A Liberal-Libertarian Unholy Alliance

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Our political predicament is often framed as the gridlock resulting from polarization – the endless conflict between left and right. Accordingly, schemes to bridge or transcend this standoff have built-in appeal. We periodically witness the emergence of candidates or projects meant to energize some sort of new, vigorous ‘middle' that can get to work solving problems while extremist, partisan bickering falls by the wayside.

The latest effort in this vein is the "liberaltarian" project, now elaborated in a new book by Brink Lindsey and Steven M. Teles entitled *The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality*.

Lindsey hails from the libertarian Cato Institute, while Teles — the designated liberal in this partnership — is a professor of political science at Johns Hopkins University. Their mission is to provide an alternative to the demagogic populism of left and right, which they don't trouble themselves to distinguish.

The liberaltarians see themselves as an alliance of left and right that aims to purge what is called "rent-seeking" from the economy. The term rent-seeking comes from the economics literature and refers to efforts to create and exploit market imperfections that benefit narrow interests but otherwise perform no useful economic function.

One example is the extra profits accruing to monopoly suppliers of goods and services. A monopolist can charge a price above production costs (including the minimum, "normal" rate of profit required to keep it in business) through its ability to enforce a scarcity in what it sells — that is, by restricting output.

Given the presumption that lower prices are associated with a larger quantity of goods supplied (and vice versa), there's some point at which any further contraction or expansion of a company's sales reduces profits. If sales contract, the higher price that can be charged doesn't fully compensate for the loss of units sold. If sales expand, the extra units sold don't compensate for the lower price needed to sell the larger number of units. The "sweet spot" is the price that maximizes the monopolist's profits. It exceeds the price that would result in a competitive market, and results in less total output produced.

By definition, rent-seeking entails economic waste. In mainstream literature, some rents might serve a constructive purpose by drawing additional resources into a given market, resulting in an

expansion of supply and lower prices. The catch is that for that to happen, market entry by competitors must be feasible. If not, output will remain restricted and suppliers will earn rents that could be put to better uses.

Manipulating tax rules, subsidizing industries, and setting protectionist restrictions on imports are all examples of rent-seeking. So too are trade unions, minimum wage legislation, rent control, and in-kind benefits to the poor, such as food stamps.

The appeal of this focus on rent-seeking stems from the notorious rise in inequality and the stagnation of economic growth. Presumably, the former is of interest to the Left, while the latter is of interest to the Right. (Of course, there is left support for economic growth, but it's conditional.) For progressives, the sexy side of the issue is that some types of rent-seeking entail massive unearned benefits for the very wealthy and a very tangible waste of resources. So the seeds for left-right collaboration would seem to be there.

Devil in the Details

For illustrative purposes the book focuses on four leading cases in point, not meant to comprehensively cover the entire field of rent-seeking: financial regulation, intellectual property law, occupational licensing, and land-use restrictions. The authors argue that these are prime examples of rent-seeking that also exacerbate inequality. In some cases, the authors' argument for the increase in inequality is well-founded. It's hard to imagine the super-profits received by holders of patents and copyrights, or the benefits to banks from lax financial regulation, going to any but the wealthiest in society.

In other cases, however, their distributional argument is less solid. Take rent control. Rent control is thought to restrict housing supply, which pushes up housing costs in sought-after urban locations. The resulting bias favors existing owners at the expense of renters or aspiring owners. But this gets conflated with a bias toward higher-income families at the expense of lower-income families. There's also the fact that when housing supply is restricted, it reduces the affordability of urban housing — but living in cities also confers economic advantages to resident workers, since they tend to have higher wages.

The authors imply that very large reductions in economic growth result from such restrictions. But while it might be true that a massive influx into the cities would increase GDP, it doesn't follow that eliminating restrictions on housing supply would accomplish that.

The chain of reasoning here is flimsy. First, how much rent control is there, and how much housing supply does it actually restrict? Second, what exactly is the distributional profile of beneficiaries versus victims? Are the aspiring urban residents living meagerly in the benighted rings that surround some cities — or are they gentrifiers itching to push long-standing residents out of homes that fail to maximize locational rents?

Some rent-controlled apartments are inhabited by very low-income elderly persons — though fewer as the years go by and as more apartments age out of the regulation. But that also means rent control covers less of the housing stock over time, and therefore whatever negative effect it supposedly causes is already diminishing.

Thirdly, for the greater glory of the GDP, how many folks would much prefer to leave their economically benighted locations and move to the big city? There's an odor of Stakhanovite

logic in the authors' reasoning. The implied boost to economic growth would come from urban density (and associated "agglomeration economies"). But density can entail unpriced negative externalities — costs, in plainer lingo. The story Lindsey and Teles tell here is a little breezy.

The authors are on much firmer ground when they address local zoning laws. Zoning makes for income segregation and by extension, racial segregation, especially in suburbs. Explicit racial restrictions have been laid on top of this pattern. And segregation of this sort is the bane of all ambitions to reverse growing inequality of income and wealth, not to mention by race.

Zoning is a creature of local government and hard-wired into the state and federal constitutions. Here the authors offer useful discussion on potential responses, especially for legal experts. The problem is, opening up the suburbs does less for the authors' quantitative story about the great GDP benefits of a massive urban ingathering of workers.

Another case in point, according to the authors, is occupational licensing. Doctors and lawyers are the poster children for this type of restriction in the supply of professionals. The book is useful in painting this landscape, but this issue, too, presents some ambiguities, since not all professions are created equal.

Take beauticians, for example. This author's former wife once worked as an attorney-regulator for the District of Columbia. Her responsibilities included overseeing various professional licensing boards. She happened to become embroiled in a dispute between licensed beauticians, who had their own board, and hair-weavers, who worked without licenses. Note that both sides were predominantly African-American women, earning low- and middle-class incomes.

Strictly from the standpoint of income, we can assume that the licensed beauticians are privileged compared to the hair-weavers, on average. Making licensure easier for the hair-weavers would raise their income at the expense of the beauticians. Is that an improvement in the distribution of income to celebrate? It's also possible that the financial advantage resulting from the restricted supply of beauticians could have ripple effects for their families, both contemporaneously and in terms of the inter-generational transmission of wealth.

A similar concern arises in the historical paths of unionized industries. The power of unionism — an indisputable form of rent-seeking, according to mainstream economics — can be viewed as an important brake on inequality. To some degree, corporations were able to share rents with their employees, and strong unions played positive roles in progressive causes. A narrow focus on income snapshots doesn't do the broader picture justice. The pundit Mickey Kaus, before he went completely to seed, once usefully described this narrow approach as "money liberalism," in contrast to an appreciation of the social benefits of collective provision.

A Not-So-Grand Alliance

Politically, the authors call for coalitions of strange bedfellows to tackle cases of egregious rent-seeking. But it's a bit telling that one of their examples of left-right collaboration is the dubious duo of Cass Sunstein and Edward Glaeser, a pairing that to many would not seem strange at all. Telling, too, is their self-description as advocates of "anti-state, competitive egalitarianism."

Meanwhile, the depth of actual libertarian political support for this ostensibly libertarian agenda may be doubted. What can they really bring to the table? Aside from the occasional rhetorical display from Rand Paul, the libertarian impulse in the US Congress seems notably absent. On the

other hand, there's no lack of interest among Democrats in new ways to tilt right in the name of bipartisanship. The mostly likely target of "liberaltarianism," then, would seem to be weak-kneed, nudge-happy liberals, not barbaric Tea Partiers who've taken up residence in Trumpland.

It's useful to contrast the Lindey-Teles agenda with the work of the left-liberal economist Dean Baker, to whom they acknowledge their indebtedness. Baker's treatment of rent-seeking and inequality, presented in his book *Rigged: How Globalization and the Rules of the Modern Economy Were Structured to Make the Rich Richer*, begins where it should — with macro-economic policy to foster tight labor markets and upward wage pressure. When it comes to intellectual property, or retirement security, Baker looks to forms of social ownership. Where Lindsey and Teles struggle with the optimal architecture of financial regulation, Baker speaks of breaking up the big banks. In general, Baker's response to rent-seeking is left-facing. Lindsey and Teles are right-facing.

This distinction is important. Under capitalism, the market is the state and the state is the market. To remake one is to transform the other. Markets and states are constructed, not found in nature. On this, all agree. And yet the competitive market model of the economy from which rent-seeking theory derives continues to be used as a foundational point of reference. In general, it means a market with maximum ease of entry and exit for suppliers and an absence of labor combination. Since this mythical construct is far from a normative ideal, it's also limited as an analytical device.

The liberaltarian view acknowledges market deficiencies of interest to progressives but applies questionable weights to them and neglects more potent remedies. The Left has better answers — most of which our evanescent libertarians would reject. Rather than indulge the back-sliding tendencies of Democrats, the more logical course is to pry liberals away from their anti-state nostrums and their faith in the chimera of virginal, competitive markets.