ECONOMIC RENTS AND COST-BENEFIT ANALYSIS –

ISSUES, METRICS AND APPLICATION TO HEALTH AND ENERGY POLICY
KEN ACKS

• COST-BENEFIT GROUP, LLC AND
• ENVIRONMENTAL VALUATION & COST-BENEFIT NEWS
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OUTLINE

• DEFINITIONS
• HISTORY
• POTENTIAL MANIFESTATIONS
• WHY CONSIDER RENTS
• COST-BENEFIT MANIFESTATIONS
DEFINITIONS

- Economic rent is any payment to a factor of production in excess of the cost needed to bring that factor into production.
RENT-SEEKING

- Krueger – government restrictions give rise to rents of a variety of forms, and people often compete for the rents. Sometimes, such competition is perfectly legal. In other instances, rent seeking takes other forms, such as bribery, corruption, smuggling, and black markets.

- More commonly – attempt to obtain economic rent (by manipulating the social or political environment, rather than creating new wealth) - implies extraction of uncompensated value from others without contributing to productivity, or pursuing the increase of one's share of existing wealth without creating new wealth.
Figure 1: The market for nurses
Figure 2 The market for Dame Edna Everage
Monopoly Rent
(Consumers' Surplus Redistributed to the Monopolist)

Efficiency Loss

Marginal Cost
Demand
Marginal Revenue

Price

Quantity per Month

M

p_m
p_c

q_m
q_c
Rent-Seeking Behavior

- Rent-seeking behavior refers to actions taken by households or firms to preserve positive profits.
- A rational owner would be willing to pay any amount less than the entire rectangle $P_mACP_c$ to prevent those positive profits from being eliminated as a result of entry.
The **Price** of Land
Depends only on **Demand**.
Economic Rent = **Price**

![Diagram showing the relationship between price and supply of land](thismatter.com)
WHY CONSIDER RENTS?
SHOULDN’T THIS BE DEALT WITH ELSEWHERE

- Very Difficult to Fight Special Interests
- Theory of the Second Best
- Significant
- Left – Right Agree – Sanders, Drain the Swamp, Tea Party
- Consequences of Inequality – Redistribution Difficult
- Awareness of Program Consequences – Potentially Unforeseen
- Rentier Gamesmanship
• Smith - Divides incomes into profit wages and rent and notes

• As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the labourer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them. He must then pay for the licence to gather them; and must give up to the landlord a portion of what his labour either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land

• “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”
Ricardo - Economic rent on land is the value of the difference in productivity between a given piece of land and the poorest and/or most distant most costly piece of land producing the same goods, for example wheat, under the same conditions of labor, capital, technology, … Productivity is defined in terms of both (a) the natural fertility of the soil; and the productivity of the existing technology in utilizing currently available labor and capital; and (b) and also the relative distance from the same market.

Marshall – Quasi Rents - arise from the barriers to entry that potential competitors face in the short run, such as the granting of patents or other legal protections for intellectual property by governments

Henry George, best known for his single tax on land, defines rent as "the part of the produce that accrues to the owners of land (or other natural capabilities) by virtue of ownership" and as "the share of wealth given to landowners because they have an exclusive right to the use of those natural capabilities."
MODERN HISTORY

- Gordon Tullock The welfare costs of tariffs, monopolies, and theft 1967 ...
- Krueger The political economy of the rent-seeking society 1974
- Mancur Olson Logic of collective action 1971 The Rise and Decline of Nations 1982

Special interests influence policies in their favor in ways that hurt economic growth. Because the benefits of such policies are concentrated, and their costs are diffused throughout the whole population, there will be little public resistance to them. As distributional coalitions accumulate, nations burdened by them will fall into economic decline.
Stiglitz
Cato Institute
Tea Party
Inequality – Picketty
Occupy Wall Street
CEA Furman, Orsag
Trump Drain the swamp,…
Sanders, Warren
MANIFESTATIONS/EXAMPLES

- Robert Shiller - feudal lord installs a chain across a river that flows through his land and then hires a collector to charge passing boats a fee (or rent for a few minutes) to lower the chain. There is nothing productive. In chain or collector. He made no improvements and is not helping anybody in any way, except himself.
- Lobbying for unproductive government subsidies
- Limit access to lucrative occupations/markets - restrictions, certifications or licenses (taxis).
- Corruption/Bribes
- Regulatory Capture
- Tariffs, Quotas, Subsidies
- Patents and Copyrights
CONCENTRATION METRICS
<table>
<thead>
<tr>
<th>Industry</th>
<th>Revenue Earned by 50 Largest Firms, 2012 (Billions $)</th>
<th>Revenue Share Earned by 50 Largest Firms, 2012</th>
<th>Percentage Point Change in Revenue Share Earned by 50 Largest Firms, 1997-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and Warehousing</td>
<td>307.9</td>
<td>42.1</td>
<td>11.4</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>1,555.8</td>
<td>36.9</td>
<td>11.2</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>1,762.7</td>
<td>48.5</td>
<td>9.9</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>2,183.1</td>
<td>27.6</td>
<td>7.3</td>
</tr>
<tr>
<td>Real Estate Rental and Leasing</td>
<td>121.6</td>
<td>24.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Utilities</td>
<td>367.7</td>
<td>69.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Educational Services</td>
<td>12.1</td>
<td>22.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Services</td>
<td>278.2</td>
<td>18.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Administrative/ Support</td>
<td>159.2</td>
<td>23.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>149.8</td>
<td>21.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Other Services, Non-Public Admin</td>
<td>46.7</td>
<td>10.9</td>
<td>-1.9</td>
</tr>
<tr>
<td>Arts, Entertainment and Recreation</td>
<td>39.5</td>
<td>19.6</td>
<td>-2.2</td>
</tr>
<tr>
<td>Health Care and Assistance</td>
<td>350.2</td>
<td>17.2</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

Note: Concentration ratio data is displayed for all North American Industry Classification System (NAICS) sectors for which data is available from 1997 to 2012. Source: Economic Census (1997 and 2012), Census Bureau.
The Herfindahl-Hirschman index (HHI) a measure of market concentration is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. It can range from close to zero to 10,000.
Figure 1-A: Number of Public Firms and HHI
Change in Measures of Concentration across Industries

This figure depicts the distribution of percentage changes in the Compustat-based HHI (Figure A) and the number of publicly-traded firms (Figure B) and across industries. The changes are calculated over the 1997-2014 period. Figure C shows the change in census-based HHI, and Figure D shows the change in the share of the largest four firms in the industry, both calculated over the 1997-2012 period. The industries are defined based on NAICS 3-digit classification. Figure 2-E shows the share of employment in firms with 10,000 employees and more out of the total US employment.

Figure 2-A: Change in the HHI (Compustat-based)
• 2/3 of Americans believe the economy is rigged in favour of vested interests

• For American firms returns on equity are 40% higher in the U.S. than they are abroad.

• High profits might be a sign of brilliant innovations or wise investments, were it not for their persistence. A very profitable American firm has an 80% chance of being that way 10 years later. In the 1990s the odds were ~ 50%.

• Were America’s firms to cut prices so that their profits were at historically normal levels, consumers’ bills might be 2% lower.
Economists’ analysis of census data suggests that 2/3 of the economy’s 900-odd industries became more concentrated since 1997.

A tenth of the economy is at the mercy of a handful of firms—from dog food and batteries to airlines, telecoms and credit cards

A $10 trillion wave of mergers since 2008 has raised levels of concentration further.

Lobbying spending has risen by a third in the past decade, to $3 billion

Mastery of patent rules has become essential in health care and technology, America’s two most profitable industries

Small Firms Struggle
Figure 4: Hart-Scott-Rodino Transaction Size, 2000-2014

- Share of all HSR Transactions Over $1 billion (Left Axis)
- Share of all Second Request Investigations Over $1 billion (Right Axis)

Source: DOJ & FTC, Hart-Scott-Rodino Annual Reports (FY2000 to FY2014)
Figure 5: Share of Workers with a State Occupational License

Percent

28

24

20

16

12

8

4

0


Source: Council of State Governments (1952); Greene (1969); Kleiner (1990); Kleiner (2006); and Kleiner and Krueger (2013), Westat data; CEA calculations.
Figure 7: U.S. DOJ Antitrust Criminal Enforcement, 1990-2014

Number of Individuals

Average Number of Individuals Sentenced to Prison per Year (Left Axis)

Average Prison Sentence in Months (Right Axis)

Source: U.S. Department of Justice, Antitrust Division
Figure 6: Criminal Antitrust Fines and Penalties Obtained, 2004-2014

Millions of Dollars

2004: 0.36
2005: 0.34
2006: 0.47
2007: 0.63
2008: 0.70
2009: 1.00
2010: 0.56
2011: 0.52
2012: 1.14
2013: 1.00
2014: 1.30

Source: U.S. Department of Justice, Antitrust Division
INEQUALITY
Share of Income Earned by Top 1 Percent, 1975-2015

- United States
- United Kingdom
- Canada
- France
- Italy
- Germany

Percent

Figure 1-3
Distribution of Household Wealth (Survey of Consumer Finances)
1989-2013

Percent of Total Household Wealth

Source: Federal Reserve Board of Governors, Survey of Consumer Finances.
Gini Coefficient, 1988 and 2008 (84 Countries)

Increased Inequality

Reduced Inequality

Countries shown in the diagram include:
- South Africa
- Brazil
- United States
- China
- Paraguay
- Russia
- Kyrgyzstan
- India
- Sri Lanka
- Denmark
Ratio of House Prices to Construction Costs: 1989 vs. 1999
Share of a City's Units Valued Above 140% of Construction Costs in 1989

Share of a City's Units Valued Above 140% of Construction Costs in 1999
Figure 2: The positive relationship between corruption and youth unemployment
Exhibit 1. Health Care Spending as a Percentage of GDP, 1980–2013

Notes: GDP refers to gross domestic product. Dutch and Swiss data are for current spending only, and exclude spending on capital formation of health care providers.
Source: OECD Health Data 2015.
### Exhibit 7. Prices for Hospital and Physician Services, Pharmaceuticals, and Diagnostic Imaging

<table>
<thead>
<tr>
<th></th>
<th>Total hospital and physician costs, 2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Diagnostic imaging prices, 2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Price comparison for in-patient pharmaceuticals, 2010 (U.S. set to 100)&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bypass surgery</td>
<td>Appendectomy</td>
<td>MRI</td>
</tr>
<tr>
<td>Australia</td>
<td>$42,130</td>
<td>$5,177</td>
<td>$350</td>
</tr>
<tr>
<td>Canada</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$15,742</td>
<td>$4,995</td>
<td>$461</td>
</tr>
<tr>
<td>New Zealand</td>
<td>$40,368</td>
<td>$6,645</td>
<td>$1,005</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$36,509</td>
<td>$9,845</td>
<td>$138</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>United States</td>
<td>$75,345</td>
<td>$13,910</td>
<td>$1,145</td>
</tr>
</tbody>
</table>

<sup>a</sup> Source: International Federation of Health Plans, 2013 Comparative Price Report.

<sup>b</sup> Numbers show price indices for a basket of in-patient pharmaceuticals in each country; lower numbers indicate lower prices.

### Exhibit 9. Select Population Health Outcomes and Risk Factors

<table>
<thead>
<tr>
<th>Country</th>
<th>Life exp. at birth, 2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Infant mortality, per 1,000 live births, 2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Percent of pop. age 65+ with two or more chronic conditions, 2014&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Obesity rate (BMI≥30), 2013&lt;sup&gt;b&lt;/sup&gt;&lt;sup&gt;c&lt;/sup&gt;</th>
<th>Percent of pop. (age 15+) who are daily smokers, 2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Percent of pop. age 65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>82.2</td>
<td>3.6</td>
<td>54</td>
<td>28.3&lt;sup&gt;c&lt;/sup&gt;</td>
<td>12.8</td>
<td>14.4</td>
</tr>
<tr>
<td>Canada</td>
<td>81.5&lt;sup&gt;c&lt;/sup&gt;</td>
<td>4.8</td>
<td>56</td>
<td>25.8</td>
<td>14.9</td>
<td>15.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>80.4</td>
<td>3.5</td>
<td>-</td>
<td>14.2</td>
<td>17.0</td>
<td>17.8</td>
</tr>
<tr>
<td>France</td>
<td>82.3</td>
<td>3.6</td>
<td>43</td>
<td>14.5&lt;sup&gt;d&lt;/sup&gt;</td>
<td>24.1&lt;sup&gt;d&lt;/sup&gt;</td>
<td>17.7</td>
</tr>
<tr>
<td>Germany</td>
<td>80.9</td>
<td>3.3</td>
<td>49</td>
<td>23.6</td>
<td>20.9</td>
<td>21.1</td>
</tr>
<tr>
<td>Japan</td>
<td>83.4</td>
<td>2.1</td>
<td>-</td>
<td>3.7</td>
<td>19.3</td>
<td>25.1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>81.4</td>
<td>3.8</td>
<td>46</td>
<td>11.8</td>
<td>18.5</td>
<td>16.8</td>
</tr>
<tr>
<td>New Zealand</td>
<td>81.4</td>
<td>5.2&lt;sup&gt;e&lt;/sup&gt;</td>
<td>37</td>
<td>30.6</td>
<td>15.5</td>
<td>14.2</td>
</tr>
<tr>
<td>Norway</td>
<td>81.8</td>
<td>2.4</td>
<td>43</td>
<td>10.0&lt;sup&gt;d&lt;/sup&gt;</td>
<td>15.0</td>
<td>15.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>82.0</td>
<td>2.7</td>
<td>42</td>
<td>11.7</td>
<td>10.7</td>
<td>19.0</td>
</tr>
<tr>
<td>Switzerland</td>
<td>82.9</td>
<td>3.9</td>
<td>44</td>
<td>10.3&lt;sup&gt;d&lt;/sup&gt;</td>
<td>20.4&lt;sup&gt;d&lt;/sup&gt;</td>
<td>17.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>81.1</td>
<td>3.8</td>
<td>33</td>
<td>24.9</td>
<td>20.0&lt;sup&gt;d&lt;/sup&gt;</td>
<td>17.1</td>
</tr>
<tr>
<td>United States</td>
<td>78.8</td>
<td>6.1&lt;sup&gt;f&lt;/sup&gt;</td>
<td>68</td>
<td>35.3&lt;sup&gt;d&lt;/sup&gt;</td>
<td>13.7</td>
<td>14.1</td>
</tr>
<tr>
<td>OECD median</td>
<td>81.2</td>
<td>3.5</td>
<td>-</td>
<td>28.3</td>
<td>18.9</td>
<td>17.0</td>
</tr>
</tbody>
</table>

<sup>a</sup> Source: OECD Health Data 2015.

<sup>b</sup> Includes: hypertension or high blood pressure, heart disease, diabetes, lung problems, mental health problems, cancer, and joint pain/arthrosis. Source: Commonwealth Fund International Health Policy Survey of Older Adults, 2014.

<sup>c</sup> DEN, FR, NETH, NOR, SWE, and SWIZ based on self-reported data; all other countries based on measured data.

<sup>d</sup> 2012  
<sup>e</sup> 2011
EFFECT METRICS
ANTI-COMPETITIVE EFFECTS OF COMMON OWNERSHIP
JOSÉ AZAR, MARTIN C. SCHMALZ, AND ISABEL TECU

Figure 1: HHI and MIHHI over time.

The HHI is the Herfindahl-Hirschman Index. We calculate the index as the sum of the market shares squared at a given route and year-quarter. We exclude international carriers and cluster carriers. The MIHHI is the modified HHI of O’Brien and Salop.
Ticket prices are at least 10% higher because of common ownership alone, compared to a counterfactual world in which firms are separately owned, or in which firms ignore the anti-competitive incentives of their shareholders

http://www.bc.edu/content/dam/files/schools/csom_sites/finance/Schmalz-031115.pdf
<table>
<thead>
<tr>
<th>Source of Rent</th>
<th>Amount of Rent (Rs. million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public investment</td>
<td>365</td>
</tr>
<tr>
<td>Imports</td>
<td>10,271</td>
</tr>
<tr>
<td>Controlled commodities</td>
<td>3,000</td>
</tr>
<tr>
<td>Credit rationing</td>
<td>407</td>
</tr>
<tr>
<td>Railways</td>
<td>602</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,645</strong></td>
</tr>
</tbody>
</table>
1) Public investment: The Santhanam Committee, pp. 11–12, placed the loss in public investment at at least 5 percent of investment. That figure was multiplied by the average annual public investment in the Third Five Year Plan.

2) Imports: The Santhanam Committee, p. 18, stated that import licenses were worth 100 to 500 percent of their face value. Seventy-five percent of the value of 1964 imports was used here as a conservative estimate.

3) Controlled commodities: These commodities include steel, cement, coal, passenger cars, scooters, food, and other price—and/or distribution-controlled commodities, as well as foreign exchange used for illegal imports and other unrecorded transactions. The figure is the lower bound estimate given by John Monteiro, p. 60. Monteiro puts the upper bound estimate at Rs. 30,000 billion, although he rejects the figure on the (dubious) ground that notes in circulation are less than that sum.

4) Credit rationing: The bank rate in 1964 was 6 percent; Rs. 20.3 billion of loans were outstanding. It is assumed that at least an 8 percent interest rate would have been required to clear the market, and that 3 percent of bank loans outstanding would be equivalent to the present value of new loans at 5 percent. Data source: Reserve Bank of India, Tables 534 and 554.

5) Railways: Monteiro, p. 45, cites commissions of 20 percent on railway purchases, and extra-official fees of Rs. 0.15 per wagon and Rs. 1.4 per 100 maunds loaded. These figures were multiplied by the 1964 traffic volume; 203 million tons of revenue-paying traffic originated in that year. Third plan expenditure on railroads was Rs. 13,260 million. There were 350,000 railroad goods wagons in 1964–65. If a wagon was loaded once a week, there were 17,500,000 wagons of freight. At Rs. 0.15 per load, this would be Rs. 2.6 million; 100 maunds equal 8,228 pounds so at 1.4 Rs. per 100 maunds, Rs. 69 million changed hands; if one-fifth of railroad expenditures were made in 1964–65, Rs. 2,652 million was spent in 1964; at 20 percent, this would be Rs. 530 million.
Kevin Murphy, Andrei Shleifer, and Robert Vishny using data from dozens of countries found that a 10% increase in the share of students concentrating in law was associated with 0.78% slower annual growth in per capita GDP.
In 2013, IEA estimated that consumer subsidies for fossil fuels amounted to US$548 billion, while subsidies for renewable energy amounted to US$121 billion.

Renewable energy is even more disadvantaged. Different kinds of subsidy can affect investment decisions in different ways in specific energy sectors.
Figure 3.6  Fossil-fuel savings from energy efficiency and fossil-fuel subsidy reform in the Bridge Scenario relative to the INDC Scenario, 2030

Oil: mb/d
-1.6 -1.2 -0.8 -0.4

Gas: bcm
-80 -60 -40 -20

Coal: Mtce
-200 -150 -100 -50

- United States
- European Union
- China
- India
- Southeast Asia
- Africa
- Middle East
- Latin America
- Rest of world

Savings from fossil-fuel subsidies
Savings from energy efficiency
FUEL ECONOMY STANDARDS

CAFE

AUTOS

OIL COMPANIES
HEALTH

PATENTS
DEVICE MAKER TAXES
DRUG COSTS
AG SUBSIDIES
SUGAR RENTS
ACA TAXES – SOME TAX ON RENTs
EXTRAS
GREAT NEWS, SIR! MR. OBAMA WANTS TO HELP STUDENTS OUT WITH THEIR COLLEGE LOANS!

WOOO! WOOOO! WE CAN RAISE TUITION AGAIN!

BRILLIANT MOVE, SIR? I WONDER WHEN THE COMMONERS WILL FIGURE THIS OUT.
MORE RENT DEFINITIONS

Classical economics, economic rent is any payment made (including imputed value) or benefit received for non-produced inputs such as location (land) and for assets formed by creating official privilege over natural opportunities (e.g., patents).

Neoclassical economics, economic rent also includes income gained by beneficiaries of other contrived exclusivity, such as labor guilds and unofficial corruption.

not

Producer surplus, or normal profit, both of which involve productive human action.

Opportunity cost, unlike economic profit, where opportunity cost is an essential component.

Economic rent should be viewed as unearned revenue.

Economic profit is a narrower term describing surplus income greater than the next best risk-adjusted alternative.

Unlike economic profit, economic rent cannot be eliminated by competition, since all value from natural resources and locations yields economic rent.
For labor economic rent can be created by the existence of guilds or labor unions (e.g., higher pay for workers, where political action creates a scarcity of such workers).

For a produced commodity, economic rent may also be due to the legal ownership of a patent (a politically enforced right to the use of a process or ingredient).

For occupational licensing, it is the cost of permits and licenses that are politically controlled as to their number, regardless of the competence and willingness of those who wish to compete in the area being licensed.

For most other production, including agriculture and extraction, economic rent is due to a scarcity of natural resources (e.g., land, oil, or minerals). When economic rent is privatized, the recipient of economic rent is referred to as a rentier.

By contrast, in production theory, if there is no exclusivity and there is perfect competition, there are no economic rents, as competition drives prices down to their floor.

Economic rent is different from other unearned and passive income, including contract rent.
Historically, theories of rent have typically applied to rent received by different factor owners within a single economy. Hossein Mahdavy was the first to introduce the concept of "external rent", whereby one economy received rent from other economies.

According to Robert Tollison (1982), economic rents are "excess returns" above the "normal levels" that are generated in competitive markets. More specifically, a rent is "a return in excess of the resource owner's opportunity cost". [7]

Henry George, best known for his proposal for a single tax on land, defines rent as "the part of the produce that accrues to the owners of land (or other natural capabilities) by virtue of ownership" and as "the share of wealth given to landowners because they have an exclusive right to the use of those natural capabilities."

The law professors Lucian Bebchuk and Jesse Fried define the term as "extra returns that firms or individuals obtain due to their positional advantages."

In simple terms, economic rent is an excess where there is no enterprise or costs of production.
Classical factor rent is primarily concerned with the fee paid for the use of fixed (e.g., natural) resources. The classical definition is expressed as any excess payment above that required to induce or provide for production.

"A payment for the services of an economic resource which is not necessary as an incentive for its production";[10] this can be simplified to when there is no enterprise given by the receiver of the economic rent

"Any payment that does not affect the supply of the input"; this can be simplified to when there are no costs of production by the receiver of the economic rent

"A payment to any factor in perfectly inelastic supply“

Neoclassical Paretian rent

Neoclassical economics extends the concept of rent to include factors other than natural resource rents.

"The excess earnings over the amount necessary to keep the factor in its current occupation." "The difference between what a factor of production is paid and how much it would need to be paid to remain in its current use."[13]

"A return over and above opportunity costs, or the normal return necessary to keep a resource in its current use."[14]

The labeling of this version of rent as "Paretian" may be a misnomer in that Vilfredo Pareto, the economist for whom this kind of rent was named, may or may not have proffered any conceptual formulation of rent.[15][16]

Monopoly rent

Some returns are associated with legally enforced monopolies like patents or copyrights. In addition, companies like Microsoft and Intel have important de facto monopolies that can be quite valuable. Some businesses, like public utilities, are by their nature monopolies.
Land rent
In political economy, including physiocracy, classical economics, Georgism, and other schools of economic thought, land is recognized as an inelastic factor of production. Rent is the share paid to freeholders for allowing production on the land they control.

Johann Heinrich von Thünen was influential in developing the spatial analysis of rents, which highlighted the importance of centrality and transport. Simply put, it was density of population, increasing the profitability of commerce and providing for the division and specialization of labor, that commanded higher municipal rents. These high rents determined that land in a central city would not be allocated to farming but be allocated instead to more profitable residential or commercial uses.

Observing that a tax on the unearned rent of land would not distort economic activities, Henry George proposed that publicly collected land rents (land value taxation) should be the primary (or only) source of public revenue, though he also advocated public ownership, taxation, and regulation of natural monopolies and monopolies of scale that cannot be eliminated by regulation.

Gross rent refers to the rent paid for the services of land and the capital invested on it. It consists of economic rent, interest on capital invested for improvement of land, and reward for the risk taken by the landlord in investing his or her capital.

Scarcity rent refers to the price paid for the use of homogeneous land when its supply is limited in relation to demand. If all units of land are homogeneous but demand exceeds supply, all land will earn economic rent by virtue of its scarcity.

Differential rent refers to the rent that arises owing to differences in fertility of land. The surplus that arises due to difference between the marginal and intra-marginal land is the differential rent. It is generally accrued under conditions of extensive land cultivation. The term was first proposed by David Ricardo.

Contract rent refers to rent that is mutually agreed upon between the landowner and the user. It may be equal to the economic rent of the factor.

Information rent is rent an agent derives from having information not provided to the principal.
MORE SMITH

The interest of the dealers [referring to stock owners, manufacturers, and merchants], however, in any particular branch of trade or manufacture, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, and absurd tax upon the rest of their fellow-citizens. (Adam Smith, *Wealth of Nations* (Amherst, New York: Prometheus Books, 1991), pages 219-220)

The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. (Smith, *Wealth of Nations*, page 220)

But though the interest of the labourer is strictly connected with that of the society, he is incapable either of comprehending that interest, or of understanding its connexion with his own. His condition leaves him no time to receive the necessary information, and his education and habits are commonly such as to render him unfit to judge even though he was fully informed. In the public deliberations, therefore, his voice is little heard and less regarded, except upon some particular occasions, when his clamour is animated, set on, and supported by his employers, not for his, but for their own particular purposes. (Smith, *Wealth of Nations*, page 218)
This monopoly has so much increased the number of some particular tribes of [manufacturers], that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and destruction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists. (Smith, Wealth of Nations, page 368)
Williamson’s Merger Trade-Off

Figure 9.10

- **Dollars per unit**
- **Quantity of hospital services (Q)**
- **AC₀ = S₀**
- **AC₁ = MC₁**

Diagram showing the trade-offs represented by AC₀ and AC₁.
(a) Reduced social surplus from a price ceiling

(b) Reduced social surplus from a price floor
Figure 3: Hart-Scott-Rodino Transactions and Investigations, 2005-2014

Number of Transactions

Transactions Reported (Left Axis)
Investigations in Which Second Requests Were Issued (Right Axis)

Source: DOJ & FTC, Hart-Scott-Rodino Annual Report (FY2014)