Rents, Rent-seeking and Economic Development: An Introduction

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The rapid economic development of a number of Asian countries over the past three decades lulled many observers into taking excessively complacent positions about the new "emerging markets". The financial crisis of the late nineties, which brought this period of growth to a temporary halt, resulted in an equally dramatic change of mood about the prospects of these countries. Led by the IMF and many academics, there was a widespread feeling that rent-seeking and corruption underpinned the crisis, and that without uprooting the institutional structure of "crony capitalism", the prospects for the region were dim. The period as a whole thus provides a rich source of evidence with which to examine the role of rent-seeking in economic development. How important have corruption, patronage, lobbying and kickbacks been in developing countries? Have they been responsible for slow growth or the reverse? What determines the magnitude and effects of different types of rents, of corruption and of patron-client exchanges? How did Asian countries grow so rapidly in the eighties despite an apparently widespread problem with rent-seeking? To answer these questions, we start by examining theoretical models and asking how they need to be amended and extended. Corruption, clientelism and other forms of rent-seeking were widespread during Asia's high growth period and it is this experience which most of our case studies address. Understanding the role of rent-seeking in the period of growth is critical for assessing the adequacy of explanations of the subsequent crisis in terms of crony capitalism which many commentators were quick to offer *ex post*. The main thrust of our story is that rent-seeking was, and is, endemic in both developing and developed countries. The difference is that in developing countries the rent-seeking can be more extensive, can include illegal forms and is more often damaging for growth. At the same time, many types of rents and rent-seeking played a key role in processes of development and are likely to do so again in the future. Understanding this paradox is of great importance for policy-makers.

The book is aimed at audiences across the social sciences, in particular, economists, political scientists, development professionals and political economists. The inter-disciplinary approach was motivated by a convergence in the types of questions being asked and the types of explanatory variables being identified across social science disciplines to explain related phenomena. We feel very strongly that further progress is contingent on active cross-fertilization across disciplinary frontiers. The authors contributing to this book are economists and political scientists working on the effects of rent-seeking, corruption and patron-client exchanges. But rather than being a collection of pieces addressing similar questions in different disciplines, the authors have addressed this interdisciplinary audience. In addition, the book is distinctive in that all our authors have regional specializations in one or more of the Asian countries discussed. As a result, our theoretical questions have been motivated by historical observations to a much greater extent than is typical in the analytical literature.

Chapters 1 and 2 provide an overview and critical extension of the analysis of rents and rent-seeking. The mainstream economic analysis is shown to be far too narrow. Advances in information economics, institutional economics as well as insights from classical political economy are used to extend and amend the standard model to make it more appropriate for analysing the historical evidence. Chapters 3 to 8 address the experience of rent-seeking, corruption and related processes in a number of Asian countries. These chapters are interesting in their own right as an analysis of rent-seeking in these countries, but in addition, they also test the validity of the narrow rent-seeking framework and our claim that this framework has to be radically amended and extended.

The mainstream analytical framework used for analysing rent-seeking has a) focussed on some very specific *types* of rents and b) assumed very specific political and institutional conditions under which rent-seeking (the competition over rents) takes place. There are two possible responses to the limitations of these theories. One is to abandon the rent-seeking framework altogether and to derive analytical generalizations about the effects of processes like corruption and patronage from the empirical evidence. This approach is often adopted by critical political scientists. The other is to preserve the over-arching analytical framework of the rent-seeking approach but to extend the range of rents and types of rent-seeking which are analysed. These two approaches are actually complementary because if the rent-seeking model is to be extended, it has to incorporate the insights coming from political science and political economy.

Chapter 1 shows that while many rents are harmful for developing countries, others are essential for both efficiency and growth. As a result, Chapter 2 shows that the rent-seeking which seeks to preserve or destroy particular rents can be growth-promoting or growth-retarding depending on the circumstances. To have an effective analytical approach to rent-seeking we need to look not only at the determinants of the *rent-seeking cost* but also at the determinants of the *types of rents* which are being created or preserved. Since institutional change almost always involves the creation or destruction of rents, and since distributive conflicts can also be described as conflicts over rents, rent-seeking *can* provide an overarching framework for examining many questions which have concerned institutional economics and political economy. By drawing on the insights of these disciplines, we see that the outcomes of rent-seeking must also depend on institutional and political variables. Although conventional rent-seeking theories have not significantly borrowed from these disciplines, the first two chapters show that an analysis of political and institutional variables is essential for making sense of rent-seeking in the real world. Chapters 3 to 8 provide detailed case studies of rent-seeking processes in a number of Asian countries. The experience of the Philippines, Thailand, Malaysia and Indonesia receive particular attention. The theory chapters draw on the experience of South Korea and the Indian subcontinent as well. Each of these chapters focusses on particular economic, political and institutional variables which the authors think are essential for explaining the effects of rent-seeking in their country.

The economic theory in chapters 1 and 2 aims to be accessible to social scientists with an interest in economics. But as these chapters also challenge the standard rent-seeking model by incorporating results from institutional economics and political economy, they will be of interest to economists as well. Similarly, the case studies in chapters 3 to 8 should be of interest to both economists working on rent-seeking and to political scientists and area specialists with an interest in these countries. In addition, graduate students and advanced undergraduates across the social science disciplines are likely to find the book useful for its critical development of the theory of rent-seeking and as a source of case-studies of rent-seeking in Asian countries.

The Asian financial crisis of the late nineties intensified the debate over how governance structures and political processes need to be reformed in developing countries. The contributors to this volume ask how substantial rent-seeking could have co-existed with high growth for so long, indeed how rent-seeking appears to have driven growth in some cases. Our authors suggest that rent-seeking describes a wide range of processes which are sometimes critical for growth and sometimes severely growth-retarding. The link between crony-capitalism and the financial crisis which was frequently made in the aftermath of the 1997 crisis seemed compelling at the time, but was certainly too simplistic in view of the longer historical record. The significance our authors attach to the financial crisis for the analysis of rent-seeking varies. The consensus, rather, is that a policy response to rent-seeking cannot be developed by looking at the financial crisis in isolation. Looking at the rent-seeking process historically confirms the need for a more sophisticated analysis if future policy responses are to be appropriate.

The longer-term Asian experiences which this book draws on challenge many of the established models of the effects of corruption and rent-seeking. Corruption, patron-client exchanges and other forms of rent-seeking have been rife in many of these countries. All of them have also had periodic ups and downs, but more interesting is the variation in their *long-run* performance. In many cases long-run performance has been dramatic, in other cases quite poor. It has ranged from the relatively poor performance of the Indian subcontinent and the Philippines to the very high growth rates of North East Asian countries, such as South Korea. Most South East Asian countries, such as Indonesia, Malaysia and Thailand, fall somewhere in between. Even allowing for other factors explaining differences in growth rates, this range of experience raises questions about the adequacy of the standard economic models of rent-seeking.

Not only is there no simple correlation between the *extent* of rent-seeking and long-run economic performance, there was also little correlation between the intensity of rent-seeking and the country's vulnerability to the financial crisis of 1997. Chapter 2, in particular, looks at the analytical implications of these puzzles. With comparable amounts of rent-seeking and corruption, many East and South-East Asian countries did significantly better than the South Asian countries of the Indian subcontinent. Moreover, while corruption increased much more rapidly in the nineties in the Indian subcontinental countries, the financial crisis hit only the South-East Asian countries with ferocious severity. Clearly, the interaction of short-term capital flows, problems of political legitimacy as well as problems related to some *types* of rent-seeking produced a particularly severe crisis in some Asian countries. But it is also important to understand rent-seeking as a longer-term process, with implications and effects which should not be read off from a single shock.

Comparisons of the extent of rent-seeking and corruption across countries are, to say the least, not a precise science. The contributions to this volume are a response to the observation that corruption and political transfers have been significant in virtually all Asian countries. They challenge the interpretation, widely shared amongst policy-makers, that developmental success is related to the *absence* of rent-seeking and the conditions which give rise to it. A common theme running through the contributions in this volume is that this view is unrealistic. The effects of extensive corruption, clientelism and other forms of rent-seeking *differ* across countries, and the analytical task is to identity the determinants of these differences. By examining rent-seeking processes in greater detail, the volume questions many widely-held conceptions about rent-seeking which have gained uncritical currency. The next three sections summarize, in turn, a number of issues in our discussion of rent-seeking, corruption and patron-client exchanges which recur throughout the book. The fourth section provides a plan for the subsequent chapters and provides an outline of the main arguments.

1. Rents and Rent-Seeking

The term *rent* is used to describe (not always very precisely) incomes which are above normal in some sense. But what is a “normal” return? Often the benchmark used is the income which an individual or a firm would have received in a *competitive* market. But since the competitive market of theory does not usually exist, a more useful definition is an income which is higher than the minimum which an individual or firm would have accepted given alternative opportunities. However defined, a moment's reflection should tell us that a very wide range of critically important real-world incomes have the character of rents. Rents include not just monopoly profits, but also subsidies and transfers organized through the political mechanism, illegal transfers organized by private mafias, short-term super-profits made by innovators before competitors imitate their innovations and so on. Some rents are legal while others can be illegal. Some, such as monopoly rents, may signal inefficiency, others, such as rents for innovators, subsidies to infant industries or the rents earned by owners of scarce natural resources, *may* signal either efficiency or the successful exploitation of growth opportunities. The wide range of incomes which have the character of rents raises questions about the usefulness of the term. A broad definition does have the advantage of allowing us to focus on common features relevant for an analysis of all rents. On the other hand, differences between rents are also very important, as we will see in Chapter 1.

Since rents loosely represent incomes which are higher than would otherwise have been earned, they create incentives to create and maintain these rents. These activities can range from bribing or even coercion at one extreme, to perfectly legal political activities such as lobbying or advertising at the other. Collectively, these activities are known as *rent-seeking* activities, and they raise a further set of questions. Rent-seeking can be broadly interpreted as activities which seek to create, maintain or change the rights and institutions on which particular rents are based. However, once we define rent-seeking in this way we see that rent-seeking describes a significant part of social activity. This is because almost all institutional change involves creating or destroying rents and almost all distributive conflicts can be described as conflicts where one or both sides are seeking rents. Thus, much of the subject matter of institutional economics and political economy can inform a broader and more encompassing rent-seeking approach. If we take this route, the rent-seeking approach can provide a framework for incorporating theories of institutional change as well as the political economy of distributive conflicts. It can also provide a framework for incorporating the insights of theories of state performance.

The encompassing approach to rent-seeking suggested in the last paragraph is a far cry from early rent-seeking theory. Rent-seeking theories were initially constructed by liberal economists who wished to show that state intervention induced additional rent-seeking costs by artificially creating rents (Krueger 1974; Posner 1975; Buchanan 1980). These arguments were meant to strengthen the case for free markets where, in theory, no-one would earn any rents. While other economists challenged these conclusions, their responses in turn enriched the rent-seeking literature (Mueller 1989: 229-46). Statist economists supporting intervention had to explain how the damage due to rent-seeking could be limited by interventionist states. The use of the rent-seeking framework to reach widely different conclusions by competing schools shows that the rent-seeking approach can only have relevance if it makes explicit the institutional and political assumptions on which radically different conclusions can be based. Chapter 2 lays the foundations for such an extended approach to rent-seeking.

Like rents, rent-seeking can refer to a wide range of expenditures and activities. And as with rents, the broad scope of what can be incorporated within the rent-seeking framework can be a strength if used properly but a serious weakness if used loosely and without refinement. Chapter 2 discusses the variables and conditions which can determine whether rent-seeking is value-enhancing or value-reducing for society. The framework is then used to compare rent-seeking processes in the Indian subcontinent, South Korea, Malaysia and Thailand. The chapter brings together approaches developed quite separately by economists and political scientists, and shows how they may be integrated in a broadly defined political economy framework.

There is clearly an overlap between rent-seeking and processes such as corruption and patron-client exchanges which have long attracted the attention of political scientists. The resources spent on corruption, or spent within patron-client networks, are sometimes (but not always) expended to capture rents. If so, these expenditures too are variants of rent-seeking. This has led to fruitful exchanges between political scientists who have studied different types of corruption and patron-client exchanges, and economists who have been interested in incentive structures and their implications.

While the rent-seeking argument was initially developed within neoclassical economics, it has striking similarities with the analysis of unproductive activities in classical political economy. The classical concern was that some activities used up resources as inputs without adding to the net value of the outputs produced. For Adam Smith the service sector was unproductive in this sense, while for Marx it was a number of sectors including the financial sector (Boss 1990). The sectors identified as unproductive by the classical economists were too broadly defined, but their analytical concern has been rediscovered by modern economists. In much the same way, the rent-seeking literature has identified sets of activities which are unproductive. These are typically "political" activities which seek to protect, maintain or change rent-generating rights. Nevertheless, the problem of determining which of these activities is unproductive is very similar to the classical problem. Just as some service sector or finance sector activities can add to net value even though they use up inputs, some rent-seeking activities can add to net value even after allowing for the cost of the inputs they use up. This is because some rent-seeking may be about creating or protecting "useful" rents. This possibility makes the analysis of rent-seeking much more challenging, and also much more policy relevant.

Despite the growing sophistication of the rent-seeking analysis, the mainstream policy discussion is often based on the earliest and simplest models. These early models assumed that rent-seeking entailed large wasteful expenditures to create or protect value-reducing rents. If rents are always value-reducing and if the effects of rent-seeking are also negative, rent-seeking must, on the whole, have seriously bad effects. Not surprisingly, the rent-seeking models used in policy prescriptions generally predict that the existence of rents will result in inefficiency and low growth. This policy consensus is strengthened by an overwhelming but partial set of observations from low growth economies in Asia and Africa. The evidence is drawn from countries which suffered from substantial amounts of rent-seeking and were poor economic performers. The conclusion that rent-seeking is a major cause of poor performance is based on this evidence.

This is why the East Asian, and more recently, the South East Asian experiences are important. They suggest a more complex story about the efficiency and growth implications of rents and rent-seeking. They show, first, that the simplifying assumption that all rents are always bad is questionable. In a world where learning and innovation have to be rewarded, distributive conflicts dealt with, where incentives have to be created to deal with asymmetric information and where scarce natural resources have to be conserved, many types of rents are socially desirable. While many of these rents are recognised as useful in neoclassical theory, redistributive transfers have not been adequately analysed within the mainstream economics tradition. Redistribution is often involved in "creating" the concentrations of wealth on which capitalism is based and may also be essential for maintaining the social order necessary for growth. On the other hand, some redistributive rents can be particularly damaging in developing countries. The theoretical challenge is to identify the conditions which determine whether value-enhancing or value-reducing rents are created and the magnitude of the rent-seeking cost.

2. Corruption

The study of corruption has a parallel literature with obvious overlaps with the literature on rents. The interest in corruption as a factor affecting development has a long history (Heidenheimer et. al. 1997 provides a collection of some of the classic articles). Corruption is usually defined as the transgression of formal rules governing the allocation of public resources by officials in response to offers of financial gain or political support (for a discussion of alternative definitions of corruption, see Nye 1967 and Khan 1996b). From the outset, this literature too has been concerned with whether corruption could be beneficial and under what circumstances. In an early contribution, Leff (1964) argued that corruption could have beneficial effects in developing countries suffering from oppressive state intervention. By allowing entrepreneurs to side-step restrictive rules, corruption could induce faster growth and higher efficiency. This perspective has become increasingly unpopular as the evidence of beneficial corruption has been very scarce. In the African countries which Leff was interested in, the beneficial effects of corruption have been least apparent.

In contrast, Myrdal (1968) argued that the possibility of corruption may induce bureaucrats to deliberately introduce legislation which created new obstacles. Myrdal's argument anticipated the early rent-seeking literature of the seventies and eighties. The possibility of taking bribes could create incentives to *seek* bribes by creating new restrictions. Bureaucrats and politicians could be creating new hurdles to maximize their bribe take. While this qualifies Leff's argument, it does not necessarily overturn it. If some rents are socially useful, one can imagine circumstances under which a bribe-seeking bureaucracy could increase growth by creating value-increasing rents to collect bribes. Indeed, when one looks at the few examples of successful developmental states in the second half of the twentieth century, one finds that most of them were also very corrupt. Explaining the differences in the effects of corruption in different countries is thus closely related to our suggested extension of the rent-seeking framework to take into account differences between types of rents and rent-seeking processes.

The modern economics literature on corruption also includes a parallel literature which looks at how institutional and incentive structures can determine the magnitude and effects of corruption (Rose-Ackerman 1978; Shleifer and Vishny 1993; Bardhan 1997). These authors share with the rent-seeking school an interest in modelling the incentives which determine the extent of expenditures on corrupt transactions. As in the rent-seeking models, the key questions are: what determines the magnitude of the rent-seeking expenditures (in this case bribes), and whether the corruption results in value-enhancing outcomes (as in Leff's argument) or the reverse (as in Myrdal). Shleifer and Vishny's (1993) contribution is particularly important because it suggests that states with a very centralized institutional structure and those with a very decentralized institutional structure may suffer less from the damaging effects of corruption than states with an intermediate level of institutional centralization.

The interest in corruption has increased as Cold War alliances no longer protect developing country governments from scrutiny. In addition, a number of econometric studies have shown the negative effects of corruption using subjective corruption indices as explanatory variables (Ades and Di Tella 1996; World Bank 1997). Correlations of these corruption indices with development indicators such as investment and growth rates tend to show that corruption has a negative effect on development (for instance, Mauro 1996). While providing useful empirical results, these regression results have to be interpreted with care, and we would argue they are not a substitute for historical analysis.

The regression approach assumes that there is an underlying invariant relationship between the degree of corruption and economic performance. Corruption across countries in these studies is measured in terms of the subjective assessments of international businessmen. These subjective estimates raise problems of objectivity and comparability which are fairly serious (Khan 1999a; 1999b). They do not distinguish between corruption per transaction and total corruption, between economic and political corruption and businessmen may subjectively assess corruption to be less serious if the system works and they are making large profits. Leaving these measurement issues aside, the econometric approach has a more serious problem. The regression results are based on comparing countries to see if more corrupt countries are, *on average*, doing better or worse. In general, they find that more corrupt countries do perform less well. But suppose that high levels of corruption are associated with low growth in some countries, but with high and sometimes *very* high growth in other countries. In this case the relationship picked up in the cross-section regression may depend on the selection of corrupt countries in each category.

The first and most numerous group of countries in any sample is likely to consist of developing countries, most of which have, by and large, not done too well in terms of development over the last three decades. Most are very corrupt, and the corruption seems to have had very damaging effects on growth. But there is a second and smaller group of developing countries where growth has been very high despite the presence of substantial corruption. But these countries are few in number simply because very few countries have been successful developers. Finally, there is a third group of relatively more advanced countries where corruption is low and economic growth is moderate.

It follows that in a cross-section study, the second very important group is typically swamped out as a set of outliers because of their small numbers (though not necessarily their population size or significance in terms of what we can learn about development). The strong negative relationship picked up between corruption and low growth is then effectively based on a comparison of the first and third groups. This book concentrates on the countries within the critically important second group, many of which happen to be in Asia. It compares them with each other and with the less dynamic Asian countries in the first group. A case study approach is used to understand the mechanisms through which corruption and other forms of rent-seeking can affect growth *differently* in different countries. If we are right, it makes no sense to conclude, as the regression analysis does, that a one per cent reduction in corruption will result in an x per cent increase in the growth rate, *irrespective of the country*. Finally, the direction of causation is not revealed by correlation. In the long run, development and social maturity are very likely to result in declining corruption but this does not mean that reducing corruption by any means right now will increase growth rates (Khan 1999a; 1999b). We believe that the case study approach is important to complement and challenge some of the effects of corruption identified by regression analysis which now widely influence policy-making. This is not so as to condone corruption, or to suggest that it can be "useful" in the way Leff did, but to come up with a better understanding of developmental processes and policy responses which may actually work.

3. Patron-Client Exchanges

Patron-client exchanges are another set of transactions which overlap with both rent-seeking and corruption. Patron-client relationships are repeated relationships of exchange between specific patrons and their clients. A number of features distinguish patron-client exchanges from other types of exchange. First, such exchanges are usually personalized. They involve an identifiable patron and identifiable clients. While there is always some freedom of entry and exit, entry and exit from patron-client networks is considerably less frequent compared to normal market transactions. Secondly, the exchange is between two distinct *types* of agents, distinguished either by status, power or other characteristics (Landé 1977). Typically, the superior member is called the patron and the inferior member the client. Nevertheless, the power or status of the patron can vary across a broad range, and these differences may be important for understanding the types of exchanges taking place within different patron-client networks (Khan 1996a; 1996b).

When patron-client exchanges overlap with rent-seeking or corruption, an examination of the patron-client networks can give us important additional information about the types of transactions going on. Several authors in this volume have examined patron-client networks in particular countries and have suggested different mechanisms through which the type of patron-client network may explain features of the rent-seeking or corruption going on. In Chapter 2, Khan argues that both the magnitude of rent-seeking expenditures and the types of rights created through rent-seeking can depend on the distribution of power within patron-client networks. In their chapter on rent-seeking in Thailand, Doner and Ramsay argue that the structure of patron-client networks can determine the degree of competition in the market between competing networks. The more competition there is between such networks, the more difficult it is to keep out new entrants, with important implications for market outcomes. Hutchcroft in his chapter on the Philippines looks at the degree of consonance or dissonance between the power structures within patron-client networks and the formal authority structures of bureaucratic institutions. The closer the overlap, the more likely it is that bureaucratic structures will be able to implement coherent and predictable decisions efficiently and at low cost, and vice versa.

While all our authors agree about the importance of patron-client networks, there are differences in the way in which these insights are incorporated in the analysis of rent-seeking. Hutchcroft points out that the analysis of power, which is the hallmark of the analysis of patron-client networks, is typically by-passed in the standard rent-seeking model used by economists. His response to the shortcomings of the narrow approach to rent-seeking in traditional economics is to overlay this with a parallel analysis of patron-client networks. On the other hand, Khan incorporates the patron-client analysis into an extended analysis of rent-seeking. These positions are ultimately complementary as all our authors agree that the narrow interpretation and analysis of rent-seeking found in conventional economic approaches is not very useful for making sense of the experiences of rent-seeking and corruption in these countries. They also agree that the insights which the patron-client approach provides are critical for an analysis of the processes of corruption, transfers and intervention which have characterized Asian development.

4. An Outline of the Chapters

The book roughly divides into a first part consisting of the first two chapters which deal largely with theoretical and analytical issues and the next six chapters which are case studies of rents and rent-seeking. The division is not exact since the empirical chapters deal with many theoretical issues and the theory chapters draw heavily on these and other empirical examples. The first two chapters are by Khan. The first examines the efficiency and growth implications of different types of rents drawing on both the neoclassical and classical traditions. Modern neoclassical economics makes distinctions between monopoly rents, natural resource rents, rents based on political transfers and Schumpeterian rents. To these may be added a range of informational rents, such as rents for monitoring, as well as subsidies for learning which are important in developing countries. The efficiency and growth implications of each are quite different. Yet much of the rent-seeking analysis is based on the efficiency implications of monopoly rents alone. Chapter 1 draws on both the neoclassical and classical traditions to argue that rents play a critical role in the normal operation of market economies and play a potentially substantial role in processes of development. At the same time, rents can also be associated with massive economic failure. Being able to distinguish between rents is an essential precondition for any analysis of rent-seeking.

Chapter 2 presents a general framework for analysing the effects of rent-seeking. It draws on existing rent-seeking models as well as on institutional economics, political economy and economic history. It examines ways in which the conventional analysis of rent-seeking can be extended using insights from other approaches, including in particular, institutional economics and the analysis of patron-client networks by sociologists and political scientists. Its starting point is the observation that rents are generated through the creation, maintenance or transfer of rights. Rent-seeking is the activity which seeks to bring about the configurations of rights which generate rents for particular individuals or groups. The focus of conventional rent-seeking theories is the cost of using up inputs in rent-seeking, which is the rent-seeking cost. This is an additional social cost which adds to the social cost of any harmful rents or reduces the social benefit of any beneficial rents created by the rent-seeking.

While the conventional analysis of rent-seeking has concentrated on the input costs of rent-seeking, far less attention has been devoted to differences in the rent-outcomes of rent-seeking in different countries. These outcomes are the rents which are created or maintained by rent-seeking which in turn can have very different efficiency and growth implications. It follows that the net effect of the rent-seeking process will depend not only on the rent-seeking cost but also on the efficiency and growth implications of the rents which are created or maintained through this process. The chapter then examines rent-seeking in the industrial sectors in the Indian subcontinent, South Korea, Malaysia and Thailand. The available evidence suggests that differences in rent-seeking costs were less important as an explanation of the substantial differences in their performance compared to differences in the type of rents created by the rent-seeking in each country.

The theoretical part of the chapter examines the variables which could explain difference in both the input costs and the rent-outcomes of the rent-seeking process across countries. Some of these variables are well-known in the rent-seeking literature, such as the competitiveness of the rent-seeking process. Others are drawn from the institutional economics literature such as the institutional structure of the state and the organization of collective action by different groups of rent-seekers. Yet others are political variables. In particular, a comparative analysis of the distribution of power within patron-client networks is developed to explain differences in the net effects of rent-seeking across countries. Evidence from these countries suggests that both institutional and political differences were important for the overall effects of rent-seeking, with political differences playing a significant role. The importance of differences in the *rent-outcomes* associated with rent-seeking and of the political variables determining these outcomes have not been adequately addressed in the conventional literature. By addressing this gap the chapter makes a contribution to the economic analysis of rent-seeking.

These results have policy implications. On the one hand, if differences in rent-seeking costs played a relatively small part in explaining performance differentials, then concentrating too much on the rent-seeking cost may be focussing on the wrong problem. Secondly, if rent-outcomes are important, the political variables which determine these differences may be very important for explaining differences in the overall effects of rent-seeking. If this is true, the long run solutions to poor performance may have to involve a much greater understanding of the political dimension of the problem in poorly-performing countries. Effective solutions may have to involve the construction of *political* solutions to the "rent-seeking" problem, which make rent-seeking consistent with economic growth rather than a fetter.

In the case study section of the book, our authors look at the experience of rent-seeking in a number of countries in depth. Thailand poses a fascinating challenge for the conventional rent-seeking methodology. While its long-term performance before the financial crisis was very good, it did not have a strong developmental state of the North-East Asian type, and it seemed to suffer from extensive clientelism and rent-seeking. Chapter 3 by Doner and Ramsay and Chapter 4 by Rock present two contrasting, but ultimately complementary interpretations of how Thai rent-seeking generated high growth. Both agree that rent-seeking costs were not low in Thailand and that the important question is why extensive rent-seeking and clientelism nevertheless resulted in the creation of socially valuable rents to outweigh these costs. However, the reasons they identify for this are somewhat different. Doner and Ramsay argue that the outcome of clientelism was enriching for the Thai economy because the structure of Thai clientelism resulted in a competitive structure of industry. This was because Thai clientelism was itself competitive. Patrons within the state were not able to protect rents for their clients by stopping other patrons allowing *their* clients to enter lucrative markets. They illustrate this with reference to the textile industry. Different state agencies failed to impose capacity controls, which in turn led to rapid growth in the sector.

The political and institutional failure of the Thai state to limit entry into particular markets was not entirely benign. When serious excess capacity emerged in the textile industry, the industry had to mobilize to respond to this. It was fortunate for the Thai textile industry that its attempt at collective action was eventually successful. Moreover, if competitive clientelism was all-pervasive, it would have prevented the state from enforcing *any* property rights or managing fiscal and monetary policy. This would have been disastrous for economic performance. Doner and Ramsay argue that Thai competitive clientelism did not descend into anarchy because, for historical reasons, key government departments making macroeconomic decisions about fiscal and monetary policy remained immune to clientelism and rent-seeking. This is why they alternatively describe Thai clientelism as competitive clientelism and “hard-budget” clientelism.

In the second piece on Thailand, Rock disputes the separation suggested between micro-policy in industry and macroeconomic policy-making. He argues that there is evidence that the state *was* able to direct the pattern of industrial development in Thailand to a far greater extent than is suggested by the competitive clientelism story, and also that the macro-policy institutions were not as insulated from rent-seeking as is suggested. Rock argues that a relatively small number of big capitalists were able to use their contacts with the Thai state to get privileged access to rents, which accelerated Thai technology acquisition and industrialization. This qualifies the unrestricted access suggested by the competitive clientelism story. Since a formal institutional structure of industrial policy did not exist, how was this *de facto* access to rents organized?

Rock's answer has a number of components which includes, in particular, the relative strength of the Thai bourgeoisie. Thailand developed a more numerous and relatively more powerful capitalist class as a result of its relatively long history of accumulation. Thailand's capitalists responded to clientelism by themselves becoming patrons of clientelist factions rather than simply being clients of non-capitalist political entrepreneurs. This explains why the biggest capitalists in Thailand were able to wield considerable political power. It probably also explains why competition between clientelist factions resulted in capitalist growth in Thailand and not structural sclerosis, as in the Indian subcontinent. By introducing the political power of Thailand's capitalists into the clientelism story, Rock's analysis complements that of Doner and Ramsay. Thai rent-seeking was not just led by competitive factions, many of the important factions were *led* by big capitalists. The significance of these features becomes clear in a comparative context and is also developed in Chapter 2.

In Chapter 5, Hutchcroft looks at rent-seeking, corruption and clientelism in the Philippines where performance has been relatively poor. He contrasts that country with Thailand and Indonesia, where performance was significantly better during the high growth period of the eighties. Hutchcroft argues that the narrow rent-seeking framework used by economists is of limited use. However, instead of extending the rent-seeking framework, he argues that we need to develop a parallel analysis of corruption and of patron-client networks. An argument sometimes put forward in rent-seeking theories is that the allocation of rents by an authoritarian state will lower rent-seeking expenditures. Hutchcroft argues that this is not convincing in the Philippines where Marcos attempted to restrict allocations in just this way. Here there are parallels between Hutchcroft's argument for the Philippines and Khan's discussion of authoritarian regimes in Pakistan and Bangladesh which also failed to reduce rent-seeking costs.

To explain the Philippines' performance, Hutchcroft looks at political factors which may have affected the rights created as the outcome of rent-seeking. He argues that corruption in the Philippines was more damaging compared to Thailand because it was less predictable and therefore had more serious effects on the decisions of entrepreneurs. The unpredictability, in turn, is explained in terms of a greater mismatch between patron-client power structures and bureaucratic authority structures in the Philippines compared to Thailand. In the Philippines, powerful patrons were often located *outside* the bureaucratic structure and could overturn decisions made by the latter, while in Thailand, patrons were more often located *within* bureaucratic structures and could use their power to reinforce the bureaucracy's power to implement decisions.

In addition, drawing on Doner and Ramsay's work on Thailand, Hutchcroft argues that another important difference between the Philippines and Thailand was in the organizational structure of patron-client networks in the two countries. Clientelism in Thailand was competitive and networks were unable to prevent entry by other groups into rent-generating markets for long. This resulted in high levels of investment and output despite substantial kickbacks and rent-sharing within these networks. In contrast, the Philippines is described as having “monopoly clientelism”, where patrons could effectively exclude entry and were under no competitive pressure to invest in production.

Why did monopoly clientelism in the Philippines have such negative effects compared to the centralized clientelism of Malaysia described by Khan in Chapter 2 and Jomo and Gomez in Chapter 7? Hutchcroft argues that part of the answer may lie in the disjuncture in the Philippines between relatively powerless bureaucratic structures and patron-client structures run by the oligarchs, where real power resides. While liberalization reduced the number of rent havens, and apparently reduced some of the more overt rent-seeking activities, it has not yet attacked these independent oligarchic power structures. Reading these chapters together suggests that very centralized patron-client networks (as in Malaysia) and relatively decentralized networks (as in Thailand) were better at creating value-increasing rent-outcomes than networks with an intermediate degree of centralization (as in the Philippines or the Indian subcontinent). This analysis of the distribution of *power* has parallels with the analysis of the effects of the degree of centralization of the state's *institutional structure* provided by Shleifer and Vishny (1993). But there are also important differences between the institutional analysis of Shleifer and Vishny and the analysis of political power which our authors explore.

In Chapter 6 MacIntyre addresses rent-seeking in pre-crisis Indonesia and the transition to crisis in this high-growth economy. Despite its size and importance, rent-seeking involving the Indonesian state has proved to be particularly difficult to open up to scholarly study. MacIntyre suggests one reason why: an important part of the state's spending did not pass through the budget at all, and records for these expenditures are not easy to find. MacIntyre's indirect estimates of these “off-budget” expenditures suggest that they were large. Yet, the presence of these large potential redistributive rents did not result in equivalent rent-seeking costs, which would have had a much more serious effect on economic performance. MacIntyre suggests that the answer may lie in the centralized coordination of rent allocation in Indonesia, drawing on the coordination model developed by Shleifer and Vishny (1993). While Shleifer and Vishny focus on institutional centralization, MacIntyre applies the model to look at (the perhaps paradoxical) positive effects of political centralization for rent-seeking outcomes.

Chapters 7 and 8 deal with Malaysia. In Chapter 7, Jomo and Gomez look at the effects of the tension between the creation of redistributive rents for ethnic Malays, especially the Malay middle class, and the attempts by the state to modernize the economy by using rents as incentives for industrialization and technology acquisition. They argue that despite some positive effects of the redistribution (particularly in enhancing human resource development within a segment of society which was initially educationally backward) the overall effect of the redistribution was to reduce the rate of investment by the ethnic Chinese capitalists and encourage growing rent-seeking by ethnic Malay political intermediaries. The chapter thus provides a detailed account of the evolution of rent-seeking in Malaysia during its high growth period. While Khan argues in Chapter 2 that the pattern of Malaysian redistributive flows had relatively less damaging effects than in India, Jomo and Gomez point out that Malaysian rent-seeking was more damaging for growth and technology acquisition compared to the East Asian NICs. The two positions are clearly complementary. Khan's argument is that ethnic politics allowed Malaysia to centralize its clientelism and achieve better growth compared to the intermediate level of centralization of patron-client networks in the Indian subcontinent. Jomo and Gomez point out the greater fragmentation and higher degree of politically motivated transfers in Malaysia compared to, say, the South Korea of the seventies

In the final chapter by Jomo and Chin, the authors take a closer look at rents in the financial sector in Malaysia. They draw on the argument developed by Hellman, Murdock and Stiglitz (1997) which shows the useful role which financial sector rents can play in creating incentives for more effective monitoring by banks. Banks can ensure their rents over time only if they make the effort of monitoring the firms they lend to. This suggests that government intervention which creates a rent margin for banks may be value-enhancing for the economy. The authors show that such a rent margin existed in Malaysia over the decade from 1984 to 1995, but question whether this had the positive effect suggested by Hellman, Murdock and Stiglitz (1997). Once again, the culprit is the redistributive agenda of the state based on ethnic politics. Jomo and Chin argue that the state's use of the banks to allocate redistributive rents prevented the rents in the financial sector from having the expected efficiency effects on the quality of industrial lending. The overall effect was a substantial amount of poor lending despite the existence of financial sector rents. Their analysis suggests that the political context in Malaysia must play a part in explaining the limitations of financial sector rents.

The financial crisis of 1997 brought the issue of rent-seeking in developing countries centre-stage. Most economists agree that the Asian crisis was primarily a financial crisis and only indirectly a crisis caused by rent-seeking (see, for instance, the collection of articles in Jomo 1998 and Stiglitz 1998). At the same time, the depth of the crisis offers an opportunity to investigate the underlying processes of rent-seeking in these countries, if only to understand better the prospects for the future. Clearly, the financial crisis had a major component of regulatory failure behind it, and this regulatory failure could have been caused by rent-seeking pressures from the beneficiaries of financial sector rents. Some of the changes in the context of rent-seeking which could have contributed to the crisis are examined in our theory and empirical chapters. Even so, the rent-seeking going on in financial markets was only part of the rent-seeking going on in these countries.

The long-run relationship between rent-seeking and growth will remain of interest regardless of the eventual performance of these countries in responding to the financial crisis. Moreover, there are unlikely to be simple solutions to the rent-seeking problem based on liberalization or the globalization of capital. This is because, as our theoretical chapters take pains to point out, rents are ubiquitous and economies have to learn to live with them. There are good rents, and the institutions which promote these advance development in the presence of rent-seeking. But there are also bad rents, and the institutions which promote these result in damaging rent-seeking. There are no societies, developing or developed, which have resolved the rent-seeking problem by abolishing rents. The historical experience of the fast growing Asian economies when seen over a period of several decades is important for establishing these analytical points.

On the other hand, the 1997 crisis provided a dramatic shock to the pattern of redistribution and rent flows in these countries. It is inevitable that one result of this will be the restructuring of political arrangements within these countries as new political settlements are constructed to allow a new phase of accumulation to begin. Whether the new phase will be as successful as the old one which collapsed remains to be seen. There are certainly many examples of regions where rent-seeking and primitive accumulation have resulted in much poorer performance than in the East and South-East Asian countries of the eighties and early nineties, so there is no guarantee that the next phase of growth will be as dramatic as the last one. Rather than identifying rent-seeking in general as the villain responsible for the crisis, policy-makers would be wise to ask instead a different set of questions. Why did rents and rent-seeking in this region once promote such rapid development and why did that period end? The work of our authors should shed some light on a unique period of development when rapid growth was achieved in the real world where rents exist and are, indeed, required to exist. This experience may help to construct analytical models more suited to the real world in which developing countries live. Indeed, understanding their own history better may be a precondition in many of these countries for constructing new arrangements which can allow growth to begin once again.

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