disadvantaged in society). The empirical discussion of strategic trade policy has however consisted of the *possibilities* offered by the mainframe airline industry (Boeing and Airbus), supplemented by some other few *possibilities* where the policy has been conjectured to be prospectively applicable. Although there is this remarkable imbalance between the dearth of empirical cases and the intensity of the intellectual effort which has gone into theorizing about the nuances of variants of strategic trade policy, politically correct strategic trade policy, as the policy accompaniment of the “new” international economics, has constituted mainstream policy analysis of international trade theory. Strategic trade policy is a triumph of political correctness over observation.

#### **4. Interest group competition**

The propensities of governments to intervene to establish differentially unfavorable conditions for market transactions with foreigners makes international trade policy a prominent focus of study of politically endogenous policies. The conditions under which international trade takes place are however but one of many instances where interest groups compete for influence over policy determination (see the review of the empirical evidence by Potters and Sloof, 1996). An influential *general model* of interest group competition is that of Becker (1983). Becker’s model portrays two interest groups, one of which is potentially to provide a transfer *via* government redistribution to the other. Because of deadweight losses, the potential losers from redistribution have a political advantage over the gainers; the advantage is reflected in the

willingness of the potential losers to spend more in political outlays to protect their incomes, than potential gainers are prepared to spend in political outlays to secure income transfers.<sup>17</sup> Becker proposes that since everybody (whether a potential loser or gainer from the income transfer) wishes deadweight losses to be minimal, there is a presumption that the least-distorting means of redistribution will be chosen. Any political redistribution that takes place will therefore be efficient. *Becker can thus complement the efficiency of the market with efficiency of political allocation.*

Becker's measure of inefficiency is standard Harberger deadweight losses. Yet, in his model, interest groups expend resources to influence political allocation. One might well ask, then, what has become of the social losses incurred in the resources that are used in the competition for political influence between the interest groups? A complete computation of social loss due to interest group competition includes the resources used by rent seekers and rent defenders in the competition to influence policy. Politically incorrect rent seeking is missing from Becker's analysis of contestable endogenous distribution.

The consequences of the missing rent-seeking allocations are far-reaching. For if resources used in rent seeking are added to deadweight losses, and if redistributive transfers are perceived as rents in the rent-seeking and rent-defending contests that "interest-group" competition entails, then the social costs of redistribution are correspondingly greater. In general it is voters at large who constitute the countervailing interest to special-interest redistribution. Since voters in Becker's model are rationally ignorant (see Baba, 1997), rent-seeking interests have reason to seek policies that depart from the most efficient means of redistribution. Magee's (Magee, Brock, and Young, 1989) observations on discretionary policy design therefore come into play. That is, rational ignorance permits the means of intervention to be optimized. The trade-off confronting the policy maker is between political benefits from more obscure means of income transfers (voters have greater difficulty perceiving what is going on), against the greater deadweight efficiency losses that are in general associated with more circuitous means of transfers. The policy obfuscation trade-off is not present in the endogenous policy mechanism of Becker's interest-group competition. Yet if there is a political cost to greater public visibility of government rent allocations, the benefits from more surreptitious, hidden rent seeking provide the incentive for choosing inefficient yet politically beneficial circuitous means of political allocation. With rent seeking and these related considerations absent, and political allocation as efficient, Becker's model appears as politically correct as is possible for a theory of endogenous income redistribution determined by interest-group competition for political influence.



To compare with a corresponding politically-incorrect political-economy model of interest group competition, we can consider Ursprung's (1990) portrayal of the same endogenous redistribution process. In Ursprung's model, candidates for political office announce policies which provide collective benefit to their respective constituencies, and the constituencies provide financial contributions to influence candidates' policy choices. The political agents who make the policy decisions are explicitly present, and rent-seeking activity is explicitly taking place. The objective of the political agents is to win political office, for which purpose they court their constituencies with favorable policies. The political agents' announced policies do not necessarily mirror the preferred policies sought by the constituencies, since political contributions are responsive to the difference between the political candidates' policy pronouncements. If the candidates announce the same policy, as they would in a back-to-back Hotelling policy equilibrium, they would receive no financial contributions, for nothing would distinguish them in the eyes of the competing interest groups. A Hotelling back-to-back outcome with identical policy pronouncements is the Nash equilibrium for candidates who maximize their probabilities of political success. Ursprung proposes however that political candidates also value financial contributions independently of the implications for the probability of winning the political contest (they keep some of the money for themselves). They therefore have reason to depart from the common Hotelling back-to-back equilibrium to announce different policies. Ursprung's model of interest-group and political competition reflects many elements of observed political behavior (see, for example, Stern, 1988) but must be given a low score on the scale of political correctness.

Indeed, rent seeking appears intrinsic to theories of collective action aimed at policy influence. Olson (1965), writing before Tullock's (1967) paper on the social cost of rent seeking, pointed how, in the quest for political influence it is disadvantageous to be a member of too large a group. An investigation of why this is so leads on to rent-seeking models, and on to political incorrectness. Olson's theory of group behavior coalesces with rent seeking, since individuals usually do not rent seek alone, but do so as members of coalitions (see Ursprung, 1990) comprised of individuals with a common cause (generally maximization of their personal wealth or incomes *via* an appropriate government policy). Rent-seeking contributions consequently take the form of private contributions to finance a public good (a policy) or to secure a private good (money) that is ultimately to be shared. And, so returning to Olson, because of the collective character of contributions to rent seeking and also the rents acquired, the effectiveness of the rent-seeking coalition can be compromised if the coalition is too large.<sup>18</sup>

## 5. The “new” political economy and political correctness

My intent in the above consideration of endogenous international trade policy in particular and interest-group competition in general has been to illustrate how political correctness has influenced economic modelling. There is of course a substantial literature that has not been constrained by political correctness. This includes, beyond the rent-seeking models, the broader public-choice view of the world (see Mueller, 1989), the political-competition models of endogenous policy equilibria referred to above (see the overview by Ursprung, 1991), and the Stigler-Peltzman capture theory of regulation of industry (Stigler, 1971; Peltzman, 1976) which views governments as choosing regulatory policies to maximize political support from both producer interests and consumers. The models of the above literature, which allow for the presence of rent-seeking behavior (by this name or another), are part of the “old” political economy, which can be contrasted with a “new” political economy that has arisen toward the end of the 1980s and in the 1990s. Thus, for example, a recent NBER review of current research publications describes political economy as a “hot” area (Rose, 1996); or interpreting the remark, political economy has become a popular field of research, ostensibly for a new population of researchers who have recently “discovered” political economy.

A characteristic of the “new” political economy is a focus (although by no means exclusively) on the collective decision making mechanisms of *direct democracy*.<sup>19</sup> Under direct democracy, there is *no political discretion*. Voters decide on the desired policy (the median voter decides with majority voting, or there is another voting rule), and an executive implicitly implements the chosen policy. And since there is no political discretion, there is no role for rent seeking. The “new political economy” therefore conforms to the requisites of political correctness. Rent seeking remains excluded from the analytical framework and from the lexicon of exposition.<sup>20</sup>

There are of course unpleasant difficulties with median-voter models (see Tullock, 1959). A majority can unjustly exploit a minority, and nor does the equilibrium that emerges necessarily have desirable efficiency properties.<sup>21</sup>

Yet overall majority-voter models are politically correct. I return to international trade policy to illustrate the limitations of politically correct direct democracy. Mayer (1984), writing before median-voter political economy was “hot”, has shown how direct-democracy median-voter models can explain inefficient trade policies. Mayer’s elegant analysis is based on the dispersion of ownership of capital in a Heckscher-Ohlin model where capital is a generic factor of production, and where the self-interest of a voter thus depends on how much capital he or she owns. Mayer would readily concur that where the beneficiaries of protection are a small group (import-competing industry interests), protection is an unlikely equilibrium outcome of a direct

vote, since the median voter would certainly always be in the larger group of losers from protectionist policies. Models of endogenous international trade policy have been more generally set against the background of representative democracy (see Rodrik, 1995). And then, given that there exists a principal-agent problem between voter and representative (see Magee, Brock, and Young, 1989), political incorrectness becomes avoidable. The question is only one of degree of the political incorrectness that is portrayed.

To illustrate the matter of degree, consider the model by Grossman and Helpman (1994) which the authors describe as “protection for sale”. The model portrays a policy maker who takes bids on trade policies from interested parties. In offering “protection for sale”, the policy maker is, as described by Applebaum and Katz (1987), “seeking rents by creating rents” (see also Spiller, 1990). The policy maker is here politically quite incorrect (by our educational criterion), and in the degree of political incorrectness, at least in the rhetoric, Grossman and Helpman’s political incorrectness advances a step beyond political agents portrayed in previous political economy models of international trade policy. In the previous models, compulsions of political life and the requisites of electoral success lead policy makers to offer to implement inefficient protectionist policies. Grossman and Helpman’s elected representative betrays public trust to “sell” protection for personal gain to the detriment of society at large, and is, by the educational criterion for political correctness, a very much less worthy public official than the political agent pulled by the tides of political competition and needs of political support.<sup>22</sup>

Yet Grossman and Helpman are but observing – in the spirit of the public choice literature that preceded them<sup>23</sup> – that opportunistic politicians have nothing to sell but their policies, and that the professional and personal success of a politician under the institutions of representative democracy is often tied to financial contributions (see Potters, Sloof, and van Winden, 1997). These observations, which accord with the basic premise of rent-seeking models, are politically incorrect but are not necessarily untrue. Public trust is however betrayed when representatives of the people cater to special interests (including their own) rather than seeking the common good. Desirable social norms require that, when confronted with opportunities for personal gain, a representative of the people should refrain from entering into exchange which compromises the social good. That is, economic policies are “invaluable goods” for which market offers should not be entertained (see the discussion by Arrow, 1997). From “invaluable goods”, it is a small step to the educational criterion for political correctness, and to the political incorrectness of rent seeking.

## 6. Educating the young (again): Why modeling rent seeking is politically correct

Corruption of the young is a most serious charge. The official reason for Socrates' indictment and trial (and subsequent death by enforced taking of hemlock) was corrupting the young (see Plato, *The Socratic Dialogues*). The true reason for Socrates' demise was that his quest for truth was at the expense of the credibility of his intellectual mainstream antagonists, who found themselves hard pressed to provide answers to Socrates' inquiries regarding the foundations of their (politically correct) propositions.

I have thus far adhered to the idea that the educational criterion of political correctness can be applied to declare rent-seeking models as politically incorrect, on the grounds of corruption of the young. I have adhered to this position to allow a reasoned explanation for the schism in the economics literature regarding rent seeking and political correctness. Yet I now wish to propose that the same educational criterion that renders rent seeking politically incorrect on the contrary makes *rent seeking a politically correct concept which the young should (therefore) be taught*. To make the case, I return to the two reasons posed for educational political incorrectness of rent seeking.

The first reason is that rent-seeking models expose the young to undesirable political behavior, when they should be exposed to benevolent government as part of a desirable vision of a world to which they should be taught to aspire. The implicit assumption is then that the pursuit of the virtuous society is furthered by withholding from the young the (potential) inadequacies of a society's political institutions. Rent-seeking models however offer the desirable educational message of the need for vigilance and caution when individuals who have chosen to make their careers in politics or government bureaucracy<sup>24</sup> are left to make discretionary economic decisions. An education fostering *belief* in only benevolent government is inconsistent with citizens' awareness of their self-interest in opposing opportunistic rent-creating policies.<sup>25</sup> Education which provides awareness of the consequences of political discretion is at the same time not inconsistent with educating the young about the good that enlightened government can in principle do, and should do.

The second basis which was proposed by the educational criterion for the political incorrectness of rent seeking is that socially inappropriate signals are provided to the young regarding private behavior in the acquisition of income and wealth. The question then is, is it indeed socially virtuous that the young be made to believe that all incomes and wealth reflect market-determined rewards, when because of political allocation the truth may be otherwise. There is personal loss incurred when an individual believes that all rewards are awarded fairly by the merits of personal effort; for since

rent seeking is privately rational behavior, honest but naive individuals are disadvantaged in the asymmetric Nash equilibrium of a Prisoner's Dilemma. This is a self-inflicted personally undesirable outcome that the young may well wish to be taught to avoid. Avoidance need not take the form of participating in rent seeking, but participating in collective activities to eliminate the institutional basis for discretionary political allocation. The education that espouses resistance is impaired if rent seekers are able to misconstrue their politically assigned gains as due to personal productive endeavor. For failure to educate the young about rent seeking spares the winners of the rent-seeking contests the stigma of being known as successful rent seekers, and spares politicians the political cost of being seen to be dispensing rents. If the young are protected from exposure to rent-seeking models, an educational failure occurs which aids and abets rent seeking.

It should be clear that, in making the case here for educational political correctness of rent-seeking models, I am not advocating that rent seeking is a desirable activity. Nor am I proposing that "there should be no government redistribution" or that "no-one is deserving of government transfers". In models of benevolent government where rent seeking cannot be present, only *deserving* individuals (however defined) receive government transfers. Rent-seeking models expose the prospect to the young that the people benefiting from government largesse may not be deserving under any acceptable criteria of worthiness or misfortune – which opens the question (for the young, and for the voter) why did the (people in) government decide to make the transfers? This is a question, I propose, that the young should be taught to ask when they observe political allocation.

To summarize, rent seeking may be educationally politically incorrect, but not the rent-seeking models, which have a meritorious educational role.

## **7. The intellectual and social consequences of political incorrectness**

My acceptance thus far of the educational criterion of political correctness has permitted an investigation of the attributes of a so-defined politically correct model. However, the characteristic of politically correct propositions, of not being open to intellectual challenge or debate, must surely make the concept of political correctness *unsatisfactory at higher levels of intellectual analysis*. As Arrow (1997: 763) observed, "the usual doctrine is that conduct may be regulated, if that is socially desirable, but that speech must be unrestricted".

In any intellectual discipline, political correctness is divisive, in that one who challenges a politically correct position has no place in the reference group for which the politically correct position is the designated norm. It is in consequence often the case that, in discussions of political correctness,

one has to conduct the debate with oneself, or with one's fellow agnostics. True believers in the political correct positions (or those who profess to believe, see Kuran, 1993) may not be prepared to participate in discussion on the grounds that it is *politically incorrect to question or debate a politically correct proposition*. Acknowledgment that there is room to question compromises the essence of political correctness.

There is a social as well as intellectually inhibiting character to political correctness. By not conforming to political correct positions, a researcher risks losing acceptance within the reference group that adheres to those positions. For the professional economist living in a world of political correctness, political *incorrectness* can mean conference invitations foregone, denial of access to research funding, and retribution in the evaluation of professional research. And at higher levels, the ultimate awards of professional recognition may not be offered.

My use of rent seeking as the standard bearer for perceived political incorrectness leads us in intellectual history to Tullock who made the seminal contributions (his 1967 and his 1980 papers, and see also his books 1988 and 1993). And, as observed, his 1959 paper on direct democracy is also not politically correct. Tullock's propositions are often "outrageous" in being disparaging of democratic institutions. Yet as Salmon (1994) has eloquently proposed, outrageous arguments have a central role in a critical open society, in focusing attention and in encouraging critical thinking. Outrageous statements are likely to be politically incorrect, but they may have merit. Political correctness stands in the way of any merit that may be present being established.<sup>26</sup>

## **8. Why is political economy becoming politically correct?**

My final question relates to the origins of the changes in perceptions that are making the political economy models of the right politically correct. The answer which I wish to propose for the new political correctness of the political economy of the right returns us to the political economy of the left. To illustrate the relation, before the first post-communist democratic elections took place in Hungary (in March 1990), I was asked in a seminar at the Karl Marx (now Budapest) University of Economic Sciences to summarize the elements of rent-seeking models, but succumbed to the self-censorship of political correctness. It appeared inappropriate to introduce conceptions that might compromise the dreams of a better world by people who had only recently been freed from the political correctness of socialist principles. By the mid-1990s, few dreams remained to be spoiled in the post-socialist transition economies. The previous inhibitions were no longer present to deter publica-

tion of a paper in Russian (Hillman, 1996) which explained the behavioral assumptions and predictions of rent-seeking models, and was intended to familiarize Russian economists with a body of western economic theory that could take in its stride an economy contaminated by Mafia and pervaded by the private self interest of political and bureaucratic agents engaged in private distribution of the prior “social property”. A politically correct exposition of behavioral incentives of political and economic agents that omitted rent seeking would under the circumstances have little to say, except about what ought to be and was not.

Conditions in other post-socialist countries were similar (see Gelb, Hillman, and Ursprung, 1996). Although an admittedly extreme case, the Bulgarian economy collapsed in the latter part of 1996 and a street-revolution brought down the government in early 1997.<sup>27</sup> Although privatization had been pressed upon policy makers as an essential prerequisite for economic transformation (see the World Bank, 1996), Bulgarian governments had been remarkably lax in privatizing the large state enterprises. One could propose that failure of progress with privatization was due to the intrinsic lack of worth of the assets involved (who would wish to buy the unprofitable state factories?), that bureaucratic obstacles impeded privatization (absence of the requisite legal framework), or that the unprofitable state factories were kept alive out of a perception of social responsibility to workers. To whatever extent these considerations were present, a closer study reveals the conditions and predicted behavior of a rent-seeking model (see Bogetić and Hillman, 1995). Rents were created by permitting privileged transactions between private agents and state firms – by private supply of inputs to state firms and private purchases of state firms’ outputs. The losses that were in consequence incurred by state enterprises had the complementary role of making the enterprise unattractive for privatization. This can be described by the analogy of feeding and milking a cow that belongs (ambiguously but formally) to the state. Deferred to the future was the issue of the longer-term health of the cow. That health could be adversely affected by greed (a short time horizon), and by the rational belief that a well-fed good-looking cow might indeed be privatized, so putting an end to the sources of the rents. In the environment of ambiguous property right, the rents from feeding and milking the state cow were contestable – and were contested – drawing individuals’ attention and resources way from productive activity. A rent-seeking model explains the behavior of agents, and could predict the profound economic collapse that was to come.

The copious prizes for rent-seeking contests that have characterized the transition from socialism reflect the designation of private ownership to much of the prior social property; the contestability necessary for rent seeking re-

flects the initial ambiguous property rights from which the transition was initiated.

It is perhaps significant that the increasing political correctness of the political economy of the economic right (and of rent seeking in particular) coincides with the end of socialism and the beginning of the transition. Perhaps for so long as the communist world persisted to offer a competing model, it was politically incorrect to emphasize (by modeling) the inadequacies of economic decision making of western market political and collective-decision making institutions. With the contest declared over, the inhibitions have diminished, and the formerly politically incorrect political economy has become correct.

## Notes

1. As observed by Hayek (1988) and others, there has often been broad sympathy for the idealized general principles of the political economy of the left.
2. We do not need to go back far in history to find instances where the educational criterion as practiced fails to satisfy enlightened ethical norms. The children of the Hitlerjugend of Germany and Austria were presented with anti-semitism and mass murder of (other) young children as politically correct. The children of Chinese Red Guards were educated to fall cruelly on those among their own people who strayed from the true (politically correct) path.
3. Rent-seeking activities reach maximal heights when an economic system allows *only* political allocation, as in planned communist economies (see Hillman, 1994).
4. Hence, in the case of monopoly power, the efficiency losses are two-fold, the traditional deadweight losses due to inefficient resource allocation and the resources which are used in sustaining (and resisting) the underlying institutional structure that preempts warranted competitive entry (see Posner, 1974). Similarly, in the case of protectionist trade policies, the social losses consist of the traditional losses due to inefficient resource allocation and the resources used in influencing trade policy determination (see Hillman, 1989: Ch. 6).
5. The terminology “rent seeking” is from Krueger (1974).
6. See also the collections of papers in the edited volumes by Buchanan, Tollison, and Tullock (1980), Rowley, Tollison, and Tullock (1988), and Congleton and Tollison (1995).
7. The extent of social loss via rent dissipation (that is, the value of the resources attracted into the unproductive quest to determine political allocation) depends on a number of characteristics of the rent-seeking “contest”, including risk aversion (Hillman and Katz, 1984), the nature of the function which translates resources used into prospective success (Hillman and Samet, 1987; Hillman and Riley, 1989), the collective nature of the endeavor and/or the rent sought (Ursprung, 1990; Nitzan, 1991), the presence of countervailing opposition (Hillman and Riley, 1989; Fabella, 1995), and the institutional structure or stages of the contest (Katz and Tokatlidu, 1996).
8. Culture plays a role, and reticence is not always the case. In some societies wealth provides honor independently of how the wealth is acquired, and it is not contrary to accepted norms for those who have attained political power to use that power openly (rather than surreptitiously) for personal economic gain. For a study of rent seeking in such contexts, see Kimenyi and Mbaku (1995).



9. Much of the evidence comes from journalistic reporting of “scandals” where politicians, and also bureaucrats, have been discovered to have betrayed the public interest for their own personal advantage. For a summary of some of this, see Tullock (1988, 1993). Stern (1988) provides a picture of the U.S. Congress. Potters and Sloof (1996) provide a broad review of the empirical evidence on the rent-seeking activities of interest groups.
10. This is similar to the social insurance explanation for protectionist policies (see my survey, 1989: Ch. 9).
11. For reviews of the literature on the political economy of trade policy, see Hillman (1989), Magee (1994), and Rodrik (1995).
12. See in particular the perspectives offered by Baldwin (1982, 1984, 1985).
13. See Hillman, Long, and Moser (1995) for elaboration on the different approaches to explaining trade liberalization.
14. See, however, Baldwin (1992) for observations on the “newness”.
15. See also the books of readings edited by Krugman (1986) and Grossman (1992).
16. Strategic trade policy does not necessarily require that governments subsidize their firms: taxes are indicated when firms compete in price (Bertrand) and subsidies when firms are Cournot-quantity competitors, and there are other interventionist solutions that depend on the circumstances modeled (see Brander, 1995). In practical discussions of strategic trade policy, only the subsidy (or protection) and never the tax has ever appeared to have arisen.
17. Losers from redistribution are defending their incomes and wish to avoid the deadweight loss that they would incur because of the transfer, so they are willing to spend more in defending their incomes than the monetary sum they stand to lose. The beneficiaries value the transfer less than the monetary value, again because of deadweight losses, and so are willing to expend less than the value of the transfer in “rent seeking”.
18. In a non-cooperative equilibrium for private contributions to the collective objective of the interest group, the change in effectiveness of the coalition as reflected in the resources marshaled depends on countervailing income and substitution effects as the size of the coalition is enlarged (see Cornes and Sandler, 1996). On other collective aspects of rent seeking, see Ursprung (1990), Nitzan (1991), and Gradstein (1993).
19. The “new” political economy literature using median-voter equilibria is vast and any citations can be but arbitrary.
20. This is true of the models of the “new” political economy. However, where practiced, direct democracy is also susceptible to attempts by interest groups and political agents to influence policy outcomes, for example by the manner in which the question put to popular vote is framed, and by the use of resources to convince voters of the merits or demerits of a particular position.
21. Adolf Hitler was placed in power through democratic institutions, and a majority proceeded to determine and implement policies that had tragic consequences for a minority..
22. The *rhetoric* of “protection for sale” overstates Grossman and Helpman’s (1994) political incorrectness. They model a common-agency policy menu problem and provide under-pinnings for a conventional political-support function which has been extensively used in the endogenous protection and regulation literature by endogenizing the determination of sectoral political weights. However, also the order of moves in the game between the politician offering to sell protection and the private agents bidding for protectionist rents can be interpreted on a scale of political correctness. The Grossman-Helpman politician is in this regard less politically correct than, for example, the Ursprung (1990) candidates for political office.
23. See Mueller (1989), and in particular on the premises of the public-choice approach to international trade policy, Frey (1984).

24. The career as politician or regulator may also be a preliminary activity before entering private-sector employment. See Brezis and Weiss (1997).
25. Bloom (1987) in his study *The closing of the American mind* observes that the conceptions which have guided the politically correct norms of behavior of the American young have been self-ironical niceness, egalitarianism stemming from non-discrimination, and offering a pleasant face to the world. Rent-seeking models contradict each of these facets.
26. Of course many outrageous statements have no merit. For example, staying within the previous theme of the politically correct propositions set before Hitlerjugend, there are those who would deny that the murder of six million Jews, or some one and a half million children, ever took place. If we allow outrageous statements, we must allow such propositions, which question history. Such questioning of history is quite different from a recommendation placed before the young that the killing of innocent people has merit. The denial that the murders took place is an outrageous statement that can be confronted with evidence, and confirmed to be outrageous with intended malice.
27. The change of government was subsequently confirmed in democratic elections.

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