**The Interaction of Communities, Religion, Governments, and Corruption in the Enforcement of Contracts and Social Norms**

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**Abstract:**

Are informal communities and formal government policing substitutes or complements in enforcing norms of reciprocation and exchange?

How do religion and corruption affect that interaction?

We introduce a model in which people exchange informally within their community as well as externally on a market in which transactions are policed.

We show that informal community enforcement and formal policing are complements: the news that someone was caught by the police can lead to community ostracism, bolstering incentives.

Although community transactions offer less direct benefits, their presence lowers overall costs of enforcement and it may be welfare-maximizing for a society to rely on both community and formal exchange.

We explain why the optimal mix of community and formal markets is discontinuous in underlying parameters.

We also show that religion can enhance the complementarity between community and formal policing, while corruption undermines it.