Forced Labour and the Shadow Economy in Italy

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Do spatial socioeconomic features influence firms' demand for forced labour also in places where it is illegal and socially unacceptable? We aim at providing an answer to this question through a quantitative estimation of the community-level socioeconomic risk factors associated to forced-labour episodes in Italy. The analysis bridges literature on forced labour with economic geography, acknowledging that both fields identify an influence of the local milieux on firms' behaviours in the labour market. We exploit a novel database of geo-tagged episodes of forced labour across Italian local labour market areas between 2016 and 2021, which we have merged with administrative data on the socioeconomic outlook of places.

Through an exploratory approach, we assess the relevance and the effect-size of a broad range of spatial features, that forced labour scholars propose as potential triggers for forced-labour demand. In particular, we investigate three distinct domains which are speculated to influence forced labour: supply-side, demand-side and cultural norms. We find that firm-side local features are strong predictors of forced labour, while the local availability of migrants and social capital characteristics are not. This finding supports the demand-side as related to forced labour rather than the supply-side. Regarding the firm-side, we find that industry specialization and firm size are key predictors for forced labour. Places with high share of micro and small firms have higher incidence of forced labour. Also, places specialised in heavy manufacturing have lower incidence of forced labour, a result which could be related to the high unionization characterising heavy manufacturing. Places specialised in "Made in Italy" have mixed association with forced labour, a result which collides with "Made in Italy" being a label for production quality. Places specialised in "Made in Italy" clothing have higher incidence of forced labour, while the opposite applies to the "Made in Italy" food industry.

To provide evidence on the effect of industry specialization and industry-firm size that goes beyond correlation, we exploit an instrumental variable estimation that uses the novel data on the geography of Italian firms in 1911.

Overall, this work contributes to the knowledge-base on firms' demand for forced labour by adding quantitative evidence on the local level risk factors in the Global North, which is still relatively unexplored. Moreover, it allows to assess whether the spatial dimension provides a complementary information-base for understanding of forced-labour demand.