Once Upon a Time in America: the Mafia and the Unions

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Abstract

With the emergence of the Italian-American mafia, which we show was driven by labor unrest and a demand for protection, as well as immigration from Italy, labor racketeering became one of the most profitable criminal activities. The Mafia infiltrated several labor unions, controlling labor and restricting competition. We identify places and industries that were more likely to be infiltrated, and show that in such places individuals of Italian origin climbed up to leadership positions. In response to the likely support of workers of Italian origin, these workers started earning significantly more than other European immigrants. This suggest that the Mafia was not only using violence to control labor but was paying them rents too. In their fight against organized crime, the US passed the 1970 Racketeer Influenced and Corrupt Organizations (RICO) Act. We show that RICO cases, which most likely broke many cartels that were kept in place by the threat of violence, led to subsequent growth in employment, in the number of establishments and even in overall wages. The effects were larger in construction, an industry traditionally prone to mafia influence.

Keywords: Italian-American Mafia, Unions, Cartel, Racketeering, Teamsters.
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"My family [Genovese] (...) got money from gambling, but our real power, our real strength, came from the unions. With the unions behind us, we could shut down the city, or the country for that matter."
— Vicent "Fish" Cafaro, Senate Permanent Subcommittee on Investigations, 1988

1 Introduction

Many countries have both organized crime and organized labor, but only in the United States did the two develop a largely symbiotic relationship. Labor racketeering "has attracted enormous law enforcement, political, and media attention", yet it "has attracted practically no (...) interest among labor law scholars," nor among economists (Jacobs and Peters, 2003). Given the dramatic and in part unexplained decline of the American labor movement - with its detrimental effect on inequality (Farber et al., 2021), - it is important to understand the economic, political and social consequences of this muddy relationship.

In this study, we investigate the historical origins, evolution, and decline of this surprising partnership, as well as document its economic effects by referencing census, historical, and declassified law-enforcement datasets. In particular, we shed light on what factors made organized crime infiltration of labor unions more likely, and how this influenced the local labor market, and the economy more generally. The Italian origin of La Cosa Nostra, [1] as well as declassified federal government documents allow us to determine which sectors and locations were most at risk of being infiltrated by organized crime.

The evidence shows that starting in the 1940s, just when Cosa Nostra mafia gained power within unions,[2] the economic outcomes of Italian immigrants began to diverge. Specifically, those Italians that lived in locations where the Mafia was active, and worked in mafia-penetrated industries, began to earn more compared to other European immigrants that worked in the same industries, or other Italians doing similar work where the Mafia was not active, even conditional on their socio-economic characteristics. We show that the increase in wages corresponds with a disproportionate growth (relative to the population of Italian origin) of Italians in leadership

[1] Italian for "Our Thing", the Mafia's own name for the organization.

[2] According to Mallory (2011), Italian organized crime groups "evolved into established criminal organizations known as the Mafia and LCN in the 1950s and 1960s." (p.110) which formed a centralized nationwide cartel where every mafia family had control over a specific geographic area.

roles of local unions, but again, this was only true in mafia counties. Moreover, we provide evidence that under the Italian influence, unions were less likely to hold democratic elections to unionize workers. Related to this point, we show that President Reagan's anti-union reforms led to a dramatic decline in union elections, but less so in places where the mafia was strong, since presumably elections were already kept to a minimum in those locations and industries.

The labor unions provided a useful base of operations of organized crime for three overlapping sets of reasons. First, union leadership jobs provided a good cover for organized crime leaders, and plausible reasons why they would be meeting business owners and political figures. Secondly, they provided many opportunities to pay themselves, family figures, and associates from union funds, often with at least superficially plausible documentation. And thirdly, and most importantly, they provided the opportunity to monitor and enforce producer cartel agreements between companies, whether they be mafia-owned or not.

In the 1960s and 70s the US government finally realized that infiltrated unions were undermining industrial relations as well as democracy in the workplace. The single most important response was the RICO Act, which made new forms of evidence admissible, severely upgraded penalties for the most common forms of organized crime activity, and made it possible to convict mafia leadership for the actions of underlings, even in the absence of their physical participation in the acts committed on their orders. In the final part of the paper, we exploit data about the individual civil and criminal RICO lawsuits, the very cases that started ripping apart the mafia influence over the unions. We use the first RICO case in a mafia infiltrated county as an event that weakens the mafia influence. We then match each of these treated counties to three counterfactual counties (that did not had a RICO yet) using the nearest neighbor propensity score matching. Using a matched difference-in-differences design, we find that employment increases by 7%, the number of establishments increases by almost 10% and wages increase by 18% three years after the first RICO. We find an even larger effect in construction, an industry traditionally prone to mafia influence.

In an emblematic example, from 1975 to 1982, the New York City mob families ran the "Concrete Club": a cartel of contractors that rigged bids and squelched competition from outsiders. All contracts in Manhattan for pouring concrete for more than $15m had to be assigned to one of two mob-connected business. Contracts between $2m and $15m had to go to one of half a dozen contractors, some of which were partly owned by mob figures, while others had to pay for the privilege. Finally, contracts below \$2m were to be left to smaller contractors ineligible for the bigger jobs. The cartel could be sustained because the benefits accrued to industry insiders, while the costs were largely passed on to consumers, which were unaware of how the system worked. Control of the industry was obtained by consolidating under mob control the suppliers of ready mixed concrete in Manhattan, as well as by controlling the unions for concrete workers and cement truck drivers. In 1982, the Concrete Club participants were indicted in a series of RICO (Racketeering Influenced and Corrupt Organizations) trials, culminating in the 1985 trial of the "Commission," the highest governing body of the Italian-American mafia. On November 19, 1986, the Mafia Commission members got 100 year prison sentences, thereby compromising the internal power structure of Cosa Nostra, and weakening its hold on its traditional economic sectors of influence.

In the next section, we set up the theoretical framework and derive our main hypotheses. In section 3, we describe the data and our empirical strategy. In section 4, we present our empirical results before we conclude.

2 Theoretical Framework

In this section, we lay down a theoretical framework to illustrate the role of the mafia before RICO and the effect of RICO. Consider a union that is providing workers to $N > 2$ competing symmetric firms. The firms compete repeatedly over an infinite number of periods. Let δ be the discount factor. The industry profits when the firms compete are Π^C. Let Π^M be the industry profits if they were to collude to act as a monopoly. If a firm deviates from the cartel, it gets for one period Π^{Dev} where $\Pi^{Dev} > \Pi^M > \Pi^C$ but the industry reverts to competition after that. The parameters of the market are such that the cartel is not enforceable because a firm's profit from honoring the cartel are smaller than those of reneging:

$$\frac{\Pi^M}{N} + \frac{\delta}{1-\delta}\frac{\Pi^M}{N} < \Pi^{Dev} + \frac{\delta}{1-\delta}\frac{\Pi^C}{N}$$

Consider now the same industry with mafia infiltration. The mafia controls the union by preventing elections and appointing "controlled" agents to lead their locals. The Mafia then uses this control to set up and enforce the otherwise unenforceable cartel. It dictates the price fixing or contract allocation agreement, it frustrates potential prosecution using the track record of killing cooperating witnesses and, above all, it detects and punishes deviations from the cartel agreement. It does so by using its network of local union leaders, which can both monitor compliance with the agreement, and punish any deviation (e.g. the union can use slow-downs, selective enforcement of labor provisions, strikes... and violence).[3] Mafia's monitoring and punishment with violence V to the deviator imposes an extra cost to the decision to deviate. For its services, the mafia charges a fee f to each firm. If the fee is small enough and the violence large enough, the cartel becomes enforceable:

$$\frac{\Pi^M - f}{N} + \frac{\delta}{1-\delta}\frac{\Pi^M - f}{N} \geq \Pi^{Dev} - V + \frac{\delta}{1-\delta}\frac{\Pi^C}{N}$$

RICO makes the use of violence more costly making the cartel not enforceable again.

3 Data Description

Our analysis links together data on geographic mafia prevalence, mafia susceptibility of various industries, union leadership, individual economic outcomes, and the RICO trials which picked the organization apart.

Mafia Locations: The information on where in the US the mafia was operating comes from the Federal Bureau of Narcotics (FBN). We have the exact facsimile of a secret report documenting in detail 800 mafia members up until 1960. These files come from more than 20 years of investigations, and several successful infiltrations by undercover agents (Mastrobuoni, 2015). This knowledge did not translate immediately into prosecution. Indeed, as Jacobs (2006) puts in p.10: *"Harry Anslinger, Director of the FBN, had much more interest in and knowledge of organized crime than Hoover, but he did not have the resources or the jurisdiction to act on this knowledge."*. Overall, we document that 641 mafiosi identified by the FBN resided in the US and the remaining 159 resided mostly in Italy. This translates into 80 counties with at least one mafia member, and we plot these counties in Figure 1 along with the number of criminals that are present in each county. In the Appendix, we provide in Figure 17 the same map in

[3] In addition, it has been documented that mafia was deterring entry via "sweetheart deals" that allow "cooperative" firms to ignore the (onerous) collective bargaining terms, delaying or withholding materials from companies that attempt to enter the sector.

terms of commuting zones. Later we also use a media-driven measure of mafia presence, linking articles that mention at the same time organized crime, union leaders of the Teamsters union and local's counties.

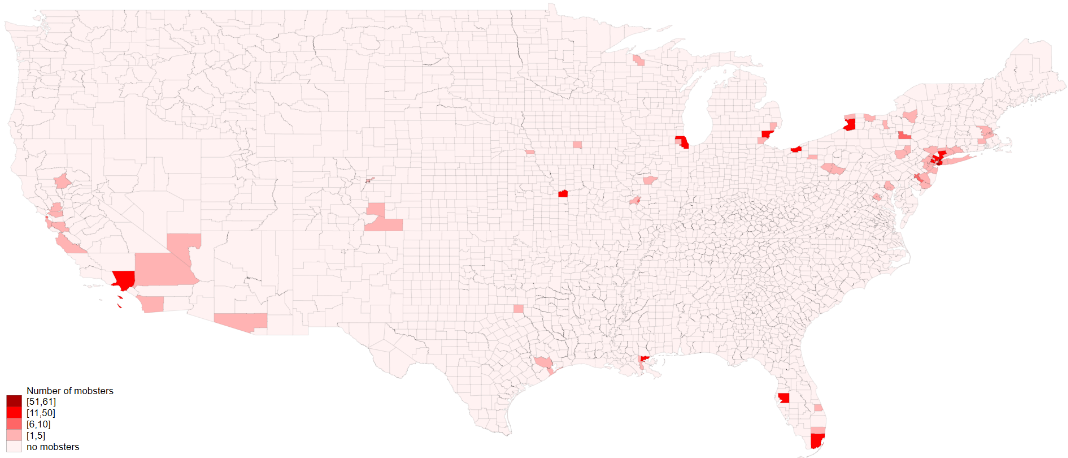

Figure 1: Mafia criminals in US counties

Mafia-prone Industries: Some industries were known to be more prone to labor racketeering than others. The New York Organized Crime Task Force concluded that mafia prone industries rank high in: 1) racketeering susceptibility (strategic importance of the union within the industry) and, 2) racketeering potential (potential revenue derived from the union exploitation). Several sources (Jacobs (2006), industry prevalence in RICO cases and mobsters' jobs in the FBN dataset) point at the following industries: construction, trucking services, warehousing and storage, water transportation, eating and drinking places, liquor stores, hotels and lodging places, meat products and sanitary services. Note that this classification is prone to misclassification, biasing the differences with non-mafia prone industries towards 0.

Unions: In order to study union behavior, we have collected a number of datasets. First, we managed to find the universe of Teamsters rosters for local unions from 1903 to 2008. For each local and year, we have the local leader name and surname, the industries associated with the local union and its location. Even though this is a yearly dataset, we have only digitalized the decennial rosters until 1990. We measure the Italian origin of the leaders' surnames using two data sources. First, we use the frequency of Italian surnames registered in Ellis Island, which was the busiest immigrant inspection station in the US, from 1892 to 1924 (see Florio and Manfredonia (2021) for more details). Second, we attribute Italian origin if Italy is the country with the highest incidence and/or density for a name using https://forebears.io/. As can be seen in Figure 2, the correlation between both measures is very high. This figure also shows the industries were Italian leaders were more likely to operate.

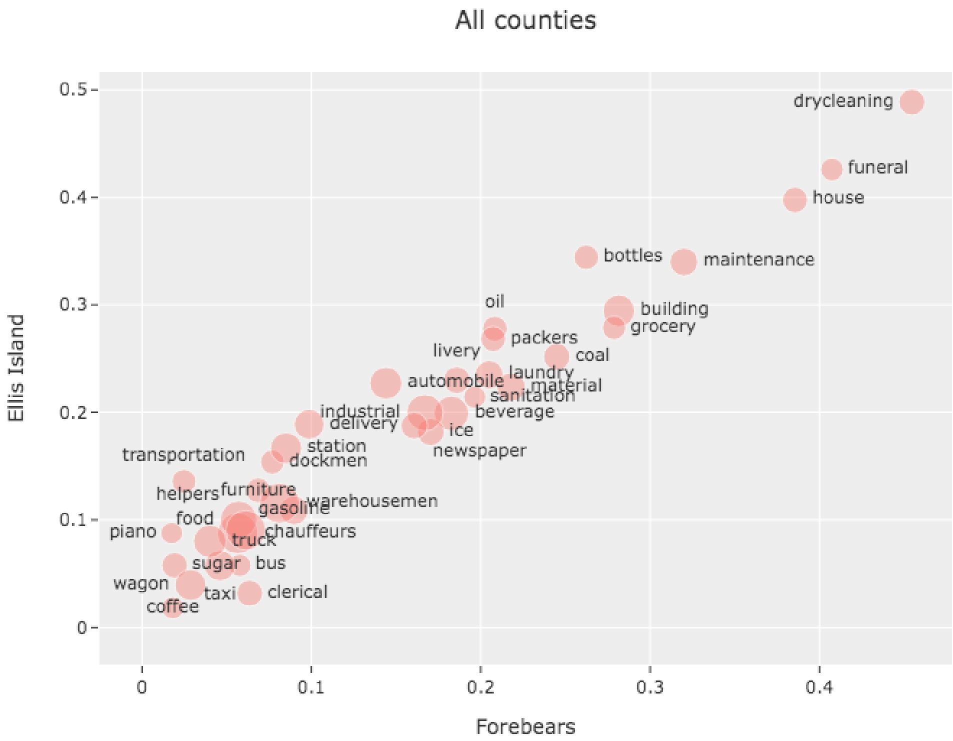

Figure 2: Local union leaders: % Teamsters with Italian Surnames

We also collected data on union democracy from the National Labor Relations Board (NLRB).[4] There are two ways to unionize workers: first, by election, that is workers vote for a particular union within an establishment and, second, by agreement where the employer and the workers agree on having a particular union without running an election. Since the NLRB registers all elections for labor union representation, the data we collected contains the universe of all the elections. Unfortunately, we do not observe the appointment of a union by agreement because this information does not get recorded. The elections are from 1962 to 1998 and we observe the establishment level information about the winning union, competing unions, winning margin and who triggered the election.

We use data from Peterson (1938) on strikes during from 1927 to 1936 at the city level. We

[4] Source: https://github.com/jpfergongithub. The description of the data collecting process is at http://jpferguson.net/project/.

restrict our sample to cities that have experienced at least 10 strikes in at least one year during this time period. We also have data on the outcomes of presidential and Congress elections in the US from ICPRS (1999).

Civil RICO Lawsuits: We collected information on Civil RICO lawsuits from the Integrated Database of the Federal Judicial Center.[5]. Overall, we have 10597 lawsuits for which we observe: location, date, case name, plaintiff and defendant. The spacial distribution of lawsuits is depicted in Figure 3.

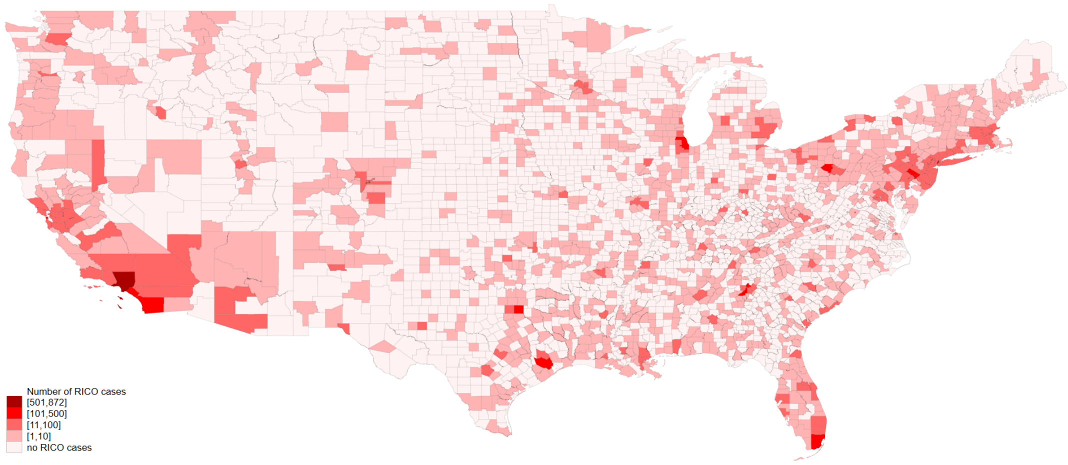

Figure 3: RICO cases by US counties

Economic Outcomes: We collected information about economic outcomes from two sources. First we use labor market outcomes from several US census using IPUMS.[6]. We classify workers of Italian origin using the following definition: born in Italy or having Italian-born father. This information is available up until the 1970 Census. Starting in 1980 the Census introduced a self-reported ancestry. In Figure 18 in the Appendix, we show that there is a sharp change from 1970 to 1980 because of the change in the definition. As a result, we focus on the years 1940 to 1970 only. We collect information on wages and employment for each year using the 100% of the sample for 1940, the 1% one for 1950 and 1970 and the 5% for 1960. For comparability, we then restrict the sample to be male householders aged 16-55 in households with no more than 2 adults.

We also collected data from the Quarterly Census of Employment and Wages (QCEW) from 1975 to 2018.[7] We focus on private establishments and extract the following variables at the

[5] See https://www.fjc.gov/research/idb

[6] https://www.ipums.org/

[7] See https://www.bls.gov/cew/.

year-county level: total annual wages, annual average weekly wage, employment and establishments. We also use the same variables at the 2 digit SIC code industry level.

4 Results

Since we are interested in evaluating the economic effects of mafia infiltration, it is useful to better understand when and where it emerged. In line with previous research on the emergence of the mafia in Italy, we are going to show that the mafia emerged in places with labor unrest. But demand for protection was not the only determinant, the Italian-American mafia had one key feature, it was Italian. Thus, only places that had a sufficient supply of Italians ended up with a strong mafia presence.

We start by exploiting this ethnic component to pinpoint likely infiltration when the mafia was growing, starting in the 1940s. We provide evidence of the origins of the mafia and its associated impact on unions' behavior. In the last part, we abandon the ethnic focus and instead exploit the timing of RICO cases, which is when mafia becomes the object of the law enforcement and hence document the consequences of a weaker mafia.

4.1 The Origins of the Mafia

The mafia is likely to have infiltrated the economy over several years, possibly also in response to a demand for protection (see for instance, Bandiera (2003), Buonanno et al. (2013) and Acemoglu, De Feo and De Luca (2020)). After World War I, membership in the American Federation of Labor (AFL), the country's largest federation of labor union at the time, surged by 50 percent between 1917 and 1919. But after that surge, American businesses sought to regain power over the unions, leading to the largest eruption of labor unrest. According to the Bureau of Labor Statistics in 1919 more than 1 in 5 workers was involved in a strike (a few years later the percentage dropped back to less than 5 percent per year BLS (1942)). And strikes would often lead to violence.

Having witnessed the 1917 Russian revolution and other Communist uprisings, became increasingly nervous that such movement could establish inroads in the US. For this reason, but also for more practical concerns over reduced profits from increased wages,

Amid this "Red scare" some industrialists and even some of the union leaders would turn to organized crime to protect their business.

Employers recruited gangsters to keep workers under control and workers paid the mafia for protection against the gangsters hired by the employers. (Jacobs, 2006). During Prohibition, the Mafia had learned that establishing monopoly power over a primary economic sector could be fantastically wealthy. When Prohibition ended, they found that their skills transferred readily even to legal sectors, as long as they could exert control over access. Labor unions provided the perfect vehicle, since the New Deal legislation specifically excluded labor organizations from key provisions of the Sherman Antitrust Act, making activities such as striking, picketing, and boycotting permissible, despite the otherwise sanctionable tendency to restrict interstate commerce. By camouflaging themselves within the labor movement, mobsters wanting to monopolize a sector could therefore partially protect themselves from interference from law enforcement.

The Mafia barely faced any opposition in this new business opportunity. In particular, the FBI was not interested in fighting organized crime because was occupied with fighting "Communist unions", which were considered a greater evil. Hoover, the FBI Director, denied the existence of a centralized and organized mafia and refused to devote investigative resources the mass arrest of mafia figures (several of them labor organizers) during the botched 1957 Appalachian meeting.

While the initial takeover of labor unions was prompted mostly by immediate concerns over quelling particular strikes, the system soon evolved in one in which the mafia-controlled unions served as hubs for cartel agreements between nominally competing producers, with the mobsters monitoring the agreement, punishing deviations, and ensuring that all parties privately remained satisfied with the agreement. For practical reasons, this generally involved a smaller or larger subset of workers, that were effectively paid for both their incuriosity, and their ability to reliably vote for politicians that could further the interests of the organization. As a result of this ad-hoc initial process, the Mafia has infiltrated the unions in different locations at different times making it difficult to determine a clear-cut start. These historical accounts suggests that the demand for protections would be larger in places with more labor unrest. And a supply story would predict that the presence of Italians mattered as well.

To test this hypothesis, we regress a dummy variable indicating whether the mafia was present in that county on whether the county had more than 10 strikes in a year in the period from 1927 to 1936, on the fraction of the population of Italian origin, and on their interaction. In order to capture any mechanical effect that is driven by the size of the county, we control for the log of population and for the log of the number of employed men (controlling for the level does not alter the results). As an alternative measure of labor unrest we use the fraction of the votes captured by the Socialist party.

Table 1: Number of strikes, Socialists vote, Italian immigrants and Mafia presence

	(1)	(2) Mafia county	(3)
Italian immigrants X Number of strikes	0.111***		0.108***
	(0.0271)		(0.0288)
Italian male immigrants in 1920s per 1000 residents	0.0446***	0.0425***	0.0434***
	(0.00926)	(0.0120)	(0.0113)
More than 10 strikes	0.0860		0.0897
	(0.0895)		(0.0906)
Italian immigrants X Socialist vote		0.0124**	0.00127
		(0.00623)	(0.00714)
Average Socialists vote (%)		-0.00477	-0.00159
		(0.00733)	(0.00744)
Log(employed men in 1930)	0.0372*	0.0536**	0.0376*
	(0.0226)	(0.0258)	(0.0225)
Log(population in 1930)	-0.00857	-0.0156	-0.00898
	(0.0210)	(0.0235)	(0.0210)
Constant	-0.227***	-0.295***	-0.226***
	(0.0408)	(0.0446)	(0.0406)
F-stat of the interactions	16.64	3.978	8.069

Standard errors in parentheses
* p<0.10, ** p<0.05, *** p<0.01

The results in Table 1 show that it is not strikes per se which is associated with the mafia presence, but strikes interacted with the fraction of the population of Italian origin. The interaction of demand and supply factors constitutes an instrument for mafia presence. We obtain similar results using the votes for the extreme left parties (the Socialists), but when we include both, strikes and votes, strikes appear to be a better measure for labor unrest and for a demand for protection.

The results show that labor unrest coupled with a supply of Italians predicts the emergence of the mafia. In the next section we use Italian ethnicity in places that had a mafia presence to better understand when and how Italians took over the unions.

4.1.1 Union Behavior

Given its illegality, organized crime members are of course not distinguishable by their occupation codes in census documents. To substantiate the link between organized crime and organized labor, we adopt two strategies. First, we provide evidence of a direct link between mafia and unions focusing on Teamsters, the largest union at the time. Then, we zoom out and provide indirect evidence of such link by considering the democratic behavior of all the unions.

Teamsters: The International Brotherhood of Teamsters was the largest union in the US. It had over 2.3 million members at its peak which happened while James "Jimmy" Hoffa was president from the late 50s to the early 70s. The Teamsters have also long been famous for the degree of infiltration by the Mafia to the extent that the term "racketeering" was coined by the Employers' Association of Chicago in a statement about the influence of organized crime in the Teamsters Union (**?**). As President's Commission on Organized Crime (1985) (p.90) put it, Teamsters *"have been firmly under the influence of organized crime since the 1950's"*.

There is evidence that mafia infiltrated unions did not appoint their members democratically: *"Mob-controlled locals elected mob-controlled officers, who chose mob-controlled convention delegates, who ratified the choice of mob-controlled international presidents, vice presidents, and general executive board (GEB) members. Because the rank and file did not vote directly for international officers, PCOC judged it unlikely, (...) that a reform-minded Teamster president can be elected in the near future"* (President's Commission on Organized Crime (1985), p. 104). Instead, as the quote suggests, they were appointing mafia controlled individuals.

Given that Italian-American mafia was almost exclusively formed by people of Italian origin, and the centrality of the unions to the organization as a whole, mafia controlled union officers and workers were also likely to be of Italian origin. In some cases, Mafia members would decide to take union leadership roles directly, but in many more, individuals of Italian origin may have played a key role in supporting the "Italian" unions since they were familiar with the culture, with the consequences of not following the rules of the game, which in their case could have also a social/family impact, or because they were indebted for getting the job in the first place via informal Italian networks.

We start exploring whether over time in mafia locations Italians became overly represented within the union leaders. Figure 4 shows that there is no significant difference in Italian leadership between mafia and non-mafia locations until 1940, but as mafia becomes more powerful, locals in mafia locations start being more likely to be led by an Italian leader. By 1980 the difference is close to 20 percentage points and almost 30 percent of union leaders are of Italian origin. Figure 5 shows that this number is almost three times what would be expected given the share of the population that is of Italian origin.

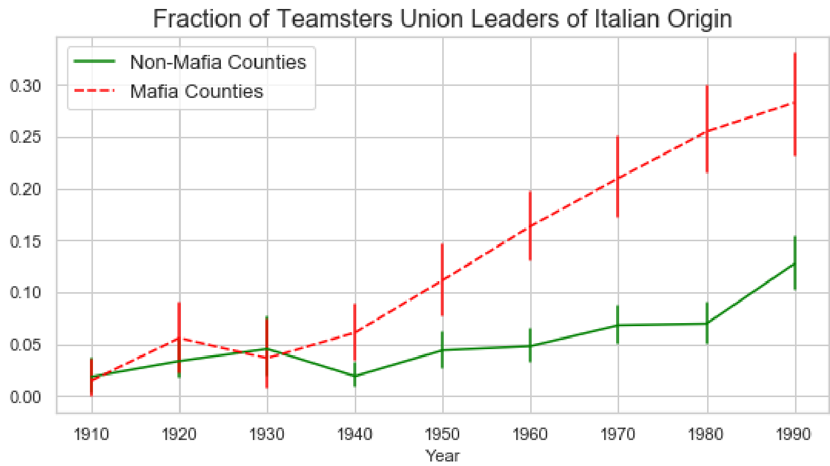

Figure 4

Union democracy: We expect that in mafia prone-industries in places with mafia presence, establishments would rarely run elections to unionize workers. Instead, with the mafia as a power broker, establishments would recognize the union "by agreement." We explore how unions get appointed within the establishments using the NLRB dataset. In Figure 6, we see that mafia industries and counties have indeed fewer elections. However, this pattern could be industry and location specific. To address this concern, we exploit an event that weakened unions to show that the effect on union elections in mafia industries and locations is smaller in comparison.

In particular, we use Reagan's first presidency in 1981 because the anti-union stance of Rea-

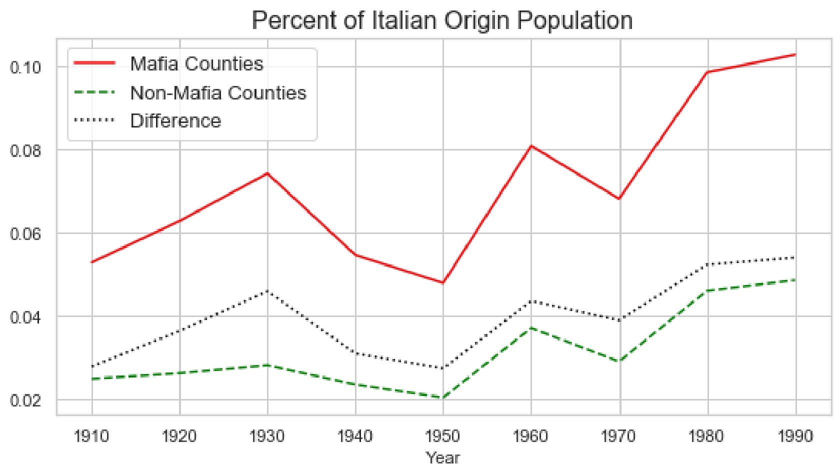

Figure 5

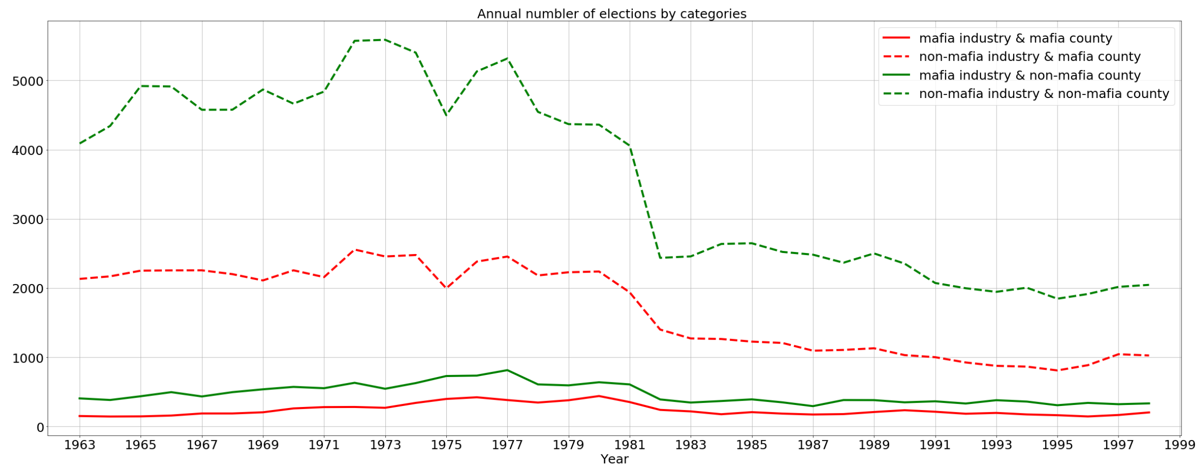

Figure 6

gan's administration triggered a massive union decline. The annual number of union elections fell by 50% in the early 80s (Farber and Western, 2002).

Table 2 shows that the percentage reduction in the number of elections was considerably smaller in establishments where the mafia was likely under control.

Table 2: Difference % of average number of elections per year before and after Reagan

	Mafia county	Non-mafia county
Mafia industry	-27%	-36%
Non-mafia industry	-51%	-51%

In order to see whether these differences are statistically significant, we estimate the likelihood of running an election given the number of establishments before and after 1981, depending on whether the mafia is likely to be in power. We do so using a Poisson model, where the exposure variable is the number of establishments, and establishments in mafia counties and mafia industries are the more likely to be influenced by the mafia. An observation is a county and industry pair in a given year. And we use data from 1963 to 1998.The results are shown in Table 3.

Post 1981 elections drop by more than 1 log point, but the change is smaller in mafia industries (+0.28 log points), and even more so when the industries are located in mafia locations (+0.115 log points). **[GM: what if we control for county fixed effects?]**

4.1.2 Workers' Outcomes

Given that ethnicity seems to be playing a key role in influencing unions, in this section we turn to explore the role of workers.[8] Even with the threat of violence, long term control of a labor union could only be maintained with the support of the rank and file and the Italian-American mafia had a strong ethnic identity. Italian workers, more aware of the code of conduct of the mafia, may have been a useful tool to control the rest of the workforce.

If this was the case, we would expect them to be overly represented and possibly overpaid in

[8]Figure 18 in the Appendix shows that Italians are more likely to live in mafia locations, as the mafia would thrive where it had local support.

Table 3: Reagan Effect

	(1) elections b/se	(2) elections b/se
elections		
mafia_county	0.001	-0.198*
	(0.082)	(0.098)
maf_ind	-2.143***	-2.143***
	(0.022)	(0.022)
maf_ind_maf_county	0.034	0.034
	(0.059)	(0.059)
mafia_ind_after81	0.284***	0.284***
	(0.025)	(0.025)
after81	-1.116***	-1.164***
	(0.021)	(0.023)
maf_county_after81	0.052	0.075
	(0.073)	(0.077)
maf_ind_county_after81	0.115*	0.115*
	(0.058)	(0.058)
log_estab		1.080***
		(0.020)
_cons	-6.301***	-6.921***
	(0.028)	(0.150)
R-squared		
N	195862	195862

sector/location pairs that had been captured by the organization. We look at Italian workers in mafia and non-mafia locations and in mafia and non-mafia prone industries and compare them to workers from other European origins.

Employment: Controlling for location fixed effects (commuting zones) and other socioeconomic characteristics, Italians, compared to workers from other European countries are more likely to be employed in mafia industries (see Fig. 7). This difference is particularly large in mafia locations.

The Appendix Table 4 shows that in most years Italians living in Mafia commuting zones are more likely to work in mafia industries.

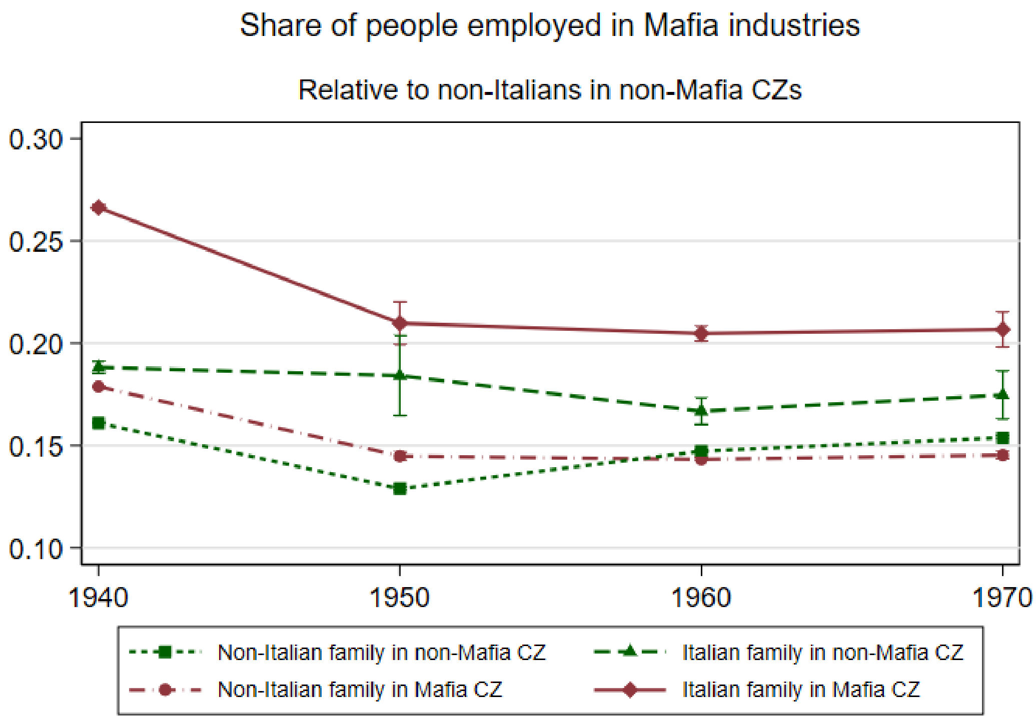

Figure 7

Wages: Regarding wages, Figures 8 and 9 show that in 1940 Italians had the lowest wages, but that within a decade they saw enormous wage gains, particularly in mafia-prone industries located in Mafia commuting zones. In these mafia-prone jobs, within just 10 years, wages increased by about 40 percent, and stayed higher than any other group. The corresponding regression Tables are shown in the Appendix (Tables 5, 6 and 7). The regression results confirm that most of the income gains happened between 1940 and 1950, and mostly in places that were likely to be under the mafia influence.

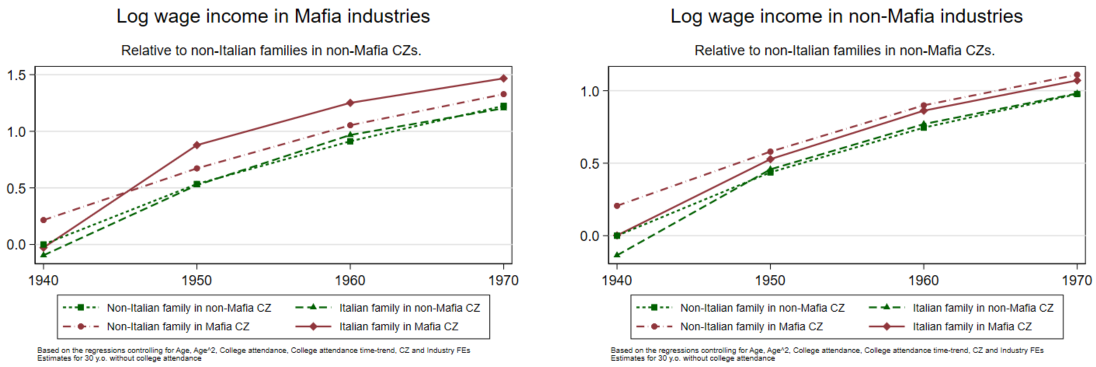

Figure 8

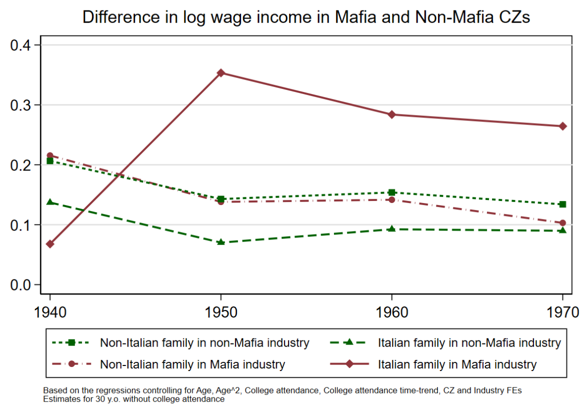

Figure 9

4.2 Law Enforcement and the Decline of Mafia

During the presidency of George Meany (1955-79), the American Federation of Labor and Congress of Industrial Organizations attempted to oppose racketeering in affiliated unions. In 1957 the federation expelled the Teamsters, but after the early 1960s, the ethical practices committee never met. Robert Kennedy made labor racketeering (i.e. President of Teamsters' James Hoffa) a top Justice department priority when he became attorney general in 1961. The Valachi hearings of 1964 (Senate's McClellan Committee) led to the 1970 anti-organized crime law Racketeer Influenced and Corrupt Organizations Act (RICO).

RICO was a very powerful piece of legislation, purpose designed to fight Cosa Nostra. For instance, because leadership did not directly participate in the conduct they ordered and benefited from, it was made specifically possible to hold leaders liable for the conduct of underlings that were proven to be part of their organization, even if there was no direct evidence of them having specifically ordered it. Because mobster were adept at deterring government witnesses through both inducements and threats, the Act authorized expansive new wiretapping powers, which eventually resulted in recordings of top level mafia conversations being played in court. There are two types of RICO: criminal and civil. It made racketeering a serious federal offense, thus giving the FBI and Federal Courts jurisdiction over conduct that would otherwise have been handled by the generally more malleable local law enforcement. Moreover, it allowed the prosecution of leaders who only ordered criminal acts, but did not take active part in them, and made each racketeering count punishable with up to twenty years in prison. Civil RICO gave federal courts the authority to use injunctions preventing mob connected individuals from union administration even in the absence of a criminal conviction, and other "equitable remedies" to prevent racketeering. It was the *"most ambitious attempt at court-ordered and -supervised organizational reform in the US history"* (Jacobs (2006), p. xxiii).

The RICO Act was so innovative that prosecutors were unsure how to use it, and it was mostly ignored for the first ten years after it was passed. It required Robert Blakey, the law professor responsible for most of the actual text of the RICO act, to teach FBI agents and prosecutors: *"The history of the effort to get RICO implemented can be summed up [as] the [struggles] of a frustrated law reformer. It took a great deal of time for people to look at it, understand it, and apply it"* (Blakey, 1979). Figure 10 shows the number of civil RICO cases per one million residents. As one would expect, mafia locations are significantly more likely to have RICO lawsuits.

We use the first civil RICO case in a county as an event that weakens mafia. RICO prosecution increases the cost of using violence and other informal means of influence. We match each treated mafia location to 3 counterfactual locations (which did not had a civil RICO) using nearest neighbor propensity score matching. To find the three counterfactual locations we estimate a logit regression predicting the probability of having a RICO based on 1-year lag and 7-year growth rate of populated-weighted employment, number of establishments and total wages. The regression outcome can be found in Table 7 in the Appendix.

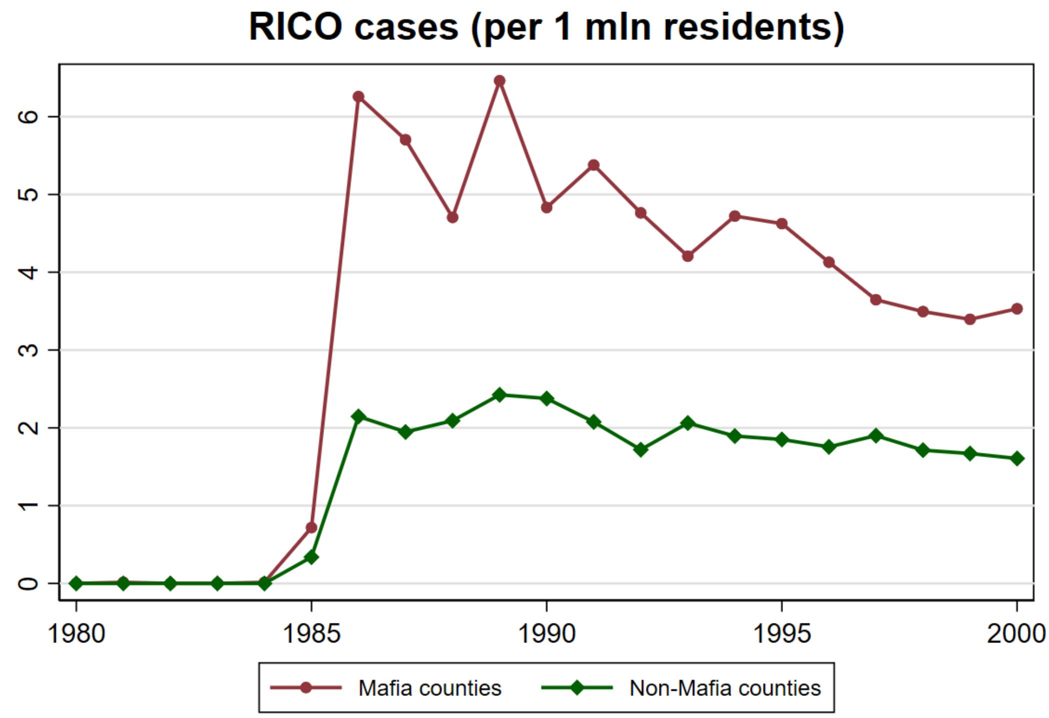

Figure 10: RICO cases per 1 million residents

Using the propensity score of first RICO case at the county level we match each mafia county that got a RICO ("treated") to many ("untreated") counties based on score at event time 0. We then perform an event study of the differences (leads and lags) as follows:

$$Y_{it}^T - Y_{it}^C = \sum_{k \neq -1} \beta_k RICO_{t+k} + \lambda_i + \epsilon_{it}$$

The results for employment, establishments and wages can be found in Figures 11, 12 and 13 respectively. We observer that after 7 or 8 years close to 10% increase in the number of establishments. We find that there is a smaller increase in employment, but close to 20% increase in wages. If we zoom in the construction sector, one of the mafia-prone industries, we find larger but noisier effects (see Figures 14, 15 and 16).

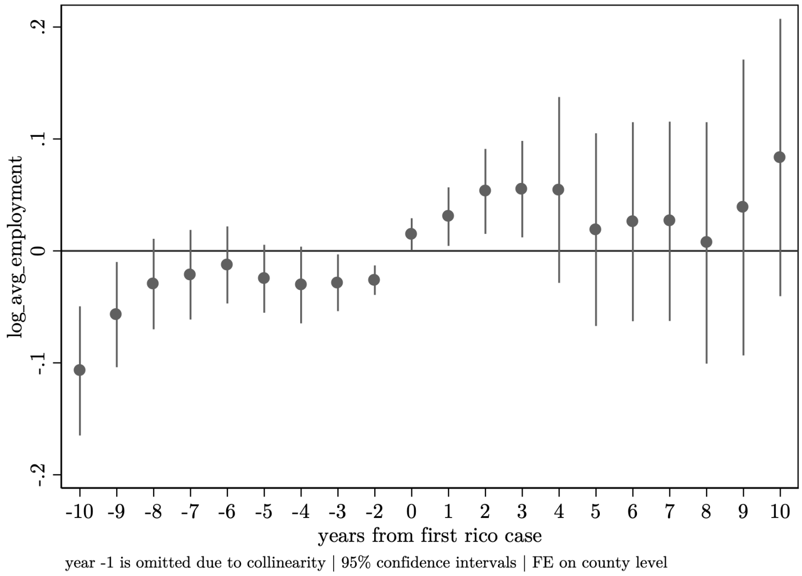

Figure 11: Log average employment in all industries

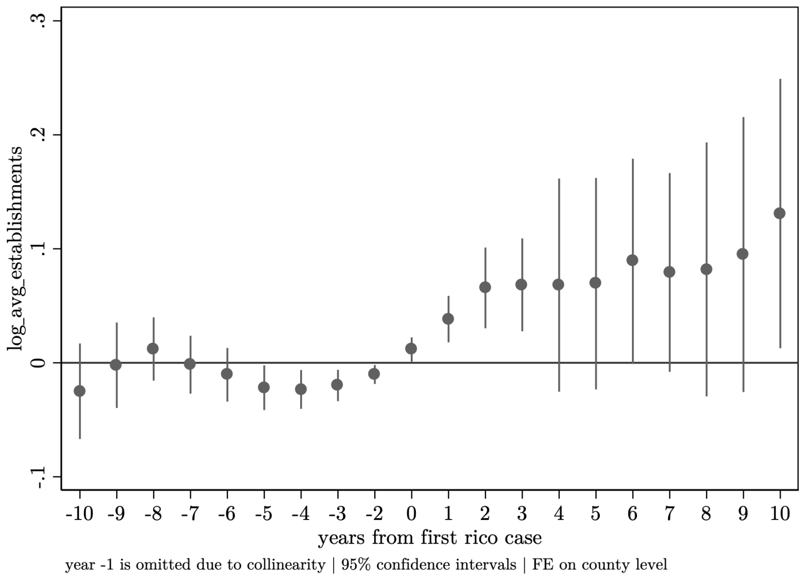

Figure 12: Log average establishments in all industries

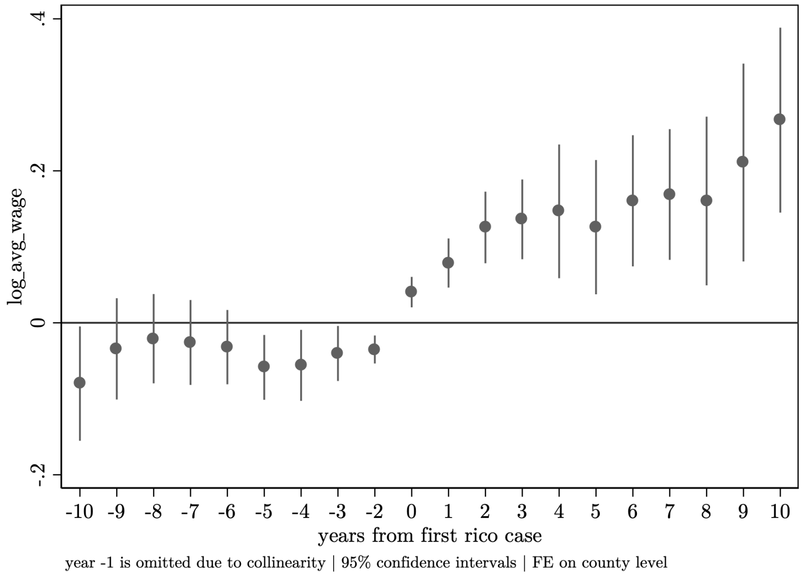

Figure 13: Log average wage in all industries

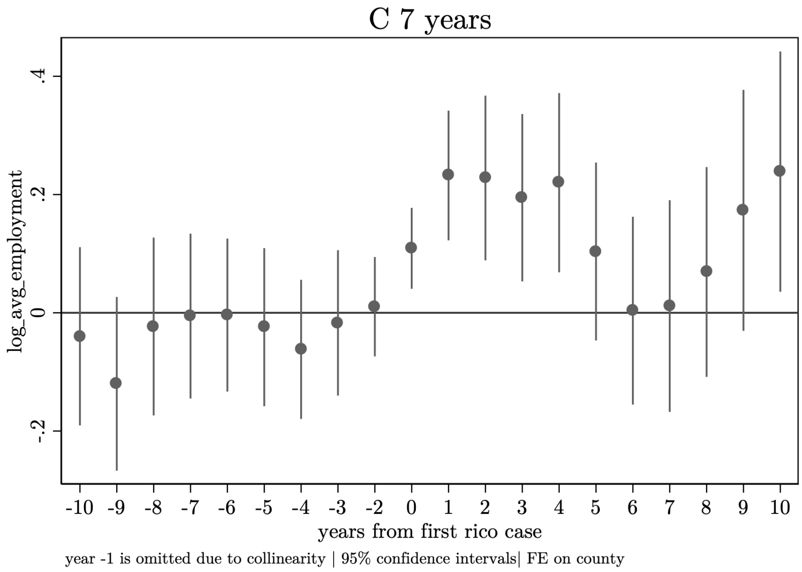

Figure 14: Log average employment in construction industry

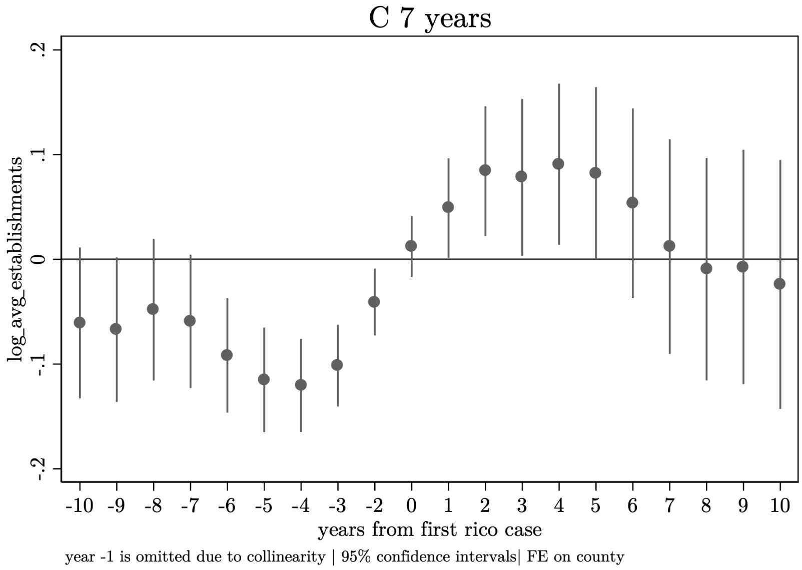

Figure 15: Log average establishments in construction industry

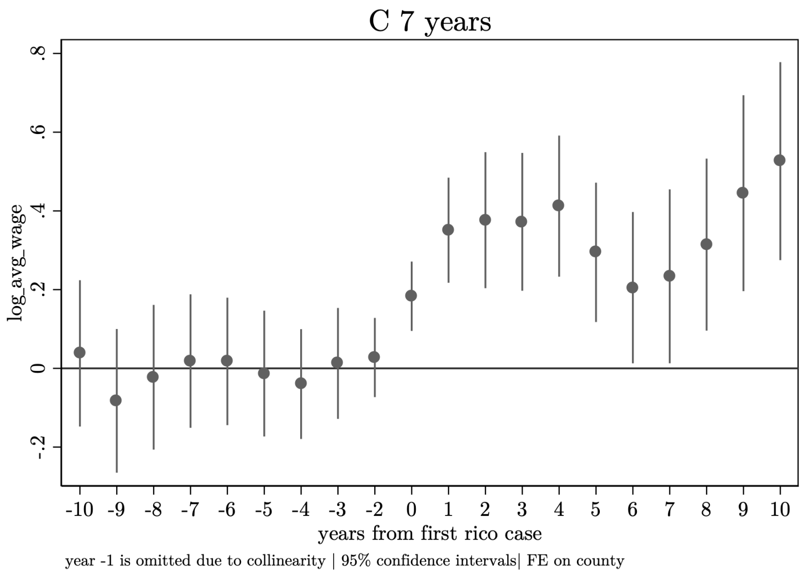

Figure 16: Log average wage in construction industry

5 Conclusion

We are the first to study the economic consequences of mafia infiltration into the unions. We find that establishments that are more likely to be under the mafia influence have fewer union elections (before RICO) and Italian workers in those locations and industries receive larger wages. We also establish how Teamsters Unions in those locations are more likely to be led by an Italian leader.

Using the first civil RICO prosecution in a given mafia infiltrated location as an event that weakens mafia, we are able to show that: establishments increase by almost 10% three years after employment increases by 7% three years after wages increase by 18% three years and the increase is sustained in the long term.

One limitation of our analysis is that we just use civil RICO lawsuits. Thus, we are collecting information on criminal RICO cases including information on industry, evidence of cartel, union and mafia involvement. We are also collecting data on criminal trials against union members, with names and surnames (ethnic origin), union membership, etc. Another limitation is that our mafia presence is a static measure obtained from the FNB prior to 1960. To address this concern, we are constructing a new dynamic measure using Teamster's union leaders along with mafia mentions in newspapers. Finally, in the present paper, we have addressed the economic consequences of mafia infiltration in the US. In the future, we plan to understand the social and political consequences as well.

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APPENDIX

Figure 17 shows the 42 commuting zones with mafia presence.

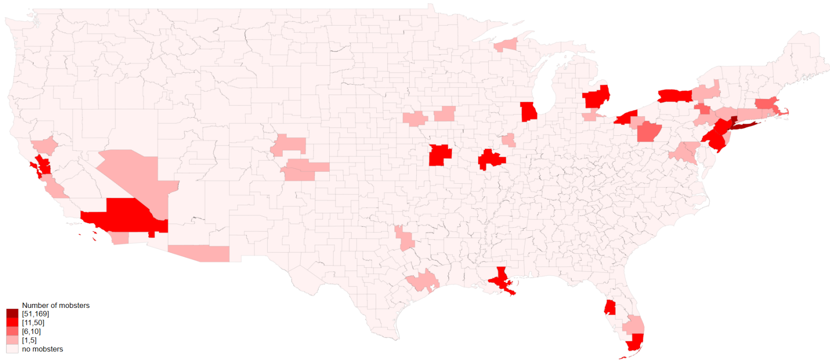

Figure 17: Mafia criminals in US commuting zones

Figure 18 show the share of Italian origin (using two different definitions) in the population of other Europeans. One can observe a sharp change when the definition of origin changes.

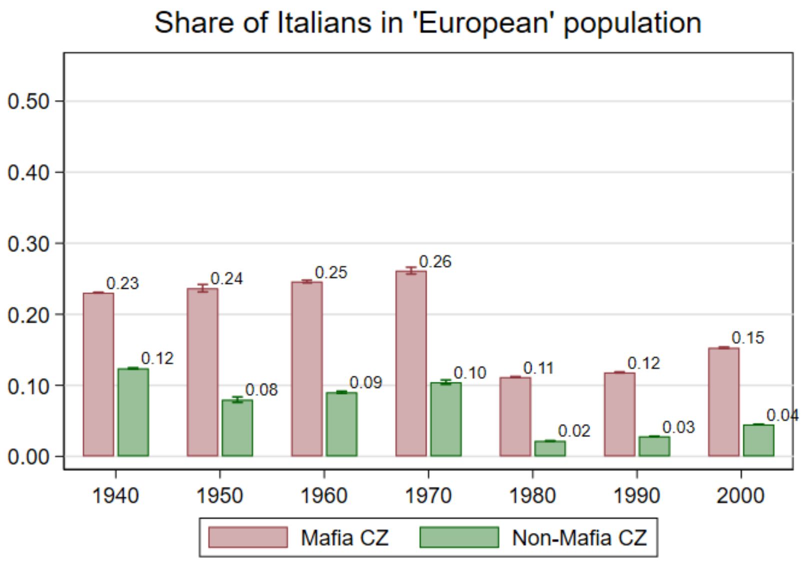

Figure 18

Table 4: Employment in Mafia industries

	(1)	(2)	(3)	(4)
	1940	1950	1960	1970
	Employment in Mafia industries (0/1)			
Italian Family	0.0270***	0.0580***	0.0261***	0.0354***
	(0.00724)	(0.0182)	(0.00771)	(0.00989)
Mafia CZ × Italian Family	0.0499***	-0.00117	0.0442***	0.0379***
	(0.0118)	(0.0199)	(0.0109)	(0.0143)
Mafia CZ	0.0282***	0.0268***	-0.00622	-0.00585
	(0.0107)	(0.00828)	(0.00491)	(0.00625)
Constant	0.161***	0.126***	0.141***	0.139***
	(0.00676)	(0.00519)	(0.00331)	(0.00316)
Mean Value	0.197	0.156	0.150	0.150
Observations	2339529	43956	334467	70813

Standard errors in parentheses are clustered at CZ level

* p<0.10, ** p<0.05, *** p<0.01

Table 5: Log Wage Income in Mafia industries

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable	Log Wage	Log Wage	Log Wage	Log Wage	Log Wage	Log Wage
CZ type	Non-Mafia	Mafia	Non-Mafia	Mafia	Non-Mafia	Mafia
Italian Family	-0.121***	-0.231***	-0.119***	-0.230***	-0.111***	-0.226***
	(0.0197)	(0.0213)	(0.0191)	(0.0199)	(0.0191)	(0.0206)
1950 × Italian family	0.0154	0.184**	0.0398	0.210***	0.0299	0.196***
	(0.127)	(0.0700)	(0.126)	(0.0687)	(0.126)	(0.0698)
1960 × Italian family	0.126***	0.198***	0.125***	0.208***	0.118***	0.204***
	(0.0281)	(0.0166)	(0.0282)	(0.0169)	(0.0280)	(0.0168)
1970 × Italian family	0.0696	0.151***	0.0647	0.161***	0.0553	0.157***
	(0.0598)	(0.0255)	(0.0580)	(0.0233)	(0.0587)	(0.0221)
Mean Value	7.533	7.584	7.533	7.584	7.533	7.584
Year, CZ, Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, College attendance	No	No	Yes	Yes	Yes	Yes
College attendance time-trend	No	No	No	No	Yes	Yes
Observations	88363	316822	88363	316822	88363	316822

Standard errors in parentheses are clustered at CZ level

* p<0.10, ** p<0.05, *** p<0.01

Table 6: Log Wage Income in Non-Mafia industries

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable	Log Wage	Log Wage	Log Wage	Log Wage	Log Wage	Log Wage
CZ type	Non-Mafia	Mafia	Non-Mafia	Mafia	Non-Mafia	Mafia
Italian Family	-0.147***	-0.217***	-0.141***	-0.207***	-0.129***	-0.200***
	(0.0122)	(0.0208)	(0.0124)	(0.0197)	(0.0123)	(0.0201)
1950 × Italian family	0.0423	0.107***	0.0982*	0.149***	0.0762	0.123***
	(0.0585)	(0.0206)	(0.0575)	(0.0242)	(0.0581)	(0.0244)
1960 × Italian family	0.119***	0.134***	0.128***	0.161***	0.116***	0.151***
	(0.0151)	(0.00922)	(0.0148)	(0.0112)	(0.0147)	(0.0111)
1970 × Italian family	0.128***	0.137***	0.123***	0.160***	0.111***	0.159***
	(0.0212)	(0.0156)	(0.0203)	(0.0170)	(0.0202)	(0.0176)
Mean Value	7.669	7.796	7.669	7.796	7.669	7.796
Year, CZ, Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, College attendance	No	No	Yes	Yes	Yes	Yes
College attendance time-trend	No	No	No	No	Yes	Yes
Observations	415162	1229051	415162	1229051	415162	1229051

Standard errors in parentheses are clustered at CZ level
* p<0.10, ** p<0.05, *** p<0.01

Table 7: Tripple Difference

	(1) Mafia Industries	(2) Non-Mafia Industries
Italian family × Mafia CZ	-0.110***	-0.0657***
	(0.0118)	(0.00528)
1950 × Mafia CZ × Italian family	0.223**	-0.00453
	(0.110)	(0.0476)
1960 × Mafia CZ × Italian family	0.102***	0.0260***
	(0.0250)	(0.00961)
1970 × Mafia CZ × Italian family	0.0690	0.0481***
	(0.0527)	(0.0187)
Year, CZ, Industry FEs	Yes	Yes
Italian family, Mafia CZ dummies	Yes	Yes
Italian family × Mafia CZ	Yes	Yes
Year × Mafia CZ	Yes	Yes
Year × Italian family	Yes	Yes
Age, Age^2, College attendance	Yes	Yes
College attendance time-trend	Yes	Yes
All covariates × Mafia CZ	Yes	Yes
Observations	404210	1629715

Standard errors in parentheses are clustered at CZ level
* p<0.10, ** p<0.05, *** p<0.01

Table 8: Probability of having a RICO

	(1)
	treatment_year
lag_log_avg_employment	-2.101***
	(0.431)
lag_log_avg_establishments	-0.835***
	(0.270)
lag_log_avg_wage	3.349***
	(0.278)
gr_lag_log_avg_wage	-1.272***
	(0.475)
gr_lag_log_avg_employment	1.350**
	(0.587)
gr_lag_log_avg_establishments	0.724**
	(0.287)
_cons	-41.50***
	(2.687)
N	29023
pseudo R^2	0.1620
Robust errors	yes

Standard errors in parentheses

* p<0.10, ** p<0.05, *** p<0.01