

In this paper we study the rise of the Sicilian mafia at the end of the 19th century and its impact on medium-term and long-term economic outcomes, state capacity and political competition. The new hypothesis, which we develop and empirically substantiate, is that the mafia's expansion was triggered as a response to the rise of socialist peasant movements starting in 1893. Following the very severe drought and agrarian crisis, the Fasci dei Lavoratori spread among Sicilian peasants, who organized to demand better working conditions and higher wages, and landowners turn to the mafia to counter these movements.

Exploiting differences in rainfall and drought intensity in 1893 as a source of variation across municipalities, we document a large response of peasant organizations and then the spread of the mafia within Sicily. The pattern we present is robust and does not exist when one focuses on rainfall or drought variation in other years, bolstering the case that this corresponds to a specific causal channel working only in the context of the expansion of these peasant organizations.

Using drought intensity in 1893 as an instrument for mafia in the early 1900s, we then investigate the impact of the mafia on institutions in the short and long run, as well as on state capacity. In municipalities where the Mafia arises we show a reduction in political competition in the short and long run as well as negative consequences on literacy, education, health, and availability of drinking water.