

Economic growth, corruption and tax evasion

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Abstract

In this paper we explore tax revenues in a regime of widespread corruption in a growth model. We develop a Ramsey model of economic growth with rival but non-excludable public good which is financed by taxed which can be evaded via corrupt tax inspector. We prove that the relationship between the tax rate and tax collection, in a dynamic framework, is not unique, but is different depending on the relevance of the shame effect. We show that growth rates – both of income and of tax revenues – decrease, as the tax rate increases, for all types of shame effect countries but they differ in how the growth rate decreases as the tax increases: the rate of decrease is higher in low shame countries than in high shame countries.

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