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Discouraging Rivals: Managerial Rent-Seeking and Economic Inefficiencies

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We argue here for a broader view of the biases in managers' decisions: In general, managerial rent-seeking affects not only the level of investment, but also the form. Our basic hypothesis is simple: given the now well-established scope for managerial discretion, managers have an incentive to exercise that discretion to enhance their income. Any managerial contract is subject to renegotiation, and a manager's pay is the outcome of an often bewildering bargaining process between management, the board of directors, and rival management teams or takeover artists.

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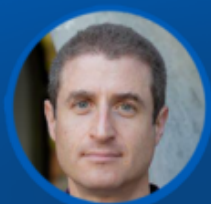
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