Formal Employment and Organised Crime: Regression Discontinuity Evidence from Colombia

ECONOMIC JOURNAL
Número:
654
DOI:
https://doi.org/10.1093/ej/uead025
Publicado:
Sábado, 17 Junio 2023
Authors:
Gaurav Khanna[e],
Carlos Medina[a],
Anant Nyshadham[e],
Jorge Tamayo[e],
Nicolas Torres[e]
Ver más
[e]Externo
[a]Banco de la República, Colombia
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Safety net programs, common in settings with high informality like Latin America, often use a means test to establish eligibility. We ask: in settings in which organised crime provides lucrative opportunities in the informal market, will discouraging formal employment via benefits eligibility criteria increase criminal enterprise activity? We link administrative socioeconomic microdata with the universe of arrests in Medellín over a decade, and exploit exogenous variation in formal-sector employment around a socioeconomic-score cutoff, below which individuals receive generous benefits if not formally employed. Regression discontinuity estimates confirm this policy reduced formal-sector employment and generated a corresponding increase in arrests associated with organised crime. We do not find increases for crimes unlikely to be associated with organised entities, such as crimes of impulse or opportunity. Effects on arrests are strongest in neighbourhoods where organised crime is most prevalent.