

A culture of rent seeking

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Abstract Tullock [J Dev Econ 67(2):455–470, 1967] introduced the concept of rent seeking and highlighted the social costs associated with collecting and lobbying for or against tariffs, investing in human and physical capital to facilitate or protect against theft, and expending resources to establish a monopoly. A large portion of the rent-seeking literature suggests how formal and informal institutions impact for rent-seeking activities. Culture also affects rent seeking. Communities can have a *culture of rent seeking (CoRS)*, i.e., a perception shared by members of a society that having influence over political allocations is an important and potentially preferable source of private benefit than other avenues of pursuing economic gain. In this paper, we explore how culture affects the nature and level of rent seeking that a society pursues, and whether institutional shifts can strengthen or break down a *CoRS*.

Keywords Tullock · Rent seeking · Culture

1 Introduction

Tullock (1967) introduced the concept of rent seeking and highlighted the social costs associated with collecting and lobbying for or against tariffs, expending resources to establish a monopoly, and investing in human and physical capital to facilitate or protect against theft (e.g., training security officers or purchasing locks). As Tullock et al. (2002, p. 43)

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explained, rent seeking is “the use of resources for the purpose of obtaining rents for people where the rents themselves come from some activity that has negative social value.” Rent seeking can take a number of forms but is most commonly associated in the literature with lobbying, bribery and corruption. Of course, each of these activities could be socially productive under certain scenarios. But, they are frequently thought to be unproductive uses of resources to capture and redistribute wealth, rather than to create wealth. “Incentives for rent seeking are present whenever decisions of others influence personal outcomes or more broadly when resources can be used to affect distributional outcomes” (Congleton et al. 2008, p. 1). In other words, rent seeking will exist so long as some economic actors believe that rewards can be earned through it and view rent seeking as a legitimate strategy for pursuing rewards.¹ Because institutions define the incentives that actors face and culture shapes the way that actors understand their incentives, the question of how different institutions and cultures affect the nature and levels of rent seeking that we observe in different contexts becomes an important one.

Institutions are akin to the rules of a game and, so, sanction and prohibit certain activities, ascribing rewards to some activities and punishing others. As such, institutions are said to influence the types of activities people pursue and do not pursue. A large portion of the rent-seeking literature suggests how formal and informal institutions (e.g., rules around property rights, lobbying, voting, regulatory decision making, etc.) matter for rent-seeking activities. Tullock (1980), for instance, modeled rent seeking as a lottery contest, where he demonstrated that institutions (and technology) affect the parameters of the contest, which subsequently influence the size of society’s losses from rent seeking. Other studies examined how institutions affect the amount of resources invested into rent seeking (e.g., Congleton 1980, 1984; Applebaum and Katz 1987; Gradstein and Konrad 1999; Baumol 1990); how the size of the rents affects participation in rent seeking (e.g., Krueger 1974; Glazer and Hassin 1988; Murphy et al. 1991; Svensson 2000; Szymanski and Valletti 2005); and how opportunities for rent seek within bureaucratic hierarchies and other contexts can attract resources to rent seeking (e.g., Hillman and Katz 1987; Katz and Tokatlidu 1996; Konrad 2004). Similarly, Murphy et al. (1993) looked at how the absence of rule of law (measured as effectiveness of property right protection) could make rent-seeking activities more attractive within a country.²

Culture also affects rent seeking. Culture is a set of socially transmitted meanings bequeathed by a generation to their descendants. It is a lens through which we recognize and understand our environment and the available opportunities in front of us, and which frames our decisions between alternative strategies in the pursuit of our goals. Culture is,

¹ Two asides are perhaps useful at this stage. First, obviously, not everyone in a community needs to believe that rent seeking is advantageous and a legitimate strategy to pursue gain for rent seeking to occur in that community. It is enough that some actors view rent seeking in this way. At a minimum, the parties to the political exchanges involved in rent seeking, and those in a position to observe as well as curtail or prevent those exchanges who opt not to intervene, must at some level view the exchanges as legitimate. Second, by saying an economic actor views something as legitimate, we simply mean that the actor does not view it as out of bounds. We do not mean that the actor has or could articulate a fully worked out and consistent moral justification for a particular activity or set of activities.

² See Congleton et al. (2008) for an extensive overview of the rent seeking literature. This particularly complements our paper, as the authors sought to include papers that are consistent with the notion of institutional origins to rent seeking and that imply institutional reforms are necessary to lessen societal losses associated with rent seeking.

thus, distinct from and not reducible to informal institutions. In fact, culture influences how institutions are understood and experienced.³ Culture colors the way in which we decipher and navigate our environments, and thus can shape how we define and pursue rent-seeking opportunities. Consequently, how people perceive rent-seeking opportunities and the types of rent-seeking activities in which people engage may differ substantially across cultures.

The literature on rent seeking has tended to focus on the theory and application of rent seeking, measuring social losses associated with rent-seeking activity, modeling rent seeking as contests and exploring the parameters and application that relies on rational choice theory to elucidate the behavior of self-interested political actors and interest groups. Although some studies explicitly investigated rent-seeking activities in specific countries, the literature has not focused on how differential attitudes and habits across societies may shape rent seeking-behavior and, thus, how the types of rent-seeking activities pursued vary across societies. Members of one society can and do view certain efforts to capture rents as appropriate while members of other societies view the same efforts to capture rents as inappropriate.

While there a great deal that has been written on how institutions can reward or retard rent seeking, there is relatively little written on how culture affects rent seeking. Tullock, for his part, was silent on how culture affected rent seeking, except in a few of his autobiographical writings (see, for instance, Tullock 1989, p. 92). There are, of course, some notable exceptions. For instance, Hillman and Ursprung (2000) have looked at how a country's political culture can affect economic performance, with the degree to which rent seeking is viewed as an attractive strategy for economic gain being an important channel connecting culture and economic outcomes. Additionally, a few studies have looked at cultural markers like religion and informal institutions to explain differing levels of corruption, political entrepreneurship and rent seeking (e.g., Knack and Keefer 1997; Paldam 2001; Morck and Yeung 2004). Others examined how the level of corruption in a person's country of origin is linked to their inclination to engage in corrupt behavior in their country of residence (e.g. Fisman and Miguel 2007; Barr and Serra 2010; Debacker et al. 2015). And, still more studies have looked at how rent seeking differs across countries (e.g., Murphy et al. 1991, 1993; Shleifer and Vishny 1993; Montinola and Jackman 2002; Torvik 2002). The literature that has explored the relationship between culture and rent seeking focused on how culture can be manipulated as a means of rent seeking. For example, Leeson (2013) examined how the Catholic Church used people's religious beliefs and vermin trials, i.e., the ecclesiastic courts to try rodents and insects for property crime, as legal entities to extract tithe revenue and to enforce tithe compliance in Renaissance Europe. Similarly, Leeson (forthcoming) described how the Minneapolis elite exploited tax deductibility of charitable donations to increase the costs for entrants to the milling, lumber and other related industries, and how they disguised these efforts under norms of charitable giving and a culture of altruism.⁴ But, to the best of our knowledge, none of these studies has explored how culture as a lens through which we interpret our circumstances can shape rent seeking.

³ As Storr (2013, p. 89) explains, culture “gives content and character to institutions. The ‘same’ institutions are, thus, likely to have different meanings and to be given different moral weights in different cultures. For example, the moral meanings and import associated with failing to greet a subordinate as you enter your workplace, or with lying to a potential customer, or with stealing office supplies from your place of employment are likely to be culturally specific even if there exists very similar if not identical *de jure* and *de facto* rules around greeting strangers (even subordinates) in the morning, and against lying (even to potential customers), and against stealing (even from your workplace).”

⁴ Calabresi (2016) referred to this as the legendary Minneapolis 5% tradition.

In this paper, we explore how culture affects the nature and level of rent seeking that a society pursues, and whether institutional shifts can strengthen or break down a *culture of rent seeking* (*CoRS*). By a *CoRS*, we simply mean a perception shared by some members of a society that having influence over political allocations is an important and potentially preferable source of private benefit relative to other avenues of pursuing economic gain.⁵ Section 2 discusses how different sets of institutions leads rent seekers to pursue different rent-seeking strategies and activities. Next, in Sect. 3, we discuss how culture affects rent seeking and, specifically, how culture shapes how people interpret and pursue rent-seeking opportunities. In Sect. 4, we explore how a *CoRS* might persist but also might be transformed (albeit slowly) in the wake of an institutional change. Here, we present South Korea's recent experience with a new anti-corruption law implemented in 2016 to illustrate how long-ingrained traditions and customs pertaining to business entertainment are often slow to change but can change through an institutional shift. Section 5 offers concluding remarks.

2 Institutions and rent seeking

North (1990, p. 3) defined institutions as “the rules of the game in a society” and “the humanly devised constraints that shape human interaction.” They are the formal constraints (such as laws and contracts), informal constraints (such as codes of conduct and conventions) and enforcement rules that provide structure to social, political and economic exchanges. Institutions, North explained, shape the incentives that individuals face. Different institutions will permit and reward certain activities and prohibit and punish certain other activities. Through these incentives, institutions directly determine the types of exchanges and exchange structures that will occur within a society. “Both the formal and informal institutional constraints result in particular exchange organizations that have come into existence because of the incentives embodied in the framework and therefore depend on it for the profitability of the activities that they undertake” (North 1990, p. 8).⁶

North's approach to institutions implies that institutional constraints can both induce and curtail rent-seeking activities (via incentives), and that different forms of rent-seeking activities will emerge as a consequence of the different combinations of institutional constraints. As Congleton et al. (2008, p. 30) explain in their overview of the literature:

The rules of a rent-seeking contest [i.e., institution] determine both the feasible range of rent-seeking methods and the net returns from private investment in rent-seeking

⁵ This definition is consistent with that offered by Hillman and Ursprung (2000). Additionally, as we note below, while more than a single member of a community must view rent seeking as legitimate for us to suggest that a *CoRS* exists, not all members of a community need possess a *CoRS* for us to say that a *CoRS* exists in that community. It is, however, likely that the more people there are in a community who share the view that a particular form of rent seeking is legitimate, the more incidences of that form of rent seeking will occur in that community.

⁶ In this paper, we employ North's (1990) definition of institutions and his model of institutional change. However, this is not the only definition of institutions in economics. For instance, Greif (2006, p. 30) defined an institution as “a system of social factors that conjointly generates a regularity of behavior,” or, more specifically, “a system of rules, beliefs, norms, and organizations that together generate a regularity of (social) behavior,” where these factors are “man-made, nonphysical factor that is exogenous to each individual whose behavior it influences.” Greif believed institutions are endogenous and represent the equilibria, not the rules, of a game.

contests. ... To the extent that existing formal and informal rules can be modified or new formal rules introduced, rent-seeking expenditures can be reduced (or increased) through institutional design.

Since institutions shape incentives, some institutional environments could encourage rent seeking while others discourage it. Moreover, different institutional structures give rise to different kinds of rent seeking. Anecdotally, this appears to be true. Businesspeople in certain countries (e.g., Russia) routinely make requests for favors or favoritism to family members or friends who are members of the parliament or positions of power in the state bureaucracy. In other countries (e.g., Denmark), however, the same action is considered a serious criminal act and results in imprisonment, social sanctions and/or other repercussions. Similarly, formalized lobbying is an ordinary, regulated visible political activity in some countries (e.g., the USA), but is less formalized in others (e.g., France, until quite recently). The practice of bribery, for instance, is so embedded into contemporary life that the Indonesians developed words to refer to different types of bribery.⁷ Drivers in Indonesia provide bribes to the police during routine traffic stops to avoid spending the day at the police station. Similarly, permit applicants pay bribes to make sure decisions on their paperwork is received on a timely basis. Yet, bribes of any kind are punishable by law with fines and/or imprisonment in North America and multiple European and Asian countries. In the late 1990s, friends earning money through friends in high public offices and money earned by public figures through their positions were still usual occurrences in post-Soviet Russia.⁸ By contrast, government officials in many western democracies recuse themselves from matters that might affect their close connections, and place their investments and business holdings in blind trusts to avoid conflicts of interests and to prevent suspicion of corruption.

Research on rent seeking confirms how institutional forms impact the types of rent-seeking activities members of a society pursue. Persson (2002, p. 884), for instance, reported that majoritarian elections seem to be associated with less corruption than proportional elections; “[e]mpirically, electoral rules and political regimes do seem to systematically influence the choice of fiscal instruments, as well as the incidence of corruption.” Similarly, Chen et al. (2011, p. 240) showed that, in China, “private firms are more likely to establish political connections in regions in which the market is less developed and the

⁷ In the Indonesian language, for instance, there are: bribes given to soothe or ease the process (*uang pelican*); bribes to look the other way (*uang rokok*); bribes given with the expectation that a promise will be kept (*titipan*); bribes paid in gratitude for a rendered service (*uang terima kasih*); a cut from a profitable, but illegal, activity (*jatah*); the opportunity to receive a cut from government funding or project (*proyek*); and several others (Collins 2007).

⁸ For instance, in the late 1990s, the Russian central bank was engulfed in a scandal: an offshore company, speculated to be controlled by private Russian business interests, has secretly managed billions of dollars of the country’s foreign exchange reserves over the course of 7 years. When Boris Fyodorov, the former finance minister, questioned this arrangement, he was told to mind his own business. “It was, he says, a money-making scam for the government’s cronies and corrupt officials in the Russian Central Bank. ‘They were simply allowing friends to earn handsome profits’” (Reeves 1999). IDEM Foundation (1998) observed:

An anti-corruption law was adopted by the Russian duma (parliament) in November 1997. The law did not designate as illegal the participation of an official figure in commercial activity for personal benefit. The law did not designate as illegal the use of an official position to divert state resources into private commercial entities for personal benefit, with the involvement to this end of relatives and/or other persons. The law did not designate as illegal the granting of privileges to private commercial structures by an official figure for personal benefit.

government wields more power in allocating economic resources.” Additionally, Shleifer and Vishny (1993) argued that economic and political competition can mitigate the likelihood of private agents and government officials to engage in bribery and corruption.

Anderson and Boettke (1997, p. 42) argued that the Soviet economic system, in practice, resembled the mercantilist economies of the sixteenth and seventeenth centuries in Europe:

Although the operational reality of the Soviet-style economy was empirically inconsistent with major assumptions of the socialist model of a centrally planned system, this reality was consistent with the model of the mercantilist society. The mercantilist model includes the following major elements: (1) the government is headed by an autocrat; (2) this autocratic state extensively intervenes in the private economy and sponsors a large variety of monopolies and cartel arrangements; (3) positions of monopoly status as well as various other restrictions on competitive entry are sold by the autocrat as a means of raising revenue; and (4) the autocrat employs a specialized bureaucracy whose function is to monitor various monopolist-franchisees to ensure that they do not behave “competitively” in relation to one another, and also to enforce the barriers designed to deter outside entrants.

Like the autocrat in the mercantilist system, Anderson and Boettke claimed, the Soviet government provided monopoly privileges to favored individuals, and employed a mix of coercion and monetary rewards to reduce the chances of any challenges against its rule. This was beneficial for the state, as assigning privileges (not cash) to supporters: (a) turned them into residual claimants of the venal revenue, where they thereby had incentives to support the system; (b) reduced the likelihood that they would conspire or participate in plans to overthrow the system; and (c) made it easier for the state to monitor and control their activities. Because the state was awarding monopoly privileges, nepotism, bribery, corruption and party loyalty were effective rent-seeking activities within the Soviet system. In North Korea where a variation of the Soviet system persists today, the political elites engage in the same rent-seeking activities to garner favor and remain close to the dictatorship. In contrast, more democratic and capitalistic societies have established laws and regulations against overt bribery and the brazen exchange of government-supplied privileges for cash and other non-pecuniary benefits. As such, members of these societies tend to engage in other, less overt types of rent seeking, such as lobbying, logrolling and coalition building (to seek subsidies, bailouts, import restrictions and other privileges).⁹

Taking inspiration from how rent seeking evidently increased with political liberalization in post-socialist societies, Hillman and Ursprung (2000) explained how economic decline is linked to increased political competition. The transition from socialism to capitalism, they contended, significantly increased available rents through privatization. Not only did these societies have ill-defined property rights that continued to be poorly protected throughout the privatization process, those who held public offices used their positions to bestow privileged political favors for personal gain. Hillman and Ursprung designed a nested contest model where political insiders competed for rents while political outsiders simultaneously competed to re-position themselves as insiders. Their model explains how political liberalization, which gave political outsiders direct access to the contests for rents, increased the social costs associated with rent seeking and caused economic

⁹ Again, lobbying, logrolling and coalition building are not necessarily rent seeking. They are only rent seeking if the expenditures on these activities are socially wasteful or their ends that they are aimed at are not socially beneficial.

decline in post-socialist societies. Hillman and Ursprung's findings suggested that societies with different institutional constraints—in particular, better defined property rights, better property rights protection and/or social norms that prohibit the use of public office for personal gain—would likely have experienced less rent seeking during the political liberalization process.

Also, Anglica and Tarko (2014) argued that different types of rent-seeking societies are driven by different ideologies: classical mercantilism in Western Europe from the sixteenth to the eighteenth centuries was fueled by religion, real-life socialism was fueled by utopian socialism, and state capitalism can be fueled by nationalism. Similarly, Anglica and Tarko (2014) argued that the “key distinguishing feature” of crony capitalism “is that the prevailing rent-seeking structure is legitimized by means of a populist ideology.” In addition, they examined how countries develop different variations of crony capitalism and rely on their level of development, and emphasized how property rights can explain these differences.

Baumol's (1990) discussion of how different institutional environments lead to different kinds of entrepreneurship—productive wealth-generating entrepreneurship in some contexts and unproductive and destructive entrepreneurship (i.e., rent seeking) in others—is one of the most important discussions on institutions and rent seeking. Baumol (1990, p. 894) argued that entrepreneurs not only exist but play an important role in every society. As such, differences in the level of entrepreneurship cannot explain differences in economic performance. Instead, Baumol explained, differences in economic outcomes are driven by the roles that entrepreneurs play in different societies. “There are a variety of roles among which the entrepreneur's efforts can be reallocated,” Baumol (1990, p. 894) wrote, “and some of those roles do not follow the constructive and innovative script that is conventionally attributed to that person.”

According to Baumol (*ibid.*), whether an entrepreneur engages in productive or unproductive activity depends on the “rules of the game.” When institutions reward profit seeking, entrepreneurs engage in productive activities like innovating, cost cutting, etc. When institutions reward rent seeking, entrepreneurs engage in unproductive parasitical activities. The important point for Baumol is not only that the rules matter but that changes in the rules can lead to changes in the allocation of entrepreneurial talent. The existence of rent-seeking entrepreneurship is dependent, in part, on the existence of rules that discourage productive entrepreneurship and reward rent seeking.

In short, the literature suggests that entrepreneurs will engage in rent seeking when it is profitable to do so, and will not when alternatives are more profitable. People who reside in distinct institutional environments will pursue different rent-seeking activities. While institutions do define attractive opportunities and while alert entrepreneurs do act upon those opportunities, entrepreneurs themselves are not empty slates. They have their own beliefs and perceptions. The beliefs and perceptions that entrepreneurs possess can (and do) influence the range of activities that entrepreneurs view as legitimate and those activities that they view as out of bounds. In other words, culture can also shape rent-seeking opportunities and activities.

3 Culture and rent seeking

As discussed above, institutions define the nature and boundaries of the game, thereby delineating the range of activities that are encouraged and discouraged. The way that the game is played, however, will depend in part on the players. Using a competitive team sports analogy, North (1990, p. 74) described that “a critical factor is the skill of players

and the knowledge they possess of the game. Even with a constant set of rules, the games played will differ if they are played between rank amateurs and professionals or between a team in its first game and the same team in its one hundredth game together.” Some of this knowledge could be explicitly communicated, but some of it is tacit and requires people to learn it through practice. The stock of knowledge, skills and learning that people amass will reflect the incentives embedded within their institutions and will thus be influenced by the institutional constraints and rules themselves. Because culture is a set of socially transmitted meanings bequeathed by a generation to their descendants, it can impact how members of a society behave, process information and pursue available opportunities. The precise nature of these opportunities and subsequent activities people pursue will differ across societies depending on not only the combination of the formal constraints, informal constraints and enforcement rules, but also depending of the cultural frames that economic actors employ.

In economics, culture is most popularly understood as a form of capital or as an informal institution. As capital, it is interpreted as culture-specific knowledge that shapes our experiences and the opportunities that are available. It is an endowment of views, attitudes and dispositions that aid our economic pursuits (Bourdieu 2002). Individuals get their “initial endowment of cultural capital by virtue of [their] belonging to a particular class and [they] grow it through efforts at self-improvement” (Storr 2013, p. 42). Following Guiso et al. (2006), economists who conduct empirical studies of the relationship between culture and economic activity tend to use the answers to one or a few questions about attitudes or values on cross-country surveys as proxies for culture and cultural differences. Cultures are said to either possess the attitudes and values that promote economic growth or do not possess them.

Applying game theoretic terminology, Greif (1994, p. 915) explained that there is a subset of “rational cultural beliefs, which capture people’s expectations with respect to actions that others will take in various contingencies. ... Past cultural beliefs that sustain Nash equilibria provide focal points in repeated social interactions or when there are multiple equilibria.” In short, culture as an informal institution is a collection of shared attitudes, beliefs, values and preferences among a group of people that sets certain behavioral expectations and governs their interactions.¹⁰

Undeniably, there are advantages and something inherently seductive to economists about perceiving culture as a resource or as an institution. But, as Storr (2013) argued elsewhere, viewing culture in this manner fundamentally misconstrues how it directly colors economic behavior. Culture is not a tool that some groups possess and others do not. Viewing culture as a form of capital assumes that individuals and societies with the “right” cultural traits will outperform individuals and societies with the “wrong” cultures. In this view, then, the success of an individual or group depends on whether they have the right culture or not; those who do not have the right culture are likely to fail. Applied to the consideration of a rent-seeking society, this interpretation of culture implies that some societies can evolve a *CoRS*, and that these societies cannot ever design a strategy or solution to curb rent seeking unless they commit to high levels of monitoring and significant legal sanctions (both of which is unlikely given this view of culture).

¹⁰ See Alesina and Giuliano (2015) for a comprehensive overview of empirical studies in economics that investigates culture’s impact on economic outcomes, and explores the relationship between culture and (formal) institutions.

But, a culture, arguably, is not a tool. It is in the nature of a tool that you can pick it up and use it at will and discard when it is no longer useful. Culture, however, is not something that individuals employ and set aside at will, nor is it something from which they could pick and choose any combination of desired culture traits. Culture “colors our decisions regarding which tools (strategies) are available to us and which tools we should utilize as we pursue our goals” (Storr 2013, p. 55). It “influences how individuals identify and conceive of the tools that they have at their disposal” and “their opportunities and the resource they might utilize in trying to take advantage of those opportunities” (Storr 2013, p. 57). Culture is something that frames the way individuals experience and make sense of the world against their wills or rather outside of their wills. In fact, culture is so ubiquitous that we are often unaware when, where and how our cultures are at play when we make decisions and voice our opinions.

Viewing culture as tool, thus, limits our understanding of how culture colors our actions. Viewing culture as an informal institution limits our comprehension of the interplay that may occur between culture and institutions, and obscures the possibility that people (within a society and across societies) may experience the same formal and informal institutions differently. The same institution can “have different meanings and to be given different moral weights in different cultures” (Storr 2013, p. 89). And, “institutions are not only culturally derived and supported, but are also culturally filtered; the rules are necessarily seen through culture” (Storr 2013, p. 89). In other words, culture and institutions are both separate, yet linked entities. The problem about viewing culture to be an institution is that it “collapses the important distinction between institutions (i.e., point of orientations) and culture (i.e., patterns of meanings)” (Storr 2013, p. 55).

Institutions, if they are to stick, must fit the cultural context where they are being introduced. Recall North (1990, p. 3) has argued that institutions “define and limit the set of choices of individuals.” They guide human interactions by adding structure and by lessening uncertainty. “Good” institutions that have proven their worth in other societies, however, may not perform optimally and as intended in a particular society if they are unsuitable for its pre-existing economic habits and policies (Lavoie and Chamlee-Wright 2000; Chamlee-Wright 2005; Boettke et al. 2008). “If we were to introduce some new set of rules that bore no relationship to the cultural context in which people operate from day-to-day,” Chamlee-Wright (2005, p. 15) explained, “there would be little chance such a system of rules would bring about the kind of coordination and complexity we see in the extended order. If they are to work, the rules of society must fit well within and must be supported by the cultural context.”

Viewing culture as a lens, then, adds to our understanding of how individuals experience and navigate their environments. Important differences in the meanings that individuals from different groups attach to their actions and environments are only readily explainable if we employ this view of culture. For instance, Spam, the canned cooked meat product, is a highly valued and popular product among South Koreans, and is frequently gifted to family and friends during major national holidays (Lewis 2000; Choe 2014). To non-Koreans, the apparent popularity of Spam is confusing, especially since South Koreans are now sufficiently wealthy to purchase more expensive and arguably superior meat products on a regular basis. But American soldiers first introduced Spam to Koreans during the Korean War, in a time period when protein was generally scarce. At the time, only affluent Koreans could gain access to Spam. Over time, Spam became a commodity that signaled affluence (and wishes for affluence) and continues to be highly valued today. The Korean experience with Spam illustrates how cultural meaning came to be attached to a product because of the way in which it was used in a particular set of circumstances.

Culture, it is important to note, is also not a static set of values and attitudes that are endowed to us at birth. Culture evolves alongside us, as we live and learn from new experiences, opportunities, knowledge and other people. Additionally, while institutions are mediated through our cultural lens, cultures can and do (eventually) change when institutions change. Fisman and Miguel (2007), for instance, analyzed the parking behavior of United Nations employees in New York City before and after a rule changed in 2002 that allowed local parking enforcement authorities to seize diplomatic license plates. Prior to this legal change, diplomatic immunity exempted diplomats and their families from paying parking fines and generated a unique environment within which their actions appeared to only be restrained by their cultural frameworks alone. Stated another way, prior to the legal change, differences in culture are the only plausible explanations for the observed differences in the parking behavior of the diplomats from different countries. These diplomats faced the same minimal institutional constraints (e.g., there was no real sanction for receiving and not paying parking tickets) but possessed different cultural frames (e.g., some viewed the breaking of at least minor laws as acceptable and some that did not where there was no real legal sanction). Fisman and Miguel found that in this legal environment, diplomats from highly corrupt countries often parked illegally and amassed significantly more unpaid parking violations than diplomats from less corrupt countries. Once parking authorities could seize diplomatic license plates, however, this behavior subsequently reduced by 98%. DeBacker et al.'s (2015) study on tax evasion by foreign-owned corporations in the USA displayed similar dynamics. Corporations with foreign owners from more corrupt countries, they found, engaged in more tax evasion than corporations with foreign owners from less corrupt countries. While stricter enforcement measures dramatically improved tax compliance, they were less effective in reducing tax evasion by corporations with owners from highly corrupt countries. Both Fisman and Miguel (2007) and DeBacker et al. (2015) illustrated how diplomats and corporate owners brought their cultural frameworks with them from their home countries. They also both demonstrate that culture can be rather sticky but also somewhat malleable.

Storr (2013) described culture as the framework that allows us to make sense of the world, including our interactions with and actions of those around us. Primarily concerned with market institutions, Storr (2013, p. 31) argued that:

[c]ulture (partly) determines who can buy and sell, when a deal between them is properly consummated, which items buyers and sellers can trade, and what counts as an acceptable unit of exchange. Moreover, culture (partly) determines why entrepreneurs notice some opportunities and not others as well as why they chose to pursue certain paths to exploit the opportunities that they notice and not others.

Ultimately, culture functions as the backdrop that biases how we comprehend and navigate our worlds, and therefore becomes the context within which we understand and experience institutions.¹¹

¹¹ Granted, although North (1990, p. 37) primarily regarded culture as an informal constraint in an institutional context, he emphasized how “the cultural filter provides continuity so that the informal solution to exchange problems in the past carries over into the present and makes those informal constraints important sources of continuity in the long-run societal change.” He acknowledged that informal rules, such as culture, convey tacit knowledge; merely having explicit knowledge about formal rules would not suggest how an individual should act (and whether his actions would be accepted) within a particular society.

Storr (2013) recommended that we operationalize culture within economics by adopting a modified Weberian approach. Weber ([1905] 2002, [1905] 2011) argued that a particular economic spirit animates every economic system. These economic spirits are essentially models of successful economic strategies that suggest how relying on hard work, connections or luck (or deploying some other strategy) is the most likely path to economic success.¹² Storr (2013, p. 69) modified this notion; “multiple economic spirits can (simultaneously) shape the economic practices that exist in a particular context.” Using the Bahamas as an example, Storr (2004, 2013) argued that its economic culture could be understood with the aid of two competing culturally embedded and reinforced economic attitudes: the *spirit of Rabbyism* (i.e., the belief that cunning and deception are the most profitable avenues to economic success) and *the spirit of Junkanoo* (i.e., the view that embraces hard work ethic, creativity and productivity). Explaining the culture of markets in the Bahamas with just one of these two economic spirits, Storr contended, would have been insufficient and misleading.

Economic systems differ from one another across time and place partly due to differences in institutions, and partly from the differences in the economic spirits that inhabit those markets. The different flavors we observe between similar economic systems are different in part because different economic spirits animate each system. Specific economic spirits may thrive in certain economic systems but might wither in others. For example, we should expect there to be a vibrant culture of entrepreneurship in an institutional context that encourages enterprise. And, we should expect an institutional regime that oppresses entrepreneurship to have a similarly deleterious effect on the entrepreneurial spirit of the members of that community. Likewise, certain market institutions may only flourish when animated by certain economic spirits, but merely limp forward with others. In other words, the economic form and economic spirit(s) must complement each other to be successful.

With this backdrop, a *CoRS* can be defined as an economic spirit that views particular forms of rent seeking as acceptable and effective strategies for attaining economic success. It is a perception shared by members of a society that having influence over political allocations is an important and potentially preferable strategy for pursuing private benefit than other avenues of pursuing economic gain.¹³ Understood in this way, a *CoRS* can be said to have the following characteristics.

Before proceeding, it is important to note that our goal is to outline the characteristics in as general a way as possible that would allow us to identify a *CoRS*, to explore what it means to say that there exists a *CoRS* in some particular place in a particular time and to understand the limits of this characterization. As such, we purposefully avoid (except where we offer examples) specific forms of rent seeking in the list of characteristics below. Additionally, many of the characteristics listed below are true of all economic cultures (beyond simply a *CoRS*). But, were they to be excluded, we would

¹² As Weber ([1905] 2002, [1905] 2011) explained, an “economic spirit” is a shared perception of how economic success is attained and what economic success looks like. It could alternately be described as an economic culture or a culture of enterprise. In his famous book, *The Protestant Ethic and the Spirit of Capitalism*, he described the West as possessing a spirit of capitalism characterized by a worldly asceticism that was derived from Calvinism. But, he also noted that different economic spirits were likely to exist in different times and places.

¹³ For the purposes of this paper, we are going to assume that observed instances of corruption and lobbying are potentially rent seeking, and that an institutional environment that incentivizes these activities and a cultural environment that “encourages” these activities can be described as a rent-seeking society with a *CoRS*.

have only an incomplete picture of the characteristics of a *CoRS*. Following the list of characteristics, we tease out what we mean by a *CoRS* using the example of the *CoRS* that seems to exist in Louisiana.

Characteristic 1: A *CoRS* will legitimize and orient the members of a society toward certain rent-seeking activities.

A society's institutional environment determines in part the size of available rents and the profitability of various rent-seeking activities. But, the existence of rent seeking, even at high levels, is not enough to conclude that a society has a *CoRS*. As such, a *CoRS* is distinct from the institutions that encourage and discourage rent seeking. In order to conclude that a *CoRS* exists, it is not even necessary that a significant portion of that community must be alert (in the Kirznerian sense of alertness) to opportunities to succeed through rent seeking, and view rent seeking in some form as a normal and/or legitimate activity. It is enough that some members of the community view rent seeking in this way. Pointing to the existence of a *CoRS* in some community is to make a claim about the existence of a particular kind of economic culture shared by some members of that community. While the presence of high levels of rent seeking is not enough to conclude that a *CoRS* exist, the more people in a community who share a *CoRS*, the more commonplace the forms of rent seeking that are legitimated within that *CoRS*.

Kirzner (1973) has posited that entrepreneurs are alert to profit opportunities and has argued that it is because of this alertness that they notice and are able to exploit these opportunities. Lavoie (1991), Chamlee-Wright (1997) and Storr (2004, 2013) have argued that culture can affect how entrepreneurs perceive their available opportunities as well as the strategies that they employ in order to exploit them. In societies where there is a *CoRS*, some members of that society are particular alert to opportunities to rent seek. Individuals in these societies are then likely to discover the availability of rents and be attuned to the various paths that can be pursued to secure those rents.

In societies where there is a *CoRS*, some members of those societies will view certain rent-seeking activities as acceptable or legitimate paths for achieving economic success. For instance, a definite *CoRS* can be said to exist in societies where bribing public officials is an acceptable and routine part of doing business. A *CoRS* can also be said to exist in societies where lobbying to secure monopoly privileges or investing in capturing monopoly rents is viewed as a valid business strategy. A *CoRS* can be said to normalize and legitimate rent-seeking activities. By normalizing and legitimating certain practices, the existence of a *CoRS* will lower any mental costs associated with participating in these activities.

Characteristic 1a: It is acceptable for citizens and policy makers to buy and sell policies and privileges in communities where a *CoRS* exists.

The buying and selling of policies and privileges is normal and legitimate in communities where a *CoRS* exists. In these communities, it might be acceptable for large corporations to lobby public officials for subsidies, bailouts, targeted tax breaks and government contracts as well as regulatory advantages and protections like monopoly status or trade barriers. In these communities, it might be acceptable for local officials to demand bribes of citizens hoping to avoid certain rules (e.g., from traffic laws to workplace safety requirements) or to gain certain privileges (e.g., licenses and permits). Rather than the individuals in these communities who engage in these political exchanges receiving legal or social sanctions, where a *CoRS* exists, these individuals are, at worst, tolerated and their successes celebrated.

Mitchell (2014) outlined the various forms that these privileges can take and the economic consequences of the various forms of government favoritism. As Mitchell (2014, 1) explained, there is:

a long list of privileges that governments occasionally bestow upon particular firms or particular industries. At various times and places, these privileges have included (among other things) monopoly status, favorable regulations, subsidies, bailouts, loan guarantees, targeted tax breaks, protection from foreign competition, and non-competitive contracts.

These governments granted privileges, regardless of the form they take, are pathological (Mitchell 2014, p. 37). As he pointed out, not only do they depress long-term economic growth, but they create a vicious cycle of privilege where the availability of government-granted privileges supports the emergence of a *CoRS* which in turn leads to an increase in the demand and supply of government-granted privileges.¹⁴

This is linked, of course, to the concept of cronyism. Anglica and Tarko (2014) pointed out that cronyism is used in the literature on rent seeking in three distinct but related ways. First, cronyism can be used to describe a particular kind of social relation, one where personal and family ties play an important role in employment decisions, business dealings and various efforts to capture rents. Second, cronyism can refer to a political-economic system where the political authorities who make and enforce economic policies demand and bestow highly valued favors. Crony capitalism, like state capitalism or mercantilism, then, is simply a variant of the rent-seeking society. Third, cronyism can be used to describe the consequences of the growth of regulations. As the number of regulations increases, policy makers are increasingly vulnerable to the pressures of special interests and the necessity of picking winners and losers. The existence of a *CoRS* is both a cause and a consequence of the kinds of cronyism highlighted above.

Ironically, the existence of a *CoRS* can lead to a perception that cronyism and capitalism are necessarily linked. Storr (2002), for instance, argues (albeit using different terminology) that a *CoRS* exists in the West Indies where the models of economic success in the region's cultural texts tend to reference corruption and privilege rather than hard work. If these cultural texts are to be believed, the successful entrepreneurs in this context are all politically connected. As a result, "entrepreneurs and/or potential entrepreneurs who feel that their opportunities will be restricted unless they submerge themselves in this insidious system of political favors and favoritism no longer become the engine for economic transformation that they otherwise would" (Storr 2002, p. 13). Tella and Macculloch (2009) similarly argued that where citizens believe that corruption is high, they tend to view capitalism as unfair, believe that the rich are rich because of luck or corruption, and will likely favor increased regulations and government ownership of business and industry. The existence of a *CoRS* can undermine the cultural attitudes needed to support entrepreneurship, markets and economic growth.

¹⁴ As Mitchell (2012, p. 30) wrote, "[p]rivileges limit the prospects for mutually beneficial exchange—the very essence of economic progress. They raise prices, lower quality, and discourage innovation. They pad the pockets of the wealthy and well-connected at the expense of the poor and unknown. When governments dispense privileges, smart, hardworking, and creative people are encouraged to spend their time devising new ways to obtain favors instead of new ways to create value for customers. Privileges depress long-run economic growth and threaten short-run macroeconomic stability. They even undermine cultural mores, fostering cronyism, blurring the distinction between productive and unproductive entrepreneurship, and eroding people's trust in both business and government."

Characteristic 2: Cultures of rent seeking are likely to differ across times and places.

As hinted at above, there is no singular *CoRS*. The *CoRS* that exists in one period or context can be quite distinct from the *CoRS* in another time and place. For instance, country A might have a *CoRS* that allows for the bribing officials while country B's *CoRS* might view the use of campaign contributions to secure rents as legitimate but offering bribes to officials as illegitimate. Similarly, a *CoRS* might have always existed in country C but the entrepreneurs in that country who were once alert to opportunities to establish monopolies might now be alert to opportunities to secure tariffs and other protections. Additionally, the strength of a *CoRS* can wax and wane over time and place, stronger in certain areas or periods and weaker in others.

Characteristic 3: A *CoRS* is likely to be one of a number of “economic cultures” or models of economic success in the societies where they exist.

Even in epochs and locations where there seems to be a thriving *CoRS*, it would be a mistake to conclude that rent seeking is the only model of successful entrepreneurship that is at work or the only one that is consistent with the broader culture or the institutional environment. As Storr (2013, p. 69) explained, while it “is likely right that for every economic form there is one and only one economic spirit with which it has a high degree of affinity, it is also the case that more than one economic spirit can and often does coexist with every economic form.” It is possible for there to be a *CoRS* in a society where there is also a *culture of enterprise* that celebrates engaging in profit seeking or even a cultural aversion to rent seeking. Where these competing models exist in a single society, it is possible for members of that society to be under the sway of one during one moment and another at different times, or for different members of the society to have a stronger affinity to one model of successful economic activity or the other.

This might offer another answer to Tullock's paradox. Tullock (1972) noted that, given the size of the rents that are available, expenditures on rent seeking are significantly lower than we should expect them to be. One possible answer is that the possible returns to rent seeking in the real world are less than the simple models of rent seeking would predict. Looking at campaign contributions in the USA at the federal level, Ansolabehere et al. (2003, pp. 116–117) concluded that “money has little leverage because it is only a small part of the political calculation that a re-election oriented legislator makes. ... Since interest groups can get only a little from their contributions, they give only a little.” Zingales (2014, p. 77) suggested that one reason that we see so little money in politics is because interest groups have not yet learned about the potential benefits of lobbying. An additional reason that we see Tullock's paradox in the USA is that there might not be a vibrant *CoRS* in the USA (i.e., there may be a cultural aversion to rent seeking), or alternate and more powerful models of economic success may be curbing the existing *CoRS*.

Characteristic 4: Cultures of rent seeking are influenced and supported by other aspects of a society's broader culture.

If a *CoRS* is to emerge and survive in a particular context, then it must be a product of and reinforced with that society's broader culture. A culture in which social networks tend to be closed and are primarily comprised of strong ties, for instance, is unlikely to give rise to a *CoRS* that requires substantively engaging and trusting weak ties. It would not be unexpected, then, to find a *CoRS* that endorses nepotism in such a society where familial and other strong ties are so central. Similarly, if the society's folk tales and other cultural products condemn rather than celebrate corruption and thus descry rather than revere

the corrupt officials in that society, we should not expect a *CoRS* that orients rent seekers toward corruption to exist in that context.

Characteristic 5: Different institutions will give rise to different cultures of rent seeking.

There is a definite interplay between culture and institutions (Billig 2000; Storr 2013). As discussed above, culture plays a critical role in mediating and giving meaning to institutions. Institutions are, as it were, filtered through a cultural lens. As a result, the same formal and informal institutions may come to mean different things and might be ascribed different moral weights in different cultures. The reverse, however, is also true. Institutions can also shape culture. As such, we should expect an institutional environment that incentivizes certain kinds of rent seeking to eventually give rise to a *CoRS* that normalizes that kind of rent seeking. Moreover, we should expect that institutional changes that affect the levels and nature of rent seeking in a society to eventually lead to changes in that society's *CoRS*.

Characteristic 6: We should expect to see differences in the levels and nature of rent seeking between societies with a *CoRS* and societies without one, and between societies with different cultures of rent seeking.

While different institutional environments result in varied returns to investments in labor and capital aimed at rent-seeking activities, and thereby dissimilar kinds and levels of rent seeking in those societies, variations in *CoRS*'s or the absence of a *CoRS* will result in different kinds and levels of rent seeking even in societies with similar institutions.

Characteristic 7: Cultures of rent seeking are likely to be slow to change despite institutional efforts to curtail rent seeking, but institutional shifts can eventually erode them.

An extensive discussion of the possibility of eroding a *CoRS* by implementing institutions aimed at curtailing rent seeking appears in the next section.

At this stage, it is worth describing a society where a *CoRS* appears to exist. There would seem to exist a *CoRS* in Louisiana, which is notable when compared to the *cultures of enterprise* and even the *CoRS*'s that exist in other US states. This appears to have been the case before Hurricane Katrina. Louisiana is amongst the most corrupt states in the USA and has a long history of corruption (Boylan and Long 2002; Jurkiewicz 2009). Several prominent public officials, including former Congressman William Jefferson and former Mayor of New Orleans Ray Nagin, have recently been convicted of accepting bribes. In the case of Nagin, a litany of other offenses included wire fraud and money laundering. In fact, Louisiana averaged 0.513 annual convictions of public officials for corruption per 100,000 Louisiana residents between 1976 and 2002, the third highest annual conviction rate amongst US states (Glaeser and Saks 2006, p. 1058).¹⁵ And, the Federal Bureau of Investigation field office in New Orleans has a large portion of its agents devoted to investigating public corruption. Not surprisingly, given this level of corruption, local attitudes seem to view corruption and other forms of rent seeking as a normal part of politics. As Williams (1983, p. 196) acknowledged:

¹⁵ Only Alaska and Mississippi have higher conviction rates of public officials for corruption (Glaeser and Saks 2006, p. 1058).

without question Louisianians have a concept of corruption not found in other states. They seem to accept it as a necessary concomitant of political life, and, on occasion, even to delight in it. It is an outlook peculiar to the state, perhaps an expression of Latin realism, and it has made Louisiana politics undeniably different. ... In the Louisiana attitude toward corruption there is little of the sanctimoniousness often found in Anglo-Saxon communities; indeed, there is even a tendency to admire a “deal” if it is executed with skill and a flourish and, above all, with a jest. Louisianians, more than any other people in America, realize, with a kind of paradoxical honesty, the hard fact that politics is not always an exercise in civics book morality.

Although Williams (1983) recommended against emphasizing corruption when discussing civic and business life in Louisiana, he nonetheless acknowledged that corruption was a normal feature of politics in the state. Similarly, Jurkiewicz (2009, p. 353) summarized, “the history of Louisiana’s colorful politics and corruption in government is legendary and, in Louisiana, something celebrated, or at least warmly embraced, as part of the cultural richness of the State. An oft-repeated phrase here is that Louisiana is no more corrupt than any place else, it’s just that Louisianians are more proud of it.” And, as one New Orleans resident offered colloquially, “we have the best politicians money can buy. We elect politicians that couldn’t get elected as a dog catcher in other states” (cited in Chamlee-Wright and Storr 2009, p. 624). A *CoRS* that normalizes corruption has perhaps always been a part of Louisiana’s cultural landscape (Fairclough 2008).

The problem seems to have worsened after Hurricane Katrina, with communities that have not previously been ensnared in Louisiana’s *CoRS* becoming at least partially enmeshed within it. Chamlee-Wright and Storr (2011), for instance, outlined the cultural shift that occurred in the Vietnamese American community in Village de l’Est, New Orleans, after Katrina. An increase in the availability of rents and a series of institutional shifts that occurred after Katrina which made lobbying important for community survival and recovery, and led to an increase in the returns to lobbying and rent-seeking activity, resulted in the social capital in the Vietnamese American community being re-oriented toward lobbying and rent seeking.¹⁶

Social capital refers to the specific resources available to members of a community by virtue of their being a part of that community. There are, arguably, at least two forms of social capital: social capital that facilitates mutual assistance and social capital that facilitates lobbying and rent seeking. Chamlee-Wright and Storr developed a simple model that describes community members’ social capital investment decisions and the impact of these decisions on the structure of the community’s stock of social capital. Community members face a trade-off between investing in social relationships that allow for mutual assistance and in political connections that facilitates lobbying. When there is a shift in the relative returns to these activities, community members shift their investment decisions accordingly and the structure of social capital in the community changes. Prior to Katrina, the Vietnamese American community was a somewhat insular one and certainly was not a politically engaged one. In response to the windfall of rents in the form of community assistance funds that became available after Katrina and the necessity of becoming politically active

¹⁶ Murphy et al. (1991), similarly, described how human capital can be reallocated in when the payoffs associated with rent seeking increase. As they conclude, the ablest people in a society will switch into rent-seeking occupations when the benefits associated with rent seeking are higher. This, in turn, has a negative effect on economic growth.

in order to resist adverse policy decisions, members in the Vietnamese American community re-oriented their social capital away from mutual assistance and towards lobbying. For instance, the community established the Community Development Corporation after Katrina, which worked with community businesses to secure funds from the Small Business Association and “secured political and financial support for larger-scale community initiatives” (Chamlee-Wright and Storr 2011, p. 181). These efforts included securing over \$14 million in direct public support or state tax credits for “a retirement housing complex for senior citizens within the community, an Intercultural Charter School, an outpatient medical clinic and the re-opening of a hospital facility, and ... redevelopment funds for the business corridor in Village de l’Est were the top priorities” (Chamlee-Wright and Storr 2011, p. 181). Whereas this community focused on mutual assistance before Katrina, lobbying became not only normalized but also professionalized after Katrina. Arguably, the fact that members of this community were willing to re-orient their social capital in response to the availability of rents after Hurricane Katrina has a lot to do with the *CoRS* that exists in New Orleans and that existed or developed in the Village de l’Est community after Katrina.¹⁷

4 Rent seeking, institutional change and cultural change

Culture provides a lens through which people decipher their worlds and formulate plans. If a *CoRS* exists in a society, the members of that society will view at least some forms of rent seeking as legitimate avenues for achieving economic success. While changing institutions can certainly alter or even weaken an existing *CoRS*, it is likely to survive, at least for a time, in the face of institutional transformations.¹⁸ Levin and Satarov (2000), for instance, proposed an argument along these lines to explain post-socialist Russia.¹⁹ Despite Russia’s transition from socialism to capitalism, the former ways of thinking and habits in achieving personal success remained embedded within the Russian culture; “obsolete but still active traditions and cultural stereotypes facilitate[d] a smooth descent into corruption” (Levin and Satarov 2000, p. 125).²⁰ During the transition period, government officials continued

¹⁷ As suggested above, culture shapes the meanings that community members attach to the use of their social capital and resources. Imagine, for instance, a community comprised of multiple individuals who are politically connected. If a *CoRS* exists in that community, then we should expect community members to use their connections to gain privileges. If no *CoRS* exists or there exists a culture where rent seeking is illegitimate in that community, then we should expect that social capital (i.e., the network with politically influential members) to go untapped for rent-seeking activities.

¹⁸ Take Dagen H, or Högertrafikomläggningen, as an example. On September 3, 1967, Sweden switched its traffic from driving on the left-hand side to the right-hand side. To ease this switchover, the Swedish government tasked a state commission with overseeing the switch. The committee widely publicized how the switch would logistically occur with a large national campaign and sought to facilitate the switch by changing road signs, repainting streets and reshaping intersections for traffic basically overnight. Yet there were still minor accidents reported on the day of the change and on the first weekday after the switch. This is certainly not an instance of changing the existing attitudes and thoughts of a group of individuals. But it serves to illustrate how a society, looking to merely adjust a behavior that is not so deeply ingrained into the culture, still underwent an adjustment period after when a great deal of information was provided to the public by the government.

¹⁹ See also Boettke (2001).

²⁰ As Levin and Satarov (2000, p. 125) explained, “[f]or instance, in the old system there existed special kinds of ‘securities’: documents with a collection of visas, permissions and authorizations ranging from a village in Soviet to the Politburo. The necessity of obtaining these permissions allowed the informal conver-

to perceive and utilize their public offices as means for acquiring greater personal wealth. Correspondingly, the economic winners unsurprisingly continued to be those who secured advantages and special privileges through bribery and connections, not the most competitive or innovative market participants. This situation was exasperated by a weak judiciary system. In fact, as Levin and Satarov (2000, p. 120) elaborated, the “system of total party control taught people to seek protection in party committees and not in courts: suing was considered to be almost an indecent act.” Despite the significant institutional changes in post-socialist Russia, the pre-transition belief and value systems persisted, at least in some quarters.

There is a growing literature on the persistence of cultural attitudes over time. Algan and Cahuc (2010), for example, observed that the trust displayed by current descendants of US immigrants varied with their immigrant ancestors’ countries of origin and time of arrival to the USA. Similarly, Tabellini (2010) empirically explained how early political institutions are significant determinants of interregional cultural differences in Europe (such as trust, respect for others and confidence in self-determination). Nunn and Wantchekon (2011) likewise traced existing cultures of mistrust in African countries to the transatlantic and Indian Ocean slave trades. Additionally, Voigtlander and Voth (2012) found anti-Semitic violence in Nazi Germany strongly correlated with anti-Semitism in the fourteenth century. Alesina et al. (2013) documented how traditional agricultural practices in the pre-industrial era shaped gender roles and the evolution of gender norms across countries; those countries that traditionally used the plough in their agricultural practices have more unequal gender norms and roles today. Mentioned previously, Fisman and Miguel (2007) and Debacker et al. (2015) showed how individuals carry their home country’s cultural norms abroad, thereby demonstrating the stickiness of culture. Guiso et al. (2016) tested Putnam et al.’s (1993) conjecture that the variation in economic performance across regions in Italy originated from persistent differences in social capital that arose from their experience as independent city-states during the twelfth century. According to Putnam et al. (1993), city-states developed an early form of democracy, which created a sense of civic community, and insured public good provisions and protection from aggression. Guiso et al. (2016) empirically confirmed that the regions with city-state experience did develop a deep sense of civic and cooperative behavior that has persisted. Not only did a region’s civic capital today increase with its historical experience of being an independent city-state, but the duration and degree of its independence also matter.

Taken together, these papers convey two key observations about culture. First, culture can be extremely sticky over time. Many of the studies mentioned above, for instance, chronicle how attitudes and events in the Middle Ages shaped European attitudes today. Second, cultures can and do change over time, albeit very slowly, as a result of institutional changes. Nunn and Wantchekon (2011), Alesina et al. (2013) and Guiso et al. (2016) linked the implementation of particular institutions centuries ago to the variation in an observable cultural trait today. In other words, people’s attitudes and habits and how they decipher and navigate their environment can transform over time as a result of institutional changes.

Collectively, these studies suggest that if a *CoRS* exists it can be eroded by changing institutions, but that the erosion of this *CoRS* is likely to be slow. As North (1990) pointed out, institutional changes themselves may occur at a “glacial” pace, so we cannot expect a *CoRS* to shift (let alone disappear) instantaneously due to an institutional change. But,

Footnote 20 (continued)

sion of administrative capital into economic capital. Such practices existed in all branches of authority and at all levels. The tradition has persisted.”

we can expect that institutional changes aimed at reducing or redirecting rent seeking will eventually change an existing *CoRS*.

The question that we should ask, then, is when should we expect a culture to shift as a result of an institutional change? Some have suggested that the success of institutional changes depends on the degree to which the “new” institution is itself compatible with the underlying culture. Chamlee-Wright (2005), for instance, discussed how group-lending and business-training programs failed to attract entrepreneurs and were ineffective development initiatives in Zimbabwe because they were incompatible with the underlying culture. According to Chamlee-Wright (2005, p. 18):

the particular cultural and historical context in which Zimbabwean entrepreneurs operate tends to provide little in the way of support for group lending practices. The inability of most programs to effectively address moral hazard concerns, the poor match between local cultural norms and those advanced by microlending organizations, and the availability of alternative forms of finance that do not present these same problems suggest that those microfinance organizations that emphasize group lending and insist upon cooperative ventures may not be advancing the interests of the informal sector as much as they might.

For example, as with group-lending programs that were successful in other countries, these programs required all group members to have access to the same information and to have an equal voice in management decisions. However, in Shona culture (the dominant ethnolinguistic group in Zimbabwe), it was socially inappropriate for younger women to request to have access to an older woman’s personal financial records and to offer unsolicited business advice. Moreover, Zimbabweans had an aversion to joint business ventures, which was so strongly embedded into the culture.

Similarly, Boettke et al. (2008, p. 332) argued that institutional stickiness, or “the ability or inability of new institutional arrangements to take hold where they are transplanted,” depends on who implements the institutional change and whether the change emerged from the local culture or was imposed from an authority. According to them, institutions that have emerged spontaneously (i.e., indigenously introduced endogenous institutions, or IEN) are more likely to “stick” and to be successful than institutions that have been imposed by a formal but local authority (i.e., indigenously introduced exogenous institutions, or IEX) or a foreign authority (i.e., foreign introduced exogenous institutions, or FEX). IEN institutions emerge directly from the local society’s “accepted, understood and habituated mentalities and practices,” (Boettke et al. 2008, p. 338) and thus are directly “in harmony with local conditions, attitudes and practices” (Boettke et al. 2008, p. 339). Institutions (or institutional changes) in this flavor have the greatest potential to be successful because they best reflect local culture. Although not as grounded in the local culture as IEN institutions, IEX institutions have a greater likelihood to succeed than FEX institutions because local authorities that have more insight into the local culture develop IEX institutions. Of the three types of institutions, FEX institutions have the poorest chances of success because their designers tend to be the most removed from the local culture, thereby making them the least sensitive to the local conditions and least suited to tailor institutions in a way that does not conflict with the local culture.²¹

²¹ This is, of course, not to say that FEX institutions never stick nor succeed. Boettke et al. (2008) pointed to Japan and West Germany’s successful reconstruction after WWII as instances when FEX institutions stuck. Their main point is that any institution or institutional change (whether they are endogenously or exogenously motivated) must align well with the local culture.

Both Chamlee-Wright (2005) and Boettke et al. (2008) implied that institutional changes are most likely to be successful if they are congruent with the underlying culture and are emergent phenomena. A society looking to eradicate its *CoRS* would, thus, need to introduce institutions aimed at curbing or channeling rent seeking that reflects (or can adapt to) core local cultural values and attributes. These changes will take time to hold, but they can and will take place as long as they are compatible with the culture or desires of the society.

This, however, would seem to present us with a paradox: institutional changes are only likely to be effective if they are consistent with the underlying culture, but at least some institutional changes will themselves result in and even require shifts in the underlying culture. The paradox, however, is only apparent. Recall that no culture is monolithic. Any set of attitudes, beliefs and norms found in a particular society is likely to be competing against other and even opposite sets of attitudes, beliefs and norms. As such, it would not be unprecedented for a *CoRS* to exist alongside say a *culture of enterprise* in a given cultural context.

Many countries are concerned with corruption and nepotism and have established agencies and laws to address them. In some contexts, these efforts to curb a vibrant *CoRS* have failed and in others they have been effective. Levin and Satarov's (2000) account of Russia during the transition period depicts how poorly the institutional changes matched with Russian culture. Similarly, efforts to combat and eradicate corruption, collusion and nepotism in younger democracies like Indonesia have been largely ineffective. For instance, many Indonesians recognize the wrongfulness and the pervasiveness of corruption within the government and business, but they regard corruption as unsolvable and normal, and have self-reported in regularly participating in bribery (Henderson and Kuncoro 2004; Ismar and Husna 2013; OECD 2015; Gallup 2017). Not unlike Russia, it appears as though the perception of personal success and the expectation for bribes to perform their stated duties (remaining from decades of Suharto's dictatorship) undermines the institutional attempts to curb corruption.

The implementation of a new anti-corruption law in South Korea also offers a useful counter-example. In 2015, South Korea passed the "Improper Solicitation and Graft Act" (also commonly referred to as the Kim Young-Ran Act, named after the former head of the Anticorruption and Civil Rights Commission) and began its enforcement on September 28, 2016 (Anti-Corruption and Civil Rights Commission 2015). The new law makes it illegal for public officials, certain private individuals (e.g., journalists and private school teachers) and their spouses to accept monetary gifts over 50,000 South Korean Won (roughly US\$47), with higher limits set for gifts given at wedding or funerals. It also limits the amount that can be spent taking these officials to dinner (roughly US\$28). The law also prohibits asking these officials for (political) favors, even when money is exchanged. Furthermore, public employees must report any gifts that they receive; otherwise, both the gift recipient and giver are prosecuted. Before the Kim Young-Ran Act, laws had already prohibited the exchange of money for favors, but the government sought to end the use of social connections, positions and small payments in political exchange.

The practices of gift giving and wining and dining are important business and social lubricants in Korean culture. Because they directly contradict the culturally ingrained practice of business entertainment in South Korea, the monetary limits on gifts have attracted more media attention (Ogura 2016). The biggest gift-giving season occurs during *chuseok*, or Korean Thanksgiving, when gifts are customarily exchanged between family, friends, acquaintances and business connections. In addition, Koreans have a habit of giving thank you gifts. For instance, parents thank schoolteachers for their patience and care for their children with a gift, and businesses and individuals often provide thank you gifts

to journalists for positive reviews and articles. Traditionally, splitting the bill is rare for private events.²² People occasionally take turns paying the bill, but frequently one person (usually the oldest or the party host) will pay the bill. Prior to the Kim Young-Ran Act, corporate employees used to regularly treat clients, business partners and public employees to dinners, late-night drinks and other evening entertainment as part of networking.

Notably, it was quite expensive to engage in this cultural practice. For instance, many parents bought luxury brand scarves (such as from Hermes) for their children's schoolteachers (while they themselves wore cheap or knock-off versions; Suzuki 2017); the brand name mattered critically for such gifts. Popular gifts for *chuseok* ranged between KRW 70,000 and KRW 80,000 (about US\$62 to US\$71). South Koreans tended to buy gifts for almost all of their relevant connections, so the total sum of *chuseok* gifts per family was not negligible. It was commonplace for business associates to treat their clients to expensive dinner and drinking parties during the week, an experience that always included indulgent open bars or expensive liquors.²³ In addition, there was a widespread cultural expectation for workers to engage in evening activities (especially when requested by their bosses) and refusal to participate typically resulted in social ostracization, workplace discrimination (e.g., being passed over for promotions) and, sometimes, job termination. Needless to say, there were immense social pressure and financial burden associated with these practices. Combined with the lack of cultural appreciation for personal time and space, they may be major factors in explaining why South Koreans are among those that are least satisfied with their lives according to the Organisation for Economic Co-operation and Development (OECD 2015).

A year after implementation, the Kim Young-Ran Act appears to have been successful in curbing the use of social connections, positions and small payments for personal gain. An online poll found that 82% of the schoolteachers and 76% of the parents believe inappropriate requests for special favors in school disappeared after the law took effect (Korea Herald 2017). Spending on gifts and entertainment decreased by 15% at 500 major domestic corporations in the first half of 2017, with 3 out of 4 companies reportedly cutting on costs related to treating clients (KBS 2017; Suzuki 2017). High-end restaurants sales decreased by 66% (Suzuki 2017). Public employees have been reported to frequent cafeterias near government complexes and public offices and not restaurants as they did in the past (Korea Herald 2017). Even when they do visit restaurants, patrons reportedly order (the cheaper) vegetarian entrees and not (the more expensive) meat entrees (Kim 2016). Multiple restaurant owners observed how the older patrons now also ask for separate checks (Kim 2016). Moreover, since the implementation of the new law, more people reported spending time at home in the evenings, increasing sales in alcohol beverages and finger foods at grocery store chains and convenience stores by 20% (Korea Herald 2017).

The South Korean case depicts three key points. First, Koreans negotiated the pre-Kim Young-Ran Act institutional environment and their social, political and economic spaces through their cultural lens. As is true elsewhere, good relationships are critical elements of personal success (in the professional and social sense) in South Korea. Thus, many attitudes and habits for achieving success surround the maintenance and development of good relationships. Individually, many Koreans (and perhaps a majority of them) regarded the

²² Some casual observations suggest that the younger generation do and prefer to split bills. See also Choe (2016) and Shin (2016).

²³ These evening outings and parties were so frequent that South Korea has a booming industry producing a variety of dietary supplements that lessens or cures hangovers (Babe 2016).

gifting and business entertainment norms as burdens. But refusing to participate in these practices, so deeply embedded into the social fabric, was too costly prior to the implementation of the Kim Young-Ran Act. The new rules were necessary to convey new expectations and coordinate around a new equilibrium. While we cannot predict the long-term consequences of the Kim Young-Ran Act, it is clear that it has had a significant, immediate impact on the practices pertaining to social connections in the business and politics. Second, IEX institutional changes can be successful, so long as the local authorities have intimate knowledge of the local culture and are in tune with the wants of the public as Boettke et al. (2008) suggested. Although the new law was deliberately designed to counteract traditional practices, it received tremendous support from the Korean public. By the time the law was passed, it was clear that many felt stuck in an unhappy equilibrium and were tired of the gift-giving practice. Additionally, Koreans have traditionally respected the rule of law and so a change in law was likely to be effective even in the face of a long-established cultural practice. Third, significant changes to attitudes, behaviors and habits pertaining to rent seeking will require time to take place. Although the Korean society has seen some immediate success with the Kim Young-Ran Act, it is still learning about the ins and outs of the new law. For instance, an elderly woman genuinely wished to express her gratitude to the local police department for their help and unintentionally violated the new law (Park 2016). Because the police department was legally required to report her gift, she was regrettably one of the first citizens to be fined under the Kim Young-Ran Act. Needless to say, it will take time for Koreans to internalize the new law and replace old habits with new ones. But, given that those close to rent-seeking activities have already observed some immediate adjustments, the chances of overall success in restricting the use of social connections, positions and gifts in political exchange appear optimistic in South Korea.

5 Conclusion

In this paper, we explored how culture affects the nature and level of rent seeking that a society pursues, and whether a *CoRS* can transform as a result of institutional shifts. A *CoRS*, one of multiple models of economic success that coexist within a society in a certain epoch, will promote particular forms of rent seeking as acceptable and effective strategies for attaining economic success; it will consequently orient members of a society toward these activities. This culture, like any other culture, tends to differ across times, places and institutions. Even where institutions are similar, there is likely to be differences in rent seeking across societies. Since institutions embody underlying incentives and culture colors the way that actors understand and act on those incentives, it is important to understand how both culture and institutions can influence the types of rent seeking a society pursues.

Cultures of rent seeking initially seem to be resistant to institutional efforts to curtail rent seeking, but they also appear to transform (albeit sometimes slowly) in the wake of an institutional change. In the short time during which the Kim Young-Ran Act has been implemented, South Korea has already experienced substantial changes to long-ingrained traditions and customs pertaining to business entertainment. Moreover, it is important to consider how the institutional changes are congruent with the underlying culture. Otherwise, in the face of institutional shifts, former ways of thinking and habits in achieving personal success may remain embedded within the culture and impede national economic

growth (as appears to be the case in post-soviet Russia), or people can learn to devote more resources to rent-seeking activities (like in New Orleans after Hurricane Katrina).

Examining how culture affects rent seeking adds to our understanding of the interplay between culture and institutions. As discussed above and argued more extensively by Storr (2013), it is imprudent to view culture as capital and to strictly cast it as an informal institution. Studying (or, at least, taking seriously) how culture and institutions interact can enrich our understanding of the variation in the way humans behave across different contexts. In addition, considering how culture impacts rent seeking might offer another answer to Tullock's paradox. According to this view, the reason why we may not observe significantly more rent seeking occurring in certain societies is because a vibrant *CoRS* may simply not exist, or alternate and more powerful models of economic success may be curbing the existing *CoRS*. Furthermore, it opens the door for a particular kind of qualitative research on rent seeking that emphasizes the role of culture.

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