

Organized Crime, Unemployment, and the Optimal Law Enforcement

In this paper we extend a dynamic general search model of crime and unemployment to incorporate a criminal organization, say, Mafia. In contrast with the existing literature, our framework not only considers interactions between the formal labor market and the criminal sector, but also explores the factors that determine the market structure for crime (i.e., the population of individual crime and the size of the criminal organization). By shedding light on the risk-sharing and peer-learning effects of organized crimes, we will reexamine the unemployment-crime relationship with particular emphasis on the endogenously-determined market structure for crime. In addition, we also investigate what is the socially optimal law enforcement and how does the government's enforcement react to various market structure for crime. This investigation will provide notable policy implications for us.