Homicide and Work: The Impact of Mexico's Drug War on Labor Market Participation

Ariel BenYishay
University of New South Wales
School of Economics
Sydney, NSW 2052 Australia
a.benyishay@unsw.edu.au
Phone: +61 2 9385 4967
Fax: +61 2 9313 6337

Sarah Pearlman (corresponding author)
Vassar College
124 Raymond Ave Box 497
Poughkeepsie, NY 12603
sapearlman@vassar.edu
Phone: +1 845 437 5212
Fax: +1 845 437 7576

June 2013

Abstract:

We estimate the impact of the escalation of the drug war in Mexico on the mean hours worked among the general population. We focus on homicides, which have increased dramatically since 2006. To identify the relationship between changes in homicides and hours worked, we exploit the large variation in the trajectory of violence across states and over time. Using fixed effects and instrumental variables regressions, we find that the increase in homicides has negatively impacted labor force activity. An increase in homicides of 10 per 100,000 in a given state is associated with a decline between 0.3 and 0.6 weekly hours worked among the state's population. For states most impacted by the drug war, this implies an average decline of one to three worked per week. These impacts are larger for the self-employed, specifically those who work from home. This provides evidence that the fear of violence can lead to behavioral changes that lower economic activity. .

JEL Codes: J22, O12, O54

Keywords: Crime, Labor force participation, Mexico

Homicide and Work: The Impact of Mexico's Drug War on Labor Market Participation

April 2013

Abstract:

We estimate the impact of the escalation of the drug war in Mexico on the mean hours worked among the general population. We focus on homicides, which have increased dramatically since 2006. To identify the relationship between changes in homicides and hours worked, we exploit the large variation in the trajectory of violence across states and over time. Using fixed effects and instrumental variables regressions, we find that the increase in homicides has negatively impacted labor force activity. An increase in homicides of 10 per 100,000 in a given state is associated with a decline between 0.3 and 0.6 weekly hours worked among the state's population. For states most impacted by the drug war, this implies an average decline of one to three worked per week. These impacts are larger for the self-employed, specifically those who work from home. This provides evidence that the fear of violence can lead to behavioral changes that lower economic activity.

JEL Codes: J22, O12, O54

Keywords: Crime, Labor force participation, Mexico

1 Introduction

In the past five years, Mexico has witnessed a dramatic increase in violent crime. The well-publicized rise is the result of the drug war, which escalated in late 2006 after newly elected president Felipe Calderón launched a federal crackdown on drug cartels. The ensuing period has been marked by a significant rise in violent death, with annual drug related homicides increasing from approximately 2,120 in 2006 to 12,366 in 2011 (Trans-border Institute) and all homicides increasing from 25,780 to 37,375 (National Public Security System).[1] In total, more than 50,000 deaths are attributed to the conflict (Rios and Shirk 2012). The increases are concentrated geographically, with high intensity states experiencing increases beyond those seen in some countries officially at war. In a recent ranking of the most violent cities in the world, Mexican cities claimed five of the top ten spots, highlighting the relative intensity of the conflict (Citizen's Council for Public Safety and Criminal Justice, 2012).

The cost of war between the Mexican state and drug cartels has been high. In addition to billions of dollars in public funds spent to fight the cartels, casualties have spread beyond members of the cartels, police and army to the civilian population. The gruesome and public nature of many of the killings as well as the perception that cartel members can operate with impunity has generated a high level of fear within the population. Nationally representative victimization surveys show that the percentage of adults who feel the state in which they live is unsafe rose from 54% in 2004 to 65% in 2009, while the percentage of individuals who feel their work is unsafe rose from 14% to 19%[2]. This increased fear of victimization can compound the costs of the conflict if it generates behavioral changes, such as a reduction in hours spent working, on leisure activities, or studying,

[1] On a per inhabitant basis, total homicides have risen from 24.8 per 100,000 inhabitants in 2005 to 34.2 in 2011.

[2] Author's calculations from the National Survey of Insecurity (ENSI). This is conducted by Mexico's statistical agency, INEGI, and the data and documentation are available on INEGI's website.

that ultimately lead to production declines. For example, Hamermesh (1999) finds that higher rates of homicide explain declines in evening and early morning work in the U.S. (the same is not true of non-violent crimes), and that these shifts resulted in losses on the order of 4 to 10 billion dollars. Becker and Rubinstein (2011) find that, in response to terrorist attacks in Israel, some individuals reduce their usage of goods and services associated with exposure to violence (ex: coffee shops and bus services). Monteiro and Rocha (2012) find that armed conflicts between drug gangs in Rio de Janeiro have led to a significant reduction in the educational attainment of children in these areas, while Rodriguez and Sanchez (2009) and Barrera and Ibáñez (2004) find that the protracted armed conflict in Colombia has significantly reduced education attainment in affected areas.

A small number of papers also have investigated the impact of crime on individuals in Mexico. Braakman (2012) looks at the period from 2002 and 2005, which pre-dates the escalation of the drug war, and finds that crime victims sleep fewer hours at night and are more likely to take protective measures against crime, such as changing travel routes and transportation modes. Villoro and Teruel (2004) examine the impact of homicides in 1997 and estimate losses between 0.03 and 0.6 percent of GDP. Dell (2011) investigates the spillover effects of the federal war on the cartels, and finds that female labor force participation falls in municipalities where drug traffic and violence is diverted following government crackdowns on groups in surrounding areas. Finally, nationally representative victimization surveys in Mexico (Encuesta Nacional Sobre Inseguridad- ENSI- 2009) find that, as a result of crime, close to half of respondents stop going out at night, while fifteen percent stop taking public transportation, eating out and going to events. These behavioral changes may lead to reductions in labor force participation if workers are more reluctant to spend time outside the home or if work availability shrinks due to declining demand for goods and services like restaurants, entertainment and transportation.

We contribute to the literature on the economic costs of violent crime by investigating the impact of the drug war in Mexico on one type of behavior-- the labor force participation of adults. Ex-ante it is unclear what this relationship will be. On the one hand, as outlined above, increased feelings of insecurity could lead individuals to curtail work and leisure activities, reducing labor force participation. On the other hand, individuals concerned about negative shocks from violence may increase labor force participation in order to build up a larger savings buffer (Fernandez, Ibáñez and Peña, 2011). To explore which effect dominates we use data on annual changes in homicides for the years 2007 to 2010—the period after the drug war begins-- and changes in weekly hours worked from one year panels on employment and occupation. Given the panel nature of the labor force data we are able to control for time-invariant individual and state fixed effects. We therefore start by estimating a fixed effect model, controlling for individual and state fixed effects as well as for observable time-varying individual and regional level heterogeneity. In particular, we control for economic shocks and changes in the composition of employment in states over time; factors that may jointly determine changes in criminal activity and labor market participation.

Overall we find a significant negative effect of changes in homicides on hours spent working. An increase of 10 homicides per 100,000 over a one year period is associated with an average decline of 0.3 hours worked per week. This constitutes a decline of roughly one percent. We find larger effects for men than women and even larger differences by work type. Among salaried workers the response is three times lower than among the entire population, while among self-employed workers the response is one and a half times higher. The results suggest that in states most affected by drug war violence, average hours worked by the self-employed have declined by up to two and a half hours a week. This constitutes a decline of approximately six percent, indicating that increasing homicides have had a non-trivial impact on work hours.

We next take an instrumental variables approach to further control for regional level heterogeneity. We instrument for changes in homicides using kilometers of federal toll highways in a state. The logic behind the instrument is that the increase in violence clearly is linked to the federal crackdown on drug cartels. The crackdown weakened oligopolistic organizations and increased competition for valuable production and transport routes. This competition has been most severe over access to land transport routes to the U.S., the largest drug consumer market in the world and Mexico's largest trading partner. Federal toll highways are good measures of routes to the U.S. because the majority of transport of goods and services in Mexico occurs via highway and toll roads are the highest quality and most rapid highway routes. Furthermore, the majority was built between 1989 and 1994 or follow previously established routes, which means current economic or demographic factors do not determine their placement. Regressions of kilometers of toll highways on homicides show that states with more toll highways register significantly higher homicide increases than those with fewer routes. This relationship holds after controlling for state fixed effects and time varying factors such as GDP growth and unemployment. Furthermore, comparisons of other transportation routes, such as state highways, find no similar relationship, while comparisons of economic variables show no similar trend differences. This confirms that the steeper homicide trajectory experienced by high toll highway states is not simply a reflection of level differences across states, general transportation access or economic trends.

Results from two-stage least squares estimation provide further evidence that increasing homicides negatively impact labor force activity. The coefficients on yearly changes in homicides are negative in all but one case and, for working adults, are three or more times larger than the OLS coefficients. For salaried adults an increase of 10 homicides per 100,000 over a one year period is associated with an average decline of 1.2 hours worked per week, while for self-employed workers the associated decline is one hour per week. These constitute declines between three and five

percent, and provide further evidence that increases in homicides have caused a decrease in labor force participation.

We also explore heterogeneous responses by work location in order to gauge if the larger response among self-employed workers is due to greater exposure to violence or to an enhanced ability to change work schedules. We re-estimate the fixed effects model on subsamples of individuals who work from home and those who work in public spaces, such as street vendors, door to door salespeople, bus and cab drivers. We find the response is almost entirely driven by home workers, particularly men, suggesting the differential response among the self-employed is not due to increased exposure to violence[3]. While we do not observe which activities people substitute into, the results provide further evidence that the fear of violence can lead to changes in behavior that have negative economic results.

The paper proceeds as follows. In section 2 we describe the data for labor market activity and crime. In section 3 we outline our empirical strategy and estimate a fixed effect model. In section 4 we outline an instrumental variables strategy. In section 5 we investigate differential responses by work location. In section 6 we conclude.

2 Data

2.1 Homicide Data

To measure the impact of the drug war we use changes in total homicides per 100,000 inhabitants by state and year. The homicide totals are compiled by the National Public Security System (SESNSP) using information sent by state police forces. We convert the totals into crimes per 100,000 inhabitants using population data from the National Council on Population (CONAPO). It is important to note that the totals are for all reported homicides, not just those linked with drug

[3] Home workers are not differentially located in states where violence has increased the most.

violence. As outlined in Figure 1.A. and Table 1, homicides rose significantly in Mexico from 2005 to 2010. Average homicides per 100,000 inhabitants rose from 23.6 in 2005 to 37.38 in 2010 while the maximum for any state rose from 47.79 homicides per 100,000 inhabitants to a staggering 127.64 (Chihuahua). Table 1 also shows that the drug war has played out unevenly over the country. The yearly standard deviations almost triple from 2005 to 2010 and the gap between the 25th percentile and the 75th and 90th percentiles widen significantly. Indeed, according to the Trans-border Institute, in 2010, the peak of the drug war, fifty six percent of all drug related killings occurred in just four states-- Chihuahua, Sinaloa, Tamaulipas and Guerrero (Rios and Shirk 2011). Furthermore, over seventy percent of the violence was concentrated in just 80 municipalities (out of close to 2500). Figure 2 demonstrates this uneven trajectory of violence across states. While a handful of states have experienced sharp increases in homicides, many others have experienced small increases and some have even experienced a decline. The map also shows that the homicide trajectories lack any distinct regional trend. High violence states are not concentrated in areas which, *ex-ante*, one would suspect to face higher levels of drug trafficking, such as the U.S. border, the Pacific or the Gulf coasts. This shows that geography alone cannot explain why some states have been more affected by the drug war than others.

Finally, Figure and Table 1 show that average homicide levels and the standard deviation across states did not begin to increase until 2007, after the federal government launched a crackdown on drug cartels. We detail the crackdown and its role in increasing violence in Section 4. In the meantime, since our goal is to estimate the impact of increased homicides stemming from the drug war, our main focus is on the years 2007 to 2010.

2.2 Data on Labor Market Activity

The data on labor market participation, including weekly hours spent on paid work, come from the Mexican National Survey of Occupation and Employment (ENOE), a rotating labor force survey conducted by the National Institute for Statistics and Geography (INEGI). The ENOE, which began in 2005, follows urban and rural households for five quarters. From the entire sample in a given year we restrict attention to individuals who enter the sample in the first quarter and can be followed for five quarters. This group constitutes approximately twenty percent of the full sample in any quarter, and given the rotating nature of the sample, should not differ substantively different from the complete one. In terms of regional variation, the geographic unit of focus is the state. This is the finest level of geographic detail we can achieve, as ENOE is not representative at the municipal level and the regional, time-varying controls are not available at the municipal level.

Using the ENOE surveys for the years 2007 to 2010 we create yearly panels based on adults who enter the survey during the first quarter of the year and are between the ages of 18 and 65. After further limiting attention to individuals who were born in the same state in which they reside, the result is a sample of 94,642 individuals. Given that individuals stay in the sample for a year at most, this creates a repeated cross-section of one-year panels[4]. Non-participation in the labor force is coded as zero, such that adults out of the labor force are reported as having zero hours worked. Our primary emphasis therefore is on the intensive margin of labor force activity, rather than the extensive margin[5]. Since we do not control for entry to and exit from the labor force in the full

[4] Information on hours worked is from the principal employment only. We do not consider second jobs as detailed questions on these are not included in the questionnaire. Our data thus does not capture any hours adjustments between primary and second employment. However, since approximately 93% of those who are employed do not have a second job, this is not a major channel for adjustment.

[5] Considering homicides and the extensive margin of labor force participation, the data show a weak relationship between the two. We estimate a fixed effects, linear probability model of labor force entry and exit on changes in homicides and the individual and state time varying controls outlined in the next section. For the full sample there is no significant relationship between changes and homicides and exit rates from the labor force over a one-year period. Meanwhile, there is a negative and significant relationship between changes in homicides and entry, but the coefficient is close to

sample, in order to better capture the intensive margin effects, in some of the estimations we also consider the sub-sample of adults who are in the labor force at the beginning of the year and remain in the labor force one year later.

Summary statistics on the sample are provided in Table 2. Sixty four percent of the sample is in the labor force starting at the beginning of the year. Of these, sixty five percent are engaged in salaried work while close to thirty percent are self-employed. There are large differences in labor market outcomes across men and women. While eighty six percent of men enter the sample in the labor force, only forty five percent of women do. This partially explains the large gaps in hours worked by gender. On average men work close to forty hours per week, while women work only seventeen. These differences also are reflected in monthly income, which is significantly higher for men than women (although household income is not). Considering trajectories of work behavior over the year, the average change in weekly hours worked is close to zero. Again we see gender differences. For men the average change is a decline of 0.45 hours per week, while for women it is an increase of 0.26 hours per week. This gap exists despite the fact that women have higher entry and exit rates from the labor force than men. On average close to seven percent of men exit the labor force in a one year period, while six percent enter it. This compares with entry and exit rates of ten percent for women. Given these differences, we explore the possibility that the increase in homicides have differential impacts by gender[6].

---

zero. Thus any adjustment appears to be largely on the intensive margin rather than the extensive margin. It also is worth noting that the labor force survey is meant to capture all types of work, regardless of the formality of the employer or the worker. As a result both formal and informal labor market activity is counted.

[6] We also constructed summary statistics for the 2005-2006 ENOE to ensure that the sample of labor force participants does not vary from the pre- to the post-drug war years. These results are available upon request. There are no significant differences in the summary statistics across the two sets of years. In particular, total labor force participation, the composition of workers across salaried work and self-employment, total hours worked and the changes in hours worked are not significantly different. This suggests labor market activity in the entire country has not changed dramatically in response to the drug war, and that any effects may be more local.

3 Estimation

3.1 Basic Model

We start with a model linking changes in hours spent working to changes in homicide.

$$\Delta hours_{ist} = \beta_0 + \beta_1 \Delta \text{hom}icides_{st} + \Delta X_{it}^{'}\gamma + \Delta Z_{st}^{'}\varphi + \lambda_t + \Delta e_{ist} \qquad (1)$$

The outcome variable is the change in average weekly hours worked over a one year period (from Q1 in year *t-1* to Q1 in year *t*) by individual *i* in state *s* in year *t*. This is a function of the one-year change in homicide rates in state *s* , changes in individual level characteristics (ΔX_{it}), changes in state level characteristics (ΔZ_{st}), year fixed effects, and unobserved changes at the individual and state level (Δe_{its}). The model also implicitly includes controls for time-invariant individual and state characteristics, as we look at changes by individuals who remain in the same state over a one year period. As a result fixed individual characteristics, such as skill or risk aversion, that may jointly determine where people live and their work habits, are netted out. Also netted out are level differences across states that may jointly determine time use and crime patterns. For example, certain states may have better institutions, larger state budgets, or a better educated workforce, leading to lower crime rates and more employment opportunities.

Given the potential for time varying individual and state level heterogeneity to bias the coefficient on changes in homicides, we discuss controls for each in detail. To control for time-varying, individual heterogeneity we include one year change in total household size, change in the number of children, change in labor force status, and for those in the labor force, change in industry of work (2 digit code). In addition, to reduce omitted variables bias stemming from individuals who move to reduce exposure to homicides, we limit the sample to individuals who were born in the state in which they currently reside. This is the closest we can come to eliminating movers given the lack of residence history in the survey.

To control for regional heterogeneity we include several time varying measures. We include one year changes in state-level GDP and unemployment rates to capture economic shocks that might change the returns to work and criminal behavior. We also consider controls for more specific changes to the composition of work opportunities within a state over time. To do this we include changes in the share of output for industries, defined by 2 digit codes, by state and year. These variables help control for the possibility that over time more labor intensive industries may differentially locate in states with higher or lower homicide rates. We also include controls for changes in state government spending to state GDP, as improving or deteriorating state budgets may alter public employment opportunities as well as police resources and crime. Finally, we include year fixed effects to capture nation-wide shifts in labor market opportunities and crime. This is particularly important as the intensification of the federal response to drug trafficking coincides with the beginning of the Great Recession in the U.S., which severely affected Mexico.

Identification in the model comes from variation within individuals across states and years. Specifically, we examine how changes in labor market behavior vary by average individuals by state and year as the homicide rates change across states and time. The large variation in the homicide trajectories across states over the four year period is key to establishing this relationship. The identifying assumptions is that after we control for individual and state fixed factors as well as observable time varying individual and state characteristics, the error term is not correlated with changes in homicides. In other words, we can identify a relationship between changes in behavior and crime if $E[e_{ist} \mid X_{it}] = 0$.

We estimate equation (1) using OLS and present the results in table 3. We estimate the model on the entire sample, separately for men and women, and separately for adults who start and

stay in the labor force. In all cases we use population weights and robust standard errors.[7] To show the importance of controlling for observable individual and regional heterogeneity, we also present results from a model that contains no controls. Panel A contains results for all adults, regardless of labor force participation or type of work. Panel B contains results only for adults who have salaried work at the beginning of the year. Panel C contains results only for adults who are self-employed at the beginning of the year.

Overall the results show a negative relationship between changes in homicides and changes in work. The coefficients on homicide changes are negative in all but one of the estimations and significant for all adults and men. In many cases the results from the model that contains the full set of individual, state and time controls are larger than those from the restricted model, suggesting that failing to account for individual and regional level heterogeneity leads to an underestimation of the impact of homicides on labor force behavior. Focusing on the results for the full sample with all controls (shown in Panel A column two), the results indicate that an increase of 10 homicides per 100,000 over a one year period is associated with an average decline of 0.3 hours worked per week for all adults. With the sample mean of hours worked of 27.5, this constitutes a decline of roughly one percent. This coefficient also suggests that in states where the drug war has been most acute--where homicides per 100,000 inhabitants have increased by 30-50 per year--average hours worked by adults have declined by 1.0-1.5 hours per week. The results for all adults indicate a slightly larger response among men than women. An increase of 10 homicides per 100,000 inhabitants is associated with a decline of 0.45 hours for men, as compared to 0.13 for women.

In examining differential response by labor type, we see that the impact of homicides is much larger for self-employed workers than salaried ones. The coefficient for salaried workers of both

[7] As there are only 32 states, we do not have sufficient units to cluster the standard errors by state. See Kezdi (2004) for arguments on the sufficient number of clusters that is necessary for accurate inference.

genders (shown in Panel B column two) is -0.01 and insignificant. This compares with a coefficient of -0.047 for self-employed workers that is significant at the 10% level (Panel C column two), despite a smaller subsample of self-employed respondents. This suggests the response to changing homicide rates is close to five times as high for the self-employed as for salaried workers. This large difference may be due to two factors. First, self-employed workers likely have a greater ability to adjust their work schedules than salaried workers, making it easier to change their labor market activity in response to security concerns. Second, self-employed workers may face greater exposure to the crime itself. Many of these self-employed individuals have less ability to invest in deterrence and prevention and may operate their businesses in areas that are more frequented by criminals. For example, street vendors and drivers of informal buses and taxis are more likely to be impacted by violent crime while at work than office workers. While we do not know the specific channel through which the effects operate, the results show that the increase in homicides has led to significant declines in labor market activity.

4 Instrumental Variable Analysis

4.1 Empirical Strategy

We now turn to instrumental variables estimation, as we remain concerned that unobserved time-varying factors may lead to a spurious correlation between changes in homicides and labor market activity. For example, lower labor force participation may lead to greater involvement in drug cartels and therefore to higher changes in homicide rates, upwardly biasing our estimates. Similarly, changes in unobserved state-level characteristics may simultaneously determine changes in labor force participation and homicides. One set of characteristics that may lead to upward bias is changes in institutional quality, as an improvement in institutions may lead both to greater labor

demand—thereby increasing labor force participation—and more effective policing—thereby lowering homicides. On the other hand, factors such as the effectiveness of the drug cartels in specific areas could lead to downward bias. If the cartels provide work for larger portions of the population, their effectiveness could be positively linked with labor force participation and with homicides. Thus, the estimates from the fixed effects regressions may be biased in either direction, although, *ex ante*, the direction of this bias is unclear.

To eliminate potential bias from unobserved regional heterogeneity and reverse causality, we instrument for changes in homicide rates. To do so, we focus on changes in the intensity of drug-related homicides that took place differentially across Mexican states after the federal government launched a crackdown on drug cartels in December 2006. The crackdown began when newly elected president Felipe Calderón sent army troops into the state of Michoacán to battle narcotrafficers. This marked the first time the federal government directly engaged with the cartels, and the government has since increased its involvement dramatically, deploying thousands of army and federal police officers to various municipalities where cartels have operated. Through the capture and killing of cartel members and drug seizures, the crackdown achieved a weakening of oligopolistic organizations, altering the previous equilibrium in which production and transport routes were divided among rival groups (Rios 2012, Dell 2011). The increase in competition has come in the form of turf wars, as groups violently vie for the production and transport routes of their diminished rivals. This competition has been most severe over access to land transport routes to the U.S., the largest drug consumer market in the world and Mexico's largest trading partner for legal goods.

As a result of the crackdown and ensuing intensification in competition, states with more extensive land transport routes connected to the U.S. have seen sharp rises in cartel-related violence and homicide rates—whereas states with less extensive routes have not. We therefore consider both

the timing of the crackdown and differences in the extent of federal toll highways across states—which measure access routes to the U.S. —to construct our instrument for homicide changes. Specifically, we use the number of kilometers of federal toll highways in each state as our instrument to estimate the effects of homicide changes in the post-crackdown period[8].

Several factors make toll highways suitable instruments for access to transport routes to the U.S. and therefore increasing homicides. First, the majority of transport of goods and people to the U.S. from Mexico happens via highways. The North American Transportation Statistics Database indicates that in 2011, approximately 65% of Mexican exports to the U.S. were transported via highway, while 82% of Mexican travel to the U.S. occurred via highways and rail (no breakdown is available, but person transport via rail in Mexico is very low). The reliance on highways for transport is higher than in the U.S. and Canada and largely is due to the poor state of Mexico's railroads, which only recently have improved under private concessions.

Toll highways themselves are part of a three tier system comprised of federal free highways, for which no toll is charged, federal toll highways, and state highways. Of the three types, federal toll highways are of significantly higher quality than the other two. These toll highways were built by the federal government or under private concession as an alternative to the overused and under-maintained free federal and state highways, and are the preferred routes for those that can afford the tolls[9]. Although toll roads make up only six percent of all highways, they comprise close to fifty percent of highways with four or more lanes (Secretaría de Comunicaciones y Transportes, 2009). These toll highways are less congested and usually are the fastest way to travel via road. For these reasons, toll highways are more likely to capture the transport of valuable goods to the U.S.—including drug shipments—than do other transport networks. In general, the toll roads follow or

[8] The data on kilometers of highways are from the Annual Statisticals of Secretary of Communications and Transportation (SCT).

[9] For a review of the highway privatization process in other Latin American countries (Argentina, Colombia and Chile), see Engel et. al (2003)

link the most transited and valuable routes, many of which run to the U.S. border. For example, toll highway segments link into seven crossing points into the U.S. This compares with only one crossing point into Mexico's southern neighbor, Guatemala. Figure 3 shows a map of the toll highway system as well as this map superimposed on the earlier one of homicide increases. The latter provides some visual confirmation of a relationship between toll highways and the increase in violence.

A second advantage of using toll roads as instruments is that a majority of the system was either built between 1989 and 1994 or follows previously established highway or rail lines. This means that more recent factors linked to homicide rates and labor market outcomes largely did not determine their placement. To further ensure this is the case, we fix our measure of toll highways at the year 2005, prior to the escalation of the drug war[10].

To test if toll highways indeed are related to the increase in homicides due to the escalation of the drug war, we plot annual homicide rates in states with more extensive federal toll highway networks (the 12 states above the mean of 231 kilometers) and those with less extensive networks (the 20 states below the mean). As shown in Figure 4, we observe a sharp increase in these rates in the former group in 2007, but only a very weak and more gradual increase in the latter group. Importantly, we observe no similar differences in trends between high and low highway states in other economic characteristics, such as GDP growth, unemployment, and the extensive margin of labor force participation. Regression results confirming the trends in the graph are shown in columns 3 through 10 in Panel A of Table 4. These results provide further evidence that states with more toll highways became more violent during the intensification of the drug war, and suggest the

[10] Toll highways do increase from 7,409 in 2005 to 8,397 in 2010-- an increase of 13%. The increase is not uniform across states, and in approximately half total kilometers remain the same (Secretaría de Comunicaciones y Transporte, Annual Statisticals).

higher homicide trajectory for high toll highways states is not simply a reflection of varying economic trends.

Figure 4 also shows that differences in federal highway networks do not appear to explain pre-crackdown annual changes in homicides. This further confirms that the increase in violence stems from the federal crackdown and is not due to other factors. For example, it is believed that Mexico took over Colombia's place as the major transport route of drugs into the U.S. starting from at least 1994 (Rios 2012). Second, an increase in political competition, which may have shifted the implicit agreements between the cartels and various levels of government, also predates the spike in violence by at least half a decade. In short, cartel-related violence responded most dramatically only after the federal crackdown began.

Finally, to ensure that toll roads are not picking up general access to transport rather than access to the U.S. specifically, we examine the relationship between the increase in homicides and other transit routes. We regress changes in homicides on kilometers of all federal highways (which include toll and free roads) and all highways (federal toll, federal free and state), and compare the results to those for toll highways alone. The results for toll highways, shown in columns 1 through 4 in Panel A of Table 4, show a clear relationship between toll highways and the post-crackdown increase in violence. Toll highways are positively and significantly correlated with the level of homicides and changes in the peak year of the conflict-- 2010—but are not correlated with either prior to the crackdown taking effect in2005. Meanwhile, as shown in Panel B of Table 4, no similar patterns are observed for all federal highways or all highways. There is no significant correlation between either measure and homicide levels or changes before or after the escalation of the drug war. We therefore argue toll highways do a better job of capturing access routes to the U.S. than other forms of transit.

We thus focus our IV estimation on the 2007-2010 period and use federal toll highways as our instrument. To do so, we begin by considering the relationship between homicides and federal toll highway networks in levels:

$$\text{hom}icides_{st} = \alpha_0 + \alpha_1 tollhighway_s + \alpha_2 tollhighway_s * t + \alpha_3 Z_{st}^{'} + \lambda_s + \lambda_t + \eta_{st} \qquad (2)$$

where λ_s captures state-level fixed effects and λ_t captures year-level effects, and η_{st} is an error terms. As homicide rates in toll highway-intensive states appear to have risen consistently since 2007—with the increase approximately linear—we include a linear time trend that varies by the extent of toll highways in a given state.

Rewriting this equation in differences yields:

$$\Delta \text{hom}icides_{st} = \gamma_0 + \gamma_1 tollhighway_s + \gamma_2 \Delta Z_{st}^{'} + \lambda_t + \eta_{st} \qquad (3)$$

We use this as our baseline first stage. In this specification, we do not rely on the correlation between federal highways and the *levels* of homicides in different states (which may be further correlated with other unobserved factors). Instead, we use only the increasing effect of highways on homicides over time as our exogenous variation by estimating the effect of federal highways on *changes* in homicides.

4.2 Estimation and Results

We rewrite the outcome and homicide equations for individual-level estimation as follows:

$$\Delta hours_{ist} = \beta_0 + \beta_1 \Delta \text{hom}icides_{st} + \Delta X_{it}^{'} \gamma + \Delta Z_{st}^{'} \varphi + \lambda_t + \Delta \varepsilon_{ist} \qquad (4)$$

$$\Delta \text{hom}icides_{st} = \gamma_0 + \gamma_1 tollhighway_s + \gamma_2 \Delta Z_{st}^{'} + \lambda_t + \eta_{st} \qquad (5)$$

The identification assumption is that our instrument is uncorrelated with the unobserved component of changes in hours worked, i.e. that $E(\Delta \varepsilon_{ist} * tollhighway_s \mid \Delta X_{it}, \Delta Z_{st}) = 0$

We estimate this system using two stage least squares. Results from the first stage are presented in Table 5 and the second stage in Table 6. Similar to the fixed effect model, we repeat the exercise for the full sample, separately by gender, and separately by salaried and self-employed workers.

The first stage results in Table 5 show that the instrument—kilometers of toll highways—is positively and significantly correlated with annual changes in homicides in all of the estimations. After controlling for observable time varying factors, toll highways remain significant predictors of homicide increases. In general, a one standard deviation increase in toll highways (194.5 kilometers) is associated with 1.5 additional homicides per 100,000 inhabitants. Although these coefficients are lower than those for yearly increases (Table 4), values for the R-squared, the F-statistics for the test of weak identification and the Chi-squared statistics for the test of under-identification are very high. Thus, there is little evidence that the first stage suffers from weak identification.

The second stage results in Table 6 provide further evidence that homicides negatively impact labor force activity. The coefficients on the instrumented value for changes in homicides are negative in all but one of the estimations and larger than those from the fixed effects model. As expected, however, the standard errors for the IV estimates are much larger and only one of the coefficients is significant (salaried women). Nonetheless, it is useful to interpret the magnitudes of these estimates relative to those of our fixed effects specification. For example, the coefficient for all adults suggests that an increase in homicides per 100,000 inhabitants of 10 leads to an average decline in work hours of approximately 0.3 hours per week—a decline of approximately 1% that is consistent with our fixed effects results.

At the same time, our IV results do indicate a difference in the heterogeneous responses to homicides. We find that salaried women reduce their working hours by roughly two hours in response to a rise in homicides of 10 per 100,000 residents—a reduction of more than 10% relative to their baseline hours worked. These results indicate that salaried women in states with the highest

homicide spikes have reduced their working hours by as much as one-third to one-half—a dramatic response. We cannot identify the mechanism for this reduction, but note that it may be related to differences in real and psychic costs from violence borne by women in this group, as well as differences in their ability to afford to forego earnings to avert these costs.

Finally, we also find a large (two hours) but statistically insignificant response among self-employed men to a homicide rise of 10 per 100,000. The differential response among self-employed men relative to salaried ones is consistent with our OLS estimates. Indeed, our IV results generally offer evidence that increasing homicides lead to a non-trivial reduction in work hours that is consistent with our OLS findings. They also suggest that the OLS estimates suffer from negative rather than positive bias, in that unobserved characteristics at the state level lead to an underestimation of the full labor force response. This implies our OLS estimates are lower rather than upper bounds on true work hour response.

4.3. Robustness Checks for First Stage Results

We perform two robustness checks to provide further evidence that federal toll highways capture the increase in drug-war related homicides and do a better job than other transport measures of capturing routes to the U.S. We start by testing if federal toll highways indeed capture the effect of the drug war. To do this we re-estimate the instrumental variable regressions on the years prior to the war's commencement (2005-2006). We present the first stage results in Panel A of Table 7. In all cases the coefficients on toll highways are negative and smaller in value than in the drug war years (-0.001 versus 0.008). The coefficients suggest that prior to the drug-war an increase of toll highways of 100 kilometers is associated with a *decline* in homicides per 100,000 inhabitants of 0.1. This shows that prior to the federal crackdown our instrument predicts small decreases in homicides at the state level-- opposite the direction from those in the post-crackdown years.

Next, we consider whether broader highway measures are as strongly predictive of increases in homicides after the beginning of the drug war as are toll highways. Table 4 showed a weak correlation between all federal highways and all state highways and changes in homicides. To further confirm these results we use them as instruments for annual homicide changes in our instrumental variables regressions. The first stage results are shown in panels B and C of Table 7. For all federal highways (panel B), the coefficients are negative and essentially zero in all cases. For all highways, both federal and state (panel C), the coefficients are positive, but significantly smaller in size than those for toll highways (0.001 versus 0.008). This confirms the weak relationship between other highways measures and changes in homicides over the 2007 to 2010 period. This provides more evidence that the effects of highways on homicides in the post-crackdown period is specific to the toll highways, on which drug cartels likely relied.

5 Heterogeneity by Work Location

To investigate the potential reasons for the decline in average work hours in response to increasing homicides, we consider differential responses by work location. In particular, the fixed effect estimates indicate that self-employed workers experience a greater decline in average hours worked than do salaried workers. The larger response could be due to self-employed workers' greater exposure to drug war homicides or due to their greater flexibility to adjust work hours. While we cannot directly answer this question (we do not directly observe individuals' exposure to violence or work flexibility), we can infer whether one factor dominates by examining differential responses across self-employed work location. We hypothesize that since many of the civilian causalities in the drug war are due to gunfight crossfire, exposure to homicides will be greater for individuals who spend more time working in public, such as street vendors, door-to-door salespeople, and bus and

taxi drivers. Meanwhile, individuals who work from home and therefore spend significantly less time in public should be less exposed to violence. By comparing the responses for these two groups, we can gauge if exposure to violence drives the reduction in work hours. If the response indeed is driven by exposure, individuals working in public locations should exhibit a greater response than those working from home.

We re-estimate work hour responses on two sub-samples of individuals—those who worked at home as of the first survey period and those who worked in an unfixed, street location or in a vehicle. The latter group includes door to door sales people, street vendors, taxi and bus drivers. For simplicity, we focus on the fixed effect model. The results are shown in Table 8, and clearly show that the decline in work hours is concentrated among individuals who work from home. For home workers, the coefficient on changes in homicides is -.134, suggesting that an annual increase in homicides per 100,000 is associated with a decrease in 1.3 hours worked per week. This is six times larger than the total population and three times larger than the self-employed combined. Furthermore this decrease is statistically significant. Meanwhile the coefficient for street and vehicle workers is 0.004 and insignificant, suggesting there is no significant reduction in hours among those who likely face greater exposure to drug-war violence. Since there is little corresponding evidence that home workers are more heavily located in states that experienced larger increases in homicides during the drug war, the results suggest that greater exposure to violence is not a dominant explanation for the higher response among the self-employed.

In addition, it is interesting to note that among those who work from home, the responses are larger for men than women. Although men make up a smaller percentage of home workers, their average response is three times as large. While we do not know what activities people shift into, one possibility is that home workers move into the production of home goods and services, allowing other members of the household to reduce their time outside. If the greater reduction in

work hours among home workers indeed is due to the increased provision of domestic goods, it is possible that the response among the general population could be even greater than those we find, if other workers had similar levels of flexibility. In general, however, the results further support the story that workers afraid of exposure to violence reduce work hours if they are able to do so.

6 Conclusions

In this paper we estimate the impact of the escalation of the drug war in Mexico on the labor market outcomes of adults. We focus on the dramatic changes in homicides in a subset of states since 2007 and examine its impacts on changes in hours worked. To identify the relationship between changes in homicides and hours worked, we exploit the large variation in the trajectory of violence across states and over time. Using both OLS and instrumental variables regressions, we find that the increase in homicides has had a decidedly negative impact on labor force activity. An increase in homicides of 10 per 100,000 is associated with a decline in weekly hours worked of 0.3 hours. For states most impacted by the drug war, in which homicides per 100,000 inhabitants have increased by 30-50 a year, this implies an average decline in hours worked of one and one and a half hours per week. These impacts are larger for the self-employed and are concentrated among the highest income quartiles. This highlights how the costs of crime tend to be unequally borne across the population.

The findings are consistent with a broad literature on the role of institutions in leading to both short-run and longer-term economic development. This literature includes evidence on the effects of institutional deterioration during civil wars and other internal violent conflicts—most frequently related to control over the state (see Blattman and Miguel 2010 for a review). We contribute to this field by identifying the impacts of violence related to control over private

resources—the effects of drug cartel violence on the economic behavior of private individuals. Indeed, we find that even when the risk of directly incurring such violence is less than 1%, private individuals may adjust their behavior by as much as 30-50%. These results suggest continued attention on the role of non-state actors in forging institutions that can sustain economic development.

Acknowledgements

We are grateful to Francisco Ibarra Bravo, Emily Owens, Tracy Jones, Sukanya Basu, Lisa Magnani, and participants at seminars at Vassar College, Hamilton College, the Southern Economic Association Annual Meetings, the Pacific Conference for Development Economics and the Al Capone meetings for feedback.

References

Barrera, Felipe and Ana María Ibáñez. 2004. "Does Violence Reduce Investment In Education?: A Theoretical And Empirical Approach," *Documentos CEDE* 002382, Universidad de los Andes- CEDE

Becker, Gary S. and Yona Rubinstein. 2011. "Fear and the Response to Terrorism: An Economic Analysis," Centre for Economic Performance Discussion Paper, No. 1079

Blattman, Christopher and Edward Miguel. 2010. "Civil War." *Journal of Economic Literature* 48(1), 3-57.

Braakman, Nils. 2012. How do individuals deal with victimization and victimization risk? Longitudinal evidence from Mexico. *Journal of Economic Behavior and Organization*. Forthcoming.

Dell, Melissa. 2011. Trafficking Networks and the Mexican Drug War. Mimeograph MIT Department of Economics

DiTella, Rafael, Sebastian Galiani and Ernesto Schargrodsky. 2010. "Crime distribution and victim behavior during a crime wave" in The Economics of Crime, NBER Conference Report, University of Chicago press, DiTella, Edwards, Schargrodsky editors

Encuesta Nacional Sobre Inseguridad (ENSI). 2009. Information located on the website of the Instituto Nacional de Estadística y Geografía (INEGI), www.inegi.org.mx

Engel, Eduardo, Ronald D. Fischer, and Galetovic P. Alexander. 2003. "Privatizing Highways in Latin America: Fixing What Went Wrong." *Economía*, Vol. 4(1), pp 129-164

Fernández, Manuel, Ana Maria Ibáñez and Ximena Peña. 2011. "Adjusting the Labor Supply to Mitigate Violent Shocks: Evidence from Rural Colombia", World Bank Working Paper Series 5684

Hamermesh, Daniel. 1999. "Crime and the Timing of Work." *Journal of Urban Economics*, Vol.45,

pp 311-330

Kezdi, Gabor. 2004. "Robust Standard Error Estimation in Fixed-Effects Panel Models." Hungarian Statistical Review Special (9), pp. 221-233

Molzahn, Cory, Viridiana Rios and David A. Shirk. 2012. "Drug Violence in Mexico: Data and Analysis Through 2011." Trans-Border Institute, Special Report

Monteiro, Joana and Rudi Rocha. 2012. "Drug Battles and School Achievement: Evidence from Rio de Janeiro's Favelas." Working paper

Rios, Viridiana and David A. Shirk. 2011. "Drug Violence in Mexico: Data and Analysis Through 2010", Trans-Border Institute, Special Report

Rios, Viridiana. 2012. "Why Did Mexico become so violent? A self-reinforcing violent equilibrium caused by competition and enforcement." *Trends in Organized Crime*

Rodriguez, Catherine and Fabio Sanchez. 2009. "Armed Conflict Exposure, Human Capital Investments and Child Labor: Evidence from Colombia". *Documentos CEDE*, No. 5, Universidad de los Andes- CEDE

Secretaría de Comunicaciones y Transportes. 2005-2010. Anuario Estadístico.

Villoro, Renata and Graciela Teruel. 2004. "The social Costs of Crime in Mexico City and Suburban Areas." *Estudios Económicos.* Vol. 19 (1), pp 3-44

Figure 1: Change in Total Homicides

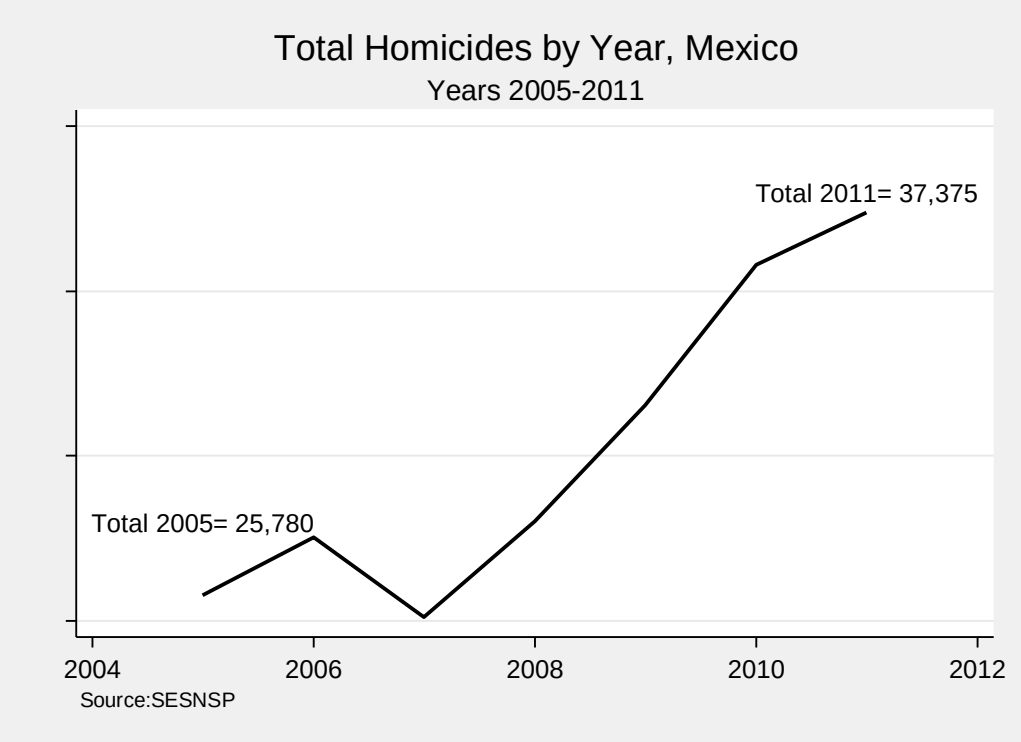

Figure 2: Geographic Distribution of 6 Year Change in Homicides

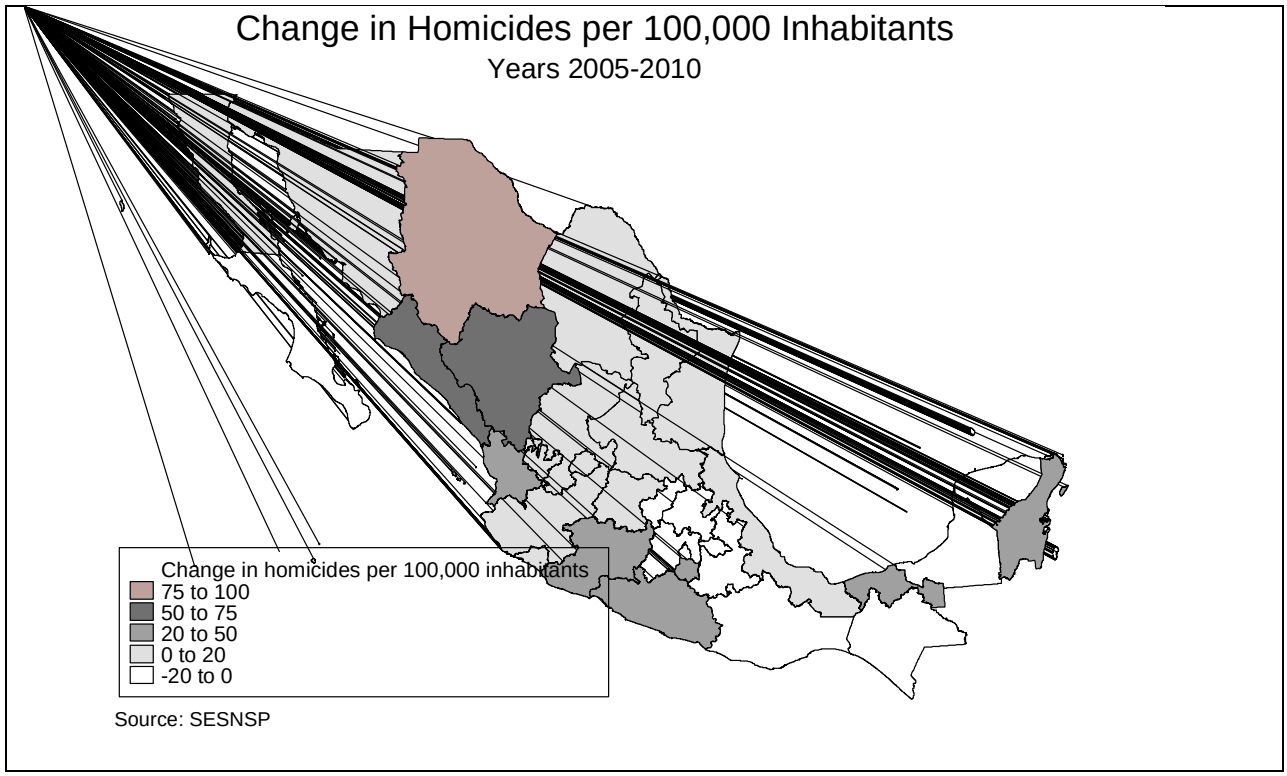

Figure 3: Federal Toll Highway System

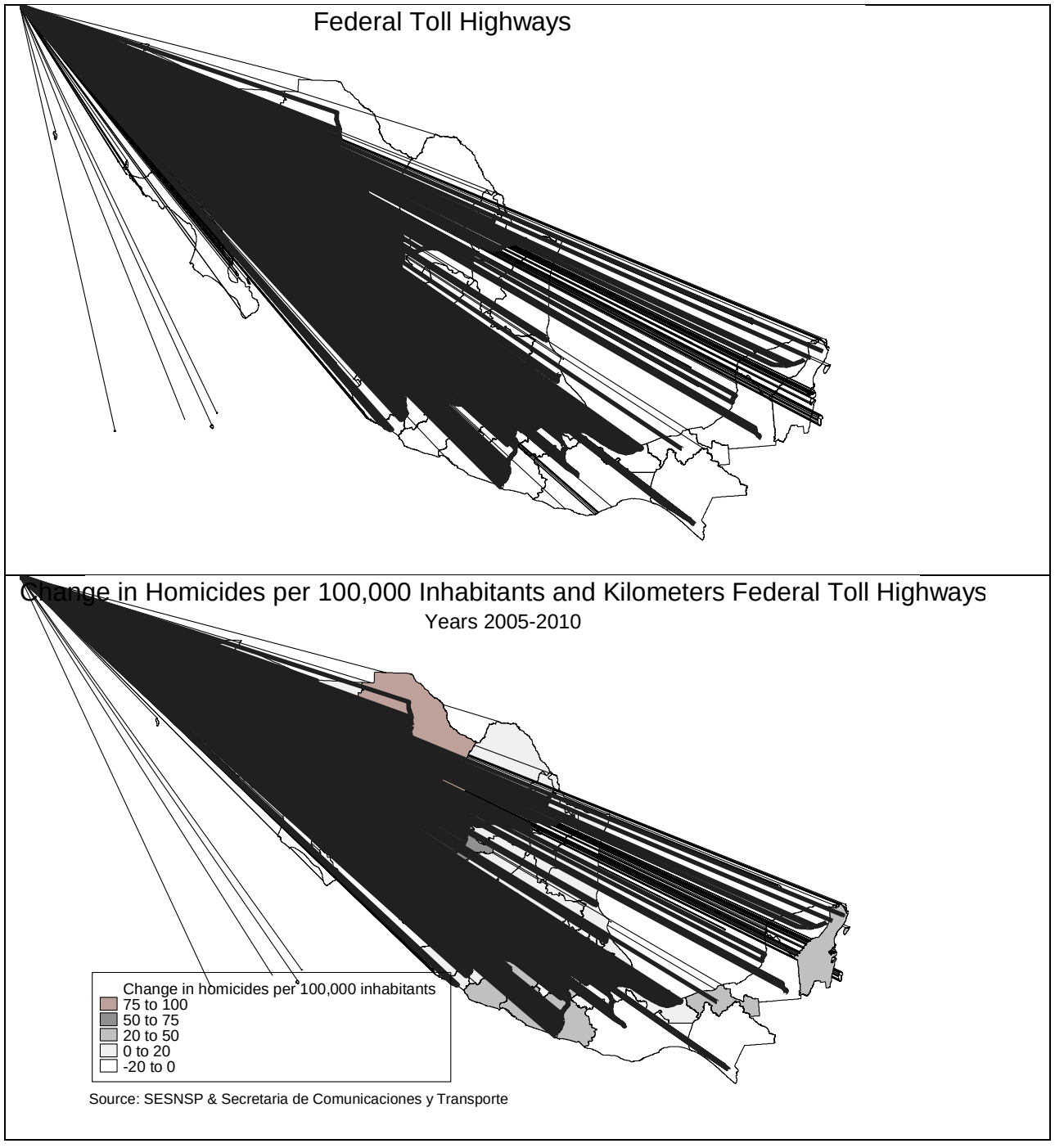

Figure 4: Falsification Tests

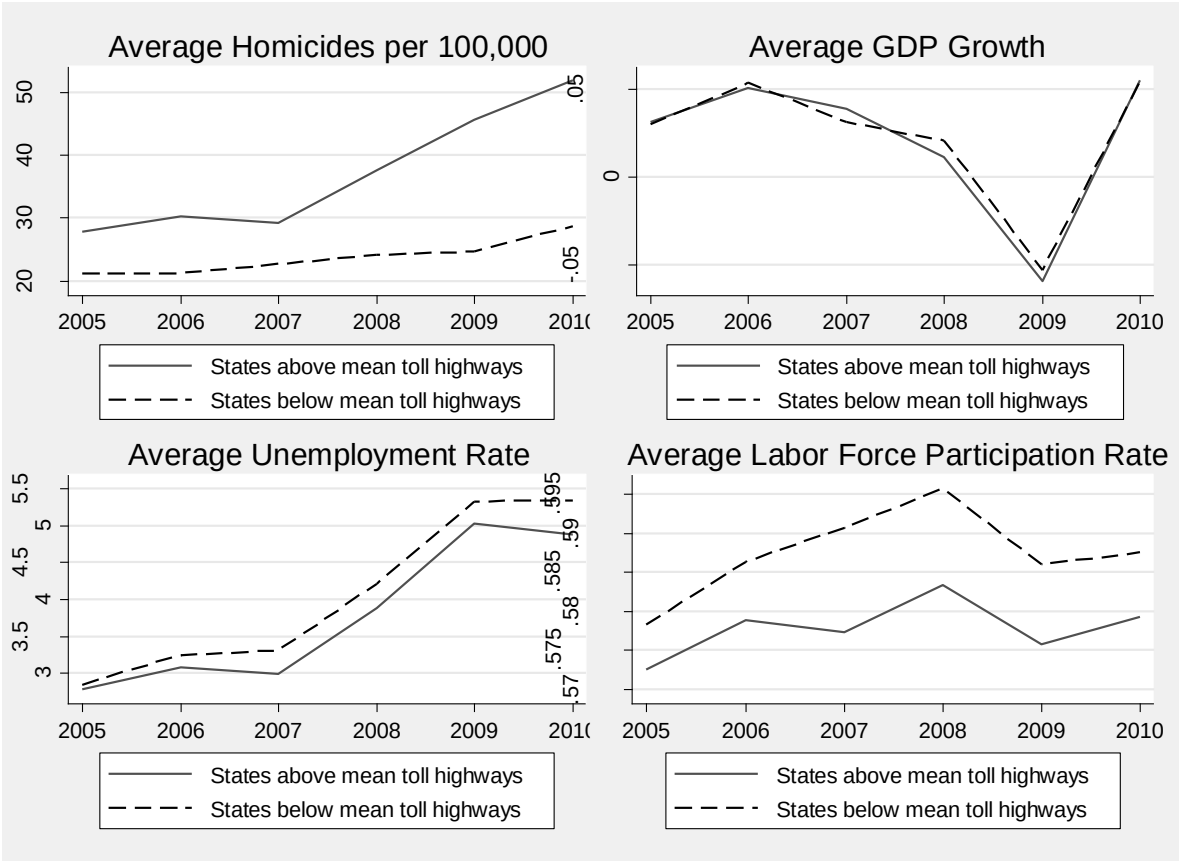

Table 1: Summary Statistics Homicides

Homicides per	All	Separately by Year					
100,000 inhabitants	Years	2005	2006	2007	2008	2009	2010
Mean	28.72	23.60	24.59	25.09	29.16	32.46	37.38
Standard deviation	18.46	9.79	10.98	10.14	16.55	23.74	28.16
Minimum	4.19	4.19	12.41	14.22	14.04	10.51	8.69
Maximim	127.64	47.79	53.33	55.04	77.11	107.06	127.64
25th percentile	17.09	17.27	16.19	17.63	16.80	16.59	19.79
50th percentile	22.09	19.96	20.58	20.69	22.00	23.36	26.67
75th percentile	35.10	32.65	32.96	34.62	37.47	38.57	47.30
90th percentile	48.83	37.12	40.73	37.18	47.91	63.05	65.66
Observations	192	32	32	32	32	32	32

Source: SESNSP (National Public Security System)

Table 2: Summary Statistics Labor Force Survey Data

Adults age 18-65	Full Sample			Adults who start and stay in labor force
	All Adults	Men	Women	
	(1)	(2)	(3)	(4)
Age	38.23	38.25	38.21	38.18
	(12.56)	(12.65)	(12.49)	(11.55)
Education:				
Primary	43.5%	41.3%	45.4%	38.3%
Secondary	30.5%	29.7%	31.2%	32.2%
Tertiary	25.9%	28.9%	23.3%	29.5%
Household size	4.70	4.68	4.72	4.65
(all indivinduals)	(2.02)	(1.99)	(2.05)	(1.98)
Children in household:	0.99	0.99	0.99	1.00
	(1.04)	(1.04)	(1.04)	(1.03)
Monthly income	2509.57	3862.64	1419.64	4359.38
(pesos)	(4281.67)	(5175.04)	(2977.42)	(4967.83)
Household monthly	6511.00	6766.26	6290.28	7588.08
income (pesos)	(8096.99)	(8075.69)	(8108.96)	(8398.21)
At beginning of year:				
In labor force	64.1%	85.9%	45.3%	100.0%
Unemployed	2.8%	3.6%	2.0%	0.0%
Of those in labor force:				
Salaried work	65.4%	66.3%	63.9%	67.1%
Self employed	29.2%	30.7%	27.0%	28.7%
Work from home	3.7%	2.4%	4.9%	4.9%
Weekly hours worked	27.27	39.37	16.85	43.70
	(24.50)	(21.72)	(21.83)	(16.40)
Over one year period:				
Change in weekly	-0.07	-0.45	0.26	-0.08
hours worked	(20.81)	(22.43)	(19.29)	(16.92)
Exit labor force	8.7%	7.0%	10.2%	0.0%
Enter labor force	8.8%	6.4%	10.9%	0.0%
Change industry	12.6%	18.7%	7.4%	22.8%
Observations	94642	43759	50883	53870

Averages weighted by population weights. Standard errors in parentheses. Source of data: ENOE, years 2007-2010

Table 3: Change in Hours Worked, OLS Results

Outcome= Change in weekly hours worked	All Adults						Adults who start and remain in labor force
PANEL A: All Adults	All Adults		Men		Women		All Adults
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Change Homicides	-0.022*	-0.029**	-0.018	-0.045**	-0.025	-0.013	-0.029**
	(0.012)	(0.012)	(0.018)	(0.019)	(0.015)	(0.015)	(0.012)
Year fixed effects	No	Yes	No	Yes	No	Yes	Yes
Individual time controls	No	Yes	No	Yes	No	Yes	Yes
State time controls	No	Yes	No	Yes	No	Yes	Yes
Observations	94,116	94,116	43,408	43,408	50,708	50,708	53,465
R-squared	0.000	0.001	0.000	0.002	0.000	0.002	0.002
PANEL B: Salaried Only	All Adults		Men		Women		All Adults
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Change Homicides	-0.004	-0.010	-0.020	-0.007	0.025	-0.011	-0.014
	(0.016)	(0.012)	(0.021)	(0.016)	(0.027)	(0.018)	(0.013)
Year fixed effects	No	Yes	No	Yes	No	Yes	Yes
Individual time controls	No	Yes	No	Yes	No	Yes	Yes
State time controls	No	Yes	No	Yes	No	Yes	Yes
Observations	41,772	41,772	25,226	25,226	16,546	16,546	37,210
R-squared	0.000	0.406	0.000	0.350	0.000	0.509	0.002
PANEL C: Self Employed Only	All Adults		Men		Women		All Adults
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Change Homicides	-0.044	-0.047*	-0.061	-0.055	-0.018	-0.023	-0.058*
	(0.032)	(0.028)	(0.037)	(0.034)	(0.062)	(0.046)	(0.030)
Year fixed effects	No	Yes	No	Yes	No	Yes	Yes
Individual time controls	No	Yes	No	Yes	No	Yes	Yes
State time controls	No	Yes	No	Yes	No	Yes	Yes
Observations	16,794	16,794	10,713	10,713	6,081	6,081	14,156
R-squared	0.000	0.239	0.001	0.230	0.000	0.277	0.006

Robust standard errors in parentheses. Estimated using survey weights *** p<0.01, ** p<0.05, * p<0.1
Individual time controls indude change in household size, number of children, labor force status and change in industry for those in labor force State time controls indude changes in GDP, unemployment, public expenditure to GDP and the total share of production by industry

Table 4: Highways, Homicides, and Economic Variables

	Levels of Homicides		Change in Homicides		Real GDP growth		Unemployment		Labor Force Participation	
VARIABLES	2005	2010	2005-2006	2007-2010	2005-2006	2007-2010	2005-2006	2007-2010	2005-2006	2007-2010
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Panel A: Federal Toll Highways										
Kilometers Toll	0.009	0.061**	0.002	0.012***	0.000	-0.000	-0.001	-0.001	-0.000	-0.000**
Highways	(0.009)	(0.024)	(0.003)	(0.004)	(0.000)	(0.000)	(0.001)	(0.001)	(0.000)	(0.000)
R-squared	0.032	0.179	0.009	0.064	0.012	0.002	0.009	0.004	0.019	0.035
Panel B: Other Highways										
Kilometers All Federal	0.002	0.009	0.000	0.002*						
Highways	(0.002)	(0.006)	(0.001)	(0.001)						
R-squared	0.028	0.064	0.002	0.023						
Kilometers All Federal	0.000*	0.001	0.000	0.000						
and State Highways	(0.000)	(0.001)	(0.000)	(0.000)						
R-squared	0.097	0.023	0.001	0.001						
Observations	32	32	64	128	64	128	64	128	64	128

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Highway values as of 2005. Source: Secretaria de Comunicaciones y Transporte

The coefficient for labor force participation for the year 2007-2010 is -0.0000315, with a standard error of 0.000015

Thus while it is statistically significant the coefficient is very close to zero

Table 5: Instrumental Variable First Stage Results

		Full Sample		Sub-sample
Outome variable=Change in Homicides	All Adults	Men	Women	Start & Stay in Labor Force
	(1)	(2)	(3)	(4)
Toll highway kilometers	0.008***	0.008***	0.008***	0.008***
	(0.000)	(0.000)	(0.000)	(0.000)
Observations	94,116	43,408	50,708	53,465
R-squared	0.287	0.285	0.290	0.253
Kleibergen-Paap F statistic for weak identification	679.0	312.4	367.5	381.9
Kleibergen-Paap Chi squared statistic for underindentification	647.1	301.2	347.5	368.6
PANEL B: Salaried Workers Only	All Adults	Men	Women	Start & Stay in Labor Force
	(1)	(2)	(3)	(4)
Toll highway kilometers	0.008***	0.007***	0.009***	0.008***
	(0.000)	(0.001)	(0.001)	(0.001)
Observations	41,772	25,226	16,546	37,210
R-squared	0.290	0.288	0.299	0.261
Kleibergen-Paap F statistic for weak identification	255.3	137.9	121.9	246.0
Kleibergen-Paap Chi squared statistic for underindentification	242.7	132.4	114.2	235.6
PANEL C: Self -Employed Workers Only	All Adults	Men	Women	Start & Stay in Labor Force
	(1)	(2)	(3)	(4)
Toll highway kilometers	0.007***	0.008***	0.004***	0.008***
	(0.001)	(0.001)	(0.001)	(0.001)
Observations	16,794	10,713	6,081	14,156
R-squared	0.263	0.280	0.259	0.245
Kleibergen-Paap F statistic for weak identification	129.0	117.2	16.46	134.2
Kleibergen-Paap Chi squared statistic for underindentification	125.7	115.5	16.42	130.6

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1
Individual time controls inddue change in household size, change in children, in labor force status, and industry for those in labor force. State time controls indude changes in GDP, unemployment, public expenditure to GDP and the total share of production by industry.
Year fixed effects induded. Sample years 2007-2010

Table 6: Instrumental Variable, Second Stage Results

Outcome variable: Change in hours worked		Full Sample		Sub-sample
PANEL A: All Adults	All Adults	Men	Women	Start & Stay in Labor Force
	(1)	(2)	(3)	(4)
Change in homicides	-0.033	-0.033	-0.035	-0.065
	(0.078)	(0.122)	(0.100)	(0.088)
Observations	94,116	43,408	50,708	53,465
R-squared	0.001	0.002	0.002	0.002
PANEL B: Salaried Workers	All Adults	Men	Women	Start & Stay in Labor Force
	(1)	(2)	(3)	(4)
Change in homicides	-0.126	-0.079	-0.211*	-0.104
	(0.087)	(0.127)	(0.108)	(0.090)
Observations	41,772	25,226	16,546	37,210
R-squared	0.404	0.350	0.503	0.000
PANEL C: Self-Employed Workers	All Adults	Men	Women	Start & Stay in Labor Force
	(1)	(2)	(3)	(4)
Change in homicides	-0.099	-0.203	0.358	-0.098
	(0.195)	(0.179)	(0.726)	(0.199)
Observations	16,794	10,713	6,081	14,156
R-squared	0.239	0.228	0.267	0.006

Robsut standard errors in parenthese *** p<0.01, ** p<0.05, * p<0.1
Individual time controls indude change in household size, children, labor force status, and industry for those in labor force. State time controls indude changes in GDP, unemployment public expenditure to GDP and the total share of production by industry.
Year fixed effects induded. Sample years 2007-2010

Table 7: Robustness Tests for First Stage Instrumental Variable Results

First Stage Instrumental Variable Results	All Adults	Men	Women	Salaried	Self-Employed
Outome variable: Change in Homicides	(1)	(2)	(3)	(4)	(5)
PANEL A: Pre-Drug War, Years 2005 & 2006 Only					
Kilometers Federal Toll Highways	-0.001***	-0.002***	-0.001***	-0.002***	-0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Observations	46,165	20,912	25,253	20,002	8,402
R-squared	0.518	0.515	0.522	0.532	0.497
Kleibergen-Paap F statistic for weak identification	38.02	22.58	16.17	34.63	6.548
Kleibergen-Paap Chi squared statistic for underindentification	37.56	22.24	16.02	33.88	6.472
PANEL B: All Federal Highways as Instrument, Years 2007-2010					
Kilometers Federal Highways	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	94,116	43,408	50,708	41,772	16,794
R-squared	0.253	0.250	0.257	0.254	0.238
Kleibergen-Paap F statistic for weak identification	2189	963.1	1216	821.8	436.9
Kleibergen-Paap Chi squared statistic for underindentification	1929	849.4	1071	714.2	393.8
PANEL C: All Highways as Instrument, Years 2007-2010					
Kilometers All Highways	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	94,116	43,408	50,708	41,772	16,794
R-squared	0.245	0.243	0.248	0.249	0.224
Kleibergen-Paap F statistic for weak identification	178.9	89.86	89.40	99.39	14.28
Kleibergen-Paap Chi squared statistic for underindentification	175.9	88.65	87.68	98.22	14.10

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Individual time controls indude change in household size, number of children, labor force status, and industry, for those in labor force. State time controls indude changes in GDP, unemployment, the total share of production by industry, and public expenditure to GDP. All Highway values as of year 2005

Table 8: Heterogeneity by Work Location

Fixed Effect Results	Work at Home			Work on the Street or in a Vehide		
Outcome= Change in	All Adults	Men	Women	All Adults	Men	Women
weekly hours worked	(1)	(2)	(3)	(4)	(5)	(6)
Change Homicides	-0.134*	-0.226	-0.078	0.004	-0.055	0.110
	(0.077)	(0.140)	(0.093)	(0.088)	(0.113)	(0.135)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Individual time controls	Yes	Yes	Yes	Yes	Yes	Yes
State time controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,427	1,062	2,365	3,614	2,354	1,260
R-squared	0.065	0.102	0.067	0.026	0.032	0.125

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. Estimated using survey weights.
Individual time controls inddue change in household size, children, labor force status and industry.
State time controls indude changes in GDP, unemployment, public expenditures to GDP and the total share of production by industry. Years 2007-2010