

# How does the fight against Mafia affect workers and firms?

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*The role of the Salvos [a ma\_a family] in Cosa Nostra is modest, however they have a huge influence on politics. [...] Their power does not come from drug dealing [...], but mostly from their relationship with the politicians. Buscetta (ex-mafia boss and informant), Mafia e Potere Politico, cit. p. 77*

Governments around the world invest large amounts of money in combating organized crime every year; the US alone has spent \$1 trillion since 1970. The long-standing mutual relationship between local public administrations and Mafia-like organizations has been widely documented (Salvatore Lupo (1989), Tranfaglia (1990), Pizzini (1994), Marmo (2012), Commissione Parlamentare (1976)). Yet, few rigorous quantitative studies have credibly quantified the effects of organized crime on local outcomes; and, to the best of my knowledge, there is no study that analyzes the consequences of the fight against large criminal organizations on local workers and firms. In a context where organized crime is an influential economic institution, policies aimed at eradicating racketing might have short-term consequences, which may need to be addressed in conjunction with law enforcement efforts.

My objective is to identify the short-and long-run effects of severing Mafia's connection to local government on local labor market outcomes by exploiting a feature of the Italian law that forces all local elected officials to be removed when a municipality is found to be infiltrated by organized crime<sup>1</sup>. In particular, I wish to explore the effects of this policy on workers' earnings and health outcomes. I plan to perform an event study analysis of wages on both displaced and non-displaced worker in the spirit of the work of Louis S. Jacobson (1993). As INPS also collects information regarding employees' health outcomes (WHIP-Salute), I can additionally extend my analysis to include the effect of these shocks on workers' health outcomes (e.g. mortality, heart attacks, on the job injuries etc.).

I would then analyze the effect of the removal of elected officials on firm outcomes. I can do so both by performing an event study on firms, which gives reduced form estimates of the policy, and by exploiting an IV strategy similar to the one used by Acconcia et al. (2014), which shows how the effects of the policy are mediated directly through changes in public spending.

I would conclude my empirical analysis by estimating an John M. Abowd (1999) model, which would allow me to characterize the skill distribution of the workers in affected industries, and see how these workers sort into firm with different productivities.

The main contribution of my paper would be to credibly quantifying short- and long-run impacts of public sector shocks on firm-level outcomes and workers' wage trajectories.

I believe that the study of the Italian context can inform other contexts where national governments are making large, sweeping attempts to reform informal labor market institutions that fall outside the purview of government oversight. These contexts include places like Brazil where there have been direct efforts to decrease informality as well as the United States where app-based employment (e.g. Uber) exist in legal gray areas and broad judicial decisions are likely to impact many workers.