SOCIAL NORMS AND THE ENFORCEMENT OF LAWS

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Abstract
We examine the interplay between social norms and the enforcement of laws. Agents choose a behavior (e.g., tax evasion, production of low-quality products, corruption, harassing behavior, substance abuse, etc.) and then are randomly matched with another agent. There are complementarities in behaviors so that an agent’s payoff decreases with the mismatch between her behavior and her partner’s, and from overall negative externalities created by the behavior of others. A law is an upper bound (cap) on behavior. A law-breaker, when detected, pays a fine and has her behavior forced down to the level of the law. Equilibrium law-breaking depends on social norms because detection relies, at least in part, on whistle-blowing. Law-abiding agents have an incentive to whistle-blow on a law-breaking partner because this reduces the mismatch with their partners’ behaviors as well as the negative externalities. When laws are in conflict with norms and many agents are breaking the law, each agent anticipates little whistle-blowing and is more likely to also break the law. Tighter laws (banning more behaviors), greater fines, and better public enforcement, all have counteracting effects, reducing behavior among law-abiding individuals but increasing it among law-breakers. We show that laws that are in strong conflict with prevailing social norms may backfire, while gradual tightening of laws can be more effective in influencing social norms and behavior. (JEL: C72, C73, P16, Z1)

Keywords: social norms, laws, conventions, coordination, law enforcement, whistle-blowing, matching, private enforcement.

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