



The Impact of Rent-Seeking on Barriers to Community Development: An Integrated Literature Review

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ABSTRACT

Markets, as a cornerstone of the national economy, are often distorted by rent-seeking practices, where actors pursue personal gains through manipulation of policies and state resources rather than efficiency, thereby hindering competition and fostering injustice. This study analyzes the influence of rent-seeking on the dynamics of economic power and how this relationship shapes policies that impede community development in terms of resource distribution, public participation, and social justice, utilizing a qualitative approach with library research and interpretive content analysis. Lack of in-depth study on how rent-seeking practices specifically weaken the capacity of communities to develop justly and sustainably, as well as their concrete impact on citizen participation in the development process. The research reveals that the phenomenon of rent-seeking in Indonesia follows a complex and systematic pattern, involving corruption, policy lobbying, and resource monopolization by political actors, bureaucracy, and business entities. This concentrates wealth and power, distorts market mechanisms, exacerbates inequality, and erodes public trust. In conclusion, rent-seeking is a systemic phenomenon in Indonesia's political economy that damages the economic order, undermines democratic foundations, and obstructs equitable and sustainable development, leading to weakened market competitiveness, hindered innovation, increased inequality, and reduced public participation.

Introduction

The market is one of the main pillars of the national economy, and it plays a strategic role in driving Indonesia's economic engine. The market's function is not only limited to being a distribution channel for small business products but also serves as a vital center of economic activity. More than just a place for buying and selling transactions, the market is a source of livelihood for millions of people, providing significant employment opportunities, especially for the lower-middle class (Mokalo, et al., 2021). The market as a center of economic activity has not only physical significance as a location for buying and selling transactions but also involves more complex non-physical aspects (Wulandari & Zulqah, 2020).

In this context, there are four main actors who interact dynamically in the market ecosystem: first, the government as a regulator and facilitator ; second, the community, both as consumers and business actors ; third, investors as capital providers ; and fourth, the market entity itself as a system with its own characteristics and mechanisms. According to A. Briggs, the concept of the Welfare State was fundamentally developed within the framework of a

market economy, but with a significant modification through the application of a mixed economy system. From this perspective, the market is still recognized as the main engine of economic growth, but Briggs emphasizes the crucial role of the state as an active regulator through the concept of "to modify the play of market forces" or the state's ability to modify various market forces at work. The state's position in this structure is superior because it has binding regulatory authority, fiscal and administrative capacity for intervention, and political legitimacy as a guarantor of public interest. Briggs's version of the Welfare State operates as a balancing mechanism that combines market efficiency with the principle of social justice, while also functioning as a corrective against various market failures and structural inequalities produced by pure market mechanisms (Fitriani, 2021).

In contemporary developments, this concept faces complex challenges, one of which is the presence of rent-seeking. The concept of rent-seeking in the context of state institutions refers to practices carried out by public officials and political actors in regulating the distribution of state resources, particularly through the allocation of public budgets (both the state budget and regional budgets), as well as in formulating policies that should be aimed at the broad public interest. However, in the practice of rent-seeking, these decision-making processes are actually driven by the motivation to obtain personal gain or benefits for certain groups, such as political parties, business networks, or elite groups (Susanti, 2020). This also has negative consequences for the public interest, both in the short term and in the long term.

This dynamic is essentially a form of economic distortion where actors seek to gain profits not through increased productivity or innovation but through intervention in political processes and public policy. This practice generally involves various forms of activity such as intense lobbying, bribery, and manipulation of regulations, which ultimately create inefficiency in the allocation of economic resources. In the context of government administration, rent-seeking activities are fundamentally contrary to the principles of good governance, which emphasize the importance of transparency, public accountability, and stakeholder participation (Rahman, et al., 2023). When rent-seeking mechanisms are at work, there is a deviation from the ideal logic of governance, where public policy should be formulated for the public interest, not for the interests of certain groups.

In the context of the market, the concept of "rent" was first introduced systematically by David Ricardo, a classical economist who developed a theory about income distribution in an economic system. Initially, Ricardo used the term "rent" to describe the surplus income received by owners of fertile land due to the scarcity of natural resources and differences in land fertility levels. However, in the development of modern political economy literature, the

concept of rent has undergone a significant expansion of meaning. Currently, rent is not only limited to the agrarian sector but is also applied in modern market analysis as an excess payment received by an entity above the minimum cost actually needed to maintain the use of a factor of production. In other words, rent reflects an economic gain obtained not due to efficiency or innovation but due to the ability to gain exclusive access to strategic resources or to create artificial barriers in the market (Yunas, 2020).

The rent-seeking practices that often occur in the market are usually in the form of trade monopolies. Healthy market competition fundamentally encourages innovation, efficiency, and improved product quality, which ultimately benefits consumers. However, when this competition is uncontrolled or manipulated, unhealthy practices such as monopolies and anti-competitive behavior emerge that can harm small business actors, consumers, and the economy as a whole.

The biggest threat to a fair market mechanism comes from rent-seeking practices, where a handful of market-dominant business actors seek to maintain or increase their profits not through efficiency or innovation, but by influencing regulatory policies, creating artificial barriers for competitors, or even monopolizing through political intervention. These rent-seeking activities not only distort market competition but also divert economic resources from productive activities to exploitative efforts to secure profits through non-competitive means, ultimately hindering economic growth, widening inequality, and damaging good governance because public policies are often engineered to serve the interests of certain groups rather than the public interest. Thus, efforts to create healthy market competition must be accompanied by the prevention of rent-seeking practices through strengthening anti-monopoly regulations, policy transparency, and supervision of collusion between business actors and policymakers (Tumangkar, et al., 2024).

Rent-seeking practices have a major impact on economic dynamics because they hinder growth and lower the level of community welfare. These activities create above-normal income in a market that should be competitive, leading to an unequal distribution of resources. With the involvement of bureaucrats, capitalists, politicians, and certain community groups who use their power and engage in illegal actions, this practice strengthens profit monopolies while weakening the principle of economic justice. Rent-seeking is also a form of economic control that allows one entity to get extra profits (economic rent) without having to create new value for society. Monopolies achieve this by distorting the allocation of resources, where they set prices that do not reflect production costs and limit output to maximize their own profits, not to meet consumer needs (Fauzan, 2020). This practice hinders community

development because it causes a waste of resources, reduces incentives for innovation, creates economic inequality, and ultimately damages market efficiency, which should be the driver of sustainable and fair economic growth (Maduwu, et al., 2024).

From the background above, this research aims to deeply analyze the impact and implementation of rent-seeking practices on the process of community development. The main focus of this study is to identify how rent-seeking behavior influences and hinders economic and social progress, as well as public participation in the context of community development.

Literature Review

The phenomenon of rent-seeking has been widely explored across various economic and social contexts, emphasizing its profound implications on institutional quality, policy effectiveness, and economic welfare. The foundational understanding of rent-seeking behavior is rooted in the recognition that the pursuit of special interests generates social costs that far exceed mere economic inefficiency. According to *The New Palgrave Dictionary of Economics*, rent-seeking leads to significant social welfare losses due to distortions in the economic system, resulting in inefficiencies that surpass the direct deadweight losses of resource misallocation (Ltd, 2018). This perspective underscores the need to assess rent-seeking not only as an economic anomaly but as a structural impediment to equitable growth and institutional integrity.

In his seminal contribution, *Toke S. Aidt*, elaborates on the connection between rent-seeking and corruption, building upon Tullock's (1967) insights from the *Western Economic Journal*. Aidt highlights that corruption studies have often neglected the contestable nature of rents, which incentivizes the unproductive use of real resources to secure these rents (Aidt, 2016). This analytical gap reveals the necessity of integrating rent-seeking theory into corruption research, particularly within the framework of principal-agent relationships in governance. Similarly, *Laband and Sophocleus*, identify both theoretical and empirical obstacles in measuring rent-seeking activities. They argue that defining rent-seeking distinctly from legitimate profit-seeking remains a challenge, compounded by the lack of empirical data on monopolistic behavior, corruption, and illicit political-economic transactions (David N. Laband, 2018). Furthermore, the authors note that quantifying the resources allocated to rent-seeking is inherently uncertain due to limited data availability, making empirical estimation of rent-seeking's magnitude and cost highly complex.

The relationship between rent-seeking and development has been reconsidered in recent scholarship. *Christine Ngoc Ngo and Charles R. McCann Jr.* advocate for a rethinking of rent-seeking in the context of technological change and industrial development (Christine Ngoc Ngo, 2018). They argue that economic transformation in developing countries depends not only on technological capability but also on the effective management of rents. Their analysis introduces the concept of “rent management,” which refers to the alignment of incentives and pressures within political, institutional, and industrial structures. This approach emphasizes that understanding country-specific rent configurations is crucial for sustaining technological learning and industrial upgrading.

From a distributional perspective, *Angelos Angelopoulos et al.* analyze the impact of rent-seeking through the financial sector, using a model calibrated on U.S. data. Their findings reveal that rent-seeking exacerbates wealth inequality by distorting resource allocation. A decline in institutional quality triggers increased rent-seeking activity, reducing welfare for non-rent-seekers particularly among higher-income groups while benefiting wealthy rent-seekers with superior extraction capacity (Angelos Angelopoulos, 2021). This study highlights the dual nature of rent-seeking: it simultaneously deepens inequality and erodes overall economic welfare.

The interplay between government intervention and rent-seeking is further examined in several empirical studies. *Jun Du and Tomasz Mickiewicz*, in their study on China, demonstrate how government subsidies create opportunities for rent-seeking that disproportionately affect private and small enterprises. Their formal model suggests that uncertainty in policy implementation intensifies rent-seeking behavior, yet its impact varies by firm size and ownership type. Empirical analysis involving 2.4 million Chinese firms reveals that young and small private firms are particularly vulnerable to rent-seeking-induced inefficiencies (Jun Du, 2016). Similarly, *Ian A. MacKenzie* incorporates rent-seeking into environmental policy models, showing that the competition for regulatory rents influences political preferences for price-based (e.g., taxes) or quantity-based (e.g., quotas) environmental regulations (MacKenzie, 2017). His study concludes that political decisions are contingent upon the efficiency of rent transfers and the number of rent-seeking actors involved in the policymaking process.

Parallel to this, *Tae-Hyeong Kwon* investigates rent creation in renewable energy support policies, specifically comparing Feed-in Tariffs (FIT) and Renewable Portfolio Standards (RPS) in South Korea. The results indicate that rents are more pronounced under RPS than FIT, except in the solar energy sector (Kwon, 2015). The study highlights the importance of policy design in mitigating unproductive rents, suggesting that well-structured incentives can promote renewable energy development without encouraging excessive rent-seeking. In the construction sector, *Tingting Mei et al.* explore rent-seeking behavior within the context of Building Information Modeling (BIM) and Integrated Project Delivery (IPD) systems in China. Their findings suggest that BIM and IPD frameworks enhance collaborative management and reduce rent-seeking by improving supervision efficiency, incentive structures, and accountability mechanisms across stakeholders (Tingting Mei, 2017).

Lastly, *Gheorghita Dinca et al.* adopt a public choice theory approach to analyze the impact of corruption and rent-seeking on economic welfare across European Union member states from 2000 to 2019. Using regression analysis, their results demonstrate a strong negative correlation between corruption levels and economic well-being, particularly in newer EU member states. Conversely, good governance indicators have a positive and significant impact on economic welfare (Gheorghita Dinca, 2021). This empirical evidence reinforces the argument that institutional quality, transparency, and administrative efficiency are critical to mitigating rent-seeking and fostering sustainable development.

Methods

This study uses an integrative literature review method (Snyder, 2019) which is suitable for examining both old and new topics. For established topics, the goal is to review, critique, and expand on existing theoretical foundations. Meanwhile, for emerging topics, this method is used to form initial concepts and theoretical models. This type of review requires a more creative data collection approach. The reason is that researchers do not have to cover all published articles. Instead, what is important is to combine perspectives and ideas from different disciplines or research traditions (Knopf, 2006).

This study uses the *Integrated literature review* which aims to systematically integrate previous findings from various sources to build a more comprehensive conceptual understanding of the topic under study. The research data comes from scientific articles,

academic books, research reports, and official publications relevant to the topic of study, The data indicators are as follows: (Torraco, 2005)

1. Data sources are from the 2015-2025 range
2. The literature has topics relevant to the study of this research

Data analysis is divided into 4 stages, data collection, categorization or coding, narrative synthesis, and conceptual integration. Data validity using the Triangulation method.

Result

The Dynamics of Rent-Seeking in Indonesian Political Economy

The main demand of the reform movement was to eradicate the long-standing practices of Corruption, Collusion, and Nepotism (KKN) in Indonesia. Corruption not only damages the economic foundation but also hinders national development. In addition, KKN damages the political order and the moral values of the state. In practice, corruption makes politics lose its ethics and become wild, where politicians seem to adhere to the principle of "politics without values" (Chaniago, 2015). The same is true for the rent-seeking practices that occur in Indonesia.

The pursuit of economic rent is the effort of business groups to influence government and parliamentary regulations for personal gain. Examples include lobbying for the government to set certain tariffs or grant import monopoly rights. This practice essentially creates profit without healthy market competition (Yusro, et al., 2021).

In Indonesia, corruption has spread like a virus to various government sectors, including State-Owned Enterprises (BUMN), while efforts to eradicate it have shown stagnation to date. The phenomenon of corruption is closely related to the abuse of power, where authority is often used for personal, family, or close group interests. Corrupt practices generally take root and grow in the public sector and BUMN, where authorized officials often use their positions to pressure or extort parties who need services from these institutions (Amalia, 2022).

Impacts and Implications of Rent-Seeking for Community Development

In the practice of rent-seeking, the values of honesty, integrity, and accountability are often marginalized. This condition widens the socioeconomic gap because only a handful of people can enjoy access to money and power, while the majority of the community is trapped in poverty. Injustice in law enforcement, which tends to favor influential parties, further

worsens the situation, causing public trust in government institutions to decline sharply (Winatalia & Ismunarno, 2025).

Rent-seeking changes the purpose of public policy. Instead of serving the public interest, policy becomes a tool for actors, both from the bureaucracy and business, to compete for profit (Arwanto, 2022). This creates interest-biased and irrational regulations and manipulates rules to accommodate certain interests. In other words, rent-seeking damages good governance and creates legal loopholes that are exploited by parties for personal gain.

Rent-seeking is also one of the causes of weakened economic growth and decreased investment interest in the country. In the private sector, this practice adds to business costs through illegal payments, increased managerial costs due to negotiation processes with corrupt officials, and the risk of losses arising from contract cancellations or agreement terminations due to investigations (Rachmawati, 2021). Another impact is that investors are reluctant to invest their capital, which hinders the development of the private sector and the community at large. This condition creates an unhealthy business climate and ultimately prevents the achievement of sustainable economic growth (Yohanes & Yusuf, 2024).

In the public service sector, corrupt practices lead to injustice in accessing basic services. State budgets that should be allocated for infrastructure development and meeting community needs are often misused for personal gain, so the public interest is neglected (Shofiyah, 2023). As a result, the wider community is harmed because they do not receive the benefits they should from public services.

Rent-seeking also directly impacts the difficulty of community development because these practices create unequal social and economic structures. From the aspect of the process, the community is essentially a subject that can act collectively to develop potential, encourage innovation, strengthen bargaining power, and achieve self-reliance. Meanwhile, from the ideal vision aspect, the hoped-for condition is the creation of a society that is able to voice its interests, has access to resources, and can control its environment, community, and sociopolitical relations with the government. The process toward this ideal vision should grow from the bottom up and originate from the community's own internal strength (Firman, 2021). However, with the existence of rent-seeking practices that worsen structural inequality, the community's efforts to build self-reliance and collective strength are hindered and difficult to develop sustainably.

Conclusion

Rent-seeking, or the pursuit of rent, which was originally understood in the agrarian context by David Ricardo, has evolved in meaning to become an economic gain obtained not due to efficiency or innovation, but due to the ability to gain exclusive access to resources or to create artificial barriers in the market. In the context of state institutions, rent-seeking is a practice carried out by public officials and politicians to obtain personal or group benefits by manipulating public policy and budget allocation. This practice distorts the logic of governance, where public policy that should serve the public interest is instead used for the interests of a handful of groups. Rent-seeking creates inefficiency in the allocation of economic resources and diverts resources from productive activities to exploitative efforts.

Rent-seeking has a major impact on economic dynamics and community welfare. This practice hinders economic growth, reduces investment interest, and creates inequality in the distribution of resources. In the private sector, rent-seeking increases business costs through illegal payments and additional managerial costs, which ultimately hinders sustainable growth. In the public service sector, rent-seeking causes injustice in access to basic services because state budgets are misused for personal gain. More broadly, this practice creates unequal social and economic structures, hindering the community from acting collectively and weakening their efforts to build self-reliance and collective strength.

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Placement of Table and Figure

Table 1. Literature Data

No	Literature Title	Author	Year of Publication	of Topic
1.	The New Palgrave Dictionary of Economics	Macmillan Publishers Ltd	2018	Research on <i>rent seeking</i> shows that the social costs caused by fighting for special interests actually far exceed the loss of economic efficiency (<i>deadweight loss</i>) due to the distortions it causes in the economic system (Ltd, 2018).
2.	Rent Seeking And The Economics Of Corruption	Toke S. Aidt	2016	This article examines the influence of Tullock's thought (<i>West Economic Journal</i> , 1967) and the literature on rent-seeking in general on the study of corruption . The theoretical literature on corruption that focuses on the

				<p>principal-agent relationship in government as well as the creation of rents by corrupt politicians is mostly, though not entirely, ignoring the fact that contestable rents encourage the unproductive use of real resources to obtain those rents (Aidt, 2016).</p>
3.	Measuring Rent-Seeking	David N. Laband & John P. Sophocleous	2018	<p>This article identifies obstacles in rent-see studies both theoretically and empirically. Theoretically, the obstacles in this study are the clear definitions and limitations of rent-see, for example, the difference between investment intended for rent-see and productive profit, or government policies intended for general welfare and policies intended for rent-see. As for the empirical obstacle, the availability of empirical data such as cases of monopoly, corruption, and illegal economic-political activities can be used as research data. In addition, the measurement of the scale and the amount of resources used in rent-see activities cannot be done with certainty due to the limited data available (David N. Laband, 2018).</p>
4.	Rethinking Rent Seeking for Technological Change and Development	Christine Ngoc Ngo & Charles R. McCann Jr.	2018	<p>This article reviews the current literature that discusses technological change, rents, and <i>rent-seeking</i> in the context of economic development. Economic development requires developing countries to increase their technological capacity while facing a wide range of <i>rent-seeking</i> activities. These issues are discussed in stages in this article. First, this article reviews the literature on technical learning and institutional changes that occur due to the adoption and adaptation of new technologies. Furthermore, a debate was presented on rent and <i>rent-seeking</i>, especially those related to technological changes in the development process. Finally, this article assesses the role of the state in overcoming various crucial obstacles faced by companies and industries.</p>

				<p>This article emphasizes that the process of building and building industrial capacity requires a deep understanding of the rent management mechanism, which is a configuration of incentives and pressures that must be aligned with the existing political, institutional, and industrial structures in developing countries. This approach to rent management analysis also emphasizes the diversity of empirical contexts between countries and within the country itself (Christine Ngoc Ngo, 2018).</p>
5.	The Distributional Consequences of Rent-Seeking	Angelos Angelopoulos, Konstantinos Angelopoulos, Spyridon Lazarakis, Apostolis Philippopoulos	2021	<p>We analyze the distributional impact of <i>rent-seeking activity</i> through the financial sector using a model calibrated based on United States data. <i>Rent-seeking</i> activities lead to a misallocation of resources that ultimately increases wealth inequality, both among non-rent-seekers and at the level of the economy as a whole. The decline in institutional quality that triggers an increase in <i>rent-seeking</i> activity leads to welfare losses for non-rent-seekers, especially for those with higher incomes and initial wealth, as it is this group that is most affected by the deterioration of aggregate economic conditions. In contrast, <i>rent-seekers</i> with high incomes and wealth experience increased welfare, as they have greater resource extraction capacity amid deteriorating institutional quality and increasing economic distortions (Angelos Angelopoulos, 2021).</p>
6.	Subsidies, Rent-Seeking and Performance: Being Young, Small, or Private in China	Jun Du, Tomasz Mickiewicz	2016	<p>This article describes such a type of government by highlighting the distribution of subsidies in China. The authors develop a simple formal model that examines not only the direct impact of <i>rent-seeking</i> activities on the firm, but also the externalities that arise under conditions of policy uncertainty in the distribution of subsidies.</p>

				<p>This study then analyzes the difference in the impact of these activities on the entrepreneurial sector (young, private, and small-sized companies) compared to other sectors. The authors argue that, although the performance of private companies is more affected compared to state-owned companies, the influence of uncertainty caused by government policies on young and small companies tends to be milder. Its empirical analysis is based on a large database that includes approximately 2.4 million company observations in China, which allows the authors to take advantage of the country's regional and sectoral diversity to conduct comprehensive empirical testing (Jun Du, 2016).</p>
7.	<p>Rent Creation and Rent Seeking in Environmental Policy</p>	<p>Ian MacKenzie</p>	<p>A. 2017</p>	<p>This article incorporates the concept of rents into a model of political choice regarding price and quantity regulation under conditions of uncertainty. The model shows how economic-political aspects influence the choice between price-based regulation (e.g. environmental taxes) and quantity-based regulation (e.g. emission limits). Competition to obtain rents related to each policy affects the regulatory structure and political decisions in setting environmental policy targets. The main conclusion is that political choices over environmental policy depend heavily on the interaction between the efficiency of rent transfers and the size of the group of <i>rent-seeking</i> actors in the economy (MacKenzie, 2017).</p>
8.	<p>Rent and Rent Seeking in Renewable Energy Support Policies: Feed-in Tariff vs. Renewable</p>	<p>Tae-Hyeon Kwon</p>	<p>2015</p>	<p>This article explores the magnitude of rents or unexpected profits generated through RPS and ITT policies, as well as tracing which are more significant in the context of South Korea, which has implemented both policies over the past ten years. The results show that the rent generated from RPS is greater than</p>

	Portfolio Standard			FIT, except in the solar (solar PV) sector in South Korea. In addition, the study also identifies policy design elements that can help reduce the emergence of such rents (Kwon, 2015).
9.	Rent Seeking Behavior of BIM and IPD Based Construction Based in China	Tingting Mei, Qiankun Wang, Yaping Xiao, Mi Yang	2017	<p>The purpose of this study is to examine the <i>rent-seeking</i> behavior of stakeholders in construction projects, as well as to provide a reference for further research on collaboration in China, which can ultimately improve collaborative management in construction and reduce resource wastage.</p> <p>The research status on Integrated Project Delivery (IPD) in China includes the application of IPD, IPD-based collaborative management, as well as the integration between Lean Construction (LC), IPD, and Building Information Modeling (BIM).</p> <p>The enthusiasm for the implementation of BIM and IPD was highest in design institutions, construction units, research institutions, and universities.</p> <p>The results show that project owners have a significant influence on stakeholders, especially in terms of supervision efficiency, incentives, and punishment systems. In addition, the results also show that construction projects based on BIM and IPD can effectively prevent <i>rent-seeking</i> activities among project participants (Tingting Mei, 2017).</p>
10.	The Impact of Corruption and Rent Seeking Behavior upon Economic Wealth in The European Union from a Public Choice Approach	Gheorghita Dinca, Marius Sorin Dinca, Camelia Negri, Mihaela Barbuta	2021	<p>This article evaluates the impact of corruption and <i>rent-seeking</i> behavior on economic well-being in European Union (EU) member states using the public choice theory approach. The research period covers the years 2000 to 2019.</p> <p>To measure this impact, this study uses regression analysis with variables that reflect governance quality, which is considered relevant in the framework of public choice theory on the issue of corruption and <i>rent-seeking</i>.</p>

Key results show a **negative relationship between the level of corruption and economic well-being** in all the countries analyzed, especially in the new EU member states. On the other hand, variables that describe the **quality of governance** have a **positive impact on economic welfare**.

Higher levels of government performance that are synonymous with *low rent-seeking practices*, **self-interest**, and **political pressure on public administration** contribute to improved economic well-being, as emphasized in public choice theory. Thus, this study confirms the need for **reform and improvement of the efficiency of public institutions**, especially in the new member states of the European Union (Gheorgita Dinca, 2021).

Source: Primary Data 2025