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Social Justice, Public Goods, and Rent Seeking in Narratives

VINCENT J. GELOSO AND PHILLIP W. MAGNESS

Social justice, as a concept, has long been considered inimical to the classical liberal tradition (Nozick 1973, 1974; Hayek 1976). To be fair, there is much to criticize about the concept. The definitional fluidity of the term social justice and its frequent deployment for “activist” political endeavors cast doubt upon its scholarly rigor (Hayek 1978). However, where there is chaff, there is wheat and thus the possibility of salvaging some parts of the social justice concept to serve both normative and positive ends (Tomasi 2012, xvii–xx). Sorting the wheat from the chaff is the aim of this paper. To do so, we introduce the concept of “rent seeking in narratives,” which, as we argue, takes the best concepts from the literature on social justice to make it a relevant tool for social science and classical liberal thought.

Throughout the article, we assume that abstract and general rules that apply equally to all are the most conducive to improvements in all forms of liberty and living standards (Hutt 1966; Hayek 1976, 1988; Schmidtz and Brennan 2011). General rules constitute a form of open orders that are normatively superior to closed-access orders (North, Wallis, and Weingast 2009). The concept of rent seeking in narratives starts with the assumption that the creation of rules of cooperation is a public good. The rules fall on a spectrum between the extremes of open-access orders and closed-access orders. However, we argue there can be competition for the production of a certain set of

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general societal rules in a way that favors a given coalition of interest. The more this practice occurs, the more opportunities will exist for rent seeking. Once a given set of rules is established, narratives can then be built to increase the cost of replacing the given set of rules or acting in ways that fully dissipate the existing rent for the beneficiary group.¹

This structure in part salvages the idea of relational equality (Anderson 1999) and fully conserves its close cousin “euvoluntary exchange” (Munger 2011, 2017; Guzmán and Munger 2014). Because these concepts are taken to be equals of F. A. Hayek’s claims that we need general and abstract rules that apply equally to all so as to permit welfare-enhancing social cooperation, deviations from these rules reduce well-being. Rent seeking to shape rules in ways to benefit one group is by definition a deviation (Tullock 1967b; Krueger 1974). The rent-seeking groups can see their rents dissipated by other groups who push either for general rules or for rules to their own benefit. They must thus resist this push by increasing the cost to others of contesting the established rules. One way of doing so is to shape social discourse so as to increase the cost of holding views that fall outside of the existing general rules (Roback 1989; Kuran 1995; Grynaviski and Munger 2017).

**Distributive Justice, Relational Equality, and the Generality Ideal**

When during the 1960s and 1970s classical scholars criticized the concept of social justice, they equated it with distributive justice in the sense of greater equality of outcomes (Nozick 1973, 1974; Hayek 1976). This distributive justice, they argued, would generate the seeds to its own destruction as agency on the part of individuals would create deviations. The criticisms assembled were deemed convincing to a degree sufficient to warrant a restatement of what social justice meant (Sen 2000, 68–69). The reply that has emerged is that social justice is about relational equality (Anderson 1999; Schemmel 2012). Simply put, relational equality holds that the way in which one individual is treated ought to extend to all other individuals. Differential treatment, positive or negative, invites stigma that may have persistent effects (Kim and Loury 2018). The main value of this restatement is that relational inequality can persist in spite of legal equality even if there are interconnections between the two (Reeves 2018). Thus, invisible forces at play lead to lesser outcomes for certain groups (e.g., de jure racial equality accompanied by de facto inequality in practice). Moreover, because relational inequality fosters stigma, it discourages the development of self-respect (i.e., independence) (Reeves 2018).

¹. Sam Peltzman, Michael Levine, and Roger Noll identify two scenarios in which rent dissipation can occur: “(1) the gap between the regulated equilibrium and the one plausibly characterizing deregulation of the industry narrows, so continued regulation becomes pointless, or (2) the wealth available for re-distribution becomes too small to provide the requisite political payoff to regulation” (1989, 20). A rent-seeking narrative may be thought of as a strategy to forestall these circumstances.
Described as such, relational equality resembles Hayek’s generality principle whereby rules ought to be abstract and general and apply to all (Hayek 1988; see also the restatement in Martin 2017). It also bears great similarity to the “open-access” orders described by Douglass North, John Wallis, and Barry Weingast (2009). In open-access orders, “all citizens have access to the political and economic systems, and they have the right to form organizations,” which in turn sustains “impersonal exchange and allow[s] all citizens to compete for political control and for economic rents, which are continuously eroded as a result of this political and economic competition” (van Bavel, Ansink, and Van Besouw 2017, 111). In contrast, in “limited-access orders” relations are between the powerful, who create a hierarchy in which they, at the top of the hierarchy, extract rents that cannot be dissipated by political and economic competition. Both the generality rule and the open-access orders are conducive to widespread improvements in living standards. Limited-access orders and discriminatory rules are less conducive to economic growth (see notably Mahoney 2001 for an empirical example). “Relational equality” entails, at the very least, a legal equality to contest arbitrary hierarchies—thus a similarity with the open-access orders. At the very least, it also shares similarities with the generality rule because all must receive equal treatment.

Relational equality does not necessarily entail redistributive efforts, however. To be fair, most of those who invoke the concept do so to justify some redistribution. Thus, it does differ modestly from Hayek’s generality principle and North, Wallis, and Weingast’s “open-access orders,” on which classical liberals rely. However, there are steps that generate a marginally more equal society in relational terms but do not require redistribution and would allow classical liberals to follow in a similar direction until a crossroad is reached. Relational equality can fit within a classical liberal policy course of “first, do no harm” with regard to inequality (Geloso and Horwitz 2017; Geloso 2018; Novak 2018). This type of policy approach requires the removal of any form of regressive redistribution whereby one group is treated differentially in a nefarious way (e.g., through tariffs, regressive taxation and regulations, corporate welfare, and also directly oppressive measures such as racial segregation). As a consequence, a policy that eliminates an existing regressive redistribution will marginally move us closer to more relational equality. Thus, there is some mileage to be done between those who are reluctant to adopt redistributive policies but want relational equality and those who argue for relational equality as the end of redistributive policies. The very first step toward relational equality is the elimination of the policies that formalize relational inequality. There is some wheat with the chaff.

More importantly, relational equality has a quality whereby it links the individual to the society. Uneven treatment of individuals (i.e., relational inequality) limits heterogeneous individuals’ ability to make contact. Obviously, contractual restrictions imposed on one particular set of individuals (e.g., black Americans during segregation,

2. This redistribution would include economic redistribution (Sen 2000) and the redistribution of rights and privileges emphasized by more modern social justice literature (Tyler and Smith 1995).
women before the twentieth century, Jews in the medieval era) will restrict the ability of this set of individuals to make contact with individuals who are in different sets. Although less extreme, other measures that deprive individuals of certain options will nevertheless restrict contact (e.g., trade tariffs falling predominantly on goods consumed by the poor prevent them from engaging in a larger number of exchanges, which could have brought them in contact with others). In turn, restricting contact creates stigma toward the unevenly treated set of individuals. Stigma is social distance, and social distance is a source of transaction costs—the greater the social distance, the greater the transaction costs, the smaller the size of the market, and the lesser the gains from specialization (Kim and Loury 2018). Thus, the stigma reinforces the institutional restrictions and may generate persistent outcomes well after the restrictions are removed. In other words, in a world where individuals of a disfavored set earn no mutual respect from preferred groups, it is harder to build self-respect—an outcome that may persist for a long period.

This ability to speak to the persistent effects of relational inequality is a serious advantage that allows more wheat to be sorted from the chaff. Not only are we able to see that those in the classical liberal tradition can support an agenda that removes policies that create relational inequality, but we can explain why even after bad institutions are removed, the long shadow of their detrimental effects can persist. For that reason alone, classical liberals should be amenable to attempts to salvage part of the new discourse on social justice. However, the best reason for sorting the wheat from the chaff is that relational inequality allows classical liberals to develop a well-rounded (positive) explanation of the persistent effects of state intervention.

Rules as Public Goods and Rent Seeking in Narratives

In order to produce this explanation, it is best to think of social rules as public goods (Roback 1989, 662)—not in the sense of the public/private dichotomy, but rather in the sense of collective action deployed to create the rules of the game that allow a stable environment in which to reap the gains from trade. The publicness of these rules and norms that govern exchange mean that “opportunities exist for political entrepreneurship” and rent seeking (Roback 1989, 679). This political entrepreneurship leads to rules that benefit a concentrated interest group at a cost that, although diffused throughout the whole society, is, on the whole, greater for society.

However, once the rules are in place, other groups can contest them. The changes proposed may either enhance or inhibit efficiency, but this is irrelevant here as anticipated changes in rules incite groups to engage in rent seeking. In the contest, the incumbents must defend the rent they earn from the established set of rules.

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3. As Roback emphasizes, resources can be expended to change rules in welfare-improving ways. She cites the example of a move from common property to private property wherein the contest dissipates the gains of the shift (1989, 671).
resources they expend in the defense dissipate their gains from the rents. Thus, to preserve their rents, the incumbents must find a way to increase the cost of contest for others, which will also dissipate part of the incumbents’ rent because they need to expend further resources on defensive action. However, as long as the costs are subjectively greater to contesters, the incumbents will remain unchallenged.

Hindering relational equality is one way of generating a rent-preserving entry barrier. If a stigma is associated with one of the groups being excluded from the rent, other (and possibly less) excluded groups see a greater cost to forming a coalition to contest the rent beneficiary. It deters them from contesting because the total cost is greater to them than the benefits of ending their disadvantaged situation.

This formulation is very similar to the one proposed by Jennifer Roback (1989), who models racism as rent seeking. By conceiving of social norms—including discriminatory social norms associated with racism—as collective action aimed at producing a public good, Roback shows that sharply defining relations between groups reduces the odds of a collapse of a rent-seeking outcome. She states that this sharper definition benefits one group by “effectively enforcing an economic cartel arrangement amongst its members” (672). Although she is referring to reducing defection within the rent-beneficiary group, her conclusion can easily be extended to other groups who might form a contesting coalition with the excluded group. The sharply defined stigma (i.e., the cementing of relational inequality) protects the rent-seeking outcome. This sharpening of definitions, meant to crystalize relation inequality, is rent seeking. However, it is what we call “rent seeking in narratives.” The aim is to invest in a social discourse, an intellectual narrative, that increases the cost of contesting an established rent extraction.

Here, the concept of preference falsification developed by Timur Kuran is particularly useful. Preference falsification refers to the idea that we try to “manipulate the perceptions of others regarding our own motivations and dispositions” (1995, 4). We “live a lie” because the benefits of expressing our true disposition are small and the costs are uncertain and potentially larger than the benefits. The “public” preference is determined by the incentives generated by the institutional context that surrounds public life. However, in the privacy of our homes we exert our true preferences. The gap between what is done in private and what is done in public depends entirely on the institutional setting in public. Preference falsification is a “barrier to social change” (Kuran 1995, 8) as long as the institutional context establishes strong penalties for defecting from the established narratives. Groups with strong, concentrated interests may constitute a minority, but majorities may be deterred from revolting (or from contesting established rules by collectively organizing) by social pressures that make them unwilling to express their true preference. Simultaneously, this lack of open expression of true preferences entails that individual members of a potential majority coalition do not identify their allies and thus fail to organize. According to Kuran, preference falsification is particularly damaging because it generates “widespread ignorance of the status quo’s disadvantages” (1995, 19).
Rent seeking in narratives is simply a different take on preference falsification, whereby the rent seeker also establishes a discourse that creates the inability to organize. The concept of rent seeking in narratives, however, clarifies that adding stigma to one hierarchically inferior group creates an unwillingness to organize because the cementing of relational inequality increases the perceived costs to forming a contesting coalition.

It is worth noting here the other bit of wheat to be sorted from the chaff. Here, we see that the protection of a limited-access order (North, Wallis, and Weingast 2009) can be served by creating relational inequality, which also means deviating from general and abstract rules that apply equally to all (Hayek 1988). The concept of relational equality, if articulated within the broader story of rent seeking, thus offers the possibility to explain the persistence of discriminatory and impoverishing outcomes.

Examples of Rent Seeking in Narratives

Two examples illustrate and make the case for this concept of rent seeking in narratives. The first speaks directly to racism toward black Americans in the nineteenth century, and the second speaks to discrimination aimed at the French Canadian majority population of Quebec in Canada. We selected these examples because they allow us to illustrate that cementing relational inequality may work against both minorities and majorities.

Antebellum Slavery

The economic history of the antebellum South suggests that nonslaveholding whites were not beneficiaries of chattel slavery (Hummel 1996, 2012; Wright 2017). Slaveholders used the political process to delegate the costs of the system onto the larger public, North and South, while preserving and reaping the benefits of slave-based production. One potent illustration of this point is the slave patrols. Slaveholders should have had to expend their own resources to prevent slaves from running away because this cost was associated specifically with the preservation of slavery. However, because the slaveholders constituted a concentrated interest group, they organized successfully to convince the states to take over the task of policing slaves at public expense—thus the slave patrols. Divided over the entire population of the country, this expense appeared smaller, but it constituted an important increase in profitability for slaveholders. The cost of the slave patrols in 1850, according to Jeffrey Hummel's computations (2012, 123), was more than fifty cents per person (including slaves, but slightly less than one dollar per person when computed over the free white population). The slave patrols entailed a burden of 0.3 percent of annual per capita income in the South—quite a large cost for such a “small” policy. Totaling all the costs for nonslaveholding whites, Hummel concludes that it is unlikely that they gained economically from slavery (2012, 222).
Poor whites in the South did not gain from slavery—they carried a burden that made them poorer than they otherwise would have been absent slavery. However, forming a coalition with abolitionists or with politically excluded slaves to end slavery was out of the question for them.4 Jeffrey Grynaviski and Michael Munger (2017) argue that this option was unavailable to them because of the stigma associated with blacks, who were deemed lesser humans. Similar stigmas associated Northern abolitionism with sedition and its proponents with contemporary events that had devolved into mass bloodshed, such as the Haitian revolution. This stigmatization of antislavery and the slaves themselves grew more pronounced from the time of the American Revolution to the time of the Civil War. The institution of slavery was initially seen as a necessary evil that would have to be eradicated eventually. However, this view gradually changed. Slaves began to be considered lesser human beings unable to take command of their lives, and, thus, slavery became associated with a positive good. Grynaviski and Munger emphasize that this “redefinition of the personhood of slaves” was meant to “co-opt dissent” (2017, 162) through an exercise of legitimation, which preserved the rent-seeking structures. This legitimation was complemented, as Hummel (1996, 2012) notes, by a series of laws and edicts preventing the education of slaves and voluntary manumission so as to preserve a rationalization for the notion of blacks’ lesser personhood (Tullock 1967a).5

All of these circumstances constitute a willful construction of relational inequality between groups of excluded persons so as to prevent rebellion against an established set of rules. Antebellum slavery benefitted from a rent-seeking narrative that limited the ability of antislavery campaigners to convince poor whites to side with slaves. Even challenging the existence of slavery could be deemed “seditious,” as with antebellum attempts to censor the mail, in particular abolitionist literature. By hindering relational equality between poor whites and black slaves, slaveholders created a barrier to contesting the extracted rents that the public subsidization of slavery provided them.

When slavery was ended, the ideological construct that was supporting the slaveholders’ rent-seeking efforts did not disappear. It remained more or less intact and

4. Many abolitionists such as John Brown explicitly tried to foment a coalition between slaves and non-slaveholding whites in the South, and some abolitionist literature (e.g., Spooner 1858) proposed an antislavery rebellion on similar lines. Even outwardly racist forms of antislavery activism, such as Hinton Rowan Helper’s pamphlet The Impending Crisis of the South (1857), written as an appeal to poor whites’ self-interest with little expressed concern for the slaves, met with vigorous suppression and censorship in the late antebellum period. This would also explain why individuals such as William Stevenson (who would later be governor of West Virginia) were accused of criminal acts for circulating Helper’s treatise and why Ohio representative John Sherman’s public praise for the book politically undermined his bid for US Speaker of the House in 1859. The Southern slaveholders’ reaction to each suggests a strong investment in the stigmatizing power of the rent-seeking narrative around slavery.

5. Gordon Tullock elaborates on these observations in an unpublished memorandum on slavery (box 94, folder 8, Gordon Tullock Papers, Hoover Institution, Stanford, Calif.). In his little-studied writings on slavery, Tullock makes the important point that stigmatizing and preventing the emergence of free populations of color also served to reduce the costs of slave enforcement, thereby preserving the enforcement rents for slave owners. Free populations of color made it harder for slave patrols to enforce slavery on strictly racial lines and provided a point of refuge for escapees. This is why antimanumission laws and even forced exile such as colonization became so popular (Magness 2015, 2018).
thus allowed the emergence of a lesser but nonetheless tragic form of legal discrimination against black Americans (Egerton 2014). If segregation, as Roback (1989, 1991) argues, was rent seeking, then the narratives set to protect rents under slavery were used to partially restore them after the Reconstruction era.

**French Canadians to 1960**

Black Americans were a disempowered minority facing a discriminatory majority. The reverse, a majority discriminated against by a minority, can also occur. This was the case for French Canadians in their home province, Quebec, where they constituted more than 80 percent of the population. To be sure, the French Canadians never suffered legal discrimination nearly as intense as black Americans. However, most historians agree that from the mid–nineteenth century to the 1960s French Canadian society was noticeably poorer than English Canadian society (MacKinnon 2000; Geloso 2017). Even within the municipalities of Quebec, French Canadians and English Canadians lived separately.

One important contributor of this relative isolation of both groups was the Catholic Church. In the buildup to the British North America Act of 1867 (which made Canada into a country), the Catholic Church lobbied hard to secure a constitutional arrangement that allowed it a strong role in the provision of education and social services such as health care. This arrangement was meant to protect the church’s market from religious competition (Stark and Iannaccone 1996). In exchange, the church supported the conservative agenda of protectionism (Bellavance 1992) with the now well-known statement “le ciel est bleu et l’enfer est rouge”: the skies are blue (referring to the Conservative Party colors), and hell is red (referring to the colors of the Liberal Party, which was ill disposed toward the church and protectionism).

Through a de facto monopoly on education, the Catholic church had the ability to enlist schooling to the advantage of its position. The church thought that the English Canadians wanted to assimilate the French Canadians, that capitalism and markets were the prerogatives of the English Canadians, and that French Canadians were better off as farmers or small entrepreneurs (see, notably, Taylor 1960; Couture 1991). To preserve its rents, the church cemented a discourse that created a relational inequality (a stigma) between French and English Canadians. More research should be allocated to this topic, but in general it can be said that the emergence of this discourse occurred at the same time as an income convergence between French and English Canadians observed up to the mid–nineteenth century (Baker and Hamilton 2000) so that the gap started to widen again (MacKinnon 2000).

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6. Rodney Stark and Laurence Iannaccone emphasize that the Catholic Church, given its monopoly, was able to preserve its monopoly rents and high attendance simultaneously only because it acted as an “organizational vehicle . . . for social conflict” (1996, 267)—that is, the tension between French Canadians and English Canadians. Thus, the narrative served to prevent rents from being dissipated.
To some extent, this narrative cementing relational inequality has had a long half-life. Even though the Catholic Church has since the 1960s lost its influence and French Canadians’ living standards have converged rapidly toward English Canadians’ living standards (Albouy 2008), the narrative survives. In the 1950s and 1960s, a new, more secular nationalism emerged in Quebec and retained many of the distinctions between the French and the English. It led to the passage of acts that targeted the English-speaking minority in Quebec and the redistribution of state favors from English Canadians to French Canadian secular nationalists (Breton 1964; Geloso 2017).

Conclusion

The implications from this sorting of the wheat and the chaff are manifold. Relational equality allows us to understand, regardless of ideological predispositions, how limited-access orders are persistent. The cementing of unequal rules of treatment that violates Hayek’s generality principle allows rent-seeking coalitions to prevent the formation of contesting coalitions who propose different rules of the game (which may be welfare improving by being more open access and following the generality principle).

This sorting also allows those who share in the classical liberal predisposition to assemble a policy agenda. One step in the direction of relational equality can be taken by removing restrictions to contact between groups. Although this removal will not erase stigmas that amplify the effect of the restrictions, it will make things marginally better for everyone. This policy of “first, do no harm” is not likely to constitute a full resolution of the issue of stigmatization of certain groups. However, it offers a chance for classical liberals to cooperate with progressives and conservatives in the direction of marginal improvements. As long as the roads lead in the same direction, there is no point in not following them. Unavoidably, of course, there is a point ahead where the paths will diverge. But it is better to grasp the improvements of a “first, do no harm” policy than to reject them on the basis of a fork in the road.

References


