

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

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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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