SUMMARY

Across diverse regulatory settings, authorities monitor the compliance behavior of agents. A fundamental question for both social scientists and policymakers is whether authorities can trust agents. Can authorities expect agents to comply with regulations, and consequently monitor them less frequently? This dissertation focuses on trust-based regulation; a type of regulation that allows regulatory authorities to lower monitoring levels based on positive expectations about agents’ voluntary compliance. The dissertation has five chapters. In Chapter 1, I review relevant literature on trust, regulation, and compliance in order to define trust-based regulation. Chapter 2 contains a game theoretical model examining how tax compliance is affected by rules that allow trust to develop. The key finding is that long-term oriented agents do not misuse trust. Chapters 3 and 4 employ data from the regulatory setting of financial intermediation in the Netherlands. My colleagues and I observe that firms’ law violations are negatively associated with firms’ (i) perception of procedural fairness in regulation, (ii) membership to the industry’s self-regulatory organization, and (iii) connections to industry associations and quality improvement organizations. Chapters 2, 3 and 4 illustrate how voluntary compliance can be influenced by factors that originate in the agent (discount factor), the regulatory authority (procedural fairness), and other agents in the regulatory setting (industry self-regulation, industry connections). The practical implication is that, under trust-based regulation, regulators may identify factors like these, form positive expectations about agents’ voluntary compliance, and consequently monitor them less frequently. Chapter 5 concludes with a summary of the previous chapters and directions for future research.