Rent, Rent-Seeking, and Social Inequality

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Abstract

The compensation paid out to workers reflects (a) the value of their contribution to their firm or organization, and (b) a possible premium because of restrictions on competition. The latter restrictions, which may take the form of corruption or monopolies that preclude labor from freely flowing throughout the economy, allow for various types of rent to be extracted. This article addresses the way in which rents may arise, the sectors of the labor market that are gaining new opportunities to extract rent, and the sectors of the labor market that are losing the capacity to extract rent. Although it is typically argued that all forms of rent are gradually withering away, the available evidence suggests, to the contrary, that rent destruction is mainly occurring at the bottom of the class structure. At the top of the class structure, new opportunities to collect rent appear to be emerging, opportunities that raise earnings among the already privileged and thus increase income inequality. The foregoing characterization of the evidence, although not without support, is necessarily controversial because of intrinsic difficulties in distinguishing the true marginal contribution of workers from returns that are attributable to market failure.

Keywords: Inequality, Income, Earnings, Labor Market, Poverty, Class, Occupation, Stratification, Closure, Redistribution

Relevant Disciplines: Sociology, Economics, Education, Political Science, Social Policy

Introduction

In the United States, the takeoff in income inequality began nearly a half-century ago, yet only recently has that takeoff attracted much public attention. This delay in the public's reaction cannot be attributed to a failure on the part of social science to track the takeoff. To the contrary, social scientists have long been monitoring trends in income inequality, indeed Harrison & Bluestone (1988) called attention to the "great U-turn" in inequality some twenty-five years ago. Why, then, has that U-turn only now become so deeply politicized? Why did the Occupy movement, with all its anti-inequality rhetoric, suddenly emerge in 2011? And why is there now so much debate about taxing the rich, reducing CEO compensation, and reducing barriers to college education?

The answer to these questions can in part be found in our changing understanding of the *sources* of the takeoff. If inequality previously was understood as a byproduct of a highly competitive economy, it is now increasingly common to assume that, far from being generated by market competition, inequality is generated by "rent" in the form of corruption, bottlenecks, sweetheart deals, and other forms of market failure. In any standard opinion survey, a stock result is that many Americans are willing to tolerate substantial inequality insofar as it arises from an open, competitive, and fair contest and thus reflects the contributions that each individual has made to the economy (i.e., marginal product). If, however, there is a substantial disjuncture between contribution and income, then many Americans will call the resulting inequality into question. The current fascination with trends in income inequality stems in part from a growing concern that it reflects nothing more than the rising capacity of those with power to wrest more for themselves.

This article lays out the social scientific literature on rent that provides the backdrop to this growing public concern about the takeoff and its sources.

Foundational Research

We begin by (a) defining rent, (b) outlining various types of rent, and (c) describing the principal beneficiaries of rent. Although this section provides a brief introduction to some of the foundational research on these topics, further details may be found in Grusky & Wimer (2010), Hacker & Pierson (2010), Grusky & Weeden (2011), Reich (2012), and Grusky & Cumberworth (2013).

What is Rent?

We refer to "rent" whenever the returns on an asset, such as labor, exceed what is necessary to keep that asset in production in a fully competitive market (e.g., Congleton, Hillman, & Konrad, 2010). This definition requires us to compare the returns in an existing labor market to those that would obtain in an ideal-typical one (i.e., a perfectly competitive market). If, for example, the demand for medical doctors is increasing but medical schools continue to turn out the same number of doctors, then the resulting failure to meet demand constitutes a form of rationing that gives doctors the leverage to collect rent. The best known examples of rent are the wage premiums going to (a) natural abilities in short supply, (b) beneficiaries of a minimum wage (e.g., Neumark &

Wascher, 2010), (c) union members (e.g., Freeman & Medoff, 1984), and (d) recipients of the Earned Income Tax Credit and other wage-supplementing transfer programs. It is useful to briefly review each of these types of rent and the way in which they may have affected trends in inequality.

The simple idea behind ability-based rent is that some workers are lucky enough to have been born with certain attributes (e.g., height) that make them more productive in the context of the prevailing economic system and labor market. In an economy, for example, with a male professional basketball league, the fixed supply of seven foot men makes it possible for rent to be collected on height. If the professional basketball league is doing well and decides to award new franchises, the supply of basketball centers will be quite inelastic to the rising demand because the number of agile 7-footers is intrinsically limited. The eligible 7-footers, protected as they are from competition, can therefore bargain up their compensation packages and collect returns in excess of what would be needed to induce them to be centers. If, however, extra height could somehow be easily acquired, perhaps through height-increasing drugs or surgery, then the supply of labor would more readily adjust to demand and reduce compensation. It follows that rents on ability arise when the requisite abilities are inborn and demand for those abilities exceeds supply. While ability-based rent is seemingly ubiquitous, it is unlikely to have played any role in the takeoff in income inequality. There is no credible reason to believe that the present-day economy is placing more demands on abilities in short supply than was the economy of several decades ago.

We typically look, then, to institutionally-generated rent to explain the dynamics behind the takeoff. The minimum wage is a classic example of an institutional practice with such trend-explaining potential. The beneficiaries of the minimum wage are of course enjoying compensation in excess of what would prevail in a competitive market, yet the extent of such benefits has declined over time as the real value of the minimum wage has eroded. In a now-classic analysis, DiNardo, Fortin, & Lemeiux (1996) concluded that, as the real value of the minimum wage gradually declined, it did progressively less work in propping up the right tail of the income distribution. More recently, there has been some debate about the extent to which the changing real value of the minimum wage can indeed explain rising inequality, but even the skeptics suggest that the devaluation had at least some effect (Autor, Manning, & Smith, 2010).

The decline of unionization provides another rent-based explanation of the takeoff in inequality. In their heyday, unions generated rent by providing workers with some control over certain jobs, in effect preventing employers from pitting union and nonunion workers against one another. This is simply a matter of certain contracts (i.e., those between employers and nonunion workers) being institutionally foreclosed. The unionization movement also propped up the wages of nonunion workers because (a) employers wished to forestall unionization by buying worker loyalty (i.e., the threat effect), and (b) the union wage generated widely-shared norms about proper pay that were then costly for employers of nonunion workers to ignore (i.e., the moral economy effect). Although unions have accordingly reduced inequality in various ways in the past, such equalizing effects are waning with the historic decline in the proportion of workers who are unionized. The best available estimate (Western & Rosenfeld, 2011) is that approximately one third of the rise in inequality between 1973 and 2007 is attributable to the decline in unionization.

The tax and transfer system likewise has the capacity to generate rent. Because tax rates increase as income rises, and because transfers are passed on disproportionately to the bottom of the distribution, the overall effect of taxes and transfers is to make incomes more equal. The Earned

Income Tax Credit (EITC), which has increased precipitously over the last several decades, has had the (unintended) effect of replacing some of the income lost by workers as deunionization played out. Although the EITC has indeed become a far larger program over the last two decades, it is important to examine the total effects of all taxes and transfers before reaching any general conclusions about how such redistributive rent has evolved. The two key results coming out of the Congressional Budget Office (CBO) are that (a) taxes and transfers are not reducing inequality as much as they once did, and (b) the takeoff in income inequality is nonetheless mainly driven by forces other than the declining redistributive impact of government (see CBO 2011). In its influential 2011 report, the CBO estimates that federal taxes and transfers reduced inequality by 23 percent in 1979, whereas they reduced inequality only by 17 percent in 2007. This decline reflects both the historic downward shift in the amount of federal taxes collected (as a share of market income) and the equally historic reduction in the overall progressivity of the tax and transfer system. The simple consequence of these changes is that households at the bottom of the distribution are, on average, benefiting less from government tax and transfer policy than they did in the past. The CBO report goes on, however, to establish that the declining redistributive effect of government cannot explain all that much of the recent takeoff in income inequality. The takeoff is instead mainly driven by various forces within the market that determine the distribution of income *before* taxes are assessed and transfers are made.

The distinctive feature of the foregoing forms of rent is that, insofar as they speak to the takeoff in inequality, they invariably pertain to the destruction of opportunities to collect rent that are available to low earners. The standard rent narrative, in other words, is a story about how those at the bottom of the distribution are collecting less rent because of deunionization, the declining real value of the minimum wage, and changes in tax policy. This conventional story about rent destruction hardly suffices as a full developmental theory of rent. It fails as such because, even as opportunities for rent are being destroyed among low earners, so too new opportunities for rent are seemingly being created among top earners. The latter opportunities are glossed over in conventional narratives about how rent evolves over time (e.g., Sørensen 2000). Although rent is indeed being destroyed at the bottom of the class structure, just as conventional narratives would have it, it is important that new opportunities to collect rent at the top are emerging as well (e.g., Stiglitz 2012; Reich 2012; Grusky 2012).

These opportunities arise because (a) occupations can control who is qualified to practice and use that control to artificially drive up wages (i.e., "occupation rent"), (b) capitalists are operating in concentrated and union-free industries and use this leverage to more effectively squeeze labor (i.e., "capital rent"), (c) educated workers profit from the diminishing supply of educated labor with whom they are competing (i.e., "education rent"), and (d) CEOs appear to have a growing capacity to secure sweetheart compensation deals. We cannot review all of these new capacities for rent here. Instead, it is sensible to focus on education and occupation rent, arguably the two most powerful forms of rent now in play.

Education Rent

The case for education rent should be juxtaposed against the standard and still-dominant story about the effects of skill-biased technical change (SBTC). Under the SBTC account, the takeoff in inequality is understood as the consequence of technological changes, such as computerization, that increase the demand for educated labor. Because the resulting demand cannot

be immediately met, its price is bid up as employers compete with one another over the scarce supply; and the earnings gap between educated and uneducated labor accordingly widens. The SBTC story thus stresses that rising returns to education derive from the increase in demand for skilled labor as well as the greater productivity conferred by education (e.g., Acemoglu, 2003; Autor, Katz, & Kearney, 2008).

There is no disputing that the payoff to a college or post-baccalaureate degree has risen over the last four decades. The rent narrative rests, however, on the supplementary claim that bottlenecks are preserving this high payout by preventing labor from pursuing the degrees that are in demand. That is, the supply of potential college students is artificially lowered because children born into poor families and neighborhoods do not have the pre-college training that qualifies them for entry into college (nor the money or information to pursue available college options), while the demand for college students is kept artificially low because, in some countries, elite private and public schools engage in explicit rationing of their available slots. There is no evidence, for example, that top universities are meeting the rising interest in their bachelor's degrees by selling some profit-maximizing number of them (although the master's degree, by contrast, is often being sold in this way). If top universities did meet the (apparent) rising demand for bachelor's degrees, the returns to a college education would presumably be driven down. But instead universities typically decide to ration. As a result of these institutionalized bottlenecks, the supply of college-educated labor has not increased as rapidly as one would anticipate in an era of rising returns (see Goldin & Katz, 2008). Indeed, only 30 percent of each birth cohort now earns a college degree, a figure that is not much higher than in the 1970s (Hout, 2009; 2012).

These bottlenecks on the supply and demand sides mean that those lucky enough to have a college education are artificially protected from competition and reap excessive pay as a result. If all children, even those born into poor families, had full access to higher education, the excessive returns would wither away under the force of competition.

Occupation Rent

The second major source of top-end rent is various forms of occupational closure that prevent labor from freely flowing to desirable occupational positions. By occupational closure, we mean the practice of establishing barriers that protect occupational incumbents against competition, barriers that either (a) prevent additional workers from entering the occupation (i.e., entry barriers), or (b) preclude those in bordering occupations from offering competing services or goods (i.e., encroachment barriers). These barriers raise the wages of incumbents by increasing an occupation's control over the supply of labor and by reducing competition from other potential providers (Weeden, 2002; Kleiner, 2006; Kleiner & Krueger, 2008).

Why are occupations closed in this way? The standard rationale for installing some form of occupational closure is that public health, safety, and welfare are protected by guaranteeing that those providing a given product or service are qualified and competent. This assurance may be provided via (a) specialized *licenses* or *certifications* that directly testify to the holder's specialized skills, or (b) *generalized degrees* (e.g., college degrees) that testify to generic qualifications and the presumed capacity to learn the requisite specialized skills. We review below these three main ways (i.e., licenses, certifications, generalized degrees) in which occupational closure can be secured. In all three cases, closure is typically justified in terms of the protection it affords consumers, but it

nonetheless has the effect of preventing labor from fully responding to changes in prices.

The first form of occupational closure, *licensure*, obtains whenever workers must obtain permission from a government agency (either state or federal) to practice an occupation. The license may be issued to those who (a) graduate from an approved training program, (b) pass a written, verbal, or practical test, (c) meet the prescribed amount of work-related experience, (c) satisfy age, citizenship, or bonding requirements, (d) meet the licensing standards set by another recognized state or agency, or (e) pay an initial or renewal license fee. As the foregoing list makes clear, many licenses will have only minor competition-reducing effects (e.g., a nominal fee), whereas others will have more substantial effects (e.g., an expensive or difficult training program). It also bears noting that some licenses raise earnings because they affect the type of workers who opt to enter the occupation (i.e., a "selectivity effect") or because the training itself increases productivity (i.e., a "training effect"). The total increase in occupational income that accrues to installing a license reflects, then, both its effects on productivity as well as any rent-generating effects on the supply of labor.

The second form of occupational closure, *certification*, documents that the holder meets certain training, experience, or examination requirements. We refer to certification, rather than licensure, precisely because it is legal to practice the occupation without securing the certification. In some instances, an occupational incumbent with a certification may be allowed to claim a special title (e.g., certified public accountant), a designation that purports to signify a special skill and allows certain tasks to be undertaken. As with licenses, certificates are typically obtained by paying a fee and by meeting certain training, experience, or examination requirements. It is not obvious whether certificates or licenses will yield a higher return. The return to certification may be higher insofar as certificates tend to be more difficult to acquire than licenses (and hence have greater effects on productivity and competition-restriction), but may be lower insofar as certificate-holders are subjected to much competition from incumbents who have opted against acquiring certificates (and yet are not grossly less competent). The net payoff to a certificate will reflect the effects of these two countervailing forces.

The third form of closure arises when incumbents are expected to secure *general education degrees* (e.g., Ph.D.). In its classic form, neither the state or occupational association formally mandates the degree, but it has nonetheless become a de facto requirement. Because educational degrees are often expensive and difficult to obtain, the resulting barrier to entry may be substantial, with the consequence that the increment to lifetime earnings can be well in excess of training costs (i.e., fees and foregone compensation). The payoff to a generalized degree (as compared to certificates and licenses) is again indeterminate and depends on its effects on productivity and on the restriction of competition.

These various forms of occupational closure have the twofold effect of (a) raising the quality of the goods or services that occupational incumbents provide, and (b) restricting possible competitors from providing the same goods or services. In a fully competitive market, the consumer would be free to choose from among different quality levels (with prices varying accordingly), an arrangement that is deemed untenable insofar as complete information about quality is too costly to provide or the full cost of purchasing low-quality goods or services is not borne by the consumer alone (e.g., a poorly qualified electrician causing a neighborhood fire). We refer to rent insofar as the restriction on competition allows incumbents to leverage compensation in excess of what would be needed to induce them to provide it.

Cutting-Edge Research

We have to this point simply *asserted* that the labor market is evolving in ways that open up new rent-collecting opportunities at the top of the class structure. Although it is well known that a declining proportion of the labor force is unionized (and that unions are more prevalent among less-desirable occupations), there is less in the way of corollary research on recent changes in opportunities for acquiring rent at the top of the class structure. In two now-classic papers, Kleiner (2006) and Kleiner & Krueger (2008) have shown that a rising proportion of all workers are in licensed occupations, a result that is partly due to the expansion of long-licensed occupations and partly due to the diffusion of licensure to new occupations. The latter stream of research, important though it is, does not speak to the types of occupations that are licensed, nor does it consider the distribution of other types of closure (e.g., generalized degrees, certification).

We present here new data that provide the first comprehensive assessment of the changing class distribution of closure and the capacity to secure rent. The analyses in this section will be based on microdata from the outgoing rotation sample of the 1983-2012 Current Population Survey (CPS). The CPS samples are limited to civilian respondents between the ages of 18 and 64 who are currently employed for pay. We will track trends in the capacity to secure rent across the four decades defined by the available CPS data (i.e., 1983-89; 1990-99; 2000-09; 2010-12). By analyzing trends across five major social classes, we assess whether opportunities for collecting rent are, as we suggest above, diminishing at the bottom of the class structure while increasing at the top.

How can opportunities for collecting rent be measured? The distinctive feature of our analysis is that it combines standard CPS measures of closure with a new historical database, assembled by Red Bird (2013), on state and federal licensing. These data were developed from an exhaustive census of state-level statutes and codes over the last 30 years. The resulting measure of licensure, which is appended to the detailed occupations available in the CPS, rests on the assumption that occupational incumbents are licensed whenever they live in a state in which that occupation required a license for the year in question. Because some incumbents are practicing illegally, and because such illegal practitioners likely drive down occupational earnings for all incumbents, our estimates will have to be interpreted as the returns to licensure in the context of imperfect closure. We will supplement this measure of licensure with standard CPS measures of unionization, certification, and general educational closure (see Table 1 for details on how these measures are operationalized).

Table 1. Operationalizations of Current Population Survey Variables

Variable	*Operationalization*
Unionization	1 = Member of a labor union (or an employee association similar to a union) 0 = All others *NOTE: Respondents who are covered by a union contract, but are not themselves members of a union, are assigned to "0."*
Certification	1 = Holds an occupational or vocational "associate degree" 0 = All others *NOTE: If a respondent has an academic associate degree (or any other higher academic degree), she or he is coded as "0" on this variable.*
Licensure	1 = Works in an occupation that requires a license (for the year in question and the state in which the respondent works) 0 = All others *NOTE: This variable is both time-varying and state-varying and is constructed from state and federal legislative historical databases (see Red Bird, 2013). Business licenses, facility or land use permits, equipment licenses, and sales licenses (e.g., liquor licenses) are excluded.*
College Education	1 = Works in an occupation in which greater than 50 percent of incumbents hold a BA or higher degree 0 = All others *NOTE: This variable is time-varying. If an occupation's educational composition shifts over time (such that more than 50 percent of the incumbents come to hold a BA or higher degree), the occupation will be recoded accordingly.*

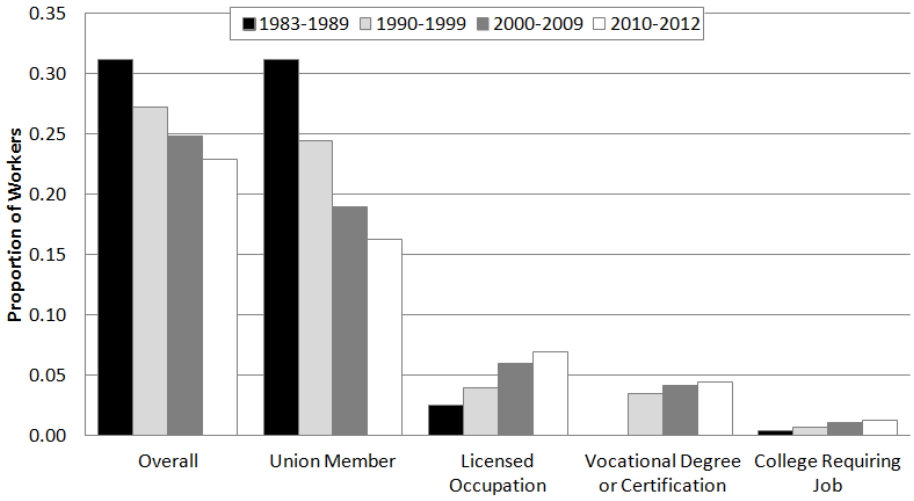

Figure 1. Trends in Closure for Production and Transportation Workers

The first set of results, presented in Figure 1, pertains to the proportion of production workers who have access to rent via unionization, licensure, certification, or general education requirements. The bars on the far left of Figure 1 indicate whether these workers have access to *any* of these four types of closure. We find that, while 31 percent of all production workers in the 1980s had at least one type of closure available to them, only 23 percent did some 25 years later. This decline is driven entirely by the well-known falloff in unionization. As the next set of bars reveals, 31 percent of production workers were unionized in the 1980s, whereas only 16 percent are now. At the same time, we find slight increases in licensure and other forms of closure, but these changes cannot compensate for the dramatic decline in unionization.

The story is only slightly less bleak for construction workers (see Figure 2). As with production workers, construction workers are experiencing an overall decline in closure, but it is a less stark decline (from 31 percent to 27 percent). This difference is not driven, however, by a less dramatic process of deunionization. As Figure 2 reveals, the construction sector is deunionizing nearly as rapidly as the production sector, with the decline in overall rates mainly stemmed by a prominent countervailing rise in licensure. For construction workers, we can therefore conclude that one type of closure is effectively being replaced by another, thus suggesting a measure of protection that is absent in the case of production workers.

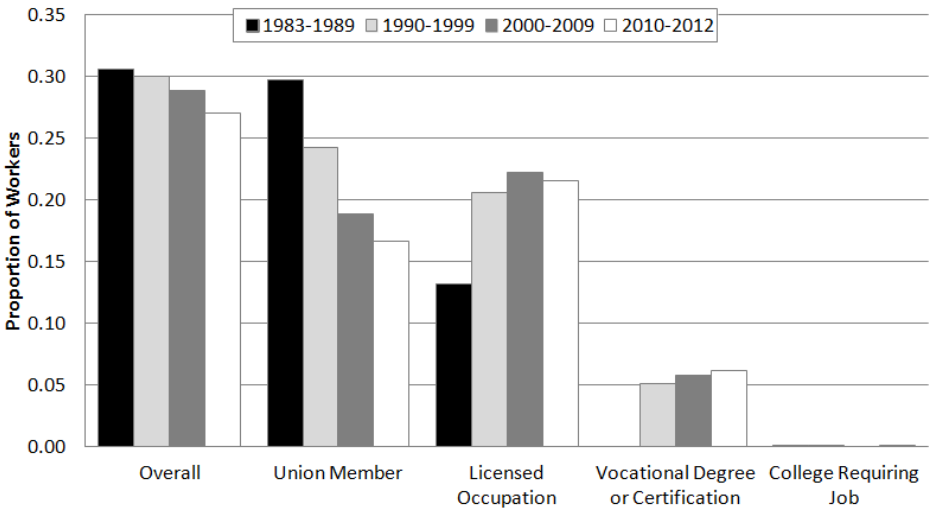

Figure 2. Trends in Closure for Construction and Maintenance Workers

For service workers, these two opposing trends are more nearly offsetting, in fact overall closure rates increase slightly from 15 percent in the 1980s to 17 percent now (see Figure 3). The trend is more favorable in this case because the decline in union membership is only gradual. At the same time, the overall closure rate for service occupations remains rather lower than in other manual occupations (both production and construction), even if there is a slight upward trend in that

rate. The results for sales workers (see Figure 4) are quite similar save that, for this group, a relatively low proportion of incumbents is licensed in any of the decades.

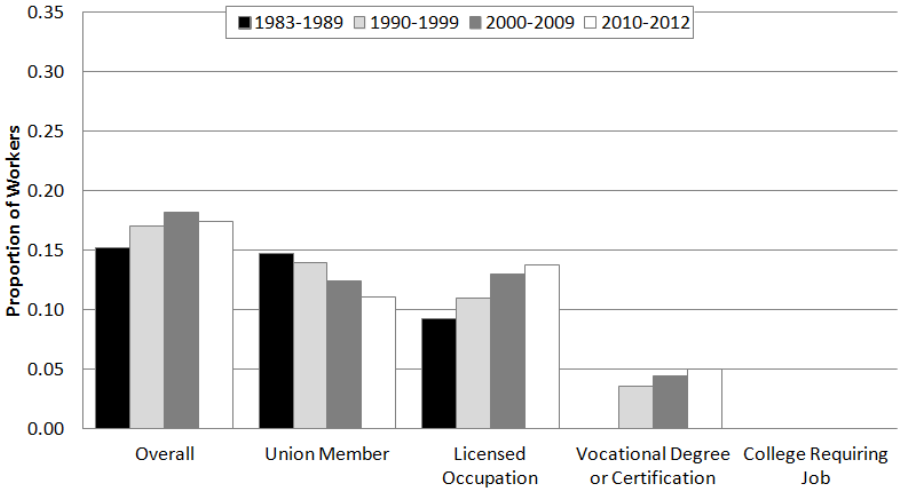

Figure 3. Trends in Closure for Service Workers

The foregoing trends are consistent with the well-known result that opportunities for rent are declining at the bottom of the class structure and that deunionization is the driving force behind this decline. We also find, however, that some classes have experienced less prominent declines in unionization (e.g., service, sales) and others have benefited from an offsetting increase in licensure (e.g., construction, service). The production sector, by contrast, has borne the full brunt of the deregulative turn.

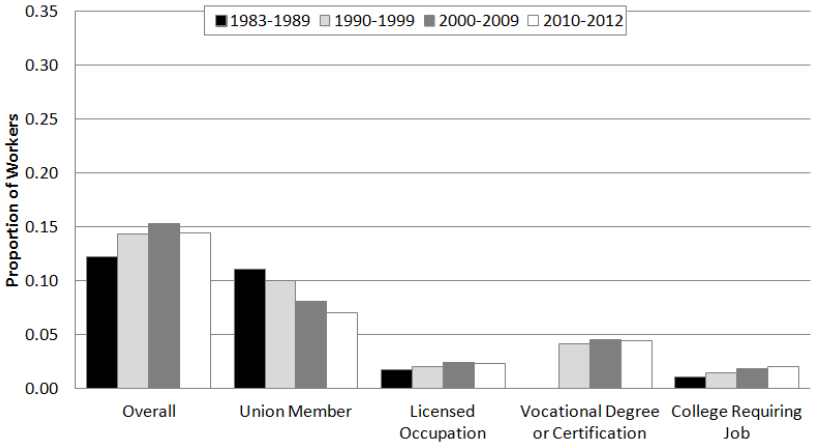

Figure 4. Trends in Closure for Sales and Office Workers

The final figure allows us to assess whether professionals and managers have been protected from the widespread decline in opportunities to collect rent (see Figure 5). We find that indeed they have been: The overall closure rate for professionals and managers has increased dramatically from 56 percent in the 1980s to 85 percent now. This takeoff in closure is driven partly by the rise of licensure but mainly by the rise of general educational credentialling. As we hypothesized, the top of the class structure (i.e., professionals and managers) is becoming ever more closed, while the bottom of the class structure (i.e., production workers) is becoming ever more open. The middle of the class structure (i.e., service workers) is experiencing a more complicated trend in which the decline in unionization is partly offset by the rise of licensure.

It is useful to conclude this section with a brief analysis of the payoff to these different types of closure. The graphs presented in Figures 1 through 5 speak to changes in the *capacity* to secure rent, but not to possible changes in the realization of that capacity (via higher earnings). We

provide suggestive evidence on this "payoff to closure" by regressing the natural log of weekly earnings on our key variables. For the purposes of this analysis, the independent variables are operationalized as before (see Table 1), except that the general education variable (i.e., the proportion of occupational incumbents with BAs) is now treated as continuous. This continuous proportion is then assigned to each individual in each survey year (based on the occupation held in that year). Because the licensure variable is likewise time-varying (at the state level), the effects of licensure will pertain to the net change in earnings when an occupation shifts from an unlicensed to licensed state. We also fit the individual-level effects of education via two dummy variables, the first pertaining to certification, and the second to a BA degree (with the omitted category for these two variables being a "high school degree or less").

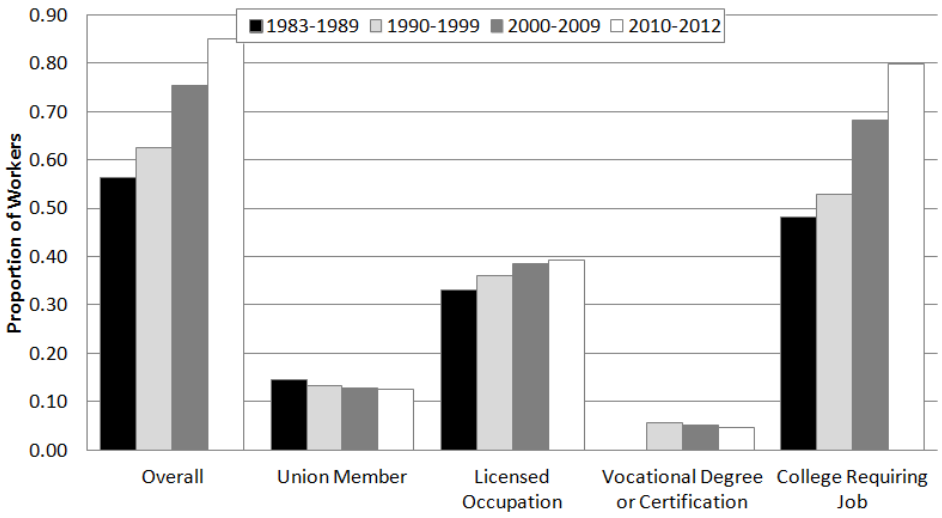

Figure 5. Trends in Closure for Professional and Managerial Workers

We present the coefficients pertaining to the effect of each variable in Table 2. These coefficients imply that earnings increases by 20.1 percent with certification, 59.3 percent with a college degree, 27.2 percent with unionization, 1.5 percent with licensure, and 20.0 percent for every ten percent increase in occupational education. The upshot is that there is a substantial payoff to all forms of closure except licensure. The weakness of the licensure effect may reflect either (a) the relatively minor competition-reducing effects of the nominal barriers (e.g., a small licensing fee) that licensure often implies, or (b) the relatively large pool of competitors who choose to ignore licensing requirements and thereby drive down occupational earnings (see Red Bird [2013] on the relative sizes of these two effects). Whatever the sources of the weakened effect may be, the obvious implication is that the rise of licensure at the bottom (and middle) of the class structure has not generated all that much rent and has surely not compensated for the rent lost by virtue of deunionization. Because the payoff to union membership is, by our estimates, 18.1 times greater than the payoff to licensure (i.e., 27.2/1.5 = 18.1), no one should mistake licensing as a form of closure that has nearly the power of unionization.

Table 2. The Earnings Returns to Various Types of Closure

Type of Closure	*Coefficient*
Certification (Indiv. level)	1.209
College degree (Indiv. level)	1.593
Unionization	1.272
Licensure	1.015
College Education (Occ. Req.)	2.009

Notes: The data are from the CPS pooled outgoing rotation samples (1983-2012). N = 3,017,016. The dependent variable is ln(Usual Weekly Earnings). The coefficients are exponentiated and all are significant at $\alpha = .001$.

Key Issues for Future Research

This article addressed the definition of rent, the various forms it takes, and the way in which the capacity to collect rent is distributed across the class structure. We used the Current Population Survey to show that this capacity is withering away at the bottom of the class structure while simultaneously expanding at the top of the class structure. We also showed that, while the rise of licensure could conceivably compensate for the decline of unions, that potential has not as yet been realized.

The foregoing results, while suggestive, by no means demonstrate that the takeoff in income inequality is attributable to this particular pattern of rent destruction and creation. Although a rent-based account of rising income inequality is still little more than a hypothesis, the results presented here suggest that it is worth subjecting to the same scrutiny that competing accounts, such as skill-biased technical change, have undergone. We close our piece with a brief discussion of what such an empirical agenda might entail.

The first step in undertaking this agenda is to examine whether changes in occupational closure and other rent-relevant practices can explain much of the trend in inequality. At minimum, we would like to show that wage growth is most pronounced among (a) occupations with well- developed closure at the start of the takeoff, and (b) occupations that ramped up their closure as the takeoff unfolded. The closure effect should be especially apparent among occupations that experienced a pronounced increase in demand (often via computerization and related technological change). Conversely, occupations that upgraded but lack closure (e.g., clerical work) should not show a persisting upward wage trajectory, precisely because they lack the capacity to close off against the burgeoning supply of laborers who can secure the requisite training.

It is equally important to examine whether the rising returns to individual-level education may be understood as the consequence of rationing and other bottlenecks. We might begin by asking why the growing payoff for schooling has not been met by an increase in the number of students pursuing tertiary schooling or the number of available slots in high-quality colleges and universities (Hout, 2012). The rent hypothesis receives support insofar as (a) the supply of college-

educated labor does not respond well to changes in the payoff to college, and (b) the bottleneck in the number of available high-quality slots can be attributed to unresponsive public (or private) funding of education.

If a rent-based account is indeed on the mark, what are the implications for efforts to reduce poverty and inequality? The U.S. has long fashioned its interventions under the assumption that inequality is an unfortunate by-product of highly efficient competitive markets. This assumption leads us to focus on pre-market skill enhancement (e.g., education) and after-market redistribution (e.g., through taxation and redistribution) rather than market repair. The rent-based account instead implies that the U.S. would end up with less inequality, not more, insofar as various forms of closure and rent-generating practices were purged from our labor market institutions.

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