DO TAX CUTS ENCOURAGE RENT SEEKING BY TOP CORPORATE EXECUTIVES? THEORY AND EVIDENCE

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This paper explores the role of tax policy in shaping incentives for executive effort (labor supply) and rent seeking within the firm. We develop a theoretical model that distinguishes between effort and rent-seeking responses to income taxes, and provides a framework to estimate a lower bound for the rent-seeking response. Using executive compensation and governance data, we find that rent seeking represents an important component of the response to changes in tax rates, especially among executives in firms with the worst corporate governance. (JEL D31, G30, H21).