

The Institutional Role of the Italian Mafia: Enforcing Contracts When the State Does Not

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Abstract

Italy has one of the slowest civil judicial systems in Europe. At the same time, there exists anecdotal evidence suggesting that informal contract enforcement can be provided by organized crime. I present a simple theoretical framework to explain why citizens may turn to the Mafia for contract enforcement when the State is increasingly unable to fulfil this service. I empirically test the main model prediction using a novel database of Mafia controlled areas across Italy between 2014 and 2019. I obtain confidential yearly data from the Superior Council of the Judiciary about the judge's retirement, which I use as a source of exogenous variation in the State's enforcement capacity. Results indicate that the Mafia expands its control over the territory when the State weakens its contract enforcement capacity.