

Bureaucrats vs the Mafia: Corruption, Extortion and Illegal Waste Disposal

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We develop a simple model where an economic agent chooses the level of legal and illegal disposal. Illegal disposal implies corruption of a bureaucrat in charge of waste management. In the absence of a criminal organization, illegal disposal is performed by the agent, who is subject to enforcement and bribes the bureaucrat. At the opposite, in the presence of a criminal organization, illegal disposal is performed by the mafia, which requires an extortion rate from the agent and bribes the public official; in this latter case no enforcement on the agent is possible. The environmental authority sets the enforcement effort as well as the waste tax rate. In our setting the waste tax rate can be either budget balancing or optimally defined. Results suggest that the presence of the mafia leads to a larger illegal disposal and a larger economic activity. Enforcement is always smaller in the presence of the mafia under the optimal tax rate, while the results are ambiguous under a budget balancing tax rate. Interestingly, the optimal tax rate implies smaller incentives for the criminal organization to enter the market, and welfare might be higher when the mafia is present.