

# HAS THE WAR BETWEEN THE RENT SEEKERS ESCALATED?

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In their 1991 paper in *Public Choice*, “The War between the Rent Seekers,” Richard Vedder and Lowell Gallaway develop and test a unique theory about the interactions between the levels of spending captured by rent-seeking interest groups. Their model hypothesizes that at low levels of government spending and/or political influence, interest groups complement each other. Multiple groups can simultaneously push for new taxes and higher levels of government spending that benefit all groups. They point to many states enacting new income taxes in the 1960s and 1970s as an example. In this part of the interaction, additional political pressure by one group results in the pie growing for all rent seekers.

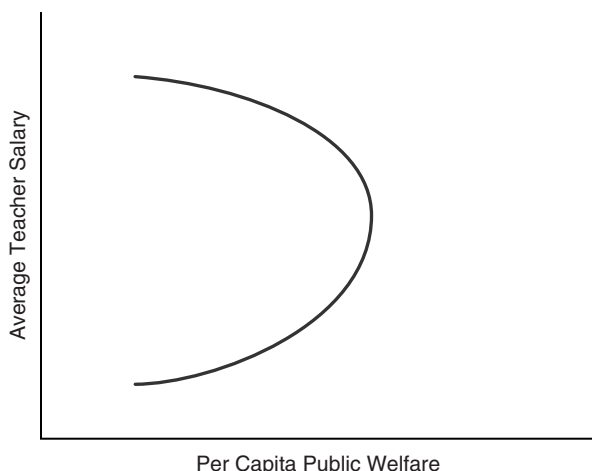
At some point, however, this relationship switches from complementarity and cooperation to conflict, competition, and a war between the groups over funding. In a Laffer-curve-type relationship, at some point revenue maximization occurs, new tax sources become satiated, and beyond that point a rent-seeking group can only gain at the expense of other groups. They depict their model graphically, and argue that the groups most well suited for testing the model are public school teachers and welfare recipients. We recreate their original graphical model in Figure 1, which illustrates that as

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FIGURE 1  
VEDDER-GALLAWAY CURVE FOR RENT-SEEKING BEHAVIOR



SOURCE: Authors' replication of Vedder and Gallaway (1991: 286).

public school teachers initially push for higher salaries, the pie expands and public welfare recipients also gain additional government spending. However, as school teachers continue to push for higher salaries, the positive relationship turns negative, and higher teacher salaries only come at the expense of funding and benefits for welfare recipients.<sup>1</sup>

Vedder and Gallaway empirically test their model using data for 1986 (or fiscal year 1985–86 where appropriate). They find strong support for their model:

The results suggest that beyond \$474.58 in per capita welfare spending, teacher salaries are negatively associated with increased public assistance expenditures; at lesser amounts, a positive relationship is observed. Five jurisdictions—New York, Massachusetts, Rhode Island, Alaska and the District of Columbia—had welfare spending in the negative range. In

<sup>1</sup>Vedder and Gallaway's theory is in stark contrast to Becker's (1983) theory in which the political influence of interest groups is basically a zero-sum game, and the nature of the competition between rent seekers is independent of the size of government.

those states, the evidence suggests that gains to welfare recipients occur in conjunction with income losses to teachers [Vedder and Gallaway 1991: 287].

They proceed to argue that because state and local government spending is growing through time, this Laffer-type relationship should be getting stronger through time, with more states moving into the upper portion where rent-seeking interest groups are at “war” with each other:

Since state and local government spending has been rising over time, not only in absolute real terms but also as a percent of personal income, it is possible that in earlier years the quadratic relationship observed above did not exist; no states had reached the point where rent-seeking had become a zero sum game for participants. To test this possibility, we replicated the model used in the table for 20 years earlier, the 1965–66 fiscal year [Vedder and Gallaway 1991: 287].

Indeed, using data from 20 years prior, they find that all states were on the lower portion and the relationship was positive and linear, suggesting that through time more states are moving into the negative upper portion of the figure:

The quadratic (competitive) relationship between teacher salaries and welfare payments seems generally to be a recent phenomenon, although it appears that the previous linear (cooperative) relationship has been weakening over the past generation [Vedder and Gallaway 1991: 288].

In the concluding section of their article, they predict that through time more states should move into this upper area of the relationship where rent-seeking interest groups are at war with each other:

In conclusion, it seems some states have experienced spending growth to the point where economic and political constraints on that growth have led to a situation where rent seekers can gain only at the expense of other rent seekers. As that fact becomes recognized, peaceful, cooperative political action between rent seeking groups that prevailed when such action resulted in a larger expenditure (rent) pool might give way to war between the rent seekers. If state and local

spending continues its relative growth, we would expect the war between rent seekers to spread to other jurisdictions [Vedder and Gallaway 1991: 288].

In this brief empirical note, we attempt to see if their prediction is correct by moving their model 20 years into the future, using the exact same data sources and model in the original article. Our results do indeed suggest that Vedder and Gallaway's (1991) prediction has come true. We now find roughly nine states, almost double the number in 1986, have moved into the upper range of the relationship.

## Empirical Model and Results

Vedder and Gallaway (1991) postulate a quadratic model as follows:

$$(1) R = a + bX - cX^2,$$

where  $R$  is the rent payment to one group (as measured by average teacher salaries, their base rent-seeking group), and  $X$  represents spending on other governmental expenditures. In practice, they argue, it is best to single out welfare spending, so they estimate a final model of the form:

$$(2) S_i = a + bP_i - cP_i^2 + dO_i - eO_i^2 + W_i + \varepsilon_i,$$

where  $S_i$  is the average public school teacher salary in state  $i$ ,  $P_i$  is public assistance spending per capita in state  $i$ ,  $O_i$  is other non-education, nonwelfare state and local government spending, and  $W_i$  is the average annual pay for all nonagricultural workers to control for variations in local labor market conditions. They estimate their model using data for 1986 using all 50 states and the District of Columbia. As mentioned previously, they also estimate their model for 20 years prior, 1966 for comparison, but find only a (positive) linear finding for 1966, and then predict that as government grows through time that more and more states will end up in situations where rent seekers are at war, taking from each other, on the upper portion of the curve.

We now have the advantage of being far enough into the future to test their prediction. That is, we can go 20 years into the future to see what has changed, if anything. We use data for 2006, to compare to their results for 1966 and 1986. Using data for 2006 not only has the

advantage of being the identical match of time as their 20-year gap, but it also allows us to estimate the relationship without the recent Great Recession clouding our results. A final advantage is that we can use their same data sources (i.e., National Center for Education Statistics 2007 and U.S. Census Bureau 2010).

The results are presented in Table 1, and a column showing Vedder and Gallaway's original results for 1986 is also included. The

TABLE 1  
DETERMINANTS OF AVERAGE TEACHER SALARIES BY STATE

Variable	Dependent Variable: Average Teacher Salary		
	1986 from Vedder and Gallaway (1991)	2006 update	
	Coefficient (absolute t-statistic)		
Constant	-1,878.494 (0.665)	-6,190.420 (1.055)	-6,255.220 (1.456)
Welfare ( $P$ )	18.034*** (2.765)	22.565*** (6.488)	22.523*** (5.988)
Welfare Squared ( $P^2$ )	-0.019** (2.309)	-0.007*** (6.693)	-0.007*** (6.924)
Other ( $O$ )	3.876*** (2.859)	0.605 (0.218)	0.660 (1.261)
Other Squared ( $O^2$ )	-0.000* (1.862)	0.000 (0.021)	—
Wage ( $W$ )	0.957*** (6.960)	0.865*** (9.140)	0.864*** (10.910)
R <sup>2</sup>	0.859	0.764	0.764
F-statistic	62.158	88.349	106.258

NOTES: The results for 1986 are taken directly from Vedder and Gallaway (1991: 287); absolute t-statistics in parentheses. Their original results only contain three decimal places, and this format was continued. The model was estimated using heteroskedasticity-robust standard errors. \* indicates significance at the 10 percent level, \*\* at the 5 percent level, and \*\*\* at the 1 percent level.

results for 2006 seem to clearly support their prediction that the quadratic relationship between education and welfare is now stronger. The quadratic relationship with other spending, however, is not present as it was in the main results in Vedder and Gallaway (1991). In other specifications in their article, however, Vedder and Gallaway find the relationship with other spending to be weaker as well and actually omit it in order to see how it affects the primary relationship between average teacher salary and welfare spending per capita. Thus, we also show the results both with and without the quadratic (squared) term on other spending. The main relationship between teacher salaries and welfare payments is unaffected by whether this variable is omitted or included.

Their original results suggested that in 1986, beyond \$474.58 in per capita welfare spending, teacher salaries are negatively associated with increased public assistance expenditures (and below that value a positive relationship existed).<sup>2</sup> They find that five jurisdictions were in the negative range: New York, Massachusetts, Rhode Island, Alaska, and the District of Columbia. Our updated results for 2006 suggest a value of \$1,617 (\$879 in 1986 dollars).<sup>3</sup> In 2006, there are now nine states above this level. In addition to the five original states and District of Columbia from Vedder and Gallaway (1991), Maine, Vermont, Minnesota, and Pennsylvania have joined the list. It is interesting to note that in their 1991 article, they mentioned that Minnesota was one of the few states close to, but just below, the threshold. We have two states within 10 percent of our threshold: New Mexico and Delaware.

## Conclusion

In “The War between the Rent Seekers,” Richard Vedder and Lowell Gallaway (1991) develop and test a unique theory about the interactions between rent-seeking interest groups. In the conclusion of their article, they make a bold prediction about the future: “If state and local spending continues its relative growth, we would expect the war between rent seekers to spread to other

<sup>2</sup>Using the CPI, in 2006 dollars, their value of \$474.58 would become \$872.95.

<sup>3</sup>It is unclear why the threshold has risen in real terms over time beyond the fact that incomes have also risen and so the amount of revenue raised for any given tax rate has increased.

jurisdictions” (1991: 288). By this they meant more states entering the backward-bending portion of their hypothesized Laffer-type relationship.

Our results strongly suggest they were right. The number of states where rent seekers are now at war has approximately doubled, from five to nine, with two more states nearing the threshold. While the theory of their article is about rent seeking, their empirics focused on teachers and those receiving public assistance. While not a focus of our empirical note, further research should examine whether new implicit battles have broken out between interest groups. For example, the rise in public health care expenditures at the state level seems to have coincided with a decline in state appropriations to higher education in many states.

## References

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