ORGANIZED CRIME

Edited by
Federico Varese

CRITICAL CONCEPTS IN
CRIMINOLOGY

ROUTLEDGE

ORGANIZED CRIME

Critical Concepts in Criminology

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Federico Varese

Volume III
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ORDERLY MARKETS

Diego Gambetta

Source: *The Sicilian Mafia: The Business of Private Protection*, Cambridge, MA: Harvard University Press, 1993, pp. 195–225.

Arrangements that thwart economic competition exist far beyond the scope of the mafia. Oligopolies are common to "all industrialized economies. Virtually every large firm one can think of, be it in steel, chemicals, petroleum, automobiles, food retailing, department stores, or computers, is in a position of strategic interdependence with several other firms in the same industry" (Friedman 1983: 8).[1] While some industries lapse into anticompetitive conditions, others never grow out of them. Markets created by a patented invention, for instance (such as safety razors, first introduced by King C. Gillette at the beginning of the twentieth century), often belong to the latter group. But in "the markets for toothpastes, deodorants, shampoos, nonsoap detergents, breakfast cereals, margarines, prepared salad dressings, frozen foods, and manufactured pet foods . . . there were simply *never* any conditions remotely resembling atomistic competition" (Jones 1986: 25).

Although firms belonging to oligopolies compete with one another at times, collusion is by no means rare. Cartels protect themselves through price cutting, extensive advertising, control over distribution channels, and the imposition of binding legal, financial, and technological standards. Firms regularly join forces in order to share markets, acquire a monopoly over customers or resources, keep prices high and quality low, secure restrictive access to public contracts, or steer government action in such a way as to manipulate consumer choices. Collusion often involves the corruption of either civil servants, politicians, or both.

Private business is not solely responsible for the existence of market restrictions. Legitimate states frequently tolerate or even promote collusion in exchange for a share of the proceeds. There is no shortage of examples. European car manufacturers lobby to keep Japanese competitors at bay by means of tariffs and regulations.[2] Italian airlines—a fiefdom of the Christian Democrats—maintain scandalously high prices while fighting off competitors by controlling space at airports and flying routes; the fare for the same distance in the deregulated U.S. market is less than half what Italian travelers pay. And in Britain, despite an abortive attempt by the Thatcher government to break the brewery cartel in 1989, as few as six companies own a majority of the nation's pubs, which sell only their owners' beer. The government backed down because of vociferous back bench opposition prompted by the fear that the breweries might retaliate by withdrawing their support during the election campaign.[3]

States and racketeers have even competed on the same terrain. In the 1920s, for instance, the clothing industry in New York made use of Louis ("Lepke") Buchalter's and Jacob ("Gurrah") Shapiro's persuasive power to encourage compliance with regard to prices and wages. But then "the first act of the New Deal (something which people forget or do not know) was to set up through the National Recovery Administration (NRA) industry codes and price fixing to provide stability to the markets. Thus what had before been a 'functional' role of the gangsters now became simple 'racketeering' and shakedowns. As a result of this, ambitious prosecutors moved against the gangsters. . . . Lepke and Gurrah were convicted of murder and finally executed in Sing Sing" (Daniel Bell, personal communication; see also Bell 1960).

But not all legitimate sectors enjoy state protection for competition—at least not all the time. Nor are cartels always capable of sustaining themselves without external enforcement. In the interstices the mafia finds a market for its services. The overall nature of its collusive maneuvering, as seen from the inside, was summed up by Joe Bonanno: "[People] sought me out . . . because they knew that with me as partner their business would grow. There was nothing mysterious in how I accomplished this: I developed connections. . . . Thus, by putting all my connections in touch with one another, I could harmonize our activities in a mutually advantageous way" (Bonanno 1983: 152). Not much is known, however, about the specific conditions which foster the presence of the mafia. In the United States "the phenomenon of racketeer-influenced industries, despite a substantial journalistic interest, has attracted little scholarly attention" (Reuter 1987: 3). As for Sicily, research on this topic is virtually nonexistent. Here, after considering the nature of collusive agreements in general, I present four case studies: the Palermo wholesale fish market and the fruit and vegetable market, the public construction industry, and Palermo's radio-dispatched taxis.

Collusive agreements

There is no shortage of examples in which protection from competition amounts to nothing more than intimidation on behalf of a particular economic agent. A leather tanning firm in Catania, for instance, run by an enterprising woman—among the few women ever arrested on a charge of mafia conspiracy—enjoyed a monopoly over suppliers owing to the protection of the local mafia family, which collected hides from cattle breeders at a quarter of the market price (*Repubblica*, February 8, 1990). According to the police, the so-called clan del Califfo, a *camorrista* from Portici near Naples, used to protect a video game distributor, intimidating shops and bars into installing the firm's machines (*Repubblica*, April 6, 1990). But in addition to being of no theoretical interest, cases such as these are also not the mafia's primary way of discouraging competition. Mafiosi prefer to oversee collusive agreements rather than to engage in outright intimidation. Several U.S. studies have shown how competitors seeking a collusive solution to market problems provide racketeers with the opportunity to acquire a role in that industry-racketeers enter "by invitation" rather than on their own initiative.[4]

Collusion alone, however, is not a sufficient condition to attract the mafia. Mafia control does not develop, for instance, in large corporations such as steel, automobiles, chemicals, and rubber (Bell 1960:176; Reuter 1987: 7). Entrepreneurs at this level have other means at their disposal (Friedman 1988). Nor does it develop in high-tech industries. For markets to be vulnerable to the mafia, collusion must be both desirable (owing to inelastic demand, lack of product differentiation, and so on) *and* difficult to bring about (owing to impediments such as "numerous firms [and] low barriers to entry"; Reuter 1987: 6). A typical case is the garbage collection industry. In the United States mafia involvement has also been documented in construction (Organized Crime Task Force 1988), wholesale food markets, and the trucking, garment, baking, and dyeing industries (Bell 1960: 176).

But even when all the right conditions obtain, a triggering event is often necessary to attract racketeers. Slumps in the economy, for instance, can provide the motivating force: in the United States during the Great Depression an "extraordinarily deep and rapid decline in demand intensified the incentive for collusive services" (Reuter 1987: 3). The need for cash thus becomes an important factor. During the depression, according to Lucky Luciano: "We gave the companies that worked with us the money to help them buyin' goods and all the stuff they needed to operate with. Then, if one of our manufacturers got into us for dough that he could not pay back, and the guy had what looked like a good business, then we would become his partner. . . . We actually kept a whole bunch of garment manufacturers alive" (Gosch and Hammer 1975: 77–78).

Racketeers' intervention can also be sparked off by the sudden greed of a cartel member. Funeral homes in Naples for many years shared access to hospitals without outside intervention: A was responsible for burying people who died in hospital X, B in hospital Y, and so on. They managed to keep the number of competing firms surprisingly low: while in Turin there are 50 firms for 1 million residents and in Rome 70 for 2.8 million, in Naples a population of 1.2 million is served by only 13 firms. The cartel achieved these impressive results with at most the assistance of corrupt politicians who rejected new applicants. But collusive arrangements remain intrinsically fragile: in the late 1970s one firm tried to increase its share by enlisting the protection of an aggressive gang, the Nuova Camorra Organizzata. The other funeral homes first attempted to repel the move politically, as it were, then called in rival racketeers. The catch is that protectors, once enlisted, invariably overstay their welcome.[5]

Collusive agreements take a variety of forms. Some simply entail a minimum of cooperation to ward off new entrants while firms compete; but most consist of sharing arrangements which do away with competition altogether.[6] There are three main ways of subdividing markets: in terms of *territories*, *customers*, or *shifts*. Which of them is adopted depends on which one proves most effective in monitoring defectors (see Reuter 1993).[7]

Dividing territory

In an unsolicited attempt to justify the division of territory, a Palermo businessman remarked that such practices are common even in the animal world (I-8). Trading within territorial boundaries makes sense to humans, too: A gets the north side, B the south side; A runs on route X and B on route Y. When firms are few, they may reach an agreement that does not require special enforcement arrangements. According to one contractor, the three top Italian producers of lead and asbestos pipes rigorously share territories when it comes to large contracts, whereas they compete for smaller deals since these are a nuisance to police. The difference in costs between the competitive and the collusive markets might be as much as 30 percent (I-3).

Although it is difficult to establish ex post facto whether a given collusive arrangement would have come about even without mafia intervention, the availability of mafia services generally makes collusion more likely, more elaborate, and more enduring. Sectors ranging from the construction and transport industries to flower sellers on the street have been territorially controlled by the mafia in Sicily.[8] Those who pay protection money expect territorial policing as a matter of course. As a partner in a firm near Palermo that sells reconditioned tires argued, "The least those who protect you can do is offer to discourage competitors should they want to enter your territory" (I-8).

Polish immigrants cleaning windshields at traffic lights in Rome provide an instance of how an innocuous trade, when it is not regulated by law, can generate territorial disputes. In 1989 this business was lucrative: each man made between 100,000 and 300,000 lire a day, and, according to the Carabinieri, violent fights arose over the allocation of the most profitable intersections. The cleaners, who were unable to cooperate, attracted the attention of the authorities (*Repubblica*, August 2, 1989). Had private enforcement agencies been on hand as they are in Naples and Palermo, they might have been called in instead to prevent conflict.[9]

If all colluding dealers fall within the jurisdiction of one mafioso, he will oversee the subdivision of the territory. But since mafia families are themselves organized by geography rather than by function, the intricacy of the protection market impinges on the economy.[10] Permission to operate in a given area must be sought if one is to work in a territory other than one's own: "It must be clear once and for all," says Salvatore Contorno, "that in order to build or begin any significant activity, it is necessary to obtain the permission of the family with jurisdiction over that territory" (TC: 19). Moreover, permission must be sought through the mafioso who controls the area where the firm is normally based. The importance of this procedure was corroborated by two Palermo building contractors (I-3, I-4). The Catania family used to deliver to their Palermo counterpart the protection money their construction clients paid for doing work in Palermo (AC: I, 197). The size of the construction project is a relevant factor. According to Tommaso Buscetta: "If a developer from one province plans to carry out a major project in another province, the possibility of this happening depends on the decision of the *interprovinciale*," the body made up of the various provincial commissioni (TB: III, 12–13). Another factor is the interfamily hierarchy: a mafioso usually protects local businessmen; but if an outsider enjoys the protection of another particularly powerful family, local protectors step aside to prevent interference (I-3).

A tangled case of territorial sharing is reported by Antonino Calderone. Under the protection of a local man of honor, a dealer had a monopoly on bulldozer and tractor sales in Bagheria, near Palermo, until a rival dealer, also from Bagheria, went into business in the same area under the protection of rival mafiosi. The ensuing conflict was protracted. When the first dealer sought additional protection from the Carcagnusi, an independent gang from Catania, the second retaliated by recruiting the Catania mafia family, traditional archenemies of the Carcagnusi (AC: II, 355–356).

Sharing customers

Not all markets can be efficiently allocated by territory, such as when dealers congregate in one location, as in wholesale markets, or when customers are highly mobile. Furthermore, geographic divisions are not always satisfactory because profits may be so unevenly and unpredictably distributed that it becomes impossible to keep cartel members happy. Generally a better alternative solution is to share customers.

In Chapter 7 we saw how buyers may be actively channeled toward protected sellers. Further evidence of this "development of connections" in Sicily is provided by Constantino Garaffa of the Palermo Association of Small Shopkeepers. He found that mafia families invest in wholesale stores and "then encourage shopkeepers to buy from those stores."[11] To buyers this practice is often presented as a safeguard against the risk of cheating: "Buy from A (or sell to A) and you will be safe. Just let A know I sent you." But when the practice works, it is irrelevant whether customers buy from A or B since neither A nor B will steal the other's customers; instead they will agree "not to accept or seek business from customers who [are] currently served by another member" of the cartel (Reuter 1987: 28). What happens if the agreement is breached is easy to guess. Vincenzo Sinagra testified that the brother of a man "who had taken the liberty of selling construction supplies to somebody else's customer was violently beaten" (VS: I, 138). Customers effectively become part of the supplier's assets; they are thus internalized and can be traded like any other form of property.

This type of sharing is particularly successful if customers are "fixed in location and the service or good is delivered to [them]" (Reuter 1987: 7), for policing becomes simpler. Agreements can then embrace a large number of both dealers and customers. In the carting industry "racketeers played a continuing role in the operation of the allocation agreement, primarily through the constant need to mediate disputes—hardly an unexpected situation in a conspiracy that involved the allocation of over 100,000 customers among 300 carters" (Reuter 1987: 11). In the absence of such favorable conditions, whether and to what extent collusion is possible depends on the mafioso's ability to promote loyalty, and on how easily customers can be identified.

Customer sharing is often sanitized under the heading of friendship. Friendship has a special meaning to the southern Italian dealer. Sometimes it is invoked purely as a ritual to allure and entertain (once, on a train south of Naples, a hawker roaming the train corridor with a trolley shouting "panini, bibite, caffè," sold me a sandwich claiming he did so only because we were friends). But the term also harbors a sinister threat. Since friends are by definition loyal, to call someone a friend introduces a constraint, albeit a weak one, on defection. More important, friends can be identified, a stronger constraint for it implies the possibility of retaliation. Identification is important also because it enables partners in collusion to avoid trading with nonfriends so as not to breach pacts. Friendship among mafiosi has none of the qualities with which the term is commonly associated (Silver 1989). It draws a rhetorical veil over what is simply a prosaic exchange. The concept is similar, for analytical purposes, to that of territory, which also serves to confine competition within controllable boundaries.

Taking turns

Even sharing customers, however, can prove difficult. There may simply be too many customers, or too few, or they may be too mobile and thus difficult to identify. How, say, could restaurants share diners or gas stations share drivers? Sharing customers is equally meaningless if there is only one buyer, or at any rate if there are fewer buyers than sellers. One strategy for dealing with these problematic extremes involves taking turns. Provided they can be funneled through particular locations, queuing can help dealing with too many customers. The obvious case is that of taxi drivers who wait at railway stations and airports. If there is just one buyer, this system works only if transactions are repeated: sellers can then enter a (metaphorical) line and share the market on this basis.

Regardless of the method adopted, the general consequences of restrictive practices are threefold:

> less efficient production, higher prices, and smaller firms. Less efficient production is engendered by the reduced incentive for lowering production costs; a firm cannot obtain an increase in market share by lowering costs, since all existing customers are allocated. . . . The agreement also permits inefficient firms to stay in the market and prevents efficient firms from growing. The higher prices result directly from the imposition of restraints of trade. . . . In each dimension, the effect is likely to be greater for a racket-run cartel than for other cartels.
>
> (Reuter 1987: 7)

The primary victims of collusion are the consumers, who end up purchasing lower-quality goods at higher prices. Potential competitors suffer as well, for successful collusion makes it so difficult for outsiders even to contemplate entering an industry that overt intimidation becomes redundant. The enforcement of internal agreements is thus much more effective than the brutal discouragement of rivals. Finally, "since racketeers increase the confidence of participating entrepreneurs that the cartel will endure, incentives for efficient production are even more sharply reduced than they would be in a conventional cartel, where certainty about future success is always limited and the probability of imminent competition never vanishes" (Reuter 1987: 7–8). In addition, wherever mafia protection is readily available, there is a stronger incentive to seek collusive solutions.

The Palermo fish market

At the end of the 1960s Professor Vincenzo Macaluso, a member of the Palermo town council responsible for markets, was questioned by the parliamentary commission investigating the mafia in Sicily. Asked why the fish market was so lacking in competition and populated by far fewer dealers than was either reasonable or desirable, he replied that there was really no one up to the task of wholesale dealing in the Sicilian capital.[12] Probed further, he added that the inhabitants of Palermo had a special vocation for using the hand-pulled cart (carrettino), suitable only for hawking. Typical of a uniquely Sicilian behavioral science, which impassively maintains the most extravagant explanations when at odds with officialdom, Professor Macaluso's insight did not impress the commission, which politely described it as "strangely banal." The commission report proposes an alternative explanation for this state of affairs, which it perceives as advantageous to only a few middlemen and detrimental to producers and consumers alike (CPM-RMI: 98).

The Palermo fish market is by far the busiest in Italy (CPM-RMI: 95). Middlemen known as *mandatari* are still to this day the market's main agents. In return for a percentage they sell the product on behalf of producers without actually buying it first like wholesale dealers. The market stalls, covering half the available surface area, were designed to accommodate eleven mandatari. In reality, until 1968, there were only four.

That is an extremely small number of intermediaries for any market, let alone the largest fish market in a maritime country. The commission noted "the absence of any initiative, not only on the part of direct producers [fishermen] but also cooperatives of producers as well as wholesale dealers" and took it as evidence of a "gravely abnormal situation" (CPM-RMI: 96). The four middlemen together constituted an oligopoly, or rather, if we take into account the distribution of trade among them in 1964 (see Table 1), a duopoly: as much as 55 percent of the total value of trade was controlled by just one of the mandatari alone; another accounted for 32 percent, and, well behind, the other two had 8.5 percent and 4.5 percent, respectively (CPM-RMI: 95–96). The commission found that until 1964 no license had ever been issued by local authorities. The mandatari had, quite simply, installed themselves (CPM-RMI: 95). Two of them had criminal records (CPM-RMI: 94), and all were tax evaders: one had declared an income of 7.7 million lire for the whole period 1958–1964 when in fact he had earned twenty times that much (CPM-RMI: 106).

The commission report clearly concludes that the market was deliberately shared and competition excluded in every possible way. The key strategy,

Table 1 Shares of business turnover at the wholesale fish market.

Vendors	*1964*	*1986*
Mandatari		
A	55.0	—
B	32.0	24.6
C	8.5	9.3
D	4.5	10.0
Entered in late 1970s		
E	—	16.5
F	—	17.7
G	—	14.6
H	—	3.7
I	—	3.6
Total	100.0	100.0

Sources: For 1964, CPM-RMI; for 1986, *L'Ora*, May 22, 1989.