THE REAL EFFECTS OF CORRUPTION: EVIDENCE FROM RANDOMIZED AUDITS IN BRAZIL

EMANUELE COLONNELLI⋆ AND MOUNU PREM‡

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***preliminary and incomplete***

Abstract. What are the real economic effects of corruption? Studying a government program in Brazil, we find that randomized anti-corruption audits lead to higher economic activity and a reallocation of resources across firms. Additionally, we find that anti-corruption audits improve the performance of firms directly involved in corruption, reduce within firm misallocation of capital and labor, and allow firms to expand to new markets. The results suggest that corruption acts as a severe friction to local economic growth and firm performance in emerging markets.

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⋆Department of Economics, Stanford University. email: emacol@stanford.edu.
‡Department of Economics, Universidad del Rosario. email: francisco.munoz@urosario.edu.co.