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Formal Employment and Organized Crime: Regression Discontinuity Evidence from Colombia

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Using data from Colombia's second-largest city, Medellín, this study tests the relationship between formal employment and participation in crime at the individual level. Among the findings, subsidies for health care had the unintended consequence of amplifying gang activity. Results shed light on deterring criminality through improving access to formal sector employment.

Author Abstract

Canonical models of criminal behavior highlight the importance of economic incentives and employment opportunities in determining participation in crime (Becker, 1968). Yet, deriving causal corroborating evidence from individual-level variation in employment incentives has proven challenging. We link rich administrative micro-data on socioeconomic measures of individuals with the universe of criminal arrests in Medellin over a decade. We test whether increasing the relative costs to formal-sector employment led to more crime. We exploit exogenous variation in formal employment around a socioeconomic score cutoff, below which individuals receive generous health benefits if not formally employed. Our regression discontinuity estimates show that this popular policy induced a fall in formal-sector employment and a corresponding spike in organized crime. This relationship is stronger in neighborhoods with more opportunities for organized crime. There are no effects on less economically motivated crimes.

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