

Le Moglie, M. 2020. “Revealing “Mafia Inc.”? Financial Crisis, Organized Crime, and the Birth of New Enterprises”, *Review of Economics and Statistics*.

Organized crime has strong negative effects on the economy, the society, and the institutions of many countries, but despite these detrimental effects, and the dramatic increase in the public resources deployed to contrast organized crime, it has followed to proliferate. A possible explanation for this persistence relates to the fact that organized crime also represents an important actor within the economy of many countries, generating gains for a part of the population that partially counterbalance its negative impact and reduce the effectiveness of law enforcement.

A recent work by Le Moglie and Sorrenti, now forthcoming at the Review of Economics and Statistics, exploits the 2007-subprime mortgage crisis to detect Mafia's presence in the Italian legal economy. The credit contraction homogeneously hit all the geographic areas, while Mafia presence was stronger in some provinces and weaker in others; Mafia sources of profit and capital were barely dented, as UNODC records, allowing organized crime to invest as usual. If the Mafia invests in the legal economy, the number of newly-established enterprises should thus have decreased less in Mafia-ridden areas than in the rest of the country. That's exactly what happened, according to the number of firms newly registered in each province in the Registry of Enterprises. The drop was 4% lower, corresponding to a provincial average of 241 enterprises established every year in the post-crisis period due to Mafia investment in the legal economy (28 for every 100,000 inhabitants), and it lowers even further when considering the sector (construction) and legal form (limited liability) most preferred by Mafia.

The analysis suggests that standard repression policies against organized crime need to be complemented by institutional interventions, e.g. provision of credit or programs to enhance employment opportunities, to undermine the roots of the social consensus obtained through its investment in the legal economy.