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## "RENT SEEKING" IN AGRICULTURAL CONTRACTS IN THE COUNTRY

M. Georgiev\*

Department of Economics , Agricultural University - Plovdiv, Plovdiv, Bulgaria

### ABSTRACT

Institutional conditions are reason for existing of actors, famous as "rent seekers". They have opportunities as they avail themselves of the non-market benefits, such as: (a) monopoly in the course of ordinary activities, (b) opportunities to profit from duplication of routine, administrative activities and functions, (c) created legal obstacles before other participants. All this leads to certain public losses, which can be measured by transaction costs. The study focuses on one part of the institutional environment and particular processes relating whit farmland in the country. This research demonstrates the relation between "rent seeking", institutional change and social costs of transactions.

**Key words:** rent seeking, transaction costs, institutional environment

### INTRODUCTION

"Rent seeking" is characteristic of underdeveloped economies, where is observed high level of corruption and bureaucracy. Bulgaria, often is associated with these institutional problems, representing a consequence of incorrectly formulated rules under which an economic actor ("rent seekers") derive benefits at the expense of others. The definition "rent seeking" (1), gained popularity during the last century. Its content has been associated with the explanation of the reasons that create broken, sluggish economic system, with slow and inconsistent pace of growth, despite operating markets. The problem is rooted in the structures, created by the state rules that ensure non-market advantages for certain social actors and standards of behavior is creating the conditions for a bumpy start in economic processes. These rules do not necessarily represent the lack of order or disorder, and their help, problems such as corruption and bureaucracy are hidden by dressing them in a formal legal rules. In all cases the "poor law" permits taking benefits at the expense of other participants on the market. (a) Monopolisation of routine activities when exiting competitive market, (b) the duplication of basic administrative functions and, (c) activities

carried out by economic agents or other players are examples of rent seeking. The rent seekers may be private players and government structures that have been granted some form of excessive access rights, which was converted for personal gain. This study assesses the institutional environment in the country through an analysis of the „rent seeking”. The problem is important for Bulgaria because it can explain slow economic pace despite the global economic crisis. Economic processes and social relations which transferred rights and protect agricultural lands in the country have being analyzed. For reaching the targets 50 random contracts are reviewed. 35 of them represent transfer of agricultural land or lease (rent), 5 contract are administrative proceedings to obtain a subsidy under European programs and 10 are relating with protection of agricultural rights in litigation. The study is conducted on the territory of Plovdiv. It was chosen because of its traditional and important place in the country, in terms of agricultural production and sufficient active private, state, judicial and administrative units that serve these processes. Methodological tools used here are of an institutional nature.

### MATERIALS AND METHODS

**Theoretical framework.** Demand for rentals is defined by (1) and subsequently acquires completion in the research of Tullock, Tollison. The appreciation of rent seeking with

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\*Correspondence to: Minko Georgiev,  
Agricultural University - Plovdiv, Department of  
Economics, e-mail: [mm72gg@gbg.bg](mailto:mm72gg@gbg.bg),  
tel.0898954183

transaction costs is possible because, as they are universal instruments for the assessment of the institutional environment "universal measure of the economic system" (2). For the purposes of this analysis, they are presented as an integrated effect of the law and the market mechanisms, such as micro recent new look as a consequence of the contracts and transactions (3).

**Methodical approach.** The first step is obtaining information. Information is collected through legislation and monitoring of institutional change related to agricultural lands for the period (1990 – 2010). This defining the framework of the contracts and the actors, and institutional opportunity to participate in these contracts. The analysis allows conduct, the retrospective study and empirical studies. Primary data are collected for clarifying specific indicators such as: (a) number of actors, (b) number and time to carry out transactions. This date allows measuring transaction costs (4). The second stage aims to present the results of the study and help to formulate accurate conclusions. This is done by describing cases in which there is "rent seeking". With legal and institutional comparative analysis subsequently is clarified the relationship between the demand for rentals, processes and transaction costs.

#### ANALYSIS OF RENT SEEKING IN CONTRACTS IN AGRICULTURAL LANDS

**Identifying the problem.** "Rent seeking" was observed in all types of contracts relating to agricultural lands. (a) Upon transfer contract or lease (rent), operation of individual elements of the process takes place only in strictly defined places (offices) from the strictly specific actors. At first sight it is natural, if some economic actors take a document, which required for the smooth conduct of the contracts and this should be done through a specific government agency or private entity. The standard imposed mandatory behavior of actors (administrators), leaving the other participants, who carry out contracts without choice. *Deeds for agricultural land* may be made only at the location of the property. *Certificate for tax assessment* may be taken only from the local community. Similar is the situation with other documents, such as *certificates of heirs* or *sketch of property*, where *cadastre* is not force. In the Plovdiv region until recently there were areas in which

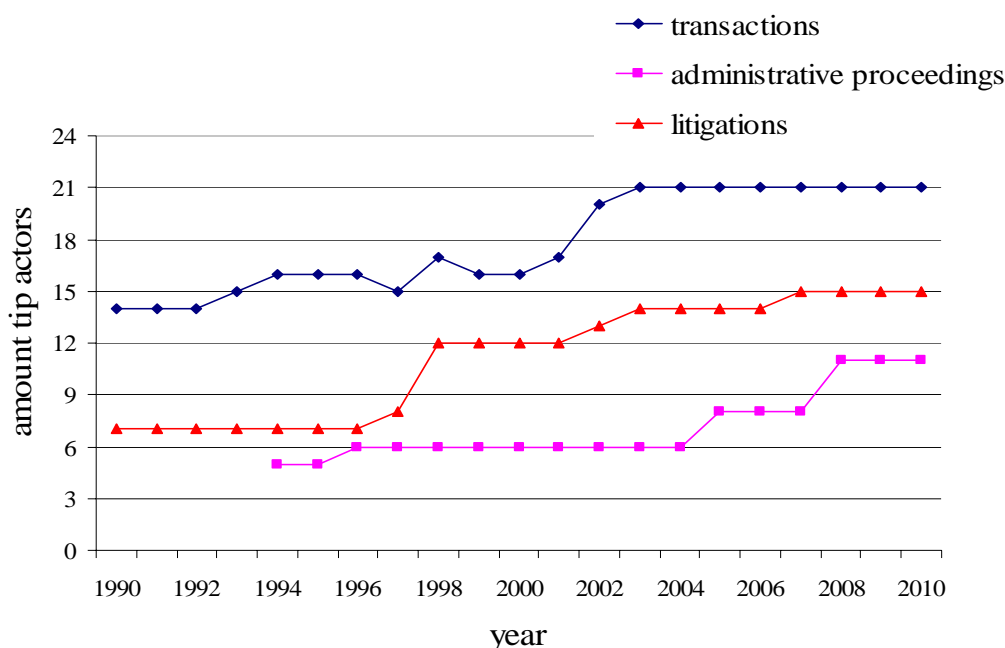
there was only one notary, as the case is not segregated in the country. It shows institutional, non-market benefits. Rent seeking exists in typical routine administrative activities (services) that can easily be placed on market principles. Another example of rent seeking is the monopolistic behavior imposed by administrative prices performed by actors such services. The rent seeking is observed when the States Agencies or notaries and lawyers' prepare or issue documents for fees and receive remuneration for this. The problem is not paid. The problem is contained in the failure to choose. In this case the market mechanisms or economic entity can not make the service better or at lower cost. All sets actors, who serving activities are rent seekers. (b) In other cases, rent seeking can be observed in carrying out routine activities in duplicated functions of the actors. For example, the protection of the same rights, same action takes place between actors as: notaries and lawyers (for the preparation of documents and consulting deals), lawyers, notaries and *Registry Agency* (for performance and registrations of transactions); between firms, lawyers and consultants (in the implementation of projects under EU programs). The situation is similar in processes, serviced from all government agencies. For example, the processes associated with European Payments as (number of activities related to the application, payment subsidy or duplicate services in agriculture and forestry and Paying Agency). Created by law types of actors, must be distinguished from the diversity of actors, know in classical competitive markets. Here it comes to individuals who are placed from rules which exist in the process and must not be "overlooked" in the normal course of contracts. These actors are diverse in type: (lawyers, notaries, state and municipal offices, banks and etc.) and not necessarily as number (in markets with perfect competition a lot of buyers and sellers). (c) Duplication of functions and activities too, can often be observed in activities such payments. For example, banks are institutionally designated for amounts which collected for the state administration. It is therefore to received commissions, but thus the same payment is done with two charges. It is not about making two things with fewer steps. Institutions (optional service) set actors to coat for removing a document additional second charge which can easily be avoided by introducing market principles when made payments related to administrative services.

For example, placing cash in the offices of state agencies or courts (this activity is usually free) will lead to the abolition of rent seekers. (d) The rent seeking is clearly and distinctly in some procedures make obstacles deliberately and imposes for some institutional actors to derive benefits from others. The lack of visibility, easily leads to non-market advantage for players who can win through “access to information”. That is a question for opportunity the last actors have better access to rights or over access to sproperty rights. Government agencies such as serving the *Land Registry* and *Cadastre* (which are public) do not charge for information, but the other actors can not operat free. For obtaining documents in some cases is required to pay a fee for a particular record. These include: *fees for any charges, fees for issuing the plan*, provided

that the economic actor, needs only the information relating to property or persons within a drawing and others.

**Legislation as a condition for rent seeking.**

Retrospective and legislative analysis show the continued increase in the types of actors involved in the processes. The period (1990-2010) shows that almost twice as many participants to allocate the same process. The market itself can not regulate actor’s number to be optimal. For example, to reduce the actors, there is need to perform specific functions by law (**Fig. 1**). This means that the general reason for the demand for rent seeking is the institutional environment in the country and prformance of statutory law and other regulations.



**Figure 1.** Agricultural contracts

Source: Own study

**Comparative analysis of transaction costs.**

The measurement of transaction costs has been demonstrated in several studies as (4) the main point of this method are: (a) use the transaction as a single act forming part of the environment (b ) subtracting the value (price) of the land by the total amount of transaction costs, (c) placing on limits of the contracts (beginning - end of the process). The tables show a continuous increase in the parameters of study

for the past five years for all types of contracts relating to agricultural land. The analysis makes it possible to infer the existence of a positive relationship between the total number of participants in contract and the amount of transaction costs. This means that there is a link between the institutional environment and rent seeking demand in the country, ie institutional environment is the primary reason for the existence of the problem.

**Table 1.** Number of actors and the cost of transactions

Year	2005	2006	2007	2008	2009
<b>Increase the average number of actors in the base 2004</b>	2	3	3	4	4
<b>2004 година Increase transaction costs in the base% 2004</b>	67	79	95	152	220

Source: Own study

**Table 2.** Number of actors and the cost in administrative processes

Year	2005	2006	2007	2008	2009
<b>Increase the average number of actors in the base 2004</b>	11	11	22	22	22
<b>Increase transaction costs in the base% 2004</b>	12	25	78	99	162

Source: Own study

**Table 3.** Number of actors and the amount of the costs of litigation

Year	2005	2006	2007	2008	2009
<b>Increase the average number of actors in the base 2004</b>	0	1	1	1	1
<b>Increase transaction costs in the base% 2004</b>	18	28	44	76	90

Source: Own study

## CONCLUSION

The property rights are administered, respectively, assigned by many kind of actors, without the other players receiving better protection. Regulations are changed frequently, but there is not research for the effects of change. This reason determines preliminary assumptions for existence of the rent seeking and increased public spending. The number of transactions in process increased by receiving "over-specialization" of actors who perform simple, routine activities and final result again increased the total amount of transaction costs. The rent seekers absorb large proportion from the value of contract (process). After measuring of transaction costs, the value is redistributed to those that protect public goods and not for those who produce them. This means that the institutional environment is not improving.

Practical solutions can be sought by changing the rules in the following directions: (a) Introduction of integrated registers between public and private actors (administration rights: agencies, notaries, etc.) in electronic form, with the possible search parameters. That would provide a quick and easy access to property rights and particular would reduce the cost of so-called public service for information. At the same time, it would also allow the integration of certain information and authorization parameters (single or joint documents) within more than one office and reduce transaction costs. (b) Service collected of information - that is available within the civil service would reduce transaction costs because it will need a number of abandoned evidence presented by the actors to repeat each other

activity. This will be limited to removing unnecessary new document, ie the conditions for duplication too. (c) Introduction of market-based service which eliminates the monopolistic behavior of the administration (competition among administrative offices, offices for the same business service) or the introduction of services a "one stop shop" within more than one state service. These measures should partially solve the problem "rent seeking" in the processes of agricultural lands contract in the country.

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