LEGAL STANDARDS, ENFORCEMENT AND CORRUPTION

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Abstract

Stricter laws require more incisive and costlier enforcement. Since enforcement activity depends both on available tax revenue and the honesty of officials, the optimal legal standard of a benevolent government is increasing in per-capita income and decreasing in officials’ corruption. In contrast to the "tollbooth view" of regulation, the standard chosen by a self-interested government is a non-monotonic function of officials’ corruption, and can be either lower or higher than that chosen by a benevolent regulator. International evidence on environmental regulation show that standards correlate positively with per-capita income, and negatively with corruption, consistently with the model’s predictions for benevolent governments. (JEL: D73, K42, L51)