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The green inside activist in the game of regulatory capture - an alternative to acquiring property rights?¹

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Abstract

The phenomenon of green inside activism (GIA) is experiencing increasing interest, both in the academic world and in the public debate. GIA is a theoretical concept intended to capture the political agency of public officials who are ideologically committed to green values and work to promote them from within an agency. This article examines the economic implications of GIA from a public choice perspective. Building on e.g. Mancur Olson's theory of institutional sclerosis, Gordon Tullock's analysis of monopoly (the Tullock rectangle) and George Stigler's analysis of regulatory capture, the article addresses several issues of GIA within regulatory agencies, using the forest industry as an example. Among the issues to be addressed are the questions of: who will win and who will lose from GIA; how does GIA relate to the more familiar concepts of rent-seeking and regulatory capture; what institutional characteristics make an agency vulnerable to GIA?

1 Introduction

A phenomenon that receives a growing interest, in the public debate and in academia, is activism pursued within authorities; that public officials use their position within an authority to pursue an activist agenda, which means that they pursue issues that they ideologically sympathize with. In the last decade or so, the concept of *green inside activism* has been established (Olsson, 2009) (Hysing & Olsson, 2011) (Olsson & Hysing, 2012) (Hysing, Olsson, & Dahl, 2016) (Hysing & Olsson, 2018). In these cases, the issue has been *green interests* in the sense of environmental interests or more specifically the view that different forms of biological values should take precedence over other values in cases involving land use, e.g. that in forestry, the value of biological diversity should take precedence over the value of production of wood products.

Outside the academy, a steady stream of debate posts, critical of “government activism”, has been published in recent years. The authors behind the posts are concerned about something that they believe is authority activism and they believe that public officials run their own agendas, and thus act without democratic support. In the Swedish debate, several concern the phenomenon in more general terms but linked to use of land or water (Hakelius, 2018) (Berg, 2019) (Sande, 2019) (Johanssen, 2020) (Sjögren, 2020) (Viksten, 2020) (Karlsson, 2021) (Svenning, 2021), others specifically about hydropower (Johanssen, 2020) or specifically about forestry (Hollertz, 2018). There are also articles that deal with government activism in contexts other than land use (Gudmundson, 2016). This article is developed from the working paper in Swedish *Insidesaktivism som en strategi att kontrollera produktionsmedlen? - Ett exempel från skogsbruket* (eng. “Insider activism as a strategy to control the means of production? - An example from forestry”) (Bengtsson, Norén, Sjöstrand, & Treschow, 2021).

1.1 Purpose

The purpose of this article is to advance our understanding of the phenomenon of green inside activism and its economic implications. Specifically, we will interpret it in relation to familiar public choice concepts such as rent-seeking and collective action. We will analyze its economic consequences using a graphical model of the allocation of the values of production, which is made up of production costs, producer surplus and consumer surplus. As it is a first, preliminary study, a central part of the purpose is to propose research questions for future work.

1.2 Outline

In section 2, we interpret the concept of green inside activism with the help of concepts familiar to public choice scholars, concepts as rent-seeking, regulatory capture, collective action, and institutional sclerosis. We also apply Mark Zupan’s model of supply side rent-seeking. In section 3, we present a graphical analysis of how the allocation of the values from forestry is altered if new, stricter regulations are imposed. In section 4, we follow up the result from the graphical analysis and discuss the possibility of a voluntary solution, initiated by either part in the conflict. Finally, in section 5, we suggest a number of issues that should be interesting to develop further.

2 Rent-seeking, regulatory capture and green inside activism

Green inside activism has been analyzed in several articles, including (Olsson, 2009) (Hysing & Olsson, 2011) (Olsson & Hysing, 2012) (Hysing, Olsson, & Dahl, 2016) and a book (Hysing & Olsson, 2018) which in different ways, both theoretically and empirically, deals with the phenomenon of green inside activism. Here, we will understand the concept of insider activism as a unifying concept for cases when public officials in their exercise of authority in some way promote their ideological interests. Theoretically, there is nothing to prevent insider activism from being conducted also in private companies, or other private organizations. In the mentioned research by Hysing and Olsson, however, the term is only applied to

authorities, and this is the way it will be applied in this article. Indeed, it is probably appropriate to consider insider activism within private organizations and within authorities as related but distinctly different phenomena. Activism within authorities has implications that activism within private organizations does not have because what happens within authorities affects us all as citizens, and because inside activists within authorities can act with the state's monopoly of violence behind them.

For economists, and especially for those working in the tradition of public choice, concepts as rent-seeking and regulatory capture are more familiar than the concept of green inside activism. The phenomenon of green inside activism is related to phenomena such as lobbying, special interests, and more generally rent seeking in that they are all phenomena that describe how individuals try to gain personal benefits by in some way influencing the political sphere (Tullock, 1967) (Krueger, 1974) (Buchanan, Tollison, & Tullock, 1980) (Rowley, 2005). Lobbying is usually focused on what can be called the *demand side of politics*, i.e. that lobbyists strive to influence politicians to pursue policies that benefit the interests of the lobbyists. Insider activism, green or other, is different in that it directly addresses the *implementation of politics*, i.e. the implementation of laws, rules, and regulations. In the words of (Zupan, 2017), we may say that insider activism works on the *supply side of politics*. Both inside activism and lobbying could be classified under the heading of rent-seeking, and we could thus describe insider activism as a variant among several within the broader concept of rent-seeking.

Another difference could be the motives, where rent-seeking is often associated with activities where the agent seeks to obtain *economic benefits for himself*, while insider activism is used on phenomena where the agent is rather driven by *ideological motives*. However, this difference is basically an illusion. With a broader understanding of the agents' driving forces, one sees that they are basically the same; both seek to satisfy their personal preferences, at the expense of someone else, i.e. without participating in a mutual voluntary exchange. This is clearly understood if one considers what alternative courses of action the insider activist has. In theory, he could choose to buy the requested service or product instead of, through his role in the administration, producing it for himself. The one who wants, e.g., a hydropower plant to stop being used can buy the power plant and then close the business. The price the agent would have had to pay to buy the service or product is also the *opportunity cost* of refraining from acting as an insider activist. *The price can thus be perceived as the economic value of insider activism*. Furthermore, this price should reflect the producer surplus from current production that will disappear if the plant is closed.³ We see that even ideological preferences can be translated into economic values and that green inside activism does not differ in principle from ordinary rent-seeking on that point. In general, it is an illusion that economic motives in any fundamental way differ from other motives.

We will treat green inside activism as a subgroup of rent-seeking strategies, which should make it more familiar to economist in general and public choice scholars in particular. To further integrate the concept of green inside activism within the tradition of public choice, we will relate it to the concept of regulatory capture. The concept is strongly associated with George Stigler, although he did not use the term in the original article (Stigler, 1971). The theory of regulatory capture says that regulatory authorities are captured by the firms they regulate. Firms can be said to use the regulating authorities to gain competitive advantage over their competitors. They achieve this by persuading the authorities to introduce regulations that favor themselves. These companies thus capture values, not by successfully competing for customers, but by having regulations introduced that benefit themselves. The theory of regulatory capture was soon to be criticized for telling an incomplete story, Tullock pointed out that the gains to the regulated firms would likely be

³ More precisely, it is the capitalized value of all future surpluses that makes up the value of the plant.

transitory (Tullock, 1975). The criticism has developed over time and Russel Holcombe argues that ultimately it is the regulator that reaps the benefits of regulation as the regulated firm must continue to provide the regulator with some form of benefit in order to keep the favorable regulation in place (Holcombe, 2022, p. 44). The criticism concerns the question who in the end will receive the benefits from regulation, not that capturing is taking place. Holcombe argues that the theory is incomplete "...because it does not explain why legislators would approve regulatory institutions that serve to further the interest of the regulated." (Holcombe, 2022, p. 33).

In the context of regulatory capture, how should we understand inside activism? In the case of inside activism, the regulatory institution is captured from the inside, not from the outside as in the theory of regulatory capture. However, the insider represents an ideological value that is shared with people on the outside. The insider does not need to be compensated to act, as the motives are intrinsic. The benefits that result from the regulation stay with all those who share the particular set of ideological values. Important is that the decisive insider receives the benefits directly from the regulation and does not need any outside incentives to act. Thus, it seems reasonable to say that it is the special interest that the insider represents that is the eventual benefactor of the capture. Inside activism could therefore be described – at least metaphorically – as a strategy that uses regulatory capture to achieve its goals.

2.1 A model of the conditions for insider activism

Mark Zupan has developed an analytical apparatus to specifically study rent-seeking that takes place from within politics and the implementation of politics (Zupan, 2017, p. 9). Zupan distinguishes between *special interests* (as ordinarily interpreted in rent-seeking contexts) and *government insiders*, where the former act by influencing the *demand side of politics* while the latter influence the *supply side of politics* by directly using their role from within politics, as politicians or public officials. At the same time, Zupan believes that special interests and insiders can work in symbiosis and thus become extra powerful. When special interests exert influence over the demand side of politics at the same time as insider agents pursue a similar agenda, that agenda will have good conditions for becoming effective (Zupan, 2017, p. 14). He exemplifies with the classic observation of Milton and Rose Friedman that "*Nothing is so permanent as a temporary government program*" (Friedman & Friedman, 1984). The meaning is that when a special interest has succeeded in obtaining a benefit for itself, e.g. a subsidy program, a bureaucracy is required to administer the program. Once established, the program will be defended both from the outside and from within, by the special interest and the public officials who administer it, without those having to have overlapping motives. Zupan's insider agent has obvious similarities with Hysing and Olsson's green inside activist and we will here merge the two under the concept of insider activist. The insider activist may, as in Hysing and Olsson's research, be motivated by a green ideology, but it could as well be another ideology that motivates the insider activist. Our example will concern green inside activists, but the analysis should be valid for other insider activists as well. Our goal is to place the insider activist in a general economic model of the organization of production, where insider activism becomes one of several strategies for the agent to access the desired product or service.

Zupan identifies three variables as decisive for what profit the insider activist could achieve. The three variables are: (G), potential profit, the value the insider activist can potentially transfer to himself (or to the interests the activist represents); (S), a variable between 0 and 1 that represents the slack that exists in the relationship between citizens and public officials; (I), a variable between 0 and 1 which represents the official's own desire to use his position, i.e. to act as an activist. The relationship that describes the expected amount of insider activism in terms of value (P), which is appropriated by the insider activist or by his related interests is expressed as follows (Zupan, 2017, pp. 43-45).

$$P = G \times S \times I$$

The value, or cost, of insider activism thus depends on the values involved and the official's willingness and opportunity to act as an activist. It is obviously a simple model, but it still points to the conditions that are decisive for the expected costs to society of insider activism. (G) may seem trivial as it depends on the value of the resources that can be appropriated but it is in turn dependent on political decisions about which resources should be subject to political decisions regarding its use, and how this should be administered. (S) describes how likely it is that an official will succeed in his role as an insider activist, while (I) describes how likely it is that an official wants to act as an insider activist. What determines the size of these variables is interesting and we will elaborate on this issue under the headings potential redistribution (G), institutional slack (S) and individual driving forces (I).

2.2 Potential redistributions

Since it is about how individuals working in the political sphere can appropriate resources, the size of the political sphere is of great importance for how big values that potentially can be appropriated by insider activists. One factor is the size of the public sector, i.e. the total expenditure of the public sector. Potentially, every dollar spent in the public sector can be appropriated by insider activists. But the analysis should take place at a less aggregate level, at the level of the individual official or a narrow group of officials, small enough to be able to act as a unified collective. The total transfers in an economy are not easily related to the total size of the public sector. A large public sector is compatible with low costs for insider activism. The Nordic countries, for example, tend to rank high in international rankings for the absence of corruption although they have large public sectors. We should therefore limit the analysis to reasonably delimited bureaucracies and then it is the size of the individual bureaucracy's budget that is of interest. The expression ($P = G \times S \times I$) should therefore be applied at the organizational level, or lower. If you want to apply the term for an entire country, you first need to apply it at the organizational level and then aggregate up to the national level.

The size of a bureaucracy's budget is obviously important in determining the potential redistributions, but it does not say everything (Tullock, 2005a, pp. 55-56). For certain areas of governmental operations, the budget is clearly decisive, as for those that produce goods or services for the citizens, like e.g. the police. But for government agencies that primarily regulate private activities, the bureaucracy's own budget is of less importance and the decisive factor is instead the total values over which the bureaucracy exercises influence. In this latter category we find, e.g., the county administrative boards and sector authorities such as the Swedish Forest Agency and the Swedish Environmental Protection Agency. These have an influence on values that are many times greater than the authority's own budget and this value is of much greater importance for the variable G, than what the budget is. Furthermore, since the insider activist is ideologically motivated, the size of the budget is of less importance.

2.3 Institutional slack

The second variable in Zupan's model is the slack found in the principal - agent relationship between the citizen and the insider, official or politician. Zupan defines slack as the agent's absence of direct responsibility for his actions before the principal, which gives the agent a room for maneuver within which he can act against the principal's will, without consequences. The slack is on several levels, both between citizens and politicians, and between politicians and public officials. As with the size of the potential redistributions, we should analyze on a disaggregated level. An individual agent can only use the slack between himself and his direct principal, not the entire chain between citizens and officials. For example, there is a slack between citizens and politicians and another between politicians and officials. However, an official can only use the latter slack, which gives him room for maneuver against the will of senior officials or politicians.

The slack that a bureaucracy or individual official encounters is determined by many factors in combination, among these we find the design of the regulations and the relationship between politicians and officials regarding competence, information, and resources. It is necessarily so that the official has an advantage in that he a) works directly with the issue, and b) is employed precisely because of his competence for the position. Hysing and Olsson have developed an analysis of how the public official as an insider activist can consciously work to further increase his ability to achieve success with his activism.

In order to strengthen their chances of institutional change, inside activists can [...] expand[ing] political agency through developing collective power, combative strategy, cumulative effects, and combinative solutions as well as to bend and break constraints on their actions. (Hysing & Olsson, 2018, pp. 103-104)

The insider activist can develop collective strength by mobilizing networks and building coalitions with other agents, inside and outside the organization. Combative strategy refers to strategies for secretly opposing the principal's will. It can be about getting someone else to criticize the organization's official goals, e.g. by leaking, and tweaking, information to agents outside the organization, such as protest groups or journalists. The authors attach great importance to the opportunities of insider activists to bring about change by working patiently over time to achieve cumulative effects. Reference is made to the parables of the snowball effect and tipping points, which means that by continuously working in a direction with small steps, a self-propelled movement in the desired direction is eventually achieved. Through many small, one for one harmless, steps, one can achieve cumulative effects that were never intended by the principal and may not be noticed until they have been implemented. A fourth method consists of combining different solutions in one package. The activist can increase the chance of pushing through a desired action by combining it in a package with another action that enjoys stronger support from the public and the authorities. By presenting the measures as part of a common package, one can increase the chance of gaining support for an otherwise unpopular measure. Hysing and Olsson finally note that public officials work within an institutional framework consisting of rules and norms and practices which normally limit the official's room for maneuver. The insider activist works continuously to test the strength of the institutional framework in order to expand its capacity for action.

Hysing and Olson use the term institutional ambiguity to describe a condition that makes it easier for the insider activist to achieve success (Hysing & Olsson, 2018, pp. 108-109). These are built-in ambiguities or even contradictions in the institutional framework that are possible for the insider activist to use to bring about a development desired by the activist. The strategic activist can take advantage of his insider role by reinforcing weaknesses in the institutional framework by applying it so that it brings consequences that most people perceive as unreasonable, and thus increase acceptance for change in the framework. When the weaknesses of the framework are obvious, the insider activist has an opportunity to take the initiative by proposing a solution and a way forward. In a situation where the current application appears unreasonable or outdated, the principal can be grateful that the insider activist offers a solution, without detecting the underlying agenda.

We could further enhance our understanding of institutional slack by interpreting it in the setting of Mancur Olson's theory of *institutional sclerosis* (Olson, 1982). Olson argues that over time, special interests will gradually establish their positions and become increasingly effective at achieving benefits for themselves at the expense of the public. Hysing and Olsson derive increasing institutional ambiguity from a situation when laws, regulations or norms have become increasingly incompatible with a developing society. However, we could as well imagine that institutional ambiguity arises because of changes in the institutional setting. When there are major changes in the institutional setting, such as major revisions of individual laws or entire codes, old power structures and relationships can be disrupted and become obsolete. During a transition

period, the new institutional setting is open for interpretation, an interpretation that by time will determine how the new setting will be applied and how it will work in practice. Each new law, or system of laws, are incomplete in the beginning and develops over time, as it is applied, and legal practice is emerging. This practice might be subject to capture from special interests, which can be the same special interests that had captured the old institutional setting, but it might also be a different special interest.

The state of institutional ambiguity that is a fertile ground for insider activist can thus arise because of either increasingly obsolete laws or because of the introduction of new yet untested laws. The institutional sclerosis becomes more and more serious as the special interests develop ever more favorable positions for themselves. We can expect that the first period after a major change in the institutional setting is relatively unaffected by special interests but that over time one or several special interests will emerge as dominant. In the case we refer to, forestry in Sweden, a new code, the environment code was introduced in 1993. The code incorporated a number of old laws and is applied side-by-side with sector-specific laws. One hypothesis is that it has taken some time for involved interests to learn how to best use the new code. To summarize the relationship between insider activism and institutional sclerosis, we see the emergence and growth of insider activism as a contributing factor behind the development of institutional sclerosis.

2.4 Personal motives

The third of Zupan's factors is the agent's willingness to act as an activist. Here we get into the role as a public official and different bureaucratic ideals. We have previously chosen to use the broader concept of official rather than bureaucrat. A bureaucrat is an official who is an expert in a defined area of the administration's activities, works within a regulatory framework and whose performance of duties is under the control of superiors within a hierarchical organization (Hysing & Olsson, 2012, pp. 39-40). This particular description works for the type of official we are referring to, but bureaucrat can also have a more specific meaning. The above description of the bureaucrat is based on the German sociologist Max Weber's bureaucratic model, which has dominated 20th century administrative thinking (Lundquist, 1998, p. 48). According to Weber's norm, the ideal bureaucrat is someone who sees it as his duty to carry out the principal's will. The norm thus prescribes a high degree of loyalty of the bureaucrat towards the principal's will. The norm corresponds to what is also called the ethics of neutrality. A common argument in favor of bureaucrat loyalty is that it is the politicians who have the democratic responsibility for public policy and who can lose the general election if the voters disapprove of the direction or execution of public activities (Lundquist, 1998, p. 112). According to the ethics of neutrality, the bureaucrat must act as a reliable instrument for the organization's goals. Loyalty with the administration's goals plays an important role as the bureaucrat has an information advantage over the principals, i.e. the politicians. The bureaucrat has both deep knowledge of the business as an expert and normally also more experience than the politicians who are elected for limited terms. This information asymmetry gives the bureaucrat as an agent an advantage over the politician as a principal in the relationship principal – agent. Weber's ideal bureaucrat will not use this asymmetry to pursue his own agenda. The principals also use various methods to check that the bureaucrat works in the interests of the administration, for example through lay boards, external auditing, and processes such as ISO certification (Hysing & Olsson, 2012, p. 46).

Weber's bureaucratic model is an ideal type, an analytical construction, rather than a realistic description (Hysing & Olsson, 2012, p. 44). The ideal type can be used as a reference point to compare reality against. In addition to Weber's ideal bureaucrat, there are several different types of officials described in the literature today, both in analytical and empirical form. The bureaucrat can, for example, be seen both as a threat to democracy and as a guardian of democracy (Hysing & Olsson, 2012, pp. 50-51). We do not have the ambition here to give a representative picture of this research, but only the ambition to give a sufficient

picture of the bureaucrat to be able to understand the bureaucrat's significance for insider activism in Zupan's model. To this end, we will briefly describe two other types of public officials, other than Weber's ideal bureaucrat.

A rather different bureaucrat than Weber's ideal bureaucrat is the one who appears when scholars in the Public Choice tradition apply the concept of *economic man* to the bureaucrat (Niskanen, 1994). The bureaucrat is here assumed to act in a similar way as people in general are assumed to act, to maximize their personal utility. Based on the utility-maximizing economic man, the Public Choice school developed theories on how a bureaucrat can be expected to act, where budget maximization plays a major role as an equivalent to consumer utility maximization and producer profit maximization. In this setting, the bureaucrat is expected to use his advantage over the principal to maximize his budget, and thus gain personal advantage through what comes with a larger budget in the form of salary, status, and other working conditions. Within the framework of this self-serving official, however, one can imagine many other motives than the purely financial ones, e.g. it is conceivable that the employee has his or her own ideals that he or she can choose to work towards instead of, or in addition to, the administration's goals.

Another type of official is the insider activist described by Hysing and Olsson, and who we have already mentioned. Olsson and Hysing believe that the role of individual agents in the policy process is a perspective that has not received enough attention as the focus in previous research has largely been on collective agents and they want to consider the interactivity between structural context and individual agent (Hysing & Olsson, 2018, p. 73). They describe insider activism, an activism that takes place within the administration. This contrasts with how activism has traditionally been understood; as an activity that takes place outside the public sector. The insider activist is described as an official who goes beyond the role of neutral executor of political decisions to instead act on personal beliefs that do not necessarily coincide with the ideals of the administration (Hysing & Olsson, 2012, p. 106).

The variable (I) in Zupan's model captures parts of both the Public Choice school's self-serving official and Hysing and Olsson's insider activist. Admittedly, Hysing and Olsson believe that the insider activist is something else than the self-serving official and that "[...] it is unfortunate to bring value-driven idealists together with self-interested officials [...]" (Hysing & Olsson, 2018, p. 51). For our purpose, to understand the role of the insider activist in the organization of production, however, that distinction is only partially valid. We see the insider activist as a subgroup within the wider group of rent-seekers, where the characteristic of the insider activist is that he has *ideological rather than material* self-serving objectives. The common feature that is decisive for the outcome of Zupan's model is that the agent does not completely internalize the administration's goals, or ultimately the principals' goals, but at least to some extent follows its own agenda, regardless of the agent's motives for pursuing the agenda. We can then state that the less the official internalizes the administration's ideals and goals, the greater the variable (I) and thus the expected value (P) of inside activities within an administration.

2.5 The green inside activist as a representative of a special interest

We have interpreted Hysing and Olsson's insider activist with the help of the theory of rent-seeking and the theory of the self-serving official (Hysing & Olsson, 2018) (Tullock, 2005a) (Niskanen, 1994). We have described the insider activist as a public official who works for an authority and who to some extent uses his role within the authority for his own agenda. The insider activist is a rent-seeker who seeks to reap benefits by influencing decisions in the political sphere. Distinctive for the insider activist, among the broader group of rent-seekers, is that he is driven by his ideological values and seeks to facilitate a development that is consistent with these, rather than to benefit his private financial interests or to make his tasks easier. In this way, the insider activist constitutes a subgroup within the group of rent-seekers. The inside activist is part of

a collective with a common interest, which the inside activist tries to promote within the framework of his role as a public official. Even if the insider activist is an agent in his own right, he can also be regarded as *instrumental to the collective interest*, especially considering the problem of *collective action* (Olson, 1965). The inside activist can thus be interpreted as a *representative of a special interest*.

In the perspective of the special interest as a collective, green inside activism could be seen as one of several possible strategies to achieve its goal of increased focus on production of biological values. Members of the special interest could, individually or collectively, try other strategies as well. Among those options are voting, campaigning, lobbying and log rolling in efforts to persuade politicians to fulfil the wishes of the special interest (Bengtsson, Norén, Sjöstrand, & Treschow, 2021). Politicians can do this at the public's expense, as when the State buys forest land at market value and forms nature reserves, or at the expense of individuals, as when stricter rules for forestry are introduced without compensation to the forest owners. But there is also a market alternative, the collective could pool their resources and buy the land in an ordinary transaction or enter a contract with the landowner that regulates how forestry is to be carried out on that land. All those strategies demand co-operation between a large number of the members of the special interest, which we know to be difficult under many circumstances (Olson, 1965). In this perspective, the green inside activist offers a way to overcome the obstacles of excessive transaction costs. The activist acts on his own initiative and does not need to be convinced or assisted by others in the collective. The need to coordinate many individuals is thus reduced and so are transaction costs. However, it is still reasonable to believe that the green inside activist is motivated and encouraged by knowing or believing that there are many others with the same ideological conviction. It is likely that the activist to himself justifies his actions as being part of a greater good. Thus, we should expect that if the special interest make itself visible in the public debate, it increases the motivation of a potential inside activist.

In this paper, we use forestry in Sweden as our example, in order to understand more about the nature of the green (and other) inside activists, and rent-seeking in general. In this setting, we can picture a struggle between forest owners and what we will call a *green special interest* consisting of both organized and unorganized individuals who would like forestry to become less intensive and who hold the view that forest land should be used more for producing biodiversity than wood products. We therefore interpret current debate about forestry as a question of forest owners wanting to retain previous self-determination over the forest versus a green special interest wanting to regulate forestry more tightly, with higher priority to biodiversity and other ecological values. We distill the question into a binary question about the production of wood products versus the production of ecological values. It is a simplification but makes our analysis easier, with two counterparties with conflicting interests. The green inside activist is seen as a representative of the green special interest and a vehicle for its success in bringing about a stricter regulation for forestry. The graphical analysis would, however, be the same if the stricter regulation were brought about in another way, e.g. by successful lobbying.

3 A graphical analysis of the insider activist strategy

Assuming that green inside activists are successful and new restrictive regulations on forestry that increase production costs are imposed, what are the likely effects? We are trying to understand what is happening at the national level, because national restrictions will affect national producers and the price of domestically produced wood products but not the price of imported wood products or the price of substitute products. We would like to know how different agents are affected by the new regulations. The first step is to list everyone involved. The following step is to understand how their respective shares of the total production value will change due to the new regulation. We will do this with an analysis of consumer and producer surplus, following Tullock's seminal analysis of the costs of monopoly (Tullock, 1967) (Tullock, 2005b)

(Tullock, 2005c). This article is inspired by Tullock's analysis of costs of monopoly and especially the graphical representation of the analysis. We will use the graphical representation of the supply and demand model to find out how different agents are affected by a successful attempt from green inside activists to introduce stricter regulation on forestry. Thereby, we hope to be able to put a monetary value on the gains to the insider, although the motive is ideological. We will also use the findings of the graphical analysis to discuss about what strategies are open to various groups of interest. Finally, we also hope to find out which different agents have mutual interests in the struggle to make the regulatory framework stricter or less strict. It may well be that otherwise conflicting interests coincide in this issue. In such cases, unexpected coalitions may arise.

3.1 The agents

Below we list those who are affected by a change to a more restrictive policy that will increase production costs in forestry. As we have pictured it, the main antagonists are *forest owners* and *green special interest*, but as we will see, several other agents are affected.

1. Forest owners

We assume that forest owners carry out forestry, both with their own work and with the help of contractors. Thus, forest owners receive income from forestry and have a capital value in the land. The land value is the capitalized value of future income from forestry and potential other sources of income from the land.

2. Green special interest

We will assume that the green inside activist is a public official in an authority that regulates how forestry may be conducted. In Sweden, it could be the Swedish Forest Agency, but also other authorities. The green inside activist is also a representative for the green special interest, which may be organized or not. The green special interest includes those who want to change the way forestry is conducted so that biological values are prioritized to a higher degree than production values, compared to status quo.

3. Regulatory bureaucrats

The green inside activist is assumed to be a bureaucrat promoting a personal ideological conviction. But there are also other bureaucrats, within the same authority, and in others, who work with regulations. Probably, with stricter regulations they can get a bigger budget. In this way, also bureaucrats who themselves are not green inside activists have an interest in how the business is regulated.

4. Regulatory entrepreneurs

When an industry is regulated, there will be roles to fill for consultants of various kinds, who assist both forest owners and authorities. They assist legislators with investigations, authorities with interpretations of laws and regulations and forest owners with interpretation and compliance with the regulations. In this group we find certification institutes, consultants in law, forestry, and environmental protection. We also find scholars in environmental law and environmental protection, who gain greater societal importance when regulations become stricter.

5. Forestry contractors

Contractors carry out forest work on behalf of the forest owners. Thus, forestry contractors receive income from forest work.

6. Consumers

Consumers buy and use the wood products that forest owners sell. There are consumers at several levels, from those who buy timber and pulpwood for their industrial processes to the end consumers

who buy construction timber or paper. We can think of them as *domestic forest industry* that processes forest raw materials and *domestic households* that consumes the end products.

7. Competition from international forestry

Forestry industry in other countries compete with the national forest industry. Thus, foreign forest owners compete with domestic forest owners as foreign contractors (indirectly) compete with domestic contractors. There is also a direct competition between domestic and foreign contractors. Thus, we have *foreign forest owners*, *foreign contractors*, and *foreign forest industry*.

8. Competition from producers of substitute products

Wood-based products can be substituted for products based on other raw materials. In the construction industry, steel and concrete are partial substitutes for wood. Pulp-based products can be partially replaced by fossil-based products. We thus have the *concrete* and *fossil industries* as representatives of substitute industries.

We have outlined 8 main categories of agents affected by regulatory changes regarding forestry. The list can be further expanded by counting subcategories as we did under 3 of the main categories. Even so, the list is not completely exhaustive, for example, we could divide the forest industry into capital owners and employees, or we could list various categories of lobbyists. However, for the purpose of this article, the list should be sufficiently detailed.

3.2 The model

We start from a standard demand and supply figure and study who gets what part of the total benefit created by wood production. Then we impose a restriction on forestry that increases production costs and study once again who gets what part of the remaining benefit of the production of wood and who stands to gain or lose from the new tighter regulation.

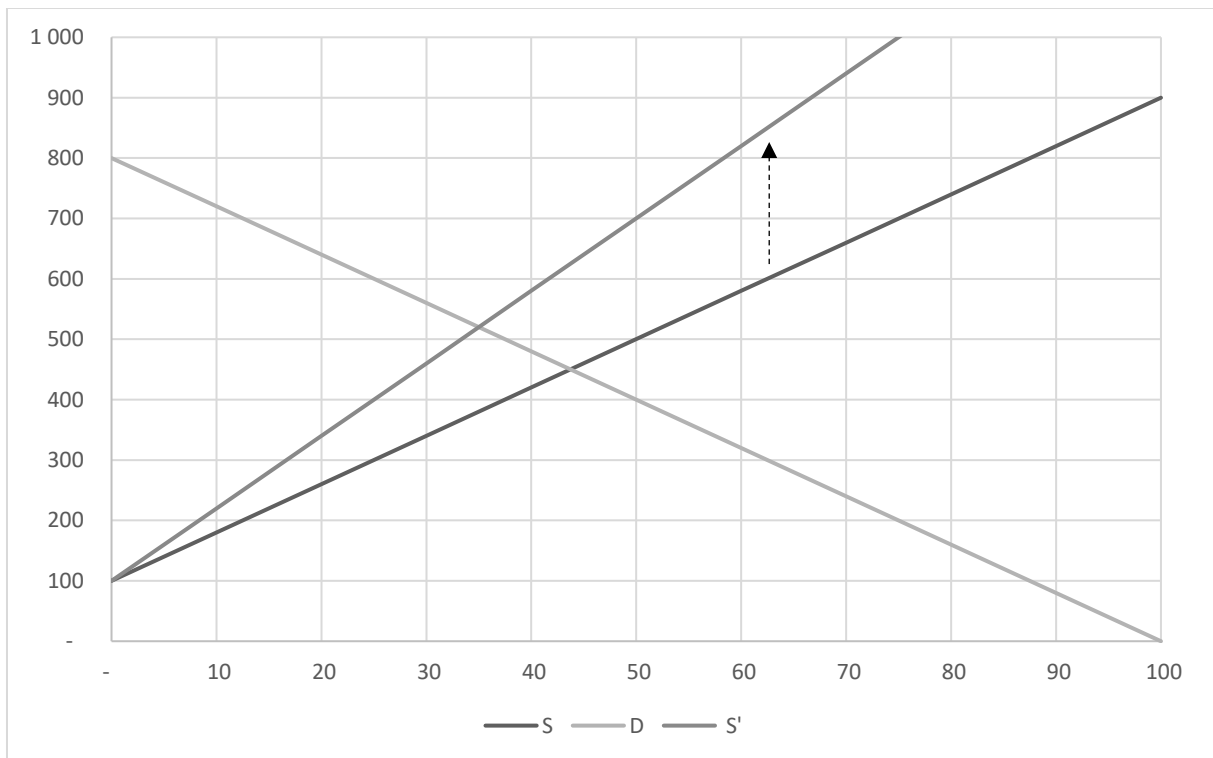


Figure 1: Demand and supply before and after the implementation of new tighter regulations.

On the Y-axis we have price per volume unit and on the X-axis, we have the amount of volume units produced per period. Consequently, areas will represent monetary values per period (price x volume). S depicts the original supply curve and S' depicts the new supply curve after new restrictions are imposed.

In figure 2, we study who receives what part of the total benefits from the production of wood.

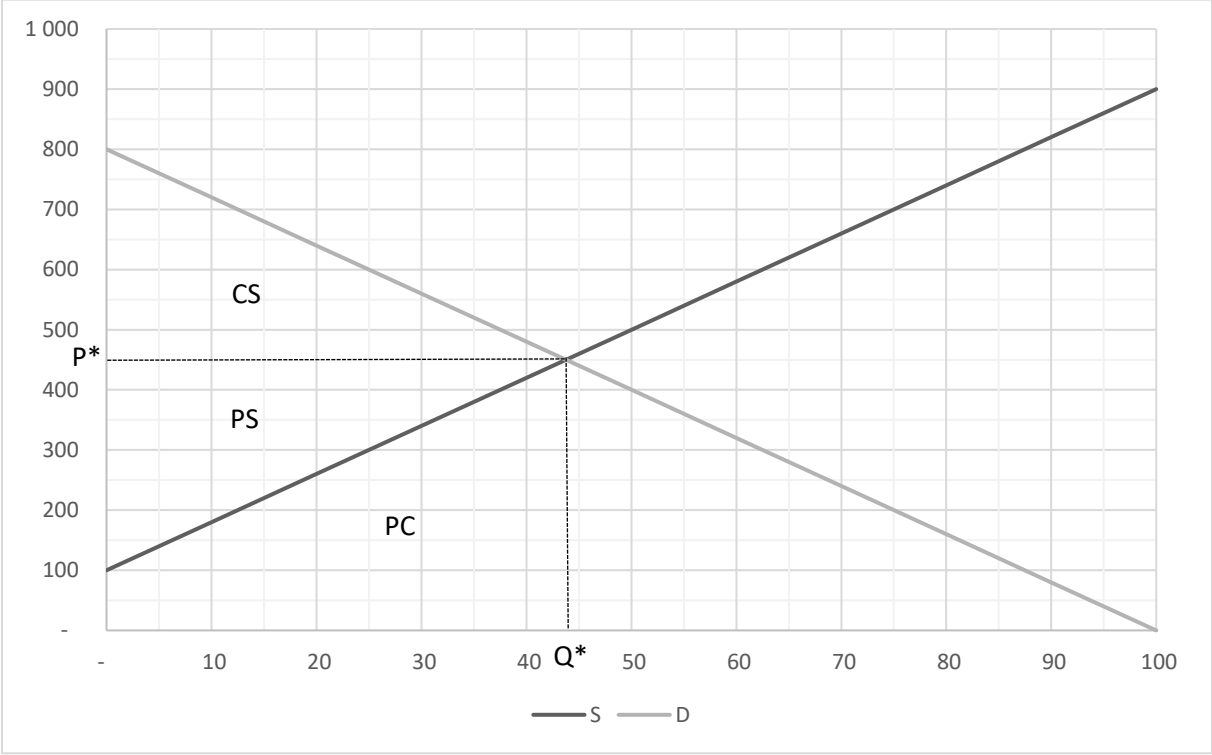


Figure 2: Initial allocation of consumer surplus, producer surplus and production costs.

In figure 2, we mark equilibrium price (P^*) and quantity (Q^*) and illustrate the areas that represent consumer surplus (CS), producer surplus, (PS) and production costs (PC). Equilibrium price is at 450 and equilibrium quantity is at 43,75. CS and PS are both 7 656 and PC is 12 031. Consumers pay (PS+PC) and keep CS as their net benefit from consuming wood products. Forest owners receive (PS+PC) and keep PS after having paid forest contractors PC.

When new regulations are introduced, like S' in figure 1, we get a more complex picture, as described by figure 3. Rather than 3 areas of surpluses and costs allocated to 3 different agents, we now have 7 areas, and 8 different agents. The new areas are marked by numbers 1 – 4.

Before we start to analyze the allocation, we need to say something about how we assume this market works. The reader will probably notice that the equilibrium price does not change in figure 3, and that the total value of consumer surplus thus not change either. This is a simplification we do to keep the model simple and straightforward to analyze. The justification for it is that we are considering the national market in a small open country, like Sweden. In practice, it means that when domestically produced wood products increase in cost, they will be substituted for a combination of imported wood products and substitute products. That is, domestic production of wood products are price takers. It seems as a not too far-fetched simplification for the Swedish market. However, this assumption raises question marks over the interpretation of the consumer surplus. How could there be a consumer surplus from consumption of domestically produced wood products if there are perfect substitutes? Why just not have a flat demand curve, indicating perfectly elastic demand? We could do that, but in that case, we would not be able to see which

composition of products generates the consumer surplus. It is of some interest to see which production the consumer surplus comes from. However, our main focus is on the producer surplus and the production costs, since in this context with perfect substitutes, there is no deadweight loss, only redistribution of income and wealth.

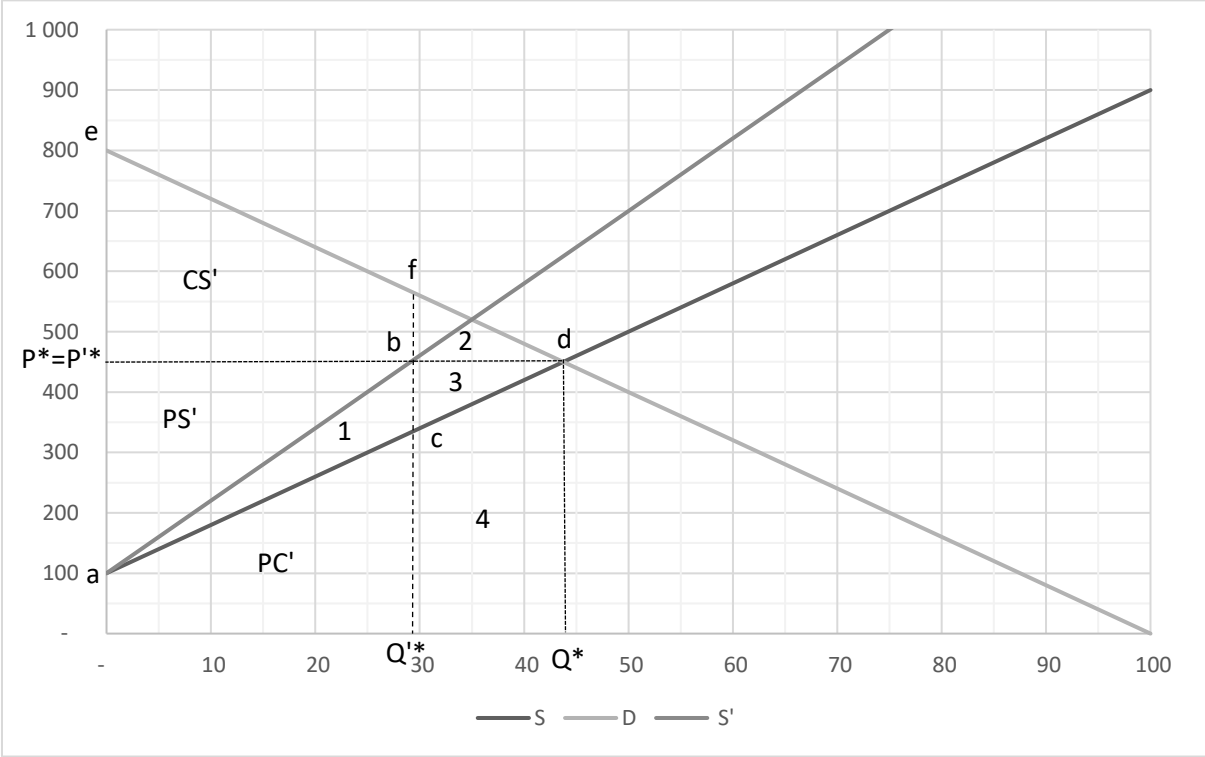


Figure 3: Allocation of surpluses and costs after new regulations are imposed.

1. Forest owners now receives PS' rather than PS . PS' is the area described by $[a-P'^*-b]$ and amounts to 5 104 or $2/3$ of PS . The owners lose area 1 $[a-b-c]$ (1 701) and 3 $[c-b-d]$ (851).
2. The green special interest win a value corresponding to area 3, since this is their opportunity cost, i.e. what they would have had to pay forest owners *not* to produce the quantity $[Q^*-Q'^*]$.⁴ However, we do not know what this means for their utility, it can be both higher and lower. The thing we know is that their increase in utility is larger than their cost for taking insider action. But since we can assume that this cost is quite low for an ideologically convinced official, the utility gain that is needed to motivate the insider need not be very big. The gain is not exclusive to the inside agent but will be experienced by all members of the green special interest.
3. Regulatory bureaucrats win, since they will have more to do managing the new, tighter regulations. The funds will, however, most likely come from the taxpayers. The amount will be related to area 1 but it is hard to estimate any numbers on that relation.
4. Regulatory entrepreneurs will share area 1 with domestic forestry contractors. Some of the increased costs will be caused by having to resort to less efficient methods of forestry which will give forestry contractors more to do, while other costs will be caused by forest owners having to do more pre-forestry studies. Regulatory entrepreneurs will work as consultants with these studies. Regulatory

⁴ For the moment, we do not consider transaction costs. Obviously, an agreement with the forest owners would in reality generate transaction costs. We will discuss this later.

entrepreneurs would probably also receive some of the increase in the regulating bureaucracy's budget, as they will work as consultants for them as well.

5. Domestic forestry contractors gain, as just mentioned, part of area 1. On the other hand, they will lose area 4 [$Q^*-c-d-Q^*$] (5 712) because of the decrease in production.
6. Consumers will, due to our assumption discussed before, still receive CS [P^*-e-d], but we can divide it in CS' [$P^*-e-f-b$] (6 806) and area 2 [$b-f-d$] (851). Area 2 is now a consumer surplus from consuming products that are substitutes for domestically produced wood products.
7. The foreign industry of wood production will receive part of areas 3 and 4 and share them with the industry of substitute materials.
8. The industry of substitute products will share areas 3 and 4 with the foreign industry of wood product.

4 Discussion

In this section, we will discuss our results, i.e. the gains and losses to various agents that we presented in the previous section. To do this, we choose two issues to analyze: (a) the relation between forest owners and green inside activists and the possibility for a voluntary agreement, and (b) other agents' attitudes towards stricter rules and their possible moves in the game of regulatory capture.

4.1 A voluntary agreement between forest owners and the green special interest?

We saw that forest owners lose areas 1 and 3 in producer surplus, while the special interest that the green inside activist represents gain a value corresponding to area 3, measured as an opportunity cost. Now, here are a few interesting things to discuss. The first thing that comes to mind is the possibility of a mutual beneficial transaction. If they could agree on a contract that will reduce wood production from Q^* to Q'^* without increasing production costs, then between them they would gain a value corresponding to area 1. From the perspective of forest owners and the green special interest, area 1 is lost, it is a loss to the owners and irrelevant to the members of the special interest. What are the obstacles to agreeing on a contract? The obvious answer is transaction costs, in a variety of forms (Coase, 1937) (Coase, 1960). Issues of *contact*, *contract* and *control* must be solved. But that is not enough, perhaps even more important is a common understanding of the alternative to an agreement. If both parties believe they have the right on their side and that they will win a legal case, then there will be little room for an agreement. Nevertheless, we will elaborate a bit on the possibility of an agreement, and how it could be achieved.

As we have described the case, it is the forest owners who risk losing something they formerly had, while the green special interest is set to win something. That is, the changes in regulations we consider are changes that imply stricter regulation, or implementation of the regulations. It is either status quo or stricter regulation. The owners can lose or not lose while the special interest can win or not win. That means owners could be willing to pay to limit regulatory tightening if they believe they face a significant risk of ultimately losing a lawsuit. Correspondingly, the members of the special interest collective could be willing to pay forest owners to conduct forestry in a different way.

4.1.1 An agreement initiated by forest owners

Starting with the forest owners, if we assume that such a willingness to pay is at hand, what options do forest owners have? Due to the nature of the green inside activist, it is not possible to make a direct agreement with the decisive agent. It is impossible for the activist to publicly affirm their role as an activist, as it goes against their official role as a public official. Thus, the owner has no counterpart to negotiate with. The owner needs other strategies. Obviously, one is to fight the changes in regulation by ordinary special interest measures, like campaigning or lobbying against the changes. That would be the confrontational route to take when

they still think they can win the case. However, if they think they will lose, or want to take measures to decrease the risk of losing, they could try to reduce the counterpart's willingness to fight. How could that be done, when the other party is such an elusive agent as the green inside activist and a loosely organized special interest?

The answer is that they could offer a unilateral agreement to reduce production and protect ecological values. Forest protection legislation in Sweden rests on the premise of freedom under responsibility for the forest owners. We can imagine that if the forest owners live up to this, in the eyes of the public, then the willingness to fight on the part of the other side should decrease, *ceteris paribus*. Unilateral commitment to biologically friendly forestry could thus be a way to overcome transaction costs in terms of contact and contracts with the other party, the special interest. However, there is still the problem of coordinating the forest owners, the risk of free riding is obvious. The large forest-owning companies are not that many, but Sweden has around 300,000 private owners, who own just under half of all forest land. However, many of the private forest owners are either members of forest owners' associations or have a close relationship with a timber buying company. This means that those associations and companies can fulfill the role of coordinator for how forestry should be conducted among the private owners.

However, a strategy that includes a unilateral commitment to less intensive forestry is not risk-free. There is no guarantee that the other side will be satisfied, they could even become even more motivated when they see their success. Nevertheless, we can observe this strategy from the forest owners, parallel to the strategy of working against stricter rules, by influencing politics. It seems that forest owners are diversifying their risks by simultaneously adapting to more biologically friendly forestry and opposing the introduction of stricter regulations.

4.1.2 An agreement initiated by the green special interest

What opportunities does the green special interest have to initiate an agreement with the forest owners and what obstacles do they face? Basically, it demands everyone – who has a similar desire to protect a certain forest from intensive forestry – coming together to finance the purchase of forest land or make an agreement on special forestry conditions with the owner. Obviously, we face the usual transaction costs of contact, contract, and control. They need to find each other, agree on forms of co-financing, which areas to protect, and how to protect them. Then, they need to contact the forest owners and agree on a contract with them. They also need to have a routine for following up the agreement if it is an agreement on special forestry conditions. On top of the said transaction costs, they also face the problem of free riders. Many environmental values have the character of public goods (Olson, 1965).

The transaction costs may seem overwhelming, yet it is a strategy used to some extent. There are indeed organizations (NGOs) that collect money from members or supporters and use these funds to either buy forest land outright or make agreements on forestry terms with the owners.⁵ Obviously, this strategy is more suitable for protecting distinct areas, such as urban forests or forests with very high biological values. It is less suited to protect a general minimum level of biological standard. From a societal point of view, this strategy has attractive features. As it is based on voluntary agreements, it is economically efficient according to the Kaldor-Hicks criterion and also satisfies the Pareto criterion (Bengtsson, Norén, Sjöstrand, & Treschow, 2021). Other strategies, based on political influence in different ways, can also be socio-economically effective, but there is no guarantee that they are. Furthermore, all transaction costs are

⁵ *The Nature Conservancy* (<https://www.nature.org/en-us/>) is one example, located in the United States. *Naturarvet* (<https://naturarvet.se/>) is another example, located in Sweden.

internalized by those who want the change. Modern information technology has lowered some of the transaction costs of implementing the strategy and we should be able to expect increased use of it.

4.2 Other agents' attitude towards an agreement and possible coalitions

Forest owners and special interests are the main actors in our model, but what about the other agents involved, what interests do they have? We have (a) regulatory bureaucrats, (b) regulatory contractors, (c) forest contractors, (d) consumers, (e) competitors from international forestry, and (f) competitors from production of substitute products. We can assume that (a, b, e, f) are positive to stricter regulation of forestry at the national level, while (d) are indifferent and (c) ambiguous. Consumers should be indifferent in our setting because we assume that there are perfect substitutes. Forest contractors gain part of area 1 but lose area 4 and it is not clear which effect is stronger. In practice, it depends on the nature of the regulations. The competitors from foreign forestry or producers of substitute products would gain from a reduction in production from the national forestry, but be indifferent to what causes the reduction, whether it is tighter regulation or a mutual agreement between forest owners and environmentalists. They gain if production goes from Q^* to Q'^* , regardless of how the change comes about. Regulatory bureaucrats should be expected to support stricter rules because it would likely increase the bureaucracy's budget. But it also increases their workload and if the bureaucracy fails to increase the budget, it could be net negative to them.

The regulatory entrepreneurs are interesting. The more regulation, the better from their perspective. We find them mostly in academia and in the consulting industry. In the short term they benefit from any change in regulations, but in the long term they benefit from more comprehensive and more complex regulations. For the consultants, it is about direct financial gain, while for the scholars it is also about the possibility of academic meriting, as both changes in the regulations and comprehensive regulations provide opportunities to scientific publication. The consultants have two roles. As investigators and experts in government investigations, they can influence the design of the regulatory framework. Once the regulations are established, they can work as consultants for the forest owners and guide them in how to meet the requirements of the regulations. Scholars can also act as experts in government investigations and later as experts in trials, but not so much towards forest owners.

5 Future research

This article has attempted to integrate the concept of green inside activists into the conceptual apparatus of public choice and concepts such as rent-seeking and regulatory capture. A simple model has been developed to analyze what effects the introduction of stricter regulation would have for various agents that would be affected. Some preliminary results are found but more research is needed, since the analysis is in an early stage. At this stage, we can at least point out several potentially interesting research questions.

- Generally, quantification is needed. Can we measure if regulations are becoming stricter, what should we measure? If it is becoming increasingly difficult to conduct forestry, the value on forest land should decrease. This should be possible to observe. However, one need to control for all other factors that also influence the price of forest land, as the cost of capital and the demand for wood-based products.
- Regulatory entrepreneurs would be interesting to study more closely. Is it possible to quantify the turnover of the industry? Another question is what scholars choose to study, an investigation into scholarly writing would be interesting. One could, e.g., measure how many papers that are in favor for stricter regulations and how many are in favor of liberalization of regulations. From our analysis, we should expect an overweight to papers favoring stricter and more complex regulations.

- It would be very interesting to investigate to what extent, and how, forest owners and environmentalists try to make agreements with each other (literally and metaphorically). The first step in such an investigation would be to examine the occurrence of such attempts. As previously mentioned, such attempts could consist of a voluntary and unilateral commitment to conduct less intensive forestry.
- There are several different ways that a change in forestry, towards a higher priority to ecological values, could be brought about. We have mentioned green inside activism and voluntary agreements but there are other possibilities as well. Although they may have the same ecological outcome, they have different consequences for the parties involved and they also differ from a democratic perspective. These similarities and differences would be interesting to examine in more detail.
- We found that several of the agents involved have an overlapping interest and therefore it would be interesting to investigate whether they cooperate to try to influence how the regulations are designed.
- Lastly, the model should be further developed. Is it correct to assume that the domestic forestry industry is a price taker? Is it possible to say something more precise about the shape of the demand and supply functions?

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