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Agents, captures, and consequences

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The industry of idealistic rent-seeking - agents, captures, and consequences¹²

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Division of Real Estate Science

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Abstract

Rent-seeking does not occur in an empty room, rent-seekers act within an institutional framework. Neither does this framework exist in an empty room, it rests on laws and regulations that are the result of action taken by a variety of agents.

When one agent takes steps to change the framework to benefit herself, she will also change the conditions for other agents, some for the better and some for the worse. Different rent-seekers may in this way co-operate, intentionally or accidentally. We label this weave of various rent-seekers with various motivations for the rent-seeking industry and sketch a model of how this industry works. We are particularly interested in changes to the institutional framework that facilitates rent-seeking. Who are the key agents in the change of the framework and what are their incentives? We are also interested in those affected, such as businesses subject to regulation that facilitates rent-seeking.

Keywords: Rent-seeking; Bureaucracy; ESG; Public Choice.

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1. Introduction

Rent seeking is a well-known and widely studied phenomenon and refers to individuals seeking to obtain personal benefits without providing anything of value (goods or services) to anyone else (Tullock, 1967) (Krueger, 1974) (Buchanan, Tollison, & Tullock, 1980) (Rowley, 2005). A vast majority of the research on rent-seeking has focused on rent-seekers who themselves can profit in some tangible way from their rent-seeking activities. The gain could be in the form of increased profits, wages, budgets or leisure (Niskanen, 1994) (Wyckoff, 1990). Most of those forms of gains could be measured in monetary terms, either directly or indirectly. However, not all rent-seeking results in tangible benefits, there are also those that we can label *ideologically motivated rent-seeking*. Ideologically motivated rent-seeking is like rent-seeking in general in that it results in preference fulfilment for the rent-seeker. It differs from rent-seeking in general in that it does not necessarily affect the rent-seeker in any tangible sense. The rent-seeker's gain might therefore be more difficult to measure, or even notice, when the motive is ideological rather than material. This paper is dedicated to the analysis of ideologically motivated rent-seeking and addresses several questions about the phenomenon.

In previous research, the author has studied ideologically motivated rent-seeking within the regulation of the forest industry, and the present paper builds on that research, with the aim of reaching both an increased generality and more detailed insights into the phenomenon (Bengtsson, Norén, Sjöstrand, & Treschow, 2021) (Bengtsson, 2024). Another important inspiration for this paper is recent work where ESG activities (Environmental, Social and Governmental) by stock companies are studied as ideologically motivated rent-seeking (Edwards, 2024) (Kidd & Mocsary, 2023) (Kidd & Mocsary, 2024). The author was struck by the similarity between a special interest promoting forestry methods that to a higher degree benefits biological diversity, and a special interest promoting that stock companies should fund various so-called social goods. The model developed in (Bengtsson, 2024), describing rent-seeking within forestry regulation should be able to generalize so that it can also describe rent-seeking ESG activities.

1.1. Purpose

The purpose of this paper is to elaborate the analysis of ideologically motivated rent-seeking, aiming to increase our knowledge of this subset of rent-seeking activity. Specifically, it involves elaborating on an analysis of ideological rent-seeking as a strategy and the economic consequences of this kind of rent-seeking activity. From this analysis, it is possible to address several questions about both the nature of and the consequences of ideologically motivated rent-seeking. Some of those questions will be addressed in the paper, most notably the questions of a) how we can interpret the monetary value of ideological preference fulfilment through the concept of opportunity cost, b) how to pinpoint key agents in the weave of ideologically motivated rent-seeking and c) how to contrast the strategy of ideologically motivated rent-seeking to alternative strategies.

1.2. Previous research

As already noted, this paper presents research within the tradition of public choice research on issues of rent-seeking. More specifically, it aims to elaborate on the subset of ideologically motivated rent-seeking and to this regard it builds on previous research on rent-seeking related to inside activism within forestry regulation (Bengtsson, 2024) (Bengtsson, Norén, Sjöstrand, & Treschow, 2021) and rent-seeking related to ESG activities in stock companies (Edwards, 2024)

(Kidd & Mocsary, 2024). Before we continue, a very brief note on inside activism and ESG activities.

A phenomenon that receives a growing interest, in the public debate and in academia, is activism pursued within authorities; public officials using 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. in forestry) that the value of biological diversity should take precedence over the value of production of wood products. In (Bengtsson, 2024), green inside activism is analyzed as a method for a green special interest to achieve a goal of changing the use of forest land in a direction towards greater focus on biological values relative production values. An analysis of the roles of various agents was developed as well as an analysis of the economic consequences of successful rent-seeking, using a graphical analysis of where the production surplus would go. The current paper will develop this analysis further, increasing its generality and elaborate in further detail on some aspects.

By ESG activities, we refer to activities taken by stock companies in relation to Environmental, Social and Governmental matters. ESG is a development on what was formerly called CSR – Corporate Social Responsibility. ESG activities can be to financially support various DEI-initiatives, where DEI is short for Diversity, Equity and Inclusion, or financially support initiatives for environmental sustainability. ESG activities should not be confused with measures companies implement to live up to society's demands on their operations, regarding, for example, the environment, equal treatment or workers' rights. The regular regulation of what companies are allowed to do sets limits within which the company must operate but is also free to act. ESG, on the other hand, stipulates that the company should contribute to other societal goals, in addition to the stock company's goal of maximizing the firm's own capital. This is an important distinction because ESG thereby opens the possibility for the management to work against multiple target variables, making it much more difficult to evaluate management's work. In (Kidd & Mocsary, 2024), it is argued that *“The enforcement mechanism that emerged to enforce the required behavior by management is the primary fiduciary duties owed by agents to their principals.”* It is further argued that there is an ongoing development leading to fiduciary duties losing some of its effectiveness as control mechanism on management and that the increasing focus on ESG matters supports that development.

[TBC: elaborate on ESG and previous research]

Outline

The rest of the paper is structured as follows. In Section 2, we will define the choice set faced by an individual, or a group of individuals, who desire a change in how a particular resource is used. From this choice set, we then describe the available strategies that can be applied to bring about the desired change in resource use. In section 3, we picture the model in which the analysis of economic consequences can be carried out. Finally, in section 4, we address the three specific questions that were mentioned in the purpose above.

2. Choices and strategies

Let us begin with the desire of an individual, or group of individuals, for something to be done. It may be the desire that the use of a piece of forest land should shift to the production of biological diversity rather than wood raw material, or it could be the desire for funding for a DEI project, or something else entirely. Simply a desire for a resource of some kind to be used differently than it is used today. There are many ways that this desire could be fulfilled and in the following we will structure different options according to some distinguishing characteristics. First, we distinguish market solutions from non-market solutions, in analogy with the original name of the public choice school, namely non-market decision-making. Then we explore the options in further detail, considering several other differences between various alternative paths to get one's desires fulfilled. Our focus will be on non-market solutions and only describe market solutions for reference and for providing us with an opportunity cost for the non-market solutions.

2.1. Market solutions

The market solution is simply to pay for the desired action to be taken, i.e. to engage in a market transaction. That could mean buying the piece of forest land or to enter a contract with the forest owner in which one financially compensates the owner for taking that piece of land out of production. Or in the case of a DEI-project it could mean raising the funds by oneself, either by one's own means or by inspiring other individuals to donate to the cause. A common denominator for market solutions is that all actions taken are voluntary and that all decisions about how a resource is to be used, be it real capital or money, are made unanimously. We do not have to worry about a majority running over a minority or a minority taking advantage of a majority.

The market transaction is carried out according to the law and nobody's rights are violated, and it is unproblematic in this respect. However, it is not necessarily efficient according to the Pareto or Kaldor-Hicks criteria. There could be an alternative use of a resource that would make at least someone better off without making anybody worse off. Due to transaction costs, not all such changes in resource use will take place.⁴ We could easily imagine a case where a sufficiently large number of people – each having a small willingness to pay for biological diversity being produced on a certain piece of forest land – could have a collective willingness to pay large enough to be able to persuade the forest owner to change the use of the land. Their ability to express their collective will is, however, hindered by transaction costs. Most notably, there are costs for finding out who the others are and for agreeing on what each one should pay, especially taking the option of free riding into consideration.⁵ In addition to questions of efficiency, we may disapprove of the market solution on grounds of fairness. According to certain fairness criteria, the current distribution of purchasing power could be seen as unfair and thus also the market solution.

To summarize on the market solution, buying a resource or contracting for a specific use of a resource is always an available option. The cost of the market solution is the market value of the

⁴ (Coase, The Nature of the Firm, 1937).

⁵ (Olson, 1965).

resource plus transaction costs, and all costs are borne by the decision maker.⁶ Furthermore, the market solution respects property rights, and no one's rights are violated by market transactions.

2.2. Non-market solutions

Non-market solutions come in many forms and to enhance our understanding we will try to categorize them according to some defining characteristics. But we start with some general characteristics of non-market solutions.

The first characteristic is valid for all non-market solutions and concerns voluntariness. Non-market solutions do not rest on voluntariness. A typical example of a non-market solution could be a service provided free of charge, or subsidized, by the public sector and financed through tax revenues. In essence, the consumers of the service would have their consumption funded involuntarily by the taxpayers. As individuals, the taxpayers' consent is not needed for the decision to fund the production of the service with tax revenues.

A second characteristic concerns how a certain production of a good or service is financed, if it is financed by taxpayers or by owners of specific resources. Let us use biological diversity in forests as an example. The government could tax the public and use the revenues to buy land from forest owners. The relation between the government and the taxpayers is not voluntary but the relation between the government and the landowners can be seen as voluntary or at least quasi-voluntary. By quasi-voluntary is meant when rules of expropriation are applied. In Sweden e.g., it would mean that landowners are compensated with a sum corresponding to 125 % of the market value of the land. At least it is the intention of the rules for expropriation that the expropriated should receive just compensation. Given that we accept the rules of expropriation as quasi-voluntary we can also accept them as non-violation of private property rights, i.e. that the production of biological diversity does not need a forced reallocation of property rights.⁷

An alternative way to achieve the same result of increased production of biological diversity rests, on the other hand, on a forced reallocation of property rights. The government, or some of its branches, could enforce new regulations that lead to similar results, e.g. by prohibiting forestry on a certain piece of land. The new regulations will in some cases be accompanied by a right to the landowners to receive compensation for the infringement on their property rights. When compensation is paid, it could be seen as quasi-voluntary as discussed above. When compensation is not paid, however, it is clearly a matter of an involuntary reallocation of rights.

A third characteristic concerns where the (non-market) decision is taken, at the political level or at the bureaucratic level. Continuing the example of modified regulations for forestry, we see that those modifications could be the result of new laws or other regulations decided on the political level, by congress or parliament. But it could also be the result of changes in the application of existing laws and regulations and decided on the bureaucratic level, by public officials at an authority. Following (Zupan, 2017), the former could be said to take place on the demand side of politics and the latter on the supply side of politics.

⁶ At least in the absence of external costs. External costs can arise when property rights are not fully defined or protected. External costs do not change the argument of the paper and for simplicity we will not consider them in the following analysis.

⁷ That is, no further redistribution beyond what is implicit in tax financing of public spending.

We conclude this section by observing that redistribution of wealth, in this context, can be achieved either by taxing citizens and using the proceeds on public spending or by introducing new regulations that change the institutional framework so that the meaning of private ownership changes. We should assume that the results with regard to efficiency and democratic legitimacy differ between those two approaches, and we will come back to this issue in the discussion.

2.3. Strategies

Having described the various ways a change in resource use can be brought about, we will now take the perspective of the individual or group of individuals – from now on depicted as *special interest* – that have a desire for the change to take place. Following the previous section, we will list which strategies are available to get the change done.⁸ We start by dividing them into three main groups.

- Market action
- Political action
- Bureaucratic action

Market action involves the special interest engaging in a transaction with the resource owner that results in the desired outcome. Political action means that the special interest persuades a political assembly to provide the desired change in resource use. Finally, bureaucratic action means that the special interest turns directly to the implementing authority to make the desired result happen. Next step for us is to list actions that the special interest could take to persuade the resource owner, the politicians or the bureaucrats to deliver the desired outcome.

To persuade the resource owner, the special interest would simply have to pay for the resource, either buy it and thus acquire full ownership rights to the resource or engage in a contract about the use of the resource that will result in the desired outcome.

To persuade the politics to act, the special interest needs to work on the demand side of politics and make politicians believe that it is in their interest to take the desired action, e.g. to change regulations or to use tax funds to the end desired by the special interest. The natural method for the special interest to persuade politicians is to get its members to use their vote. To cast a vote is equivalent to carrying out a transaction on the market. There are also complementary strategies, such as talking to local politicians, conducting public opinion work, participating in demonstrations, or participating in various types of opinion polls. The group and its members can also participate in political work directly. Another possibility is various types of lobbying, either directed at political parties or directly at individual politicians. As stated above, politics has two possibilities to satisfy the interest organization, either by allocating tax funds and acquiring the right to decide on the use of the resource or by changing the institutional framework for the resource, that is, changing the distribution of rights regarding the use of the resource.

To persuade bureaucrats to act is to work on the supply side of politics, to directly influence those who are implementing laws and regulations. This is a strategy that includes what has previously been labeled as inside activism (Bengtsson, 2024). Inside activism means that agents inside the bureaucracy act on their ideological beliefs and use whatever slack there are, to

⁸ A more elaborate description of the available strategies could be found in (Bengtsson, Norén, Sjöstrand, & Treschow, 2021), but only in Swedish.

interpret the regulation in a way that benefits their ideologically motivated cause.⁹ Outright corruption, such as bribes, is another way to persuade bureaucrats to implement regulations in the way the special interest desires.

In the next section, we will start picturing the model in which we can analyze the economic outcome from rent-seeking. We will focus on strategies that involve changes to the institutional framework, i.e. strategies that result in involuntary redistribution of property rights, either by changes to law or regulations or to the implementation of laws and regulations. At this stage, we need not distinguish between changes to the institutional framework arising from the political or the bureaucratic level.

[TBC: elaborate on how the different strategies work]

3. The struggle for the producer surplus

We start by assuming that the special interest is successful and that either the political level or the bureaucratic level introduce changes in regulations or implementation of regulations that in some way divert resources from ordinary production. It may be that new restrictive rules for forestry that increase production costs are introduced or, in the ESG-case, that ESG-spending by company management is encouraged by changes to company law that limit management's liability (fiduciary duties) towards shareholders. What are the likely effects? We would like to know how different agent/stakeholders are affected by the new conditions. The first step is to make a list of possible stakeholders. The second 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 surpluses, following Tullock's seminal analysis of the costs of monopoly (Tullock, 1967) (Tullock, 2005b) (Tullock, 2005c). Thereby, we hope to gain insights into the economic interest of various stakeholders.

3.1. Stakeholders

Below we list those who are affected by a change to the institutional framework that will increase production costs. The two main characters are the *resource owner* and the *special interest*. The basic conflict is about how a resource should be used, be it forest land, stock company equity or something else. The current owners would like to keep control over their uses while the special interest would like to use the resource in a different way. A third key stakeholder is what we call the *regulatory entrepreneur*, who helps the special interest to persuade politicians and bureaucrats and helps the resource owners to comply with the new institutional framework.¹⁰ Our focus will be on these three stakeholders, although several more are affected. We list them all below.

1. Resource owners

Here we find landowners and shareholders, and in general owners of private property. The value of their resources is the capitalized present value of future income from applying the resource to the production of their choice.

⁹ For the importance of "slack", cf. (Bengtsson, 2024) (Hysing & Olsson, 2018) (Zupan, 2017).

¹⁰ The regulatory entrepreneurs are quite similar to what in other contexts have been called political entrepreneurs (Henreksson & Sanandaji, 2012). Possibly they are indistinguishable.

2. Special interests

To the special interest we count those who desire a different use of a resource than the use that owners of the resource have chosen.

3. Regulatory entrepreneurs

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

4. Regulatory bureaucrats and politicians

Bureaucrats and politicians who get the change in regulations implemented are also stakeholders and can be influenced in different ways. A bureaucrat who acts as an inside activist gets his ideological preference satisfied, a corrupt bureaucrat or politician gains in monetary terms while a vote-maximizing politician gains in votes.

5. Sub-contractors and employees

Sub-contractors and employees have contractual relationships with the resource owners and the compensation they receive for their contribution to production makes up the production costs.

6. Consumers

Consumers buy and use the products that resource owners sell. There are consumers at several levels, from those who buy input products for their industrial processes to the end consumers who buy the final product.

7. Competitors

Under this heading, we find competitors to the studied production, who produce substitute products.

In what follows, we will focus on the stakeholders 1-3 and their struggle for the producer surplus. This is not to say that the role of and the consequences for the other stakeholders are not interesting, they are indeed necessary to account for if we want to analyze the possible dead weight loss. In this paper, however, we concentrate on the struggle for the producer surplus and leave out the stakeholders whose main interest is in production costs and consumer surplus.

3.2. The model

We start with a standard demand and supply figure and study who gets what part of the total benefit created by the production made possible from using the resources in question. Then we impose a change to regulation that increases production costs, and study once again who gets what part of the remaining benefit of the production and who stands to gain or lose from the new institutional setting. To keep it simple, we assume that the new regulation leads to an increase in production costs that is proportional to the quantity produced, i.e. a steeper supply curve. When it comes to forestry, it may be that a certain proportion of the forest land needs to be taken out of

production. In the case of ESG activities, it may be the case that a certain percentage of the profit goes to ESG activities.

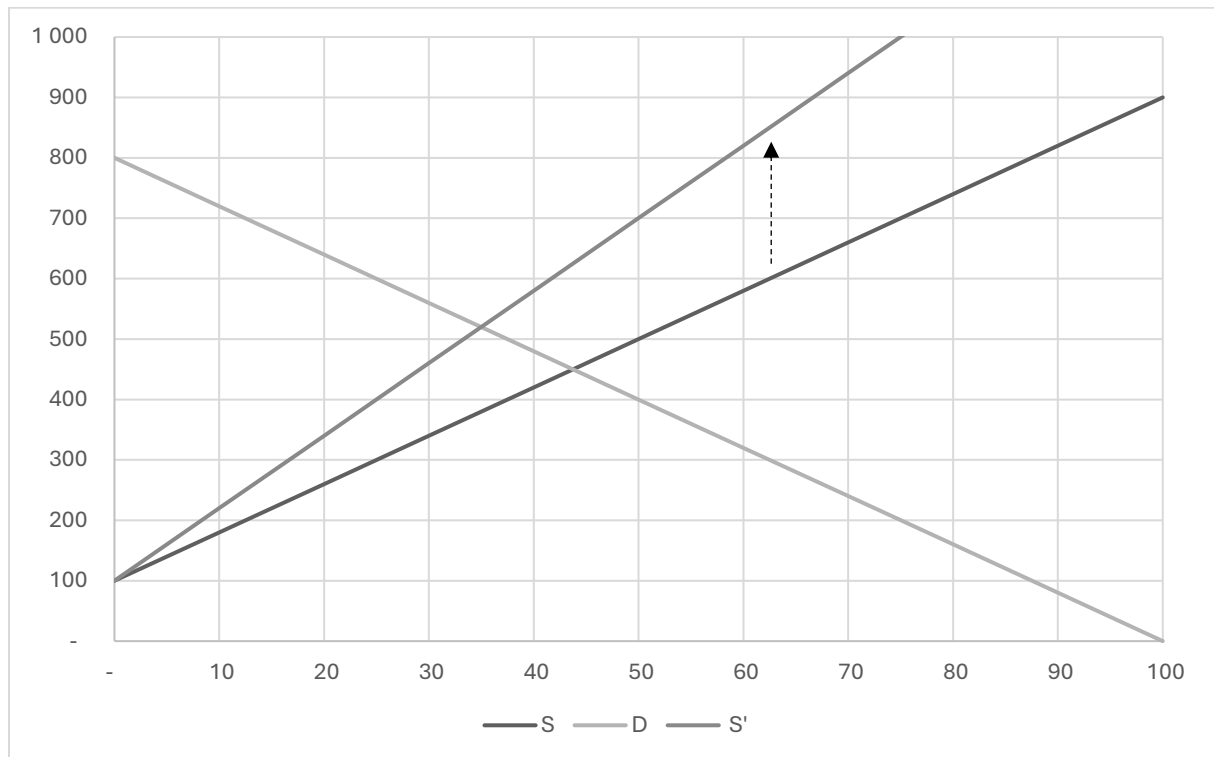


Figure 1: Demand and supply before and after the implementation of new regulations.

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

In figure 2, we study who receives what part of the total benefits from the production made possible from the initial use of the resource.

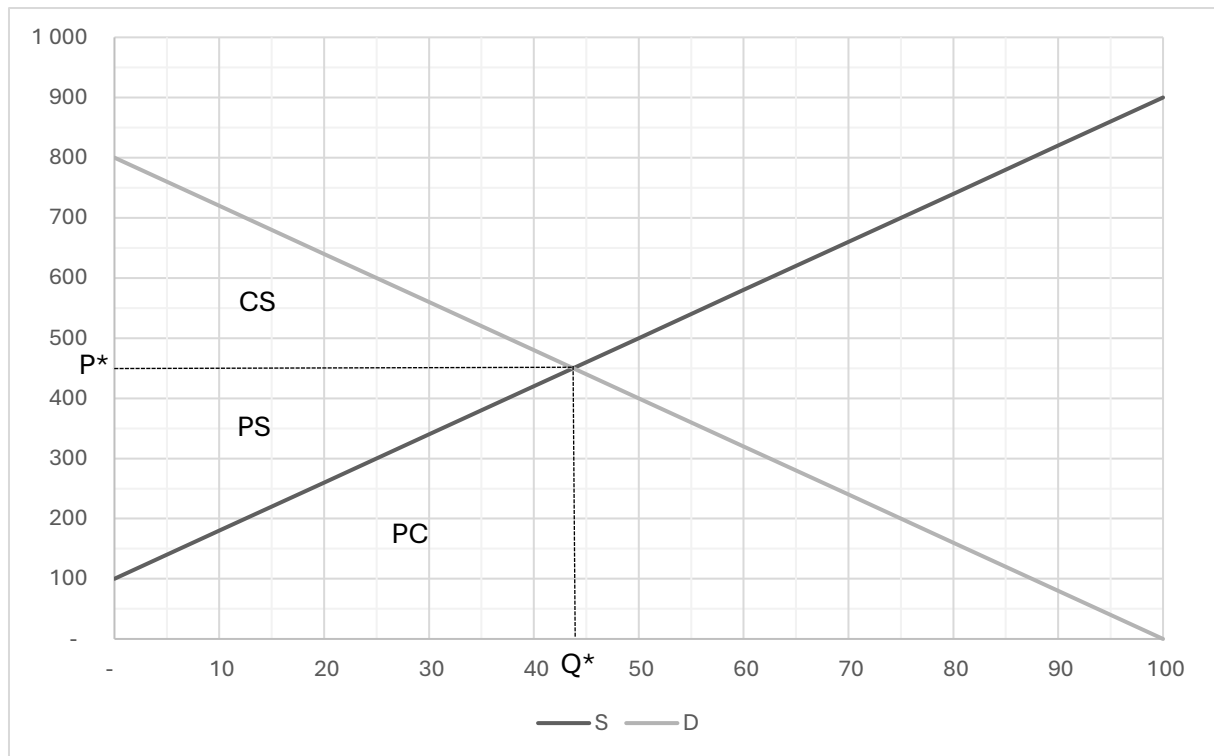


Figure 2: Initial allocation of consumer surplus, producer surplus and production costs.

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). The equilibrium price is 450 and the equilibrium quantity is 43,75. Consumers pay (PS+PC) and keep CS as their net benefit from consuming the products. Resource owners receive (PS+PC) and keep PS after having paid PC to subcontractors.

When new regulations are introduced, like S' in figure 1, we get a more complex picture, as described by figure 3 below. We assume that the producer is a price taker and that the market price therefore stays the same after the change in regulations. This is a natural assumption if the regulation affects an individual producer but might be questionable if the regulation increases production costs industry-wide. Nevertheless, competition from abroad or from substitute products might make the price taker assumption approximately valid even under those circumstances (Bengtsson, 2024).

In the figure, uppercase letters C, PC and PS and numbers 1-4 are used to denote areas while lowercase letters denote intersection of lines. Our interest is primarily in the shaded areas PS', 1 and 2.

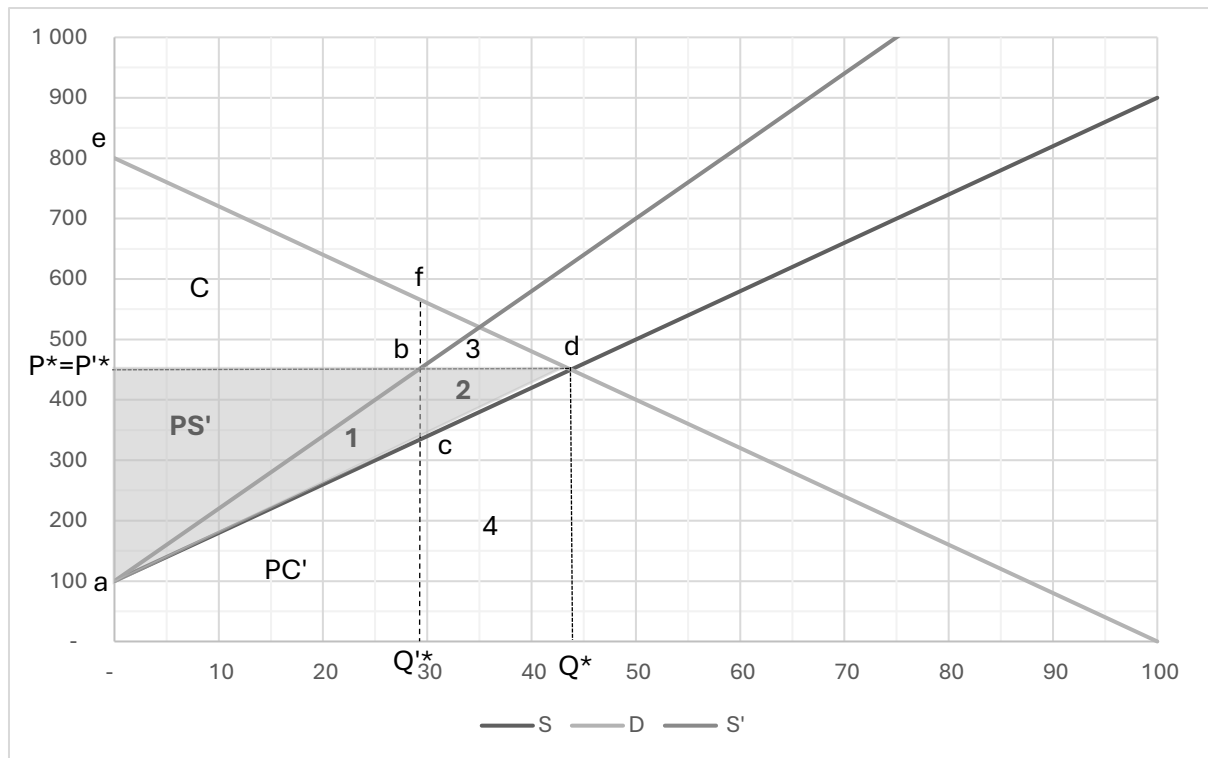


Figure 3: Allocation of surpluses and costs after new regulations are imposed.

The producer surplus PS is now divided between the remaining PC' ($a-P'^*-b$) and areas 1 ($a-b-c$) and 2 ($c-b-d$). Area 1 represents costs for complying with the new regulations and area 2 represents the producer surplus foregone because of the decrease in production and sales. The resource owner thus loses areas 1 and 2, but where do they go? If we did not assume the producer to be a price taker, area 2 would be part of the deadweight loss, while under the price taker assumption it would go to competitors to the regulated producer. But, as argued in (Bengtsson, 2024), area 2 could also be interpreted as *the opportunity cost from the perspective of the special interest*, when the aim for the special interest is to *decrease* current production. That is, it could be interpreted as the monetary value on the special interest's gain. However, this is not the case when the special interest's aim is to spend some of a company's own capital on ESG-activities. In this case, the special interest does not derive utility from the decrease in production as such. Rather, its gains lie within area 1. The interpretation of area 1 is also context-dependent. In the forest-regulation-case, it will be divided between regulatory entrepreneurs and subcontractors and employees. In the spending-own-capital-on-ESG-case, part of it will again go to regulatory entrepreneurs but will now be shared by the special interest. We assume that while some of the profits that are withdrawn from stockholders will be spent on the desired end, some of them will be lost in the process as transaction costs. Those transaction costs include funds used by management and spent on consultants and agents working to promote ESG-spending. With one word, we label those who financially profit from ESG-activities for the rent-seeking industry within ESG. Note that the beneficiaries of the ESG-activities are not themselves part of the rent-seeking industry, but beneficiaries of it.

An interesting observation is that resource owners lose more than the special interest gains. This means at least two things; there are other stakeholders who should be motivated to support the

special interest and there is a hypothetical case for a voluntary agreement between resource owners and special interest, which of course is associated with substantial transaction costs.¹¹

4. Discussion

We will now return to the three research questions mentioned in the purpose a) how we can interpret the monetary value of ideological preference fulfilment through the concept of opportunity cost, b) how to pinpoint key agents in the weave of ideologically motivated rent-seeking and c) how to contrast the strategy of ideologically motivated rent-seeking to alternative strategies.

4.1. The monetary value of ideological rent-seeking

In section 3.2., we argued that it is possible, in some cases, to measure in monetary terms the gains from ideologically motivated rent-seeking as the opportunity cost of entering a voluntary transaction with the resource owners. In figure 3, area 2 would represent the monetary value for the resource owner to produce ($Q'^* - Q^*$). We call it opportunity cost for the special interest because an alternative strategy to the strategy of rent-seeking would be to agree on a market transaction with the resource owner and simply buy the rights to the resources one likes to control. In the absence of transaction costs, the opportunity cost should be the present value of all future income from ordinary use of the resource. When the aim for the special interest is to take this resource out of production, this opportunity cost represents the monetary value of rent-seeking leading to said decrease in production. This is the case in the example of forestry-regulation analyzed in (Bengtsson, 2024). In terms of ESG spending, the purpose of the special interest is not to take resources out of production, but rather to use a portion of a company's profits for a specific purpose. The alternative market solution strategy would be to buy shares in the company and thereby acquire the right to a portion of its profits, i.e. the right to receive dividends. The dividends can then be used to fund the desired project. But since only a portion of area 1 would go to their desired use, the monetary value of rent-seeking is the capitalized present value of this portion of area 1. The second part of area 2 falls, as previously mentioned, to regulatory entrepreneurs who manage the transfer of profit from the owners to other uses.

What can we learn from this? First, it can help us understand when and why special interests chose rent-seeking as a strategy. The alternatives are to either buy control over the resources needed, or to persuade politicians to use tax funds to finance their desired project. Assuming that special interests act rationally, we can find at least two reasons for them to choose the rent-seeking strategy to bring about an institutional change that helps them take control of desired resources. If the opportunity cost is high, that is, if the resources they seek to control have a high market value, it would be difficult to raise sufficient funds to purchase it. It may be that the transfer of rights is not Kaldor-Hicks efficient and therefore impossible to implement in voluntary transactions. Even if it is Kaldor-Hicks efficient, they will run into the collective action problem with potentially huge transaction costs, making it inefficient due to these costs. The other route, via taxes, is difficult to pursue if their case does not have broad public support. Getting vote-maximizing politicians to finance their project with tax money is probably not feasible for a narrow interest. As is argued in (Kidd & Mocșary, 2024): *“Interest groups turn to non-democratic processes – representative legislative bodies, regulatory agencies and litigation – to achieve results because achieving preferred outcomes through democratic means is expensive and*

¹¹ For more on voluntary agreements and transaction costs, cf. (Bengtsson, 2024).

highly uncertain.” In summary, the special interest is motivated to follow the rent-seeking path if the stakes are high or if their cause has limited public support.

The second lesson is that we are able to discover who else, apart from the initiating agent, the special interest, stand to gain from successful rent-seeking. From Figure 3 we see that both competitors and what we call regulatory entrepreneurs gain from successful rent-seeking, leading to changes in the institutional framework that causes the formal resource owners to lose some of the rights in the bundle of rights that their ownership entails. The regulatory entrepreneurs, in particular, would be interesting to analyze more closely, as they both influence the process of institutional change and benefit from it. This brings us to the next question to discuss.

4.2. Key agents in the industry of ideologically motivated rent-seeking

Regulatory entrepreneurs are interesting. The more regulation and the more complex regulation, the better from their perspective. We find them mostly in the consulting industry and in academia. In the short term they benefit from any change in regulations, but in the long term they benefit from more comprehensive and 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 for scientific publication.

The consultants have dual roles. As investigators and experts in government investigations, they can influence the design of the regulatory framework by advising and proposing institutional changes. Once the new regulations are established, they can work as consultants for the resource owners and guide them in matters of compliance with the regulations. Scholars too, can perform dual roles, acting as experts in government investigations that lead to institutional changes and later as experts in trials.

Regulatory entrepreneurs form the core of the industry of ideologically motivated rent-seeking, as they directly benefit privately from it. In addition to consultants and scholars, more actors can also be counted in the industry. When it comes to ESG activities, for example, company management ends up in a key role as they carry out the transfer of resources from the shareholders to other purposes. We can assume that they would not do this if they did not personally benefit from it. In (Kidd & Mocsary, 2024), it is suggested that such a benefit may be about social status.

Regulatory entrepreneurs would be interesting to study more closely. Is it possible to quantify the turnover of the industry and possible growth over years? 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 of 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.

4.3. Societal consequences of ideological rent-seeking

In Section 2, we listed the strategies available to someone who wants a resource to be used in a different way. There is always the option of a market solution but in this paper, we focus on the various alternatives among the non-market solutions. While market solutions involve voluntary exchange of goods, services or money to an equal market value, non-market solutions involve

redistribution of wealth, which, in this context, can be achieved either by taxing citizens and using the proceeds on public spending or by introducing new regulations that change the institutional framework so that the meaning of private ownership changes. We should assume that the results regarding efficiency and democratic legitimacy differ between those two non-market solutions approaches, and we will briefly discuss those differences in the following.

Let us illustrate with an example and consider a special interest that desires increased spending on a specific project, say on social sustainability. The market solution would be to fund the project with the members' own money or to raise additional funds via voluntary contributions from the public. This would be an unproblematic solution since all funding would be voluntary. The two non-market solutions, however, are both potentially problematic but not in an identical way and we will examine them in more detail.

That a state redistributes wealth among its citizens is not an unusual phenomenon but a standard procedure in all welfare states. The interesting thing here is not primarily to discuss redistribution as such, but to compare different ways of carrying out the redistribution. It is probably safe to say that the typical redistributive solution involves taxing citizens and using the proceeds for public consumption or transfers. The problems surrounding efficiency and legitimacy that this solution entails have for a long time been extensively studied, not least within the public choice tradition [references]. We have one *principal - agent* relation between voters and politicians and another between politicians and bureaucrats. In both relationships we encounter problems with asymmetric information and the agent's ability to exploit the principal in one way or another. Nevertheless, the issues involved are reasonably transparent primarily because it has been thoroughly studied. The struggle to get vote-maximizing politicians to vote for one's cause is conducted relatively openly in most cases. This creates transparency and gives citizens some insight into the purposes for which their tax payments go.

The other non-market solution is not as extensively studied. Let us now consider the ESG route to fund the desired project on social sustainability. If a law or regulation is adopted that leads to company management getting greater room for maneuver in relation to shareholders, the practical consequences of this are significantly less transparent. There are several ambiguities. Firstly, we have the question of who is financing the project. Secondly, we have the question of what the funds are used for. While taxes are relatively straightforward to understand the burden of, it is not as straightforward to understand who exactly bears the financial burden when stock companies divert profits from the owners to fund the social sustainability project. In the same way, it is more difficult to understand for what purposes the funds are used, if you compare ESG financing with tax financing. Tax financing is used for publicly declared purposes that vote-maximizing politicians have an incentive to publicize, while management has at least partially an incentive to hide its diversion of profits from shareholders. In addition, there are stricter rules for publicizing the use of public funds than for private funds.

It seems that the *institutional slack* that facilitates for rent-seeking is considerably larger when "socially desirable" projects are financed privately through ESG-activities instead of publicly using tax funding.

Another interesting question concerns the incentives to use either route to achieve redistribution. As we already have argued above, you would think that if you have a case that is popular with the public, you would be inclined to try to convince vote-maximizing politicians to fund it with taxes. On the other hand, if you believe your cause is unpopular, you will prefer the less transparent route of diverting profits from private companies. It is not an easy path, as it first

requires changing laws or regulations and then convincing company management to invest in the desired project. But that type of rule change is of a technical nature and difficult for potential opponents to raise public opinion against. It is an approach that requires long-term planning but can be implemented without too much attention. We should therefore expect the approach to be used primarily by interests that do not have broad public support, since in those cases it would be easier to appeal to politicians that tax funds should be invested in the desired purpose.

To summarize the point about the societal consequences of ideologically motivated rent-seeking, let us end by pointing out three possible problems. First, the rent-seeking strategy should be assumed to attract interests that desire socio-economically inefficient and publicly unpopular redistributions of wealth. Therefore, we should not frame societal institutions in a way that facilitates such rent-seeking, and we should be suspicious of such activities when we encounter them. Second, lack of transparency in the use of private funds for societal goals means a high degree of institutional slack that can be exploited by rent-seekers. Partly by them who we call regulatory contractors, partly by company management. Thirdly, the lack of transparency in ESG investments risks leading to incorrect prioritization in choices between various social needs. Instead of democratically elected politicians, it is corporate management that decides on which purpose to support. There are several potential problems here, business leaders are less accustomed than politicians to prioritizing between different social needs, due to institutional slack they have the opportunity to benefit themselves, and due to the lack of transparency they are relatively easier for a rent-seeking special interest to influence.

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