

Rent seeking and the excess burden of taxation

Nava Kahana^{a,b}, Doron Klunover^{a,*}

Abstract

The social costs of rent seeking are generally evaluated with respect to rent dissipation. A common assumption is complete rent dissipation so that the value of a contested rent is the value of social loss. When rent seekers earn taxable income, there is interdependence between the social cost of rent seeking through rent dissipation and the excess burden of taxation. Through the addition of substitution to rent seeking beyond leisure, rent seeking increases the excess burden of taxation under risk neutrality when leisure is non-inferior. We derive a condition for rent seeking to increase the excess burden of taxation under risk aversion. Our conclusion is that, when rent seekers can earn taxable income, rent seeking is more socially costly than is inferred from contest models alone, because of an increased excess burden of taxation.

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^a Department of Economics, Bar-Ilan University, Israel

^b IZA Bonn

*Corresponding author: Doron.Kluhovrd@biu.ac.il

