

Lecture 16

Gangs & Organized Crime

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Assignments for rest of quarter

- ▶ Protest class 31 May
 - ▷ Small groups take 15-20 mins to present a paper
- ▶ Final project
 - ▷ Everyone's proposal was fine
 - ▷ I sent comments back today, James is doing so as well
 - ▷ 3 presentations each day June 4 and 6

The great security challenge of the 21st century?

1. Cities with factionalized urban criminal gangs
 - ▷ Chicago, LA, Johannesburg, Nairobi, San Salvador
2. Cities and prison systems with large crime syndicates and cartels
 - ▷ Italian and US mafias, Brazilian prisons, Japanese Yakuza, Russian mob
3. Cities where powerful criminal structures challenge state authority
 - ▷ Rio, Medellin, San Salvador, Kingston, northern Mexico
4. Warlords/rebels focused on resource extraction
 - ▷ Eastern Congo, Liberia
5. Political insurgencies funded by illicit trades
 - ▷ Colombian guerrillas & paramilitaries, Burmese insurgents, Taliban
6. Narco-states
 - ▷ Venezuela, Guinea-Bissau, some Mexican states, 1990s Colombia

Wide range of questions

▶ Origins

- ▷ Why does organized crime arise in some places and not others?
- ▷ What accounts for different forms?

▶ Industrial organization

- ▷ Why such wide variation in centralization?
- ▷ How they solve participation and incentive compatibility constraints?
- ▷ How to encourage exit or constrain labor supply?

▶ Durable impacts

- ▷ Effects on electoral competition, state strength, economic development
- ▷ How are elections and states manipulated to preserve power?

▶ Interventions

- ▷ What anti-organized crime strategies are effective?

Progress may have been limited by data availability, but perhaps more by absence of attention. Crime literature highly individualistic in its focus.

Today

Criminal governance

- Markets abhor an institutional vacuum
- State-making as organized crime

Industrial organization of crime

- Chicago
- Gangs of Medellin

Back to criminal governance, in Medellin

- Criminal governance of civilians
- Criminal governance of criminal groups

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Example 1: Sicily's black market for cattle

- ▶ State decides to collect high taxes on the sale of cattle from ranchers to butchers
- ▶ Drives buyers and sellers into a black market where there is no state to enforce contracts
- ▶ There's also little trust
- ▶ Buyers can't trust the quality of the seller's cow, and sellers can't trust buyers to pay
- ▶ A consequence of poor informal institutions?

The mafia is born (Gambetta 1993)

- ▶ A local “big man” steps in to provide information to each side and guarantee the sale
- ▶ Solves problems that state and society do not
 - ▷ Provide information to each side (reduces transaction costs)
 - ▷ Guarantee the sales (enforces property rights, provides “commitment”)
- ▶ May also enforce contracts with threat of violence
- ▶ This is a lubricant to the market, reducing the cost of transactions

Example 2: The Dark Web



In anonymous markets, trust harder to maintain than towns

If buyers are hesitant enough, sellers will have no-one to sell to,
and the market will fall apart

Silk Road
anonymous market

messages 1 | orders 0 | account \$0.00

Search Go

Shop by Category













Drugs 4,093
 Cannabis 999
 Dissociatives 78
 Ecstasy 314
 Opioids 354
 Other 153
 Precursors 18
 Prescription 903
 Psychedelics 586
 Stimulants 390

Apparel 82
 Art 5
 Books 768
 Collectibles 15
 Computer equipment 42
 Custom Orders 27
 Digital goods 369
 Drug paraphernalia 153
 Electronics 35
 Erotica 296
 Fireworks 5
 Food 4
 Forgeries 55
 Hardware 1
 Herbs & Supplements 11
 Home & Garden 6
 Jewelry 57

Hi, [logout](#)

News

- Closing the Armory
- A brand new look for Silk Road!
- The gift that keeps on giving
- Who's your favorite?
- Acknowledging Heroes

			
5G Cocaine Pure Cristal Flakes \$41.94	[28.0G] High Quality Crystal Meth \$188.72	>>SPECIAL OFFER * BRAND SUBOXONE \$0.91	alprazolam [Xanax] 100 x 1mg \$11.31
			
Cocaine of high quality over 80% purity 25 gram \$190.12	*Ethphenidate* -2.5g-of the best racemic HCl qt \$6.18	Colombian Cocaine Lady's and Gentleman 10G \$67.32	0.5g #3 Brown Heroin, good quality! \$7.52
			

As in rural Sicily, a well functioning market needs intermediaries to provide information, guarantee contracts

Anonymous commenter on dark Internet market :

I have been scammed more than twice now by assholes who say theyre legit when I say I want to purchase stolen credit cards. I want to do tons of business but I DO NOT want to be scammed. I wish there were people who were honest crooks. If anyone could help me out that would be awesome! I just want to buy one at first so I know the seller is legit and honest.

Libertarian Ross Ulbricht of Texas, a.k.a. “Dread Pirate Roberts”

Sets out to build a market free from the thieving and murderous state



To keep Silk Road from unraveling, Ulbricht develops centralized market management, defense, adjudication and punishment

- ▶ Introduced automated rating system and payment in escrow to establish credibility
- ▶ Began policing the system, banning untrustworthy buyers and sellers
- ▶ Paid hundreds of thousands of dollars to stave off denial-of-service attacks that threatened to cripple his website
- ▶ Eventually, turned to violence. One seller, FriendlyChemist, threatened to leak the names of all its customers, threatening credibility of Silk Road

He paid \$150,000 to someone whom he believed to be senior member of the Hell's Angels to arrange for the murder of his blackmailer, later paying another \$500,000 to have associates of FriendlyChemist murdered too.

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Likewise, Most early states were coercive, self-serving entrepreneurs

Charles Tilly (1985) “War making and state making as organized crime”:

Banditry, piracy, gangland rivalry, policing, and war making all belong on the same continuum

- ▶ Much like an organized crime racket, states are in the business of selling protection
 - ▷ A state supplies reliable, low-priced shielding both from local racketeers and from outside marauders and roving bandits
 - ▷ They secure the rights of the powerful in return for a degree of extraction
 - ▷ Such protection rents are the major basis of revenue for most states until the modern period
- ▶ But there is an agency problem that leads to predation, fighting and warfare

Mancur Olson (1993): The stationary bandit is a solution to a common pool resource problem

...government for groups larger than tribes normally arises, not because of social contracts or voluntary transactions of any kind, but rather because of rational self-interest among those who can organize the greatest capacity for violence.

These violent entrepreneurs naturally do not call themselves bandits but, on the contrary, give themselves and their descendants exalted titles.

- ▶ Bandits can be plundering/roving or stationary — promoting order and development, investing in public goods such as order and justice, but extracting a share
- ▶ “Make us a King”: Victims prefer stationary bandits to roving ones
- ▶ Gives bandit economic incentives against violence (a partial solution to the agency problem)

From history, we know that the encompassing interest of the tax-collecting autocrat permits a considerable development of civilization.

From not long after the first development of settled agriculture until, say, about the time of the French Revolution, the overwhelming majority of mankind was subject to autocracy and tax theft.

History until relatively recent times has been mostly a story of the gradual progress of civilization under stationary bandits interrupted by occasional episodes of roving banditry.

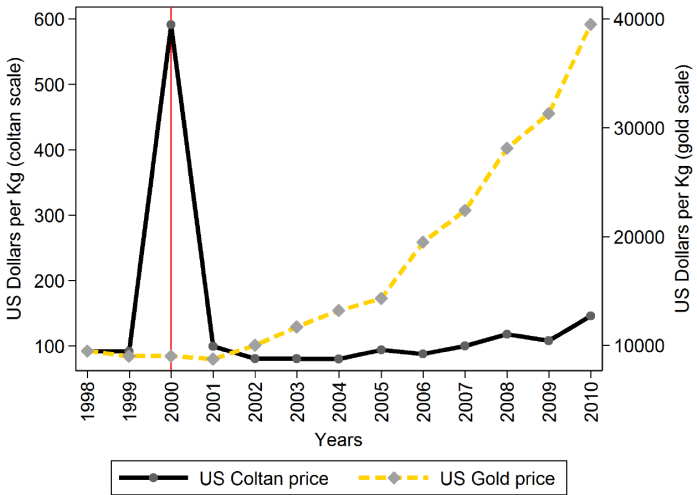
- ▶ Warlords/bandits compare the net present value of order to plunder
 - ▷ Anything that shortens time horizons or limits extraction or rents risks turning a reasonable ruler into a kleptocrat
 - ▷ Bates (2008) on Africa: After 1990, a plunge in foreign aid and a push for democratization led to a surge of kleptocracy and civil conflict

Example: Sanchez de la Sierra 2018

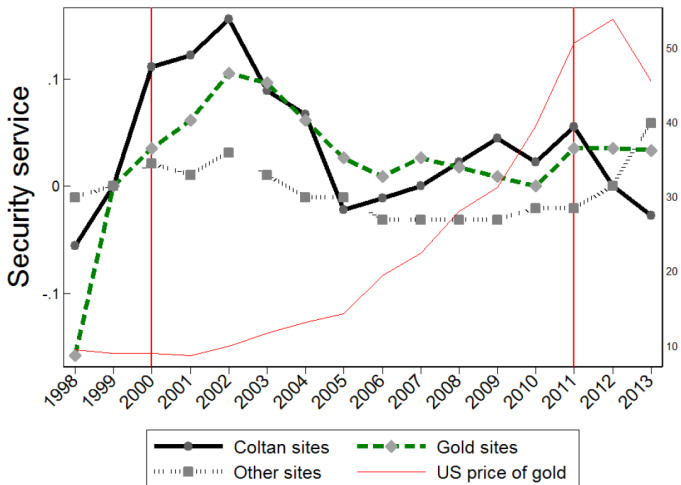
Roving and stationary bandits in Eastern Congo



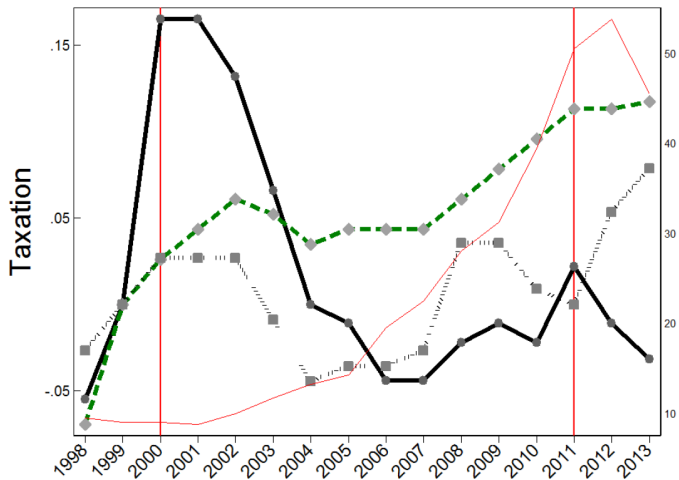
Examines response to two price shocks with different ease of rent-extraction



Impacts on public goods (security) by stationary bandits



Impacts on taxation by stationary bandits



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Levitt & Venkatesh 2000 analysis of gang organization

e.g. Propose a tournament model to understand how gangs motivate participation and incentive compatibility in a high-risk job

- ▶ In-depth data on a single gang
- ▶ Speculate that main motive for low-level members is rising up through the hierarchy
 - ▷ Street-level sellers earn minimum wage
 - ▷ 7% death rate per year
 - ▷ High-level gang members earn far more than their legitimate market alternative
- ▶ Relatively little economic work done on this topic in last two decades, possibly because of data availability

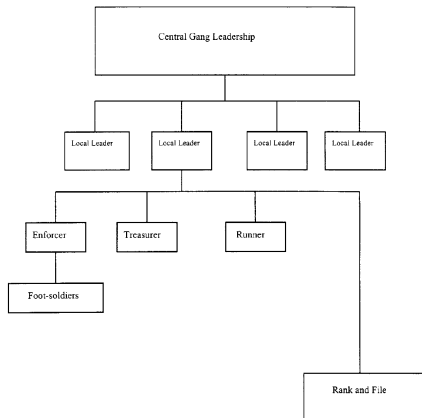


FIGURE I
Organizational Structure

Today

Criminal governance

Markets abhor an institutional vacuum
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Chicago

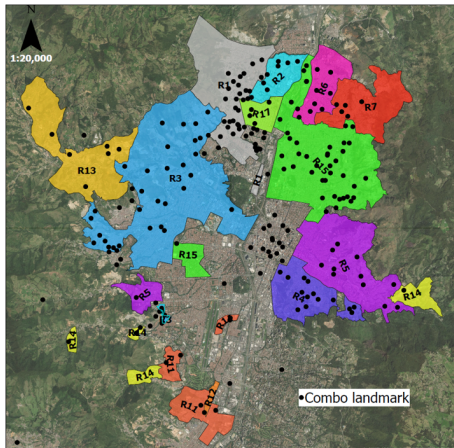
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Large-N case of Medellin: Hierarchical structure of crime

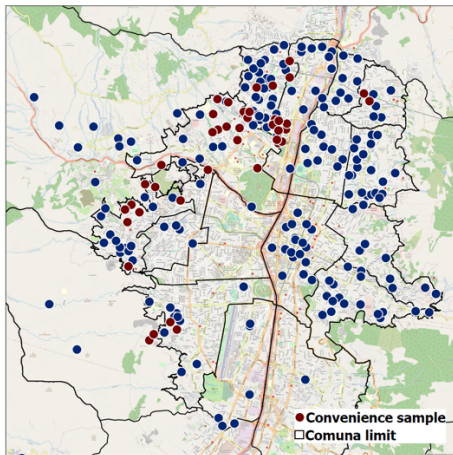


- ▶ Nearly every low- and middle-income neighborhood has a street gang called a *combo*: We've identified over 300
- ▶ Most have allied with one of 17 larger mafia-like organizations called *razones*
 - ▷ Razon offers a supply of product (especially drugs), protection, and investment capital
 - ▷ Combos are autonomous but offer a retail distribution network and an army in the event of conflict
 - ▷ The *razones* have formed a cartel structure, known as *La Oficina*

Data I: Qualitative interviews

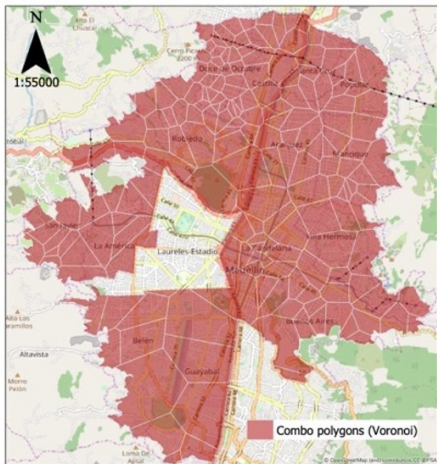
- ▶ 20 senior criminal group leaders in four prisons
- ▶ 12 middle and low-ranking members, some out of prison
- ▶ 150 community leader/member interviews
- ▶ Subject experts
- ▶ Senior contacts in the criminal justice system and city administration

Data II: Convenience sample of combos



- ▶ Building a census of combos
 - ▷ Based on existing lists plus expert interviews and investigations
 - ▷ Name, major landmark, rason affiliation
- ▶ Select a convenience sample of 46 combos (12% of census)
 - ▷ Based on extended networks of a field team of specialized journalists and former gang outreach workers
 - ▷ Attempt to interview 1-4 members or leaders
 - ▷ Collect information on boundaries, business lines, organizational structures, earnings, etc.

Data III: Citizen survey by barrio

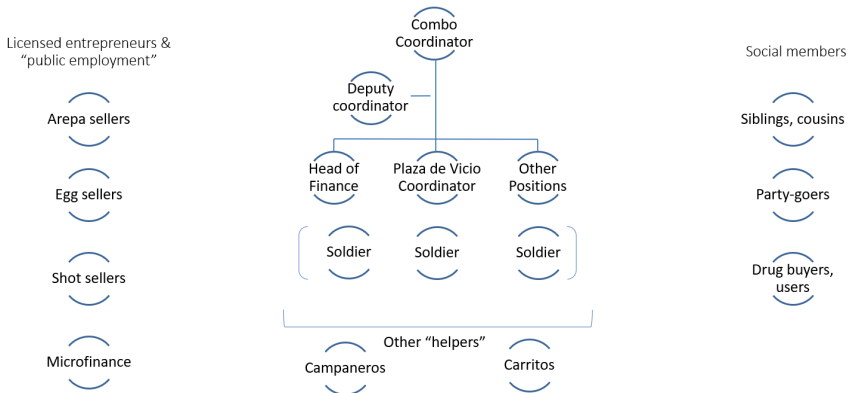


- ▶ 269 barrios (Fall 2019): 15 households, 15 businesses, and 1-2 leaders per barrio
- ▶ Currently have pilot data on 80 neighborhoods
- ▶ Combo and police presence
- ▶ Service delivery
- ▶ Degree to which the respondent turns to the state vs the combo for services
- ▶ Rent potential
- ▶ Fiscal capacity (extortion, taxes, etc)

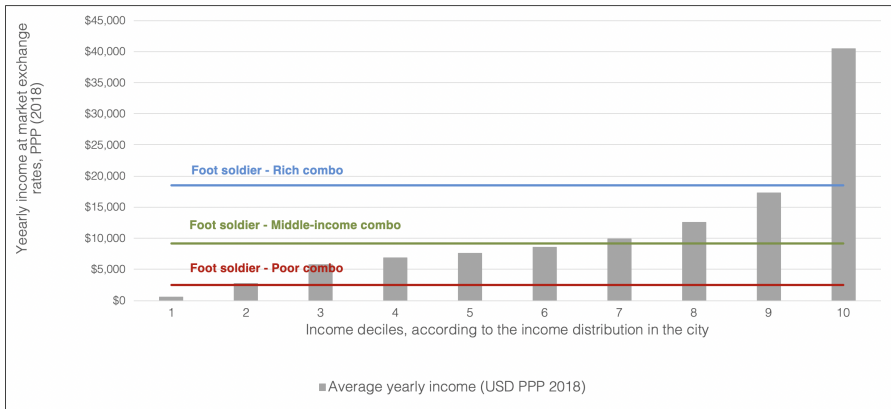
Combo members are both employees of the firm and independent entrepreneurs (performing “conspires”)

Good/service	Combo (usually local monopolies)	Razón (less territorial services)	Conspires (outside the “firm” as independent entrepreneurs)
Illicit good monopolies	Drug retailing	Drug wholesaling	In at least one case, city-wide supply to razones
Extortion/protection	Local businesses; (Rarely) local households; Some external businesses (buses)	Large firms and construction projects	Local business no; Sometimes large external businesses and buses
Coercive services	Contract killings, debt collection, loan sharking	Contract killings, debt collection, large loan sharking services	Sometimes
Legal good monopolies	Licensing sale of small consumer goods	Negotiating sale of certain goods (gas canisters) between city-wide suppliers	Typically yes (e.g. rafles, liquor sales)
Others	Larceny, governance (e.g. dispute resolution)	Money laundering, in some cases international drug trafficking	Typically yes (e.g. larceny outside the combos' territory, prostitution)

An additional 10-15% of young neighborhood men are “helpers” or “social members”, not counting licensees



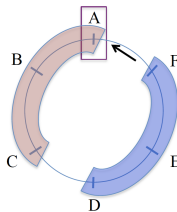
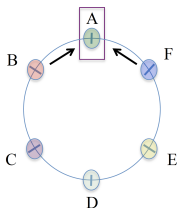
Substantial variation in earnings by rank and prosperity of combo territory, relative to city income distribution



Formal models of markets, organization & violence promising

e.g. Bueno de Mesquita (2018) model of territorial control & violence

- ▶ Advantage to market size is ability to charge monopoly prices far from (competitive) borders
 - ▷ Thus returns to territorial conflict increasing in local market size
- ▶ Can map economic shocks in one territory to spillovers in other territories as well as probabilities of violence
 - ▷ Factionalization leads to more frequent, less intense violence
- ▶ Other examples come mainly from the counterinsurgency literature (e.g. Berman et al 2011 *JPE*)



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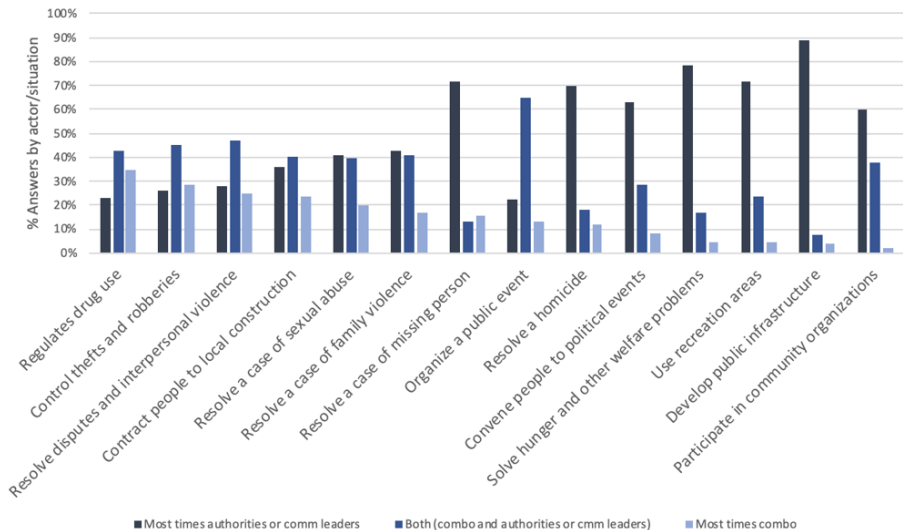
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We observe a duopoly in the provision of governance and public goods

- ▶ “Combo” dominates state in regulating crime
 - ▷ Regulating drug use
 - ▷ Controlling thefts and robberies
- ▶ “Both” dominates state in regulating sex and property rights
 - ▷ Preventing/punishing sexual abuse
 - ▷ Resolving family violence
 - ▷ Land and construction permits
 - ▷ Organizing public events
- ▶ State dominates “both” and combo in infrastructure, social services
 - ▷ Solve hunger and welfare problems
 - ▷ Public infrastructure and recreation areas

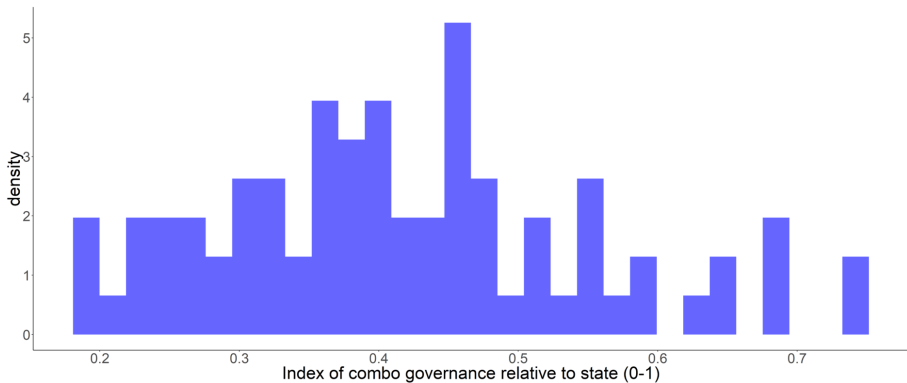
Pilot data in 80 high-combo neighborhood: Answers to “who resolves these issues in your neighborhood?”



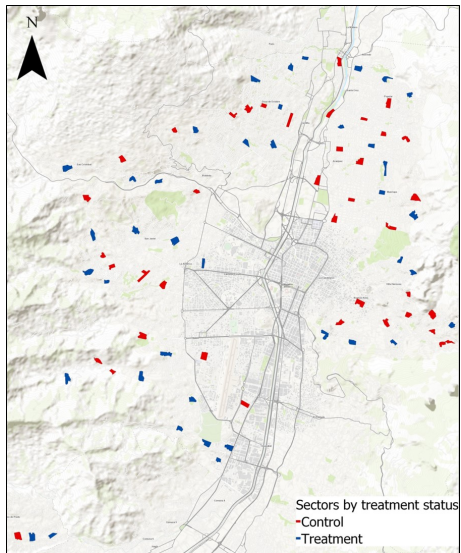
Rent maximization: Why is governing profitable?

- ▶ Inherent to core businesses
 - ▷ Part and parcel of selling security and protection
 - ▷ Alongside new service provision (management of sexual violence, dispute resolution) we see combos experimenting with new revenue streams (e.g. door-to-door taxation)
- ▶ Preserve monopolies against threats
 - ▷ Internal threat from delinquent young men committing crimes or a coup
 - ▶ "Public employment" can be withheld, binding young men to combo
 - ▷ External threat from state and other criminal groups
 - ▶ Civilians desire order, and may be willing to support or collaborate with competing groups who are willing to offer order
- ▶ An investment
 - ▷ Builds network of favors and goodwill that pays off in future, indirectly

Wide variation in combo governance



Social workers intervention in small sectors



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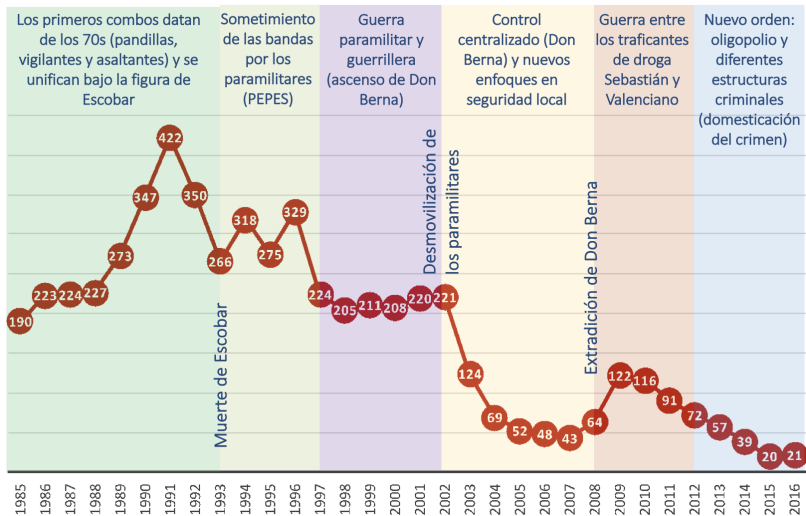
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War and peace in Medellin

Evolution of the homicide rate in Medellin



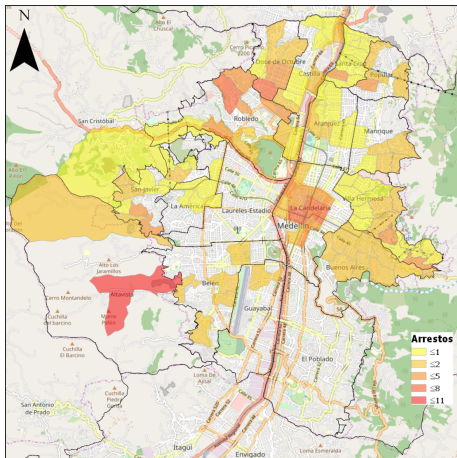
In theory, because of costs of war, gang wars are a puzzle

- ▶ In absence of a third party enforcer, a situation of “anarchy”
- ▶ Game-theoretic bargaining approach is the dominant paradigm for understanding conflict in anarchy
 - ▷ Strikes, costly legal disputes, international war, and violent inter-group disputes (Kennan & Wilson 1993, Fearon 1995, Blattman 2018)
- ▶ Under “ideal” circumstances, war is inefficient and avoided
 - ▷ Two parties have to split a territory, asset
 - ▷ Can violently compete, with probabilistic victory, but costly to both sides
 - ▷ There is a peaceful bargain that ex ante is superior to fighting, where spoils go to parties in rough proportion to their probability of victory
 - ▷ Thus fighting is a puzzle
 - ▷ Indeed most of the time competing parties find peaceful ways to split the pie

Razones appear to solve bargaining problems, playing the same function as peacekeepers, mediators (Fortna 2007, Beber 2013)

1. Reduce Imperfect information
 - ▷ Provide a bargaining forum for combos
2. Commitment problems
 - ▷ Razones and La Mesa enforce contracts and commitment
3. Agency problems
 - ▷ Razones halt skirmishes and punish combo leaders or members who do not
4. “Irrationality”
 - ▷ Razones prevent skirmishes from escalating
 - ▷ The threat of punishment works against intrinsic motivations for fighting

We can examine this hypothesis empirically by studying the arrest of leaders



- ▶ We mapped the territories under control of about 100 leaders arrested between 2016 and 2018
- ▶ Used difference-in-differences to look at the effects of the arrest of a leader on homicides in controlled territories

In progress and largely imprecise but there are some indications that arrests may be slightly destabilizing in the short run (and also that arrests may follow spikes in homicides)

Independent Variables	Outcome: Homicide happened on day	
	Full sample 2016-2018	8-weeks before an arrest, 4 weeks after
Any arrest on day	0.0085 [0.00968]	0.0113 [0.00997]
Between 1 and 28 days after arrest	1.228 0.00241 [0.00159]	0.1200 0.00395* [0.0023]
Between 1 and 28 days before arrest	0.349 .00394*** [0.00167]	0.4180 0.0033 [0.00227]
	0.525	0.3520
P-value of lag terms	0.091	0.223
P-value of lead terms	0.146	0.063
Constant	.00625***	0.00692
Observations	101,530	18,978
R-squared	0.019	0.068
Unit of analysis	Barrio-Day	Barrio-Day
Day-fixed effects	Yes	Yes
Barrio-fixed effects	Yes	Yes
Sample	Full sample	8-weeks before, 4 after

“Economic ethnography” and descriptive analysis

- ▶ Systematic, methodologically “rigorous” qualitative investigation using primary and secondary data
- ▶ Informed by theory and also helping to generate theory
- ▶ Obviously should not be 100% of what economists do, but also the optimal amount is probably not 0%
- ▶ Often done informally, but not necessarily transparently or well
- ▶ Great examples (in addition to ones we have seen):
 - ▷ Leeson (2007) on pirate democracies in *JPE*
 - ▷ Skarbek (2011) on prison gangs in *APSR*
 - ▷ Reuter (1983) on NYC mafias