

**An Examination of the Rent- Seeking Incentives Effects on Tax Revenues  
(The Relationship between the Composition of Government Expenditure  
and Tax Revenues)**

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**Abstract**

Rent-Seeking incentives in government expenditure have constantly been one of the most important factors which have restricted the positive effects of government intervention in economy. Because the consequences of such motivations are, declining in education and health, and increasing in bureaucracy shares in government budget. So, in this paper, we present a model based on microeconomic assumptions and measure index of rent- seeking by using principal component analysis method and show its effects accompanied by other variables on tax revenues. In general, our results show that the tax to GDP ratio will increase after decreasing rent- seeking, increasing per capita income, decreasing agricultural shares in output, more openness of economy and increasing oil revenues. Among mentioned variables, the oil revenue has the greatest effect. Also, the IV-GLS regression shows that an increase of inflation [as a proxy of expansionary fiscal policy] causes tax revenue to decrease. Although, an increase of real effective exchange rate has positive effect on tax earns but it's not significant statistically. In this manner, the structural reforms have positive and significant effect on tax revenue.

**Keywords:** Rent- Seeking, Composition of Government Expenditure, Tax Revenue, IV-GLS

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