

Corruption, tax revenue and growth: a non linear relationship?*

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Abstract

In this paper we explore tax revenue in a regime of widespread corruption in a static and dynamic framework. We prove that the relationship between the tax rate and tax collection is not linear. In a static context, this may bring about a Laffer-like behavior of overall tax revenue; a higher tax rate, via higher corruption, may reduce revenues. In a dynamic context, this relationship is inverted: tax revenues are high for low and high tax rates, while low for intermediate tax rates. Furthermore we prove that the relationship between the tax rate and growth is not linear: at low levels of the tax rate, any increase in it leads to a decreasing growth rate; after a certain threshold, increases in the tax rate lead to an increase in economic growth.

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