

Made markets:

Entrepreneurial rent-seeking and institutional change in the forestry sector

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Aims /Content

- Aim: to create a conceptual framework for analyzing markets as institutional networks shaped by *institutional entrepreneurs*;

Content:

- **Market as socially constructed institutional networks**
- **Institutional entrepreneurship via rent-seeking**
- **A typology of rent-seeking**
- **An analytical framework for institutional analysis of rent-seeking behaviours**
- **Conclusions**

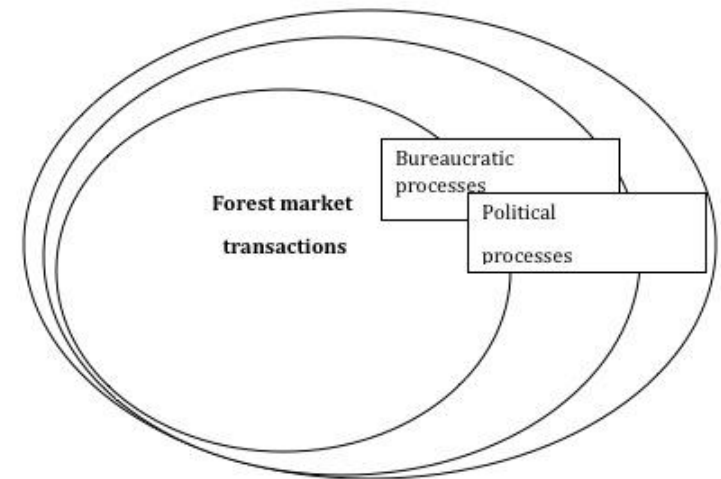
Markets as social constructs

Orthodox economic theory

- Focus on allocation mechanisms: what market does/instead of what it is
- Ignorance of any institutional and social features

Institutional/Evolutionary

- Markets socially constructed (not determined)
- set of institutions creating 'the rule of the game'
 - Political processes: „rule for markets”
 - Market transactions: „rules within markets”



Institutional entrepreneurship

Institutional changes by way of innovation

Markets are shaped by the interplay
between profit-seeking and rent-seeking
activities

- Profit seeking: the conventional entrepreneurial activity = the introduction of new combinations of resources and technology into the market
- Rent- seeking: entrepreneurs perceiving opportunities to capture rents by changing the institutional boundaries of the market

Changing the rules of the game while
playing it

Classical vs. entrepreneurial rent-seeking

- Classical rent-seeking approach (Tullock, 1967 and Krueger, 1974):
 - individual efforts to maximize value generate social waste rather than social surplus” (Buchanan, 1980:4)
 - entrepreneurial inputs in rent-seeking is seen as negative
- Entrepreneurial rent-seeking approach:
 - *entrepreneurial creation or discovery of rents,*
 - *discovers institutional structures better suited for preferences*
 - *more efficient rights structure*
 - *in a continuous path-depended spontaneous evolution* (Benson, 2005:109)

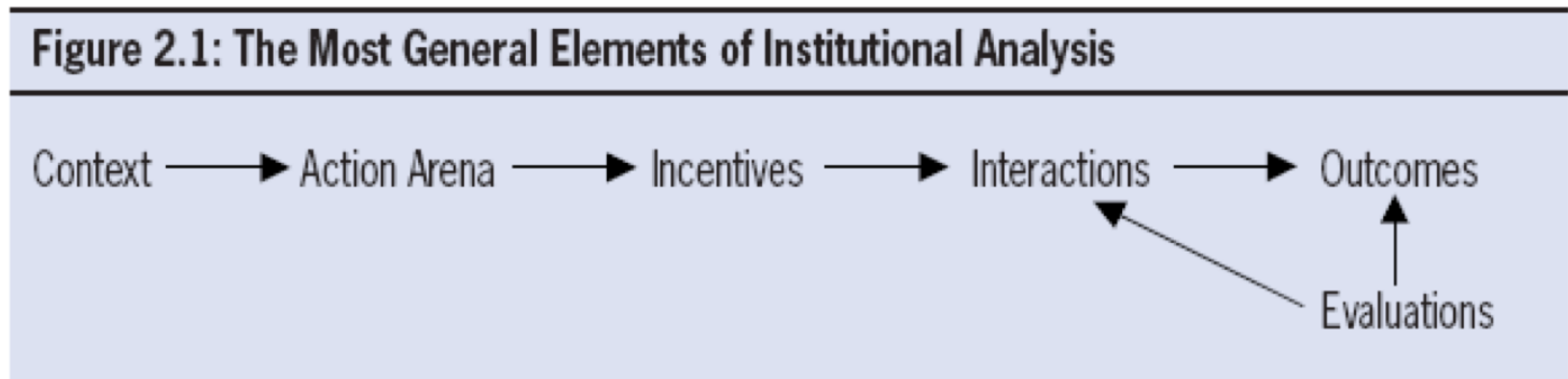
A typology of rent-seeking

Activities	Aims	Type of rents	Arenas	Inputs	Outcomes
Classical rent-seeking	Defend	Monopoly rents	Political processes	Non-voting political actions (e.g. lobbying activities, group pressure, corporate networking)	Avoiding competition and limiting free market forces (allocated licenses, granted monopolies or subsidies)
Entrepreneurial rent-seeking	Redistribute	Entrepreneurial rents			Maintaining, redistributing or creating property rights with regards to marketability, thus enhancing opportunities for profit-seeking
	Create		Market transactions	Private negotiations between actors	Influencing economic rights through contracting and organizational design (e.g. new forms of contracts)

- **defensive rent-seeking:** keeping the status quo
- **redistributive rent-seeking:** transferring rights from one group to another without changing the marketability of the goods and services involved
- **creative rent-seeking:** rents are created by changing the existing structure of property rights such as to gain excludability

A (draft) analytical framework

Working parts of the Institutional Analysis and Development framework (IAD, Ostrom, 1999)



- Determines the level of action
 - Determines the area of action
- => Context and case specific (varies for each case)

A (draft) analytical framework

Entrepreneurial incentives (rent-seeker) to enhance marketability

Context identification	Arenas	Collective choice => Who can choose & what?	Operational => How things are organized
Nature of goods: public vs. private goods Attributes of the community: Complex shareholders' network, traditions, power relations Rules in use: clarity of property rights allocation, enforcement		Maintaining, redistributing or creating property rights: <ul style="list-style-type: none"> •Right to mark trees •Right to carbon storage •Right to “rope garden” •Right to cut tree 	Determining concrete organisation: <ul style="list-style-type: none"> •How to mark a tree (goals) •How to measure carbon storage •How to install “rope garden” •How to cut a tree
	Political arena (laws)	State or owners get the right to carbon	Type of certification required
	Bureaucratic arena (bylaw)	Use the legal elbow room: <ul style="list-style-type: none"> •collaboration in marking the tree 	Use the legal elbow room: <ul style="list-style-type: none"> •when to mark the tree •how control takes place
	Market arena (contracts)	Contractual agreement on who cuts the tree	Forms & procedures to be guaranteed (e.g. certification schemes) on how to cut a tree

Conclusions

- Rent-seeking behaviours are central for the creation and evolution of markets
 - Institutional changes by means of rent-seeking is context dependent (US, D, Ro)
- => the analytical framework allows the identification of the institutional context-dependency of market constitutions

