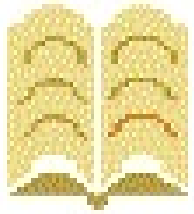


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Rest in Peace to Aaron Swartz beloved friend of the internet, defender for freedom of speech and information, May your struggle not be in vain, the earth is 4.5 billion years, mankind has been around 160,000 yrs and the average span of an individual is just 70, but the idea of free universal knowledge can never die.



(Some will say this is not the time. I disagree. This is the time when every mixed emotion needs to find voice.)

Since his arrest in January, 2011, I have known more about the events that began this spiral than I have wanted to know. Aaron consulted me as a friend and lawyer. He shared with me what went down and why, and I worked with him to get help. When my obligations to Harvard created a conflict that made it impossible for me to continue as a lawyer, I continued as a friend. Not a good enough friend, no doubt, but nothing was going to draw that friendship into doubt.

The billions of snippets of sadness and bewilderment spinning across the Net confirm who this amazing boy was to all of us. But as I've read these aches, there's one strain I wish we could resist:

[Read More](#)

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#### 14 Triads

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dealings with each other and outsiders. We end this chapter with a note on the Shower Posse. Many of their members migrated to the US in the aftermath of that 1980 election defeat of the People's National Party of Michael Manley, but the group still maintained a base in Tivoli Gardens in west Kingston. The history of the Shower Posse in the US illustrates some main features of the Posse and Yardie experience sketched above. For example, the Shower Posse started out with marijuana as the preferred drug of its core business, but then switched to cocaine; the greater profitability of the switch was overwhelming, as we have elsewhere documented. What is sometimes not so appreciated in the transition from cannabis to cocaine is what had to happen to the Shower Posse as a business. Some might ask, why didn't they skip marijuana and go with cocaine right from the start? Parts of the answer reside in timing and the availability of product, while others pertain to the capacity of the Posse to handle the demands of the cocaine business, which are more complicated than those coming from trafficking in cannabis. Put another way, specializing in cannabis gave the gang time to develop its organizational capacity, which includes its network of providers, processors, transporters, sellers, bribed officials, friendly politicians, corrupt judges, double agents, and high-powered defense attorneys. And, after all, marijuana was, in its own way, profitable, pleasurable, even medicinal, and sometimes religious. Critical from a business perspective, premium cannabis could be produced right at home in Jamaica itself, like Blue Mountain coffee, while countries in South America had a head start in supplying the raw materials and processing labs for cocaine.

The history of the Shower Posse in the US also sheds light on leadership, a factor we have so far neglected in this chapter. The Shower Posse in the US rose in dramatic fashion during the 1980s, but encountered very rough seas in the early 1990s. Its fortunes were closely tied to the fates of its leaders, Lester Lloyd "Jim Brown" Coke and Vivian Blake. Unfortunately, one witness that might have revealed more about the inner workings of the Shower Posse vanished on 23 February 1992, "when Jim Brown died in a prison fire while he was awaiting extradition to America to stand trial as the joint leader of the Shower Posse."<sup>30</sup> This is the official version of his passing, but the author's familiarity with the history of high-profile prison deaths makes him skeptical that it is the true version. In any event, Vivian Blake outlived his co-leader and he, by all accounts, actually ran the US Shower Posse; so we focus on him.

Two very different portraits of Vivian Blake emerge from two very different sources. The first comes from a book by his son; the second from the US criminal justice system. In *Shower Posse: The Most Notorious Jamaican Criminal Organization*. Duane Blake presents a fast-paced book that reads like an adventure novel.<sup>31</sup> It belongs, along with Roberto Escobar's *The Accountant's Story* which I used extensively in writing about the Medellín Cartel, in the category of books by relatives about their controversial and often infamous kin. One has to use works in this genre with great care as they are tendentious, to say the least. Roberto Escobar's book was more useful for my purposes in this book; his perspective as an accountant yielded much relevant material. Duane Blake's book is

more a character study of his father that is rich in biographical detail, based on stories his father allegedly told him, but that does not negate its value for students of organized crime, because it also comes under the rubric of studies of criminal entrepreneurs. Indeed, what beats strong in many of these pages is an entrepreneurship of charisma, of family, of loyalty, of energy fed by personal and professional conflicts, and of violence fueled by the ready availability of weapons of local destruction. This is the story of the gangsta culture gone entrepreneurial.

To his credit the son does not offer an argument for why his father should be canonized as a saint of the Roman Catholic Church. Vivian Blake actually graduated from a Catholic school in Kingston in 1972, St. George's Boys College (high school), where he did well academically and in sports.<sup>32</sup> After that, well, Duane Blake does present "the good, the bad, and the ugly" sides of his father. For one thing, Vivian Blake did drugs, which would have gravely disappointed Vito Corleone and Anthony Soprano. You cannot work effectively when you are high; remember how upset Tony became with Christopher on the night they were disposing of the body parts of Ralph Cifaretto (played by Joe Pantoliano), whom Tony has just whacked. Christopher was high and could not manipulate the controls of a bulldozer, a skill Tony had learned from his own father and was trying to teach to Christopher.

The portrait of Vivian Blake painted by the US criminal justice system concentrates only on "the bad and the ugly." At one time, he faced sixty-two counts, including charges of "murder, attempted murder, illegal acquisition and possession of firearms, drug trafficking, money laundering, racketeering and bribery."<sup>33</sup> All these charges carried "an accumulated sentence of 138 years in prison and a US\$15 million fine."<sup>34</sup> He eventually accepted a plea bargain in US federal district court in Miami, Florida, in 2000 and was sentenced to twenty-eight years in prison. If Vivian Blake had gone to trial, "Assistant U.S. Attorney Lee Milford-Stapleton told the court, the government would have proved that he was the 'operational leader' of a Jamaican gang known as the Shower Posse."<sup>35</sup> Duane Blake believes his father "made the right decision," because of the counts federal prosecutors dropped, "including the eight murders and the five attempted murders."<sup>36</sup> He spent eight years in prison after he was sentenced, was released in January 2009, and returned immediately to Jamaica.

Vivian Blake has supposedly renounced his criminal past and claims to be pursuing a literary career. His renunciation of Posse life reminds me of a key element of John A. Gotti's defense. John A. or Junior Gotti is the son of John J. Gotti, the "Teflon Don," the Gambino family Boss, who has already appeared in this book. Junior Gotti claims to have quit the Mob years ago. The US federal government has brought him to trial four times, all of which have ended in mistrials, the most recent on 1 December 2009.<sup>37</sup> Irene Cornell, the outstanding court reporter for WCBS Newsradio AM 880 in New York City, reported that an informal poll of the jury afterwards showed that five believed his claim to have left the Mob, six did not, and one was undecided.<sup>38</sup> The author is in the "undecided" category; he surmises Junior Gotti has no official position in the Gambino

family, but he could still discreetly influence organized crime matters. Likewise, Vivian Blake may have left the formal hierarchy of the Shower Posse, but he could still be an *eminence grise* behind the scenes: it is hard to imagine that Kingston would not feel his presence in some manner.

The Shower Posse continues as a formidable national and transnational organization. Even the incarceration of its present leader, Christopher “Dudus” Coke, is unlikely to stop it. Christopher Coke is the son of the co-founder (with Vivian Blake) of the Shower Posse, Lester Lloyd “Jim Brown” Coke, who died in that mysterious prison fire in 1992 we mentioned earlier. Christopher Coke had gone on to become a strong leader in his own right of the Shower Posse; he claims to be a legitimate businessman and community philanthropist but has landed on the “world’s most dangerous list” of the US Department of Justice for his alleged involvement in illegal drugs and weapons trafficking. He was detained on 22 June 2010 in Jamaica, then extradited to the US, where he remains at this writing in prison, awaiting trial. But the Shower Posse will go on. Michael Chettleburgh, a crime consultant, summed it up best: “Don’t let the name [Shower Posse] mislead you. This is not a gang that is based out of Jamaica. The Jamaican Shower Posse is everywhere. There is no head office for this gang.”<sup>39</sup>

We now move north to present a vignette on organized crime in Cuba past and present.

## 10 Vignette

### Organized crime in Cuba

Cuba offers a compelling study in the types of organized crime, as defined by source. Many people associate organized crime with private or non-governmental organizations, even though our Russian case study (Chapter 3) showed organized criminal activities originating from the actions of some government or ex-government officials, particularly those from various intelligence agencies. The author was unwilling to call, as some did, the Russian Federation of the 1990s a “mafia state.” While this description contained an element of truth, it went too far: the entire apparatus of the state was not a mafia or acting as a mafia. Nonetheless, the Russian experience embodies one version of organized crime with government origins. There are other more extreme examples, where the state or government itself is its own kind of organized crime; these come from all around the world and from many time periods. The author is especially familiar with the dictatorships that have ruled a number of independent African countries which used their bureaucracies as instruments of self-aggrandizement and popular repression; frankly, some of those dictatorial monstrosities are more accurately labeled as “disorganized crime.” Moreover, some view imperialism and colonialism, phenomena we are tracking, as imposing variations of organized crime on subject peoples. And, from a Marxist perspective, “exploitation” on the micro-economic level, which organizes workers in the factory system in order to work them harder, longer, and with wages that do not approach their contribution to the final product, has to be reckoned as a genre of organized crime.

In sum, organized crime can have both private and public origins, sometimes singly and sometimes together. It can apply on both the macroeconomic and microeconomic levels. As to the former, it includes relations between and among countries, colonies, and even continents. As to the latter, the list is longer, but features relations between capital and labor from a Marxist perspective as well as the firms themselves—the different crime organizations—and their relations with each other, their various constituencies, and those they victimize. This discussion sketches main points, but does not exhaust the nuances of organized crime genres by source, especially those that blend private and public components or feature partnerships or types of alliances between public and private organized crime. With these distinctions in mind, we can turn to organized crime in Cuba past and present.

A terse setting the stage is in order that summarizes important facts concerning the geography and history of Cuba. Cuba is the largest and most western island of the West Indies group and is located at the entrance to the Gulf of Mexico. About the size of the US state of Pennsylvania, it is located north of Jamaica, west of Haiti and the Dominican Republic, and south of the US. In fact, it is ninety miles south of Key West, Florida. Its topography is varied: there are mountainous regions in the southeastern and south central parts of the island, while flat or rolling surfaces predominate elsewhere. Cuba is technically an archipelago, as it includes many smaller islands, islets, and cays. And it has experienced significant urban development. For instance, the largest city and capital of the country is Havana, on the island's northwestern shore, which has a metropolitan population of over two million people. But the importance of Havana lies in far more than population estimates; it is a great city, one of the greatest in the world, a beguiling city with a fascinating history in its own right that goes back to the 1500s.<sup>1</sup>

Cuba thus has a location that is strategic in a number of senses. From military and foreign policy perspectives, since it is only ninety miles away and at the entrance to the Gulf of Mexico, Cuba can disturb the US in various ways. For criminal activities, it is situated in the north of the eastern zone of the Caribbean Connection, ideally suited as another transshipment point, by land, water, or air, for illicit drugs and other contraband bound for the US, Canada, and Europe. Cuba is also involved in human trafficking both internally and for export.<sup>2</sup> Lastly, the importance of Havana for tourism and other cosmopolitan activities cannot be underestimated; some even referred to Havana as the "offshore Vegas"<sup>3</sup> in the good old pre-revolutionary days before 1959 when the city was wide open and the feeling predominated that anything was possible. And remember one tourist-friendly fact: the daily high temperatures in Havana in January are usually in the 70s and often in the 80s (°F).

Mountains deserve special attention. They have played major roles in the histories of many countries as havens for outcasts, malcontents, rebels, revolutionaries, and other lawbreakers, which we have already seen. Cuba is a stellar example of this generalization, and the Sierra Maestra, the country's largest and tallest mountain range, has great historical and symbolic significance in the life of the nation. The Sierra Maestra runs across southern Cuba and is aptly named. Sierra comes from the Spanish word for "saw," and a sierra describes a chain of mountains, the peaks of which suggest the teeth of a saw. The Sierra Maestra can even be viewed as a series of connecting mountain ranges. The image of the Sierra Maestra as a connector translates into historical terms. The Sierra Maestra provides a giant picture window into one of the principal themes of Cuban history: resistance to outsiders or to those regarded as usurpers. The Sierra Maestra is thus

a symbolic point of reference for the Cuban nation, since the area served as refuge and campground to Cuban rebels dating back to Hatuey (killed in 1511), three wars of independence against Spain in the 1800s, and a revolutionary war against Cuban dictator Fulgencio Batista.<sup>4</sup>

Each event or set of events comes from a different period in Cuban history. Hatuey was a Native American from Hispaniola who fled to Cuba and became the first major figure in Cuban history for his heroic act of self-sacrifice; the conquering Spanish, in their campaign to exterminate indigenous leadership, eventually caught him and burned him at the stake in 1511.<sup>5</sup> Cuba became a formal Spanish colony and remained so until the Spanish–American War of 1898 led to its liberation. But then the country experienced an informal type of colonialism in its relations with the “colossus of the north,” just ninety miles away, since the US government and US business treated neither its government nor its peoples as equals. The period of informal colonialism confronted a severe and ultimately lethal challenge in the Cuban Revolution, which began in 1953, triumphed militarily in 1959, and is still playing itself out with unpredictable consequences. When Fidel Castro and his forces entered Havana on 1 January 1959, they ended the *ancien régime*, last headed by Fulgencio Batista. What is more, the success of the socialist Cuban Revolution in obtaining political power ended one phase in the history of organized crime in Cuba and ushered in another.

In the full overview, we discern four phases in the history of organized crime in Cuba: the Spanish period of subjugation and colonialism; the period from early in the twentieth century until 1959, when private organized crime from the US and elsewhere made enormous strides in Cuba, on its own and sometimes in partnership with Cuban military and political leaders; the post-1559 phase, when organized crime originating from within the state predominated; and, lastly, a new and still inchoate period, when state organized crime remains strong, while elements of private organized crime are sprouting. We note the first, concentrate on the second, sketch the third, and speculate on the fourth.

How anyone could not view imperialism and colonialism sometimes as organized crime is beyond me. The ruthless extirpation of indigenous leaders, like Hatuey whom I just mentioned, along with the Spanish seizure and exploitation of Cuban land and other resources which I do not have space to document, are organized crimes of different kinds inflicted on the Cuban people and their country, such as systematic murder and theft of land and other property: I rest my case. The second period is richer in rogues and schemes, and involves businesses such as tourism, hotels, casinos, gambling, illegal drugs trafficking, and smuggling. Let us study this phase in more detail. We cluster the above businesses in two sets: the first contains tourism, hotels, casinos, and gambling; the second, illegal drugs trafficking and smuggling. The businesses in each set are closely related. As to the first, tourism does not have to involve gambling, but in the Cuban situation pre-1959 it often did. In addition, I regard hotels and casinos as separate businesses, because managing a hotel and a gambling casino are not quite the same thing. Nonetheless, in Cuba the best casinos were usually in hotels, and most people would understandably lump the two together as one business. As to the second, illegal drugs trafficking overlaps with smuggling, but the latter can involve other contraband, including illegal immigrants, the kidnapped, and enslaved. The businesses in the first set were not per se illegal in Cuba, until Fidel Castro declared gambling illegal, while those in the second set

are illegal in virtually all jurisdictions and carry severe legal penalties. As a general proposition, the businesses in the first set are not separated by a firewall from those in the second. As experience has taught and will continue to show us, hotels and casinos can become venues for all sorts of illicit transactions

There are two ways to present this material. We can go business by business, but here I prefer a leadership and entrepreneurial approach, which is more memorable. Two major figures associated with the US mafia, Santo Trafficante, Jr., and Meyer Lansky, exercised major leadership roles in organizing mob activities in Cuba. They were not the only ones, of course; Charles “Lucky” Luciano, who worked well with Meyer Lansky, stopped by for a while in the late 1940s, and other dons could occasionally be seen in the environs. Santo Trafficante, Jr., was a don; Meyer Lansky, as a non-Italian, was not, as only ethnic Sicilians could be “made” and thereby become eligible to become don. I am aware of the ongoing argument over exactly what was Lansky’s role in the US mafia; some call him a master accountant, but nothing more. To be sure, he was a master accountant and gifted organizer. But in Cuba he was much more: there he functioned administratively as a don. I have a rule: I don’t get involved in domestic disputes and certainly don’t try to resolve them. So I will just call Lansky in Cuba a quasi-don; if this doesn’t please some, that’s your problem.

Let me turn first to Santo Trafficante, Jr. (1914–1987). He was a member of both a mafia family and a human family that had a historical relationship with the mafia. His father, Santo Trafficante, Sr. (1886–1954), was a mafia Don who gained considerable expertise in the gambling business, and the son learned well from his dad and others. This learning-by-doing occurred in New York City and Florida, especially in and around Tampa, where the Trafficante human and crime families were both based; Santo Trafficante, Jr., inherited control of organized crime in Tampa from his father and was himself Don for over three decades. We are fortunate here to have an insightful and scholarly bibliography to help us. Scott M. Deitche has written *The Silent Don: The Criminal Underworld of Santo Trafficante, Jr.* (2009). In stark contrast to Roberto Escobar’s work on the Medellín cartel and his brother Pablo and Duane Blake’s novel-like saga about his father Vivian Blake and the Shower Posse from Jamaica, Deitche’s book is not by a family member but by a seemingly impartial observer. Deitche has deep knowledge of organized crime in the Tampa area, as evidenced by his earlier book *Cigar City Mafia: A Complete History of the Tampa Underworld* (2004).

The most important point to make right away is that the Cuban experience of Santo Trafficante, Jr., is only part of a criminal career that spanned many decades, several continents, multiple businesses, and has its fair share of shadowy episodes. But it is fascinating and revealing, nonetheless, because Santo Trafficante, Jr., was perhaps the most powerful Mafia Boss in pre-Castro Cuba who was not just passing through, while Meyer Lansky, to be discussed shortly, certainly ranks as the most influential leader in Cuba not “made” but still in the US mafia. Santo Trafficante, Jr., was involved in businesses in both of the aforementioned sets. Let us start with tourism, hotels/casinos, and gambling.

Santo Trafficante, Jr., learned the gambling business well when he was younger and so was well prepared for what he did in Cuba in this area. According to a 1961 US Treasury Department document, he

openly operated the Sans Souci and the Casino International gambling establishments in Cuba during the rule of ex-dictator Fulgencio Batista ... it was suspected that he also had behind-the-scenes interests in other syndicate owned Cuban gambling casinos namely, The Riviera, The Tropicana, The Sevilla Biltmore, The Capri Hotel Casino and the Havana Hilton.<sup>6</sup>

This document deals only with who owned the casinos, not the hotels; one would think that “the syndicate” would also own the hotels, the buildings that housed the casinos, at the very least for security purposes, but the evidence is not clear on this point. Another source recounts that during the Batista era, “the Mafiosi controlled and built hotels, casinos, and other tourist services ... in 1958 the Hotel Riviera went up,” but still does not address directly the question of ownership.<sup>7</sup> Organized crime figures probably owned the casino hotels, but what we know for sure is that the imprint of Santo Trafficante, Jr., on Cuban gambling operations was wide and deep.

He was also heavily involved in illicit drugs trafficking in and through Cuba. By all accounts a major player in the illegal global trade, Santo Trafficante, Jr., found Cuba congenial to this enterprise, as it had all the essentials in place to facilitate his endeavors: a friendly government looked the other way except when it accepted its cut; the casinos were handy ways to launder drug income; Cuba was strategically located in the western hemispheric network of drug supply and transport; and the demand for illegal drugs came both from within and without Cuba. In the pre-Castro era, heroin was the mainstay of the trade that used Cuba as a transshipment point, but cocaine was becoming more important, as the Cuban upper classes created a demand for that “recreational drug.” The illegal drugs business of Santo Trafficante, Jr., was sophisticated. It was well thought out; the right people were selected for the right jobs; everyone did his due diligence; and “consultation fees,” or bribes, were generous: no one ever turned state’s evidence. All this testifies to his abilities as a leader and entrepreneur. My impression is that Santo Trafficante, Jr., did not really innovate in his Cuban gambling operations, but did display that talent in the organization of his illegal drugs business.<sup>8</sup>

Meyer Lansky, the other major organizer of criminal business activities in Cuba, specialized in businesses in the first set, but chose selectively from those in the second. He had a history of involvement in bootlegging in Cuba, going back to the 1920s. Bootlegging can be a type of smuggling when it involves transportation, but a critical point is that Lansky had nothing to do with illicit drugs trafficking. Why? Some may find this hard to believe, given Cuba’s location and the lucrative nature of the business, but I accept T. J. English’s analysis of this topic in *Havana Nocturne: How the Mob Owned Cuba ... and Then Lost It to the Revolution*, his engrossing story well told of the Havana Mob. “The



answer,” he writes, “most likely lies somewhere in the psyche of Meyer Lansky. The Jewish Mob Boss was well known for his aversion to narcotics trafficking, even before he set up shop in Havana.”<sup>9</sup> Besides his own personal preference, held for whatever reason, Lansky, as a consummate criminal businessman, had a powerful business rationale for avoiding narcotics. Simply put, we have a great thing going in Havana with our nightclubs, gambling casinos, luxury hotels, and all the tourists. This is the greatest money-maker we’ve had since Prohibition days. Let’s not jeopardize it by getting involved in something we don’t need and whose risks outweigh its rewards. In short, the smart thing is: no dope.

I agree with English’s interpretation, because it accords with other facts about Lansky’s career in Cuba. In understanding Lansky’s approach to gambling in Havana, one has to bear in mind that not everything organized crime touches or uses has to be criminal. In fact, to maximize the end—criminal profit—the means must sometimes be perfectly legal. As far as gambling and tourism are concerned, it was vital that the word on the street be that the Havana casinos were legit, not crooked, and that the odds against the players were not greater than they would be in honest casinos, such as those in Puerto Rico. Now Lansky had a source of power that Santo Trafficante, Jr., did not have: a special relationship with the Cuban government, particularly the dictator Fulgencio Batista, who served two terms as President of Cuba, from 1940–1944 and 1952–1 January 1959. Batista and Lansky needed and used each other, and their relationship rested on the fact that, whatever else they were scheming, they both wanted to maximize revenue from gambling. Batista needed the money; Lansky could always use more. After Batista returned to power in 1952, he appointed Lansky his advisor on gambling reform, because the Havana casinos were crooked, fewer tourists were coming, and he needed money to maintain power. With the power to clean up the crooked gambling casinos, Lansky moved with dispatch; he began with the Sans Souci and the Montmartre Club. He had the dealers and croupiers who were dishonest deported. And he instituted gambling reforms, such as “dealing Blackjack from a six-deck shoe, which not only helped the house in terms of percentage, but minimized cheating by the dealer and player.”<sup>10</sup> Meyer Lansky was, in short, a superb businessman: prepared, efficient, meticulous, far-sighted, and, I believe, conservative, in the sense that he chose the business opportunity that would yield the greatest return with the least risk, which is why I totally understand his aversion to illegal drugs trafficking.

However, Lansky’s collaborator, Fulgencio Batista, was neither far-sighted nor prepared in dealing with the formidable threat the gathering Cuban Revolution posed to the great Havana money-making machine of the 1950s. At this writing, *Havana Nocturne* may be made into a movie and I hope it will be; the book has enough sizzle to move successfully to the big screen. Whatever happens in that regard, readers should still see the movie *Cuba* (1979), whose action takes place in 1958, the last year of the *ancien régime*. Sean Connery plays a British counterinsurgency specialist, with experience in the successful British campaign against the Communists in Malaysia in the 1950s; Batista hires him as an advisor on how to defeat the Castro uprising. Some critics were

disappointed that *Cuba* was not another *Casablanca*, in that the romantic relationship between Connery and Brooke Adams was not as dramatic as that between Humphrey Bogart and Ingrid Bergman. But for my continuing interest in the “cinema as historical evidence: strengths and limitations,” the movie is an excellent recreation of the atmosphere of the last year of the old order. It shows the chasm between the resources and lifestyles of the elite and everyone else; the powerful appeal the Cuban Revolution made to everyone else to improve their living standards, including literacy, health, and working conditions; the surreal detachment of Batista and his people as the revolution intensified; and the utter ineptitude of trying to defeat an insurgency with conventional strategy and armor, such as old tanks that were hard to maneuver in sugar cane fields. The movie also contains a hint of what the racy floor shows in the hotel casinos must have been like, as we watch the gifted “Miss Wonderly,” an exotic dancer, performing before sparse audiences as the rebels close in on downtown Havana, a haunting epitaph indeed to the great Havana money-making machine of the 1950s.

Fidel Castro ended the party but not organized crime in Cuba. To be sure, organized crime figures, like Santo Trafficante, Jr., and Meyer Lansky, lost their real estate, and private organized crime transferred its energies elsewhere, including some Caribbean destinations, which completed the second phase in the history of organized crime in Cuba. But state organized crime, which was always embedded in the pre-Castro era in relations between Cuban and mafia leaders, mutated into another strain that dominates the third phase. In the Castro era state organized crime became the driving force on its own, not in combination with private organized crime as in the Batista days. State organized crime in the Castro era thus builds on a long tradition of involvement by elements of the country’s leadership in criminal activities; areas of interest in the third phase include manipulating industry, illegal drugs trafficking, and other types of smuggling for the benefit of the indigenous criminal elite.<sup>11</sup>

In the last decade or so there are preliminary indications that a fourth phase in the history of organized crime in Cuba might be emerging. The relationship between state and private organized crime in this new period depends on the strength, perhaps the very viability, of the revolutionary government. If that government remains in power, then the dominant characteristic of phase three—state organized crime—will continue, but in the presence of what appears to be a recrudescence of private organized crime, albeit on a smaller scale than in phase two.<sup>12</sup> If that government collapses, the configuration of types of organized crime in Cuba hinges on what kind of administration follows and how a large a vacuum a transition of power creates for private organized crime, whether of domestic or foreign origin.

This speculation completes Part III.

## Part IV

# Africa

Organized crime in Africa has not received the amount of publicity or scholarship accorded some groups we have already studied: the mafias from Italy, Russia, and the US or the drug cartels from Mexico and Colombia. But Africa is by no means exempt from the scourge of organized crime, which is as worthy of study in Africa as it is in other parts of the world. In point of fact, developments in Africa must be taken into consideration in order to appreciate the truly global threat that transnational organized crime poses, particularly as it interconnects with terrorism in certain areas of the continent. Now in Africa there are varieties of state and private organized crime, and sometimes these intertwine. Also, the private criminal organizations can be indigenous or foreign, and sometimes groups are hybrids of the two.<sup>1</sup> And all this must be placed in a continental perspective: one should not paint the entire portrait of Africa with the brush of organized crime.

Indeed, Africa has a media problem, even before we take up our topic. The news reported by western outlets is so often negative, concentrating on wars, rebellions, coups, AIDS, and poverty, to give the short list. The long list of countries striving to improve their economic circumstances in conditions of relative stability rarely makes the news. The continent has an illustrious history in its own terms, a great diversity of peoples, cultures, and religions, a wealth of resources that includes substantial deposits of base and precious metals, and enormous potential for an economic development that benefits Africans themselves, not outsiders. I have no control over news selection, but I can gently remind my readers to remember the big picture and beware of over-generalizing about Africa from the specific examples I will examine here.

In Part IV three topics command our attention. The first two we have not yet analyzed, while the third seems to follow us wherever we go. The first concerns resource wars, which are military conflicts that involve base metals, precious metals, water, energy sources such as natural gas, oil, and hydroelectric power, as well as anything else on, below, or above ground in a country that someone else views as worth a military conflict to possess. Resource wars occur in other parts of the world besides Africa, but here we consider two African resource wars. These are the struggles over diamonds and other resources in the Democratic Republic of the Congo, and the conflict over diamonds in Sierra Leone.

Both have officially ended, although there are aftershocks from time to time. Both received media and scholarly attention, but the roles of organized crime in these conflicts remain insufficiently appreciated. We shall try to illuminate these roles as best we can, but information is sometimes sketchy as to who is doing what to whom and for what purpose. In any event, the crucial question in regard to resource wars is: *cui bono?*

The second topic has received extensive media coverage, because the threat it poses can be captured in photographs and on videotape, counted in human lives, and denominated in US dollars. This is piracy, now primarily associated with Somalia, on the eastern coast of Africa, and playing out in the Indian Ocean and the Gulf of Aden. But the phenomenon has also appeared elsewhere, for instance in the waters off West Africa, and should not be limited only to known areas of operation, as copycat pirates may pop up at any time in still other locations. The casual observer may regard some pirate actions in the Indian Ocean as more improvised than organized, and that may well be. But changing the game plan at the last minute seems to inhere in the nature of piracy more than in businesses with fixed locations, regular hours, and little staff turn-over. We highlight Somali piracy, and readers will see that it is a genuine version of organized crime which also happens to be indigenous.

The third and familiar topic is international drugs trafficking, but in a vignette that completes Part IV, we advance our analysis by exploring this subject in its relations with organized crime and terrorism in North and West Africa. The illegal drugs trade connecting South America and Europe through West Africa is long established. But in recent years North and West Africa have become destinations in themselves, not just transshipment points, in this commerce. Insurgent and terrorist organizations have been setting up bases in both regions and sometimes cooperating with organized criminal groups as all try to manipulate the flows of cocaine from the West and heroin from Asia for their own purposes.

# 11 Resource wars

The term “resource war” is modern, but the phenomenon it addresses has deep historical roots and goes by other names. One such appellation is economic imperialism: a resource war is a type of economic imperialism. Moreover, the resource war compels expansion of a definition I proposed in my last book, when I wrote: “Governments or private groups can pursue economic imperialism. This kind of imperialism is based on trying to dominate or manipulate international trading and investment flows.”<sup>1</sup> The first sentence is still correct, as empire-building can arise from the actions of either government officials or private citizens, and sometimes from both in concert. But the objects of economic imperialism must be lengthened to include domination or manipulation of the specific resources just mentioned in the introduction to Part IV. My listing is not fixed for all time, as changing perceptions and conditions can increase the value placed on resources not currently in the top tier for conflict and make them candidates for such inclusion.

The resource war spans millennia and has occurred hundreds of times. A brief sampling hints at the extent of the historical panorama. In pre-recorded history groups fought over land, food, and water supplies. The Roman Empire acquired overseas territories by force, that would supply it with vital grains and other foodstuffs, in a classic example of imperial expansion driven by the needs of the homeland.<sup>2</sup> The British Empire resorted to war on more than one occasion to defend its territories, which included the North American colonies that would become the US.<sup>3</sup> Colonial possessions provided Britain with products unavailable or in short supply at home and the Middle Colonies of its North American colonies supplied naval stores. This is an umbrella term for commodities used to build and maintain ships, such as turpentine, pitch, and resin. Sea power embodied in the Royal Navy made the British Empire possible, and products needed by the Royal Navy are examples of critical resources worth military protection. Lastly, in more modern times the insatiable need for oil has had a disproportionate influence on the foreign policy of the US and served, some maintain, as one of the factors moving that country to become militarily involved in the Iraqi War (2003–). Complete enumeration of all resource wars throughout history would produce an extensive catalogue, but our present concern is with those in Africa, especially the conflicts in the Democratic Republic of Congo and Sierra Leone.

We set the stage for this discussion by presenting salient facts concerning the economic geography and history of Africa.

Economic geography can assist our understanding of resource wars. Economic geography, conventionally listed as a subfield of geography, has greatly expanded its range over the decades, but here we are most interested in a traditional concern—the location of key agricultural and mineral resources. As I noted in the introduction, Africa is a treasure trove of resources, which has long made it an object of depredation and manipulation by outsiders. I focus on mineral resources and first list those which the continent has in important amounts. These are, in alphabetical order, aluminum, asbestos, bauxite, chromite, chromium, chromium ore, clay, coal, cobalt, columbite, copper, diamonds, gold, graphite, gypsum, iron ore, lead, limestone, manganese, petroleum, phosphates, potash, rubies, salt, soda ash, tin, tin ore, titanium, uranium, and zinc. Counting their presence country by country, we learn that the resources in the greatest number of African states are iron ore (thirteen), petroleum (thirteen), diamonds (ten), phosphates (nine), gold (eight), copper (six), bauxite (five), manganese (five), uranium (five), limestone (four), cobalt (three), zinc (three), and so forth.<sup>4</sup> The goal of this simple exercise is to document the “treasure trove” description, not to provide a detailed analysis of the proven and probable amounts of each resource in Africa, information which is hard to obtain in any event. A word of caution is in order here: just because a country has deposits of a particular mineral does not mean that it is available for mining or drilling; some deposits may be in locations too expensive to work in light of present prices and current technologies. Nonetheless, the diversity of the mineral richness of Africa is striking, which may motivate still more attempts by ill-intentioned outsiders and self-aggrandizing insiders to exploit this wealth for themselves and their clients.

The history of Africa echoes this theme again and again. The European penetration of Africa began with a largely coastal presence in the era of the Atlantic slave trade, which lasted from the fifteenth century well into the nineteenth. Arguably, the slave trade, which featured organized criminal violence and capitalized on the disorder produced by internal African wars to kidnap their victims, was one long resource war fought over Africa’s most precious resource—its people. The “scramble for Africa,” which unfolded from the 1880s until 1914, was an accelerated phase of this penetration. During these decades various European powers claimed huge portions of Africa’s land, with no valid legal justification whatsoever: imperialism knows only the law of force. There were two triggers to “the scramble”: French movement into the interior of West Africa and, more consequential, the rush to see which country could first establish control over the Nile River and all its headwaters. The dynamic propelling the British to move on the Nile matter hinged on India, which was the “jewel in the crown” of the British Empire. Egypt, through which the Nile runs, was vital to the British as it controlled the Suez Canal, which opened in 1869; this canal provides a shorter route to India than the sea route around southern Africa. Now the Nile was critical for Egyptian agriculture; controlling the entire river and its

sources was necessary, so some thought at the time, to prevent a hostile power from somehow damming up the river. This earlier struggle over water, which culminated in the British controlling Egypt, Sudan, Kenya, and Uganda as part of the “scramble for Africa,” foreshadowed a more modern water conflict in the Nile basin, which Michael T. Klare clearly analyzes, along with other contemporary resource disputes, in his indispensable work *Resource Wars: The New Landscape of Global Conflict*.<sup>5</sup>

The history of Africa features one more resource war which echoes to the present. This is the Anglo-Boer War, or the South African War, the military phase of which lasted from 1899–1902. The Anglo-Boer War pitted the British Empire against the Afrikaners or Boers, who controlled two states within southern Africa, the Transvaal and the Orange Free State. The Afrikaners were descendants of Dutch immigrants who began coming to South Africa in 1652. I cannot capture the complexity of the pre-war situation in these pages and refer readers elsewhere for my analysis.<sup>6</sup> But of all the forces that pushed the British and the Afrikaners to war, three stand out with inescapable clarity: diamonds, gold, and Cecil John Rhodes. Major deposits of diamonds and gold existed in southern Africa: diamonds in what was then known as Griqualand West and gold in the Transvaal. Enter Cecil Rhodes, an Englishman who came to South Africa for health reasons in 1870 when he was seventeen. Rhodes was an entrepreneur of exceptional energy, wide vision, and driving ambition. He founded two companies, one for each mineral: De Beers Consolidated Mines for diamonds and Consolidated Gold Fields.<sup>7</sup> He wanted to paint the map of Africa red with the color of the British Empire and dreamt about building a railroad that would link Cairo, in British Egypt, to Cape Town, in a South Africa controlled exclusively by the British. He used politics to pursue his multiple goals and became Prime Minister of the Cape Colony, which was under British control, in 1890. The Afrikaners, especially Paul Kruger who was President of the Transvaal, obstructed his plans. Rhodes encouraged immigration into the Transvaal of *uitlanders*, or outlanders, many of whom were British, in an attempt to dilute Afrikaner influence there; this did not work. He arranged a guerrilla-type incursion, called the Jameson Raid, into the Transvaal in late December of 1895 in an endeavor to spark an indigenous uprising of the *uitlanders* against the Transvaal government; this did not work and only inflamed Anglo-Boer relations that were already deteriorating.

Hostilities broke out in 1899. An outstanding Australian movie, *Breaker Morant* (1980), recreates with exceptional acting and sense of place the questionable techniques practiced by both sides in the Anglo-Boer War, the first guerrilla war of the modern era. The Transvaal lost and joined the Orange Free State and the two British colonies, the Cape Colony and Natal, to form the Union of South Africa. The Union Act of 1910, it must be noted, created political structures that eventually enabled the Afrikaners to win power, as they did in the election of 1948, after which they installed the legal apparatus of apartheid, a system that harshly separated the races, favored the whites, and discriminated against the browns and the blacks.

So what, in the final analysis, caused the Anglo-Boer War? In an unpublished paper I examined the views of contemporaries who commented on the developing conflict in South Africa before 1899.<sup>8</sup> Among my sources, I studied the Yale papers of John Hays Hammond, a US national who was chief mining engineer for Consolidated Gold Fields, and the writings of John Hobson, who visited South Africa as he researched his book on the South African War.<sup>9</sup> What struck me was that the closer the source physically was to the Transvaal gold mines, the greater the economic factor loomed in the origins of the Anglo-Boer War. Civil servants and politicians back in London could look at the big picture and were far removed from the magnetic spell the gold mines cast—remember Humphrey Bogart’s face when he talked about gold in *The Treasure of the Sierra Madre* (1948). Wars, however, usually originate not in big pictures, but in a major incident, such as a political assassination, or in local issues that spiral out of control, or in the constancies of the human condition, like greed, hatred, anger, or fear. The Anglo-Boer War was rooted, in my judgment, in economic and strategic factors. Economic here translates as diamonds and especially gold; strategic refers to the needs of the British Empire. Strategy overlaps economics, as the Empire needed secure control over those precious resources. Diamonds were already under a sort of British control in Griqualand West, but an uncooperative Transvaal had the gold. Whatever else it was, the Anglo-Boer War was the first resource war of the modern era.

Africa thus has both a past and present bedeviled by resource wars. We now concentrate on two from recent times, the conflicts in the Democratic Republic of the Congo and Sierra Leone that concern diamonds and other resources. We are especially interested in any evidence of involvement by organized crime, in any of its definitions. Michael T. Klare, in his otherwise commendable book cited above, has some references to terrorism but none at all to organized crime. We will attempt to address this lacuna. For each of our two resource wars we will provide, in turn, a brief setting the stage. Consider first central Africa and the Democratic Republic of the Congo in particular.

There are regional, national, and local resource wars. Our first example is a regional resource war with a strong national identity and areas of local conflict. It unfolds largely in central Africa in the Congo (Kinshasa), as distinct from its northern neighbor the Congo (Brazzaville), but it has also affected many other countries close to central Africa. The Congo, with its capital in Kinshasa, is today’s colloquial way to refer to the country whose legal name is the Democratic Republic of the Congo (DRC). By contrast, the Republic of the Congo (RC) is the Congo with its capital in Brazzaville. The RC was once part of the French colonial empire; the DRC was once the Belgian Congo. In fact, the DRC has had at least three previous names: the Congo Free State (1885–1908), the Belgian Congo (1909–1960), and Zaire (1971–1997). The root of the word “Zaire” is “the river that swallows all rivers,” which surely applies to the Congo River, which has numerous tributaries and is about 2,922 miles (4,702 km) in length as it penetrates the heart of Africa.



This land is no stranger to the evils of exploitation, which has historically targeted one or more of its agricultural or mineral resources, as well as the people producing them. The DRC has significant agricultural resources in cassava, coffee, maize, and rubber, which also has industrial uses in tires and other products; its minerals include cobalt, copper, diamonds, gold, and zinc. Leopold II, the king of Belgium, arrogated control of this land for himself in the 1880s as he played his own part in the “scramble for Africa,” called it the Congo Free State in 1885, and created a hyper-centralized bureaucracy to achieve one major goal: maximum extraction of profit for personal gain. He was especially interested in rubber and introduced severe methods for forcing Africans to fill their quotas; amputation of body parts was not uncommon, which led to a saying still remembered today: “hear how the demons scream and yell, cutting off Leopold’s hands down in hell.” After Leopold’s death in 1909, the government of Belgium cleaned up his more horrifying abuses, but the theme of exploitation continued. This time emphasis shifted to the rich deposits of copper in Katanga province, in the southern part of the Belgian Congo, and the techniques were not blood-drenched but embodied in agreements that treated foreign companies more favorably than the local work force. Leopold II had laid the groundwork for the exploitation of copper, but actual mining of this mineral for commercial purposes did not begin until 1911; it continued on terms favoring foreign companies and Belgian bureaucrats, but not the majority Africans, through the rest of the Belgian Congo’s colonial period.

The era of “flag” independence began for Africa with the independence of the British Gold Coast becoming Ghana in 1957. The Belgian government did not adequately prepare its colony for legal independence, which came suddenly in 1960. Greater preparation would not necessarily have prevented what followed, but at least the central government would have been better off with more trained Africans as civil servants, rather than the chaotic transition which in fact occurred. And who knows? An indigenous civil service might have been able to deal better with the civil war, which broke out between Katanga and the rest of the country and lasted from 1961–1965. The Katanga secession, as it was viewed by the central government, did not have a single cause, as it was also about preserving the territorial integrity of the state, but control of those copper deposits did play a large role. So, in one major dimension, the war for Katangan independence, as it was viewed by the seceding side, was a resource war.

Legal independence did not end the exploitation of the land that would become the DRC in 1997. Personal exploitation, to cite one type, carried through from the colonial into the post-colonial periods. Leopold II of Belgium was the colonial archetype of extraction primarily for the benefit of one person, but this phenomenon was neither exclusively colonial nor European. In fact, independent Africa has featured a number of leaders who viewed their country as their own personal ATM machine. A strong example of this behavior can be found in the actions of Mobutu Sese Seko, who was the authoritarian President of Zaire from 1965 into 1997. Put simply, he plundered his country; estimates of the amount he stole vary, but US\$5 billion seems about right. Some readers may be

wondering why the author uses the phrase legal or “flag” independence, instead of just writing independence. Well, the overwhelming reason is that although the country achieved legal independence in the eyes of the international community, it remained enmeshed in a web of inequitable international business and economic relationships that favored outsiders and a select group of insiders, like Mobutu Sese Seko. Thus, in actual fact, the country was not free, as it continued to dance on strings pulled by those who did not have the best interests of the vast majority of its citizens at heart.

Legal independence did not end conflicts over the country’s resources either. The Katanga secession, mentioned above, introduced a major theme that would thread through the post-independence period. This was civil war, and sometimes a civil war also became a resource war, as in the Katanga case. President Mobutu did not leave office voluntarily; Laurent Désiré Kabila and his forces overthrew him in 1997. In the conflicted history of this country one civil war seems to beget another. Fourteen months after he ousted Mobutu, President Kabila faced an insurrection. “A coalition of groups formed the Congolese Rally for Democracy (RCD) and rebelled against him.”<sup>10</sup> This coalition shows how civil strife interweaves alliances, ethnicity, and resources in complicated patterns. The RCD included former supporters of Kabila, especially Congolese members of the Tutsi ethnic group, whose homeland is in Rwanda, and former political and military supporters of Mobutu. The governments of Rwanda and Uganda also supported the RCD, but their involvement was not entirely philanthropic; each government wanted a share of the wealth coming from the diamond-producing areas of the eastern region of the DRC. Kabila, under threat, received assistance from four African governments: Angola, Chad, Namibia, and Zimbabwe.

All parties involved signed a peace accord in 1999, but fighting continued. They tried again in April 2000, with a new cease-fire, but sporadic violence still erupted. Laurent Kabila was assassinated by a bodyguard in January 2001; his son, Joseph, succeeded him and, with the help of the United Nations and others, sought to wind down this latest version of civil war. Some progress was made, particularly in producing a constitution and holding free and fair elections, but clashes continued to break out during the first decade of this century.<sup>11</sup> The spark of rebellion probably will never be extinguished, as it is partly fueled by the compulsion to control or loot valuable resources, which brings us to diamonds.

Some resources are easier to steal than others. Diamonds lend themselves to theft, not just because they are durable, have multiple uses in industry and human relationships, and possess high intrinsic value, which inheres in a product regardless of how the market or a government price it. Diamonds are a most coveted mineral and gemstone because they are also portable; gold bars in a knapsack are much heavier to carry than a backpack full of diamonds. By the way, all these characteristics—durability, versatility, intrinsic value, and portability—enable diamonds to function as money, and they have, in fact, become a funding and even a reserve currency for the dark side: warfare, conventional criminality, and terrorism. A funding currency is widely accepted in day-to-day international transactions. A reserve currency is viewed as a safe harbor: putting

money into this currency reduces risk. Other resources were the object of conflict in the DRC's case, and we will mention these shortly, but the monetary uses of diamonds enhance their value as a resource worth war.

Some may be thinking, interesting, but where is organized crime in all this? Well, organized crime was the African slave trade, inherent in the "scramble for Africa," and the Boers could have viewed their conflict with the British Empire as an organized crime to loot their gold. Leopold II and Mobutu Sese Seko introduced highly personalized versions of organized crime. And in resource wars both state and private types of organized crime can be at work. In the case of the DRC, state organized crime was present in the actions of the outside forces that gathered in the eastern DRC to support the aforementioned rebellion against Laurent Kabila in 1998. Misha Glenny gives a graphic account of the widespread rapacity:

A map of the main zones of conflict between the various armies and militias coincides with a map of the main concentrations of the country's [the DRC's] natural resources. They pillaged anything they encountered, be it timber, gorillas (8,000 out of a population of 11,000 were slaughtered, mostly sold as bush meat), copper, diamonds, and a little-known compound called coltan.<sup>12</sup>

Coltan should be better known, because it is a resource whose exploitation clearly shows the participation of organized crime. Coltan is a chemical compound that takes its name from the first three letters of each of its two components, which are columbite and tantalite. Coltan's great appeal resides in its properties and uses. It is "an efficient conductor that can resist very high temperatures, and it is an essential component in laptops, mobile phones, and video-game consoles."<sup>13</sup> About 80 percent of the global supply of coltan presently comes from mines in the DRC and they became "bitter battlegrounds" in a complicated struggle for control among the armies of Rwanda and Uganda and various militias; small-scale farmers were forced to mine the material, which sold sometimes for \$300 per kilogram.<sup>14</sup> The armies of Rwanda and Uganda were vehicles for state organized crime. The actions of militias are sometimes difficult to classify. If a warring militia worked for a state, then that militia was also an agent of state organized crime; if a militia represented a polity on a regional or more local level, then it was still an agent of government organized crime. This was, some say, Africa's "Great War": it cost up to four million lives in a five-year period.<sup>15</sup>

The conflict which unfolded in the eastern DRC in 1998 and beyond was enmeshed in an intricate network of relations in the "underground economy" that included private organized crime, especially when coltan was involved. Misha Glenny observes that

Western access to commodities such as coltan depended on the offices of organized crime groups working throughout southern and western Africa, as well as between Africa on the one hand and the former Soviet Union and Europe on the other.<sup>16</sup>

One yearns for specifics here. Glenny does identify and track one of the more important operatives in this network, Viktor Bout, who seemed to be everywhere wheeling and dealing, but his prominence was “the exception.”<sup>17</sup> Private organized crime here, for the most part, prefers to work in the shadows. Indeed, it is the very nature of criminal organization in this network which makes the work of law enforcement and others interested in organized crime so extraordinarily difficult. Glenny continues, “most major organized syndicates are made up of clusters of dozens of minor conspiracies that move a product or service a little farther down the chain of distribution.”<sup>18</sup> The opaqueness of this prose—“clusters of dozens of minor conspiracies”—matches the author’s continuing thirst for details, but few are forthcoming, which underscores the effectiveness of criminal organization in cloaking itself.

Glenny’s last statement, though general, is still insightful, and we will relate it to our ongoing interest in the criminal concept of economic efficiency. “Clusters of dozens of minor conspiracies” moving something incrementally is incredibly inefficient in the conventional economic sense, which dictates getting more output for the same input or the same output for less input and using the fewest resources in time, labor, and other materials to achieve either goal. But the calculus of maximization and minimization shifts dramatically when one factors in the safety and security needed in this line of work, which call for redundancy as exemplified in multiple back-up plans (not only a Plan B, but a Plan C, D, etc.), and extra capacity in terms of leadership and other resources (alternative sites, well maintained, for conducting critical operations). In short, many minor conspiracies, however clustered, protect insiders and confuse outsiders. This is brilliant criminal organization: experts in streamlining bureaucracy by squeezing out conventional inefficiencies need not apply. We have been discussing events far away from many readers, but remember that “anyone who has used a cell phone or computer notebook in the past decade has unwittingly depended on organized crime for his or her convenience.”<sup>19</sup> For other distant events with global impact we now go to Sierra Leone for more on conflict or “blood diamonds.”

Like the country that is now the DRC, Sierra Leone has a colonial history, experience with civil war, and has a resource base that if developed properly by insiders for insiders, promises a better economic tomorrow for the vast majority of Sierra Leoneans. Located in West Africa on the Atlantic Ocean, Sierra Leone shares land borders with Liberia to its southeast and Guinea to its north and northeast. A British colony beginning in 1808, Sierra Leone became a British protectorate in 1896, when Great Britain reinforced its colonial presence in that territory as the “scramble for Africa” entered its final phases. Granted its “flag” independence in 1961, Sierra Leone embarked on a rocky post-independence road that has been mined with changes in government that were not always unconstitutional and a civil war that wracked the country from 1991 into 2002. Sierra Leone has a substantial base in both agricultural and mineral resources. Its agricultural products include rice, coffee, and palm kernels. The latter yield palm kernel oil, which is used in manufacturing soap, and palm oil, which is edible and increasingly used in commercial food products. Sierra Leone’s mineral base

includes bauxite, diamonds, iron ore, and rutile, which contains titanium dioxide.<sup>20</sup> Rutile is used in manufacturing a pigment found in paint and the “space age metal” itself, titanium. Titanium has a vast number of applications, as it is lightweight, durable, resistant to corrosion, resistant to cracks and dents, and able to bond with other chemicals. It is truly a strategic metal for industrial and military uses, but also valuable for automotive and medical products, to name only two other fields. Thus, while Sierra Leone is about half the size of the US state of Illinois and cannot compare with the vastness of the DRC, its resource base is, along with that of the DRC, in the top tier of national endowments.

Sierra Leone and the DRC share one ominous similarity: their civil wars both became resource wars. The resource war in Sierra Leone was also regional, with a strong national association, and key areas of local conflict. The resource-rich eastern DRC was the setting for the “Great African War,” reported above; the Kono diamond fields in eastern Sierra Leone were cursed with the double plague of a civil and resource war. I will not attempt here to provide even an overview of the intricacies of the different phases of the civil war in Sierra Leone, which developed over those twelve years from 1991 into 2002, and refer readers elsewhere for informed presentations of these events.<sup>21</sup> For the years 1996–1999 I strongly recommend the movie *Blood Diamond* (2006), starring Leonardo DiCaprio, Djimon Hounsou, and Jennifer Connolly, which paints the horrors of this war far better than I can express them in words. What I can do is connect certain players and events in this conflict to the types of organized crime.

The conflict in Sierra Leone provides examples of organized crime whose categorization is not so clear cut. State organized crime was present, to be sure, but in crucial cases this was a state organized crime orchestrated by a single person and thus was also highly personalized. The major difference between the two people we will soon present and King Leopold II of Belgium is that Leopold himself was the Congo Free State; it was his legal persona in the eyes of the international community, whereas in the Sierra Leone cases the individuals aimed to control or manipulate a government which was not their own creation. Meet first Charles Taylor and then Foday Sankoh. At this writing, Charles Taylor is on trial in the Special Court of Sierra Leone, which has convened in the Hague, Netherlands, on the premises of the International Court of Justice, because of concerns that his presence in Sierra Leone would be too destabilizing. He faces eleven counts of war crimes, crimes against humanity, and other serious violations of international humanitarian law.<sup>22</sup>

Who is Charles Taylor? He is Liberian national, born in the capital Monrovia in 1948. From 1989 to 1997, he led the National Patriotic Front of Liberia (NPFL), a rebel force that overthrew the Liberian government of President Samuel Doe in 1990. Doe himself had seized power from President William R. Tolbert, Jr., in a bloody coup in 1980. From 1997 to 2003, Taylor was the President of Liberia and actually won the election of 1997. To finance his activities Taylor looked to the Kono diamond fields in Sierra Leone. His forces supported the Revolutionary United Front (RUF), an insurgent group of disgruntled Sierra Leoneans led by an army corporal Foday Sankoh, the second of our two

spotlighted leaders, whom we will discuss shortly. The RUF, backed by Taylor, succeeded in taking over the Kono diamond fields in 1991 and was threatening to take over the entire country, when the sitting government organized a counter-insurgency that defeated the rebels in 1995.<sup>23</sup> The crucial facts in this narrative for organized crime center on the Kono diamond fields and what Charles Taylor did with the diamonds stolen from Sierra Leone. Circumstantial evidence suggests that he used them to purchase weapons and other needed supplies. This is a suggestive example of what has become an elemental transaction of the “dark side,” as explained above: diamonds for weapons.

Foday Sankoh may have been the front man for Charles Taylor’s pursuit and pilfering of Kono diamonds in the early 1990s, but he emerged as a master rebel and resource exploiter in his own right as the 1990s unfolded. Details of his activities can be found elsewhere.<sup>24</sup> The central facts in his career that relate to our analysis again cluster around the Kono diamond fields and its increasing role in providing a major currency of conflict. There is no doubt that Sankoh was involved in the illicit diamond trade, sometimes personally supervising the export of diamonds to Europe. In an article in the *New York Times* that Michael Klare also uses, Barbara Crossette, a distinguished writer on international affairs and then a foreign correspondent for the paper, discusses a large number of written documents that were found in the looted house of Foday Sankoh, who had fled. These documents contain “meticulous accounts of personal deals recording the delivery to Mr. Sankoh of more than 2,000 stones of varying sizes from late last August [1999], soon after Mr. Sankoh came into government, until the beginning of this year [2000].”<sup>25</sup> “Sierra Leone officials,” she writes,

say that Mr. Sankoh may have been doing more than merely enriching himself and buying weapons for his rebel troops in the field. There is some evidence, they say, that he may have been planning to accumulate enough resources to attempt to overthrow the government in Freetown [the capital of Sierra Leone].<sup>26</sup>

Following the Vito Corleone maxim that you “keep your enemies closer,” officials then brought Sankoh into the Sierra Leone government as vice president but also as chairman of the Strategic Resources Commission, which gave him oversight over the country’s mineral wealth: an ironic end to a rebellion stained by “blood diamonds.”

A seemingly *en passant* reference by Barbara Crossette suggests where we should go next. She notes that other valuable documents are “letters from a business associate abroad, who was apparently trying to find a buyer for the diamonds in Antwerp, Belgium, the center of the rough diamond trade.”<sup>27</sup> In the international diamond trade all roads lead to Antwerp and we will go there, because it is essential to place the illicit diamond trade in the context of the international diamond industry. We are seeking to identify elements of organized crime involved in our two resource wars, wherever they are, in Africa or elsewhere, which here means Antwerp first and foremost. Dina Siegal, in a first-rate

contribution, explains the mechanics of the diamond trade in Antwerp and why this city is so attractive to enterprise both legitimate and illegitimate. The commercial infrastructure of Antwerp is highly developed, which helps business people of all kinds. In point of fact, there are three identifiable diamond markets in Antwerp. These are, first, the legal or “white market,” where official selling and buying occurs on the diamond exchanges; second, the parallel or “grey market,” where unregistered and therefore unofficial buying and selling takes place; and, third, the illegal or “black market,” where smugglers and dealers handle illegal commodities.<sup>28</sup> Siegal argues that distinctions among the three markets are “artificial” and “exaggerated”: “three clearly defined diamond markets do not exist.” There is, rather, “one big one, in which the cooperation between legal and illegal players varies, depending on the situation.”<sup>29</sup> I agree with her, because the distinctions among the three markets are, in my words, theoretical, not practical. To pretend that there could be three diamond markets, each hermetically sealed from the others, ignores thousands of years of commercial history, which trumpets the simple fact that business people view categorizations of their behavior by others as opinions.

“One big market” in diamonds in Antwerp thus provides cover for the operations of organized crime in the two areas where it is most active, conflict diamonds and diamond theft, and Siegal has assembled credible evidence from sources in English and German that prove that double presence beyond a reasonable doubt. As to conflict diamonds, “in the 1990s,” she writes, “many top Russian criminals lived in Antwerp and ran their companies from there. The link between these businesses and smuggling diamonds from areas of conflict has not been a secret for some time now.”<sup>30</sup> In the second half of that decade, “the Russian mafia [see Chapter 3] had operations in Sierra Leone”; the Antwerp companies provided “cover” for those illicit dealings in “blood diamonds.” And, on the signature exchange of diamonds for warfare, Russian and Ukrainian arms dealers are “directly involved” in the Antwerp diamond trade.<sup>31</sup>

“One big market” in diamonds in Antwerp is also something else. It is the equivalent of a giant washing machine that launders those dirty diamonds. As conflict diamonds pass through the numerous intermediaries and various nooks and crannies of those seemingly three separate diamond markets, they travel farther and farther from their initial vendors, which renders identification of point-of-origin difficult. In response, the international community has put in place a plan that aims to thwart diamond laundering, indeed to ensure that the global supply of diamonds is free from conflict. The Kimberly Process Certification Scheme (KPCS) has been operating from 1 January 2003 and establishes detailed procedures for verifying that rough, uncut diamonds are not “blood diamonds.” De Beers, on its website under the rubric of “Social Responsibility,” claims that “today, as a result of the Kimberly’s Process’s success, 99.8% of the world’s diamond supply is conflict free.”<sup>32</sup> To be fair, the Kimberly Process Certification Scheme is a major accomplishment: “as of November 2008, there were forty-nine members, representing seventy-five nations with significant involvement in the diamond trade.”<sup>33</sup> But, notwithstanding the optimism of

De Beers, the global diamond supply is still vulnerable to criminal penetration. Commenting on the Kimberly Process, Dina Siegal warns that “smuggling from areas of conflict into Europe remains difficult to combat.”<sup>34</sup> In Antwerp smuggled diamonds are still traded on the parallel or gray market and sometimes “end up on the legal market through contacts with ‘official’ diamond dealers.”<sup>35</sup> This reinforces her earlier point about “one big market” and also illustrates my explanation of diamond laundering, above.

Moreover, the Kimberly Process itself is not perfect. It is voluntary, which means that it relies on honesty and good will, two commodities that can be somewhat transitory in international relations. And it employs a written document that may be subject to counterfeiting or other skullduggery. “The Kimberly process,” in the words of De Beers, “requires participating governments to ensure that each shipment of rough diamonds exported be in a secure container and accompanied by a uniquely numbered, government-validated certificate stating that the diamonds are conflict-free.”<sup>36</sup> Is this a challenge to an expert counterfeiter or what? But there is little or no incentive to counterfeit the certificate when you can circumvent the process by not joining, or leaving, or staying and not policing diamond smuggling into Antwerp, which is still a thriving enterprise.<sup>37</sup>

Let us return to the central question about resource wars posed in the introduction to Part IV: *cui bono*? This phrase translates literally from the Latin as: for whom is it of advantage? In smoother English *cui bono*? means: for whose benefit or who benefits? The record is indisputable about who did not benefit from the two resource wars under review here: the vast majority of the citizens of the Democratic Republic of the Congo and Sierra Leone. Indeed, these wars killed or injured thousands of innocent victims and their sufferings are well documented. The beneficiaries of these conflicts included the agents of state as well as private organized crime: members of armies and militias, their leaders, their business associates in or with ties to private organized crime, the private organized crime groups themselves, as well as the businesses which service all types of organized crime, like arms dealers.

We move from one mode of looting to another and next take up Somali piracy.



## 12 Somali piracy

At first glance, a practical definition of piracy would seem obvious: it is hijacking or illegally seizing a ship, usually on the high seas but it could technically be anywhere, like in a harbor or in a dry dock. But in the domain of the law there is no international consensus on who is a “pirate.” I refer readers elsewhere for a learned discussion of this issue and will proceed on the practical definition of piracy just advanced.<sup>1</sup> As such, piracy has been around for millennia, and we direct readers elsewhere for more comprehensive treatments of this topic.<sup>2</sup> We focus narrowly on the contemporary maritime piracy that emerged in the early twenty-first century in the African country of Somalia, the Indian Ocean, and the Gulf of Aden. We emphasize “contemporary,” because Somali piracy has historical roots going back centuries and some believe that the origins of the contemporary version go back at least to the early 1990s, when central authority collapsed. In any event, Somali piracy is an authentic form of indigenous organized crime and we will explore it with the help of our comparative framework. First, we set the stage with basic facts about Somalia in the areas of geography, history, and contemporary social and political conditions.

The physical as well as economic geography of Somalia are necessary first steps for beginning to understand why piracy has become such an attractive business opportunity for Somali nationals. A little smaller than the US state of Texas, Somalia is located in the northern region of east Africa, east of Ethiopia and north-east of Kenya, in what is known as the Horn of Africa, which takes its name from the fact that it is a long peninsula, reaching out hundreds of miles into the Arabian Sea. The Horn of Africa is home to four countries: Djibouti, Eritrea, Ethiopia, and Somalia. As a peninsular nation, Somalia is bordered by the Gulf of Aden to its north and the Indian Ocean to its east. The Arabian Sea is just north of the Indian Ocean, which is one of the great oceans of the world, but all three bodies of water—the Arabian Sea, the Gulf of Aden, and the Indian Ocean—have enormous strategic value in multiple senses. Somalia’s own location has great strategic value in military and commercial senses. To the northwest of Somalia lies the Red Sea which connects to the Suez Canal, that crucial link in navigation between the Mediterranean Sea and the Indian Ocean about which we wrote in the previous chapter. Thus, located on and near major shipping lanes, Somalia naturally has great strategic value for pirates: a nautical occupation for a nautical nation.

The conventional presentation of Somalia's economic geography makes for bleak reading. And there is some justification for this preliminary reaction. The country is mainly desert and dry, with only a small fraction of the land arable or suitable for farming. "One of the world's poorest and least developed countries," one source opines, "Somalia has few resources."<sup>3</sup> To be sure, recurring civil war has damaged the country's economy, which is largely agricultural. Yet, on closer inspection, the phrase "few resources" sells the country short. The list of agricultural resources, which include bananas, corn, fruits, livestock, sorghum, and sugar, shows some diversification, a necessary characteristic for the economy of a country that is subject to irregular rainfall, drought, and frequent dust storms over its eastern plains in the summer. There is also a balance in production between exports and goods for local consumption. Principal exports are first livestock and then bananas; sugar, sorghum, corn, and fish are products for the local market.<sup>4</sup>

But metals and minerals may provide the greatest uplift for the economic development of Somalia. The country has reserves of bauxite, copper, gypsum, iron ore, tin, salt, and uranium. For example, the deposits of uranium, which is a metallic chemical element that can produce a sustained nuclear chain reaction, are assets with important economic and strategic value for Somalia. As to economic value, the country could earn needed foreign exchange from selling some of its uranium. And as to strategic value, uranium puts Somalia on the map of resource competition as a prospective seller. Possible buyers include countries needing uranium to produce nuclear power for peaceful or other purposes, such as Iran. But Iran already has its own uranium mines. Why would it want Somali uranium? For one thing, it may need more uranium than it has within its own borders. For another, well, the answer lies in the subterfuges of terrorism: "if Iranian uranium were used in a terrorist bomb, chemical analysis would reveal the origins of the uranium. But if the uranium were from Somalia. . . ."<sup>5</sup> In actual fact, there is a long-standing relationship between Somali uranium and the Russians, which began decades ago with the Soviet Union and now continues with the Russian Federation. On 22 August 2007, Mohamed Mohamud Handule, the Somali ambassador to the Russian Federation, was reported as saying that Somalia was "ready to propose uranium exports to Russia in the first place."<sup>6</sup> On 27 June 2008, he expressed Somalia's hope that "Russian companies will take part in the development of [Somali] uranium deposits, and oil and natural gas production."<sup>7</sup> It is not clear, at this writing, what exactly is happening on these matters; the ongoing turbulence in the country makes it very hard to obtain accurate information in a timely manner.

Somalia has a cosmopolitan history which others have treated with the understanding and detail it deserves.<sup>8</sup> Two historical themes, however, need underscoring here. The first is that Somalia is a nautical nation in more than geographical terms. Over many centuries the Somali developed important commercial and cultural relationships with the Indian Ocean littoral. This term refers to all the peoples and lands in and around the Indian Ocean, from Africa in the west to the subcontinent of India in the east and beyond. A stellar example of

these relationships is the Swahili Coast, which refers to the coast of East Africa from Somalia in the north, through Kenya and Tanzania, and down to Mozambique in the south. The coasts of Kenya and Tanzania sometimes receive the greatest attention, but historical accuracy demands the inclusion of the coasts of Somalia and Mozambique. Independent city-states emerged all along the Swahili Coast between *c.* AD900 and the fourteenth century; Mogadishu and Barawa are two examples from the Somali portion of the Swahili Coast. All these city-states exemplified both commercial and cultural themes. Commercially, they traded with India and the interior of Africa, among other locations. Culturally, they were important centers for the diffusion of Islam as well as links in what some believe was a Swahili civilization;<sup>9</sup> some question the cohesiveness of this civilization, but the author accepts it as an important force, primarily expressed in the beautiful language of Kiswahili, which he was privileged to begin to learn in school. The coastal city-states lost their independence in the sixteenth century when the Portuguese entered the Indian Ocean, disrupted their trading patterns, and eventually conquered them.<sup>10</sup>

The hostile intrusion of the Portuguese recalls a second major historical theme of Somali history, one that reverberates elsewhere in this book: manipulation by outsiders. The Portuguese were advance agents for an economic imperialism that aimed to manipulate the commerce of the Indian Ocean littoral for outsiders. The Dutch and the British followed the Portuguese, conflicts ensued, and the mantle of the hegemonic power passed from the Portuguese, to the Dutch, and then to the British. Greater economic penetration and European coastal settlements led eventually to a more formal administrative imperialism that expressed itself in colonial bureaucracies. The Somali got caught up in the “scramble for Africa” and the subsequent European partition of much of the continent, which we introduced in the previous chapter. Let us list some important events affecting Somalia. In the 1860s France established a foothold on the northern Somali coast, which later became Djibouti. In 1887 Great Britain declared a protectorate over what it called Somaliland. The French and British thus had conflicting interests, but they negotiated an 1888 agreement that defined the boundary between the Somali possessions of the two countries. A third European country complicated matters, when Italy proclaimed a protectorate in central Somalia in 1889.<sup>11</sup>

But European manipulation of Somali territory did not end with the completion of the partition of Africa in the early 1900s. The land of the Somalis also got caught up in rivalries of European countries in the 1930s and 1940s as these played out in Africa. Italy had defeated Ethiopia in a colonial war lasting from October 1935, to the end of May 1936, and moved to consolidate its African possessions. In 1936 Italian Somaliland joined with Somali-speaking parts of Ethiopia to become a province of Italian East Africa. During World War II (1939–1945), Great Britain and Italy were on opposite sides. In 1940 Italy occupied British Somaliland, but then in 1941 the British took over Italian Somalia. This sustained process of dividing, repackaging, and renaming did not contribute to administrative stability in the land of the Somalis. In fact, the reverse was

true: recurring instability in the colonial period militated against the emergence of a single administration controlling the entire country and bequeathed a legacy that has haunted every government in Somalia from independence in 1960 to this very day.<sup>12</sup>

Contemporary political and social conditions in Somalia, the third and final stop in our setting the stage, are not benign either. If anything, politics during the last two decades of Somali history, from 1990 to 2010, has become even more intricate than in the colonial period.<sup>13</sup> From the early 1990s Somalia has had no effective central government. Any administration that has tried has not been able to extend its control beyond Mogadishu, the capital, in a lasting manner and even there it has faced challenges from the agents of localism, like clan warlords fighting to extend their own spheres of influence. Moreover, independent Somalia continues to experience more foreign interventions, some with the best of intentions. For example, “Restore Hope,” which lasted from 9 December 1992 to 4 May 1993, was an operation sanctioned by the UN and led by the US. It had the best of humanitarian intentions: to restore order and safeguard relief supplies. While it did experience some success in its mission, it also remembered for its setbacks. Most ignominious was the shooting down of two US Black Hawk helicopters by militias in the 1993 Battle for Mogadishu and the numerous US casualties which resulted; these events find cinematic expression in the 2001 movie *Black Hawk Down*. From the standpoint of the operation as a whole, a sophisticated military analysis argues that it was a “humanitarian success,” but that “the US failed to acknowledge the political dimensions at the highest political levels.”<sup>14</sup>

The conventional portrait of contemporary political and social conditions in Somalia is disheartening.<sup>15</sup> To be sure, many obstacles confront those wishing to build a unified nation-state for the country. And “social conditions,” again to invoke the suggestive phrase Vera Zamagni used in analyzing why southern Italy was such fertile ground for mafias, do not offer Somali citizens grounds for much hope. Particularly for Somali youth, who make up about 60 percent of the country’s total population, opportunities for gainful employment in the legitimate economy are meager. The author has consulted numerous sources and all list the Somali unemployment rate as “not available.” But indirect evidence, coming from studies of the migration of Somali youth, suggests that the unemployment rate for younger Somalis must be stratospheric.<sup>16</sup> But I believe a more balanced assessment is needed; not all is gloom and doom. It is easy to label Somalia a weak or failed state, as many do, but that misses the point. To have a “weak state” a state must exist to begin with, but the Somali nation-state today exists only *de jure* in the eyes of the international community, not *de facto* on the ground in Somalia itself. For a state to fail it must have been there in the first place. The most precise term is “statelessness.” Somalia has never had one government that was both central and national, which is why I detailed the profound administrative instabilities of the colonial era, a legacy that still bedevils endeavors to construct a unified administration for the country today.

As I earlier offered a fairer presentation of the country's resources in metals and minerals, I discern two signs of optimism, at least in politics. In spite of everything, the nucleus of a central government that could become national is coming together in Mogadishu. President Sheik Sharif Sheik Ahmed is leading a "moderate Islamist government" that "is widely believed to be Somalia's best chance for stability in years."<sup>17</sup> He faces long odds, but "much of the world is counting on Sheik Sharif to tackle piracy and beat back the spread of militant Islam, two Somali problems that have flared into major geopolitical ones."<sup>18</sup> The second sign of optimism concerns a gathering Somali counteraction against the Shabab, "one of Africa's most fearsome militant groups."<sup>19</sup> This offensive has a military component, supported by US intelligence and logistical support, but also involves a growing backlash of the civilian population in Mogadishu against the Shabab, whose excesses are now reaping a whirlwind of popular disgust.<sup>20</sup> While the embryonic central government in Mogadishu, with the help of the wider population, is apparently making progress in combating the spread of militant Islam, the second Somali problem with international implications—piracy—is still thriving and remains recalcitrant to any solution, which brings us at last to the central concern of this chapter.

With the stage set, one can easily see that the conditions were ripe for the emergence of contemporary Somali piracy in the early twenty-first century. The absence of a working central government from 1991, with sufficient force to enforce its directives throughout the country, created a giant vacuum that lent itself to criminal activities, including piracy. The beginning of the Somali Civil War in the early twenty-first century deepened this vacuum. And the great lack of legal economic opportunities for all citizens but especially for younger Somalis has forced people to look to the underground economy or consider leaving. In the comparative economic history of global organized crime, this is a "perfect storm": the convergence of two vacuums—one of civil authority, the other of economic hope. And in our comparative framework we have already seen the applicability of the factors of social environment ("social conditions" and youth migration), government (colonial manipulations and contemporary "statelessness"), vacuum (two in fact), and underground economy.

Somali piracy has evolved in the last decade or so from a recurring threat into a "major geopolitical" problem for at least four reasons.

- 1 Attacks continue to increase and spread, despite bolstered international policing in the Indian Ocean and its environs. As to increase, "pirate attacks nearly doubled in 2009 over a year earlier," Katharine Houreld reports, "despite the deployment in December 2008 of the European Union Naval Force—the first international force specifically to counter Somali pirates."<sup>21</sup> And as to spread, pirate attacks have reached from the Gulf of Aden in the north, down to the Kenyan coastline in the south, and are now moving out more and more out into the western region of the Indian Ocean, which greatly increases the area of possible attack and renders interdiction more difficult. J. Peter Pham analyzes the enforcement issue—its successes and challenges—with insight and realism thus:

Although the military response has focused attention on the piracy issue, perversely, it's made the problem more complicated. The military escorts ... have certainly greatly ameliorated the piracy challenge in the Gulf of Aden. ... On the other hand, as a result of that, the pirates have adapted and now switched their operations to the Somali basin in the western part of the Indian Ocean. And unfortunately, there you have a far larger area and it's impossible with the military and naval resources on hand to fully patrol that area.<sup>22</sup>

- 2 Some of the hijacked ships have direct military importance, which raises security concerns that go beyond the hijacking of cruise ships, cargo vessels containing iron ore, and supertankers carrying oil. For example, on 25 September 2008, Somali pirates hijacked a Ukrainian ship carrying thirty-three tanks, which prompted "widespread international concern."<sup>23</sup> In the aftermath, "the US and other countries deploy navy ships to Somali waters."<sup>24</sup>
- 3 Somali piracy is strengthening in an area of the world where international terrorism is establishing beachheads, such as in Yemen, which is Somalia's not so distant neighbor to the north across the Gulf of Aden. The flight distance between Aden, on the southern shores of Yemen, and Berbera, on the northern shores of Somalia, is 161 miles (259km), but the straight line distance measures 140 nautical miles. Yemen today is another example of a vacuum of civil authority, into which criminals of all types, including terrorists, can rush. In fact, evidence is mounting that al-Qaeda,<sup>25</sup> an archetypal force of modern international terrorism, is taking advantage of the vacuum in Yemen to develop a cell there, which is "part of an expanding and ambitious regional terrorist network."<sup>26</sup> This activity compounds the military and security concerns associated with the second reason.
- 4 The money obtained in ransoms has increased dramatically and is playing multiple roles, not all of which are concerned with the enrichment of pirate workers and leaders. In the early years, the average ransom per ship was about US\$10,000, but by 2008 had reached US\$1,000,000 and just keeps rising.<sup>27</sup> In February 2009, the owners of the Ukrainian ship with those thirty-three tanks mentioned above paid \$3.2 million for the release of their ship which had been held for more than four months.<sup>28</sup> But it is the episode of the Greek supertanker *Maran Centaurus* that shows just how lucrative hijacking can be. Carrying an estimated two million barrels of crude oil and travelling from Kuwait to New Orleans, the *Maran Centaurus* was hijacked some 762 miles off the coast of Somalia on 29 November 2009.<sup>29</sup> At the time it was "the biggest vessel, as well as the farthest from the Somali coast, hijacked by the Somali pirates, facts which created a shock wave in the global shipping industry."<sup>30</sup> The seizure of the *Maran Centaurus* also corroborates J. Peter Pham's aforementioned point about the expanding area of possible attack and the greater difficulty of enforcement, which was further underscored when Somali pirates hijacked a Turkish-owned ship on 23 March 2010 about 1,100 miles from Somalia, way out in the Indian Ocean, closer to India than Africa.<sup>31</sup> On 18 January 2010, the

pirates released the *Maran Centaurus*, “after receiving what they said was a \$5.5 million ransom, believed to be the largest sum to free a hijacked ship.”<sup>32</sup>

The ransom money has a number of destinations. Indisputable evidence shows what some pirate leaders are doing with some of their money. J. Peter Pham further notes that “we know where the pirates are. We even know where the leaders literally live because they’ve built huge mansions that were put up in the last eighteen months because of the piracy ransoms and revenues they gained.”<sup>33</sup> This is their version of conspicuous consumption, but another use of the proceeds from piracy is apparently clandestine. Jim Kouri, who has an extensive background in police work and other security matters, quotes several unnamed “security experts,” who “believe the [Somali] pirates are helping to fund Al-Qaeda operations in that war-torn region.”<sup>34</sup>

To understand how Somali piracy has become a major geopolitical problem we will examine it in the context of two other factors from our comparative framework—organization and leadership. We take up leadership first because it connects with material in the previous paragraph. On 13 April 2010 US President Barack Obama signed an executive order “blocking property of certain persons contributing to the conflict in Somalia.”<sup>35</sup> The purpose of this order, though not stated so baldly, is primarily to damage the finances of Somali pirate leaders and al-Shabab, the militant Islamic group fighting in Somalia against the moderate government of President Sheik Sharif Sheik Ahmad whom we discussed above. This executive order is a valuable primary source for two reasons: first, it shows how the US federal government is conceptualizing and approaching pirate and militant finances and, second, it names in its annex eleven of those “certain persons” and one “entity” that are the immediate targets of “blocking.” This freezes “all property or interests in property that are in the United States” or “hereafter come within the United States” or “that are or hereafter come within the possession or control of any United States person, including any overseas branch.”<sup>36</sup> I will later discuss the first reason, but now concentrate on the second. The “entity” named in the annex is “al-Shabaab,” to use the White House spelling, and the “individuals” cited are presumably those “certain persons” the US views as “contributing to the violence in Somalia.” It is useful to have in one place the names of these “individuals”; I reproduce their names exactly as the White House spells them, along with the dates of their birth.<sup>37</sup>

- 1 Abshir ABDILLAH I [born c. 1966]
- 2 Hassan Abdullah Hersi AL-TURKI [born c. 1944]
- 3 Hassan Dahir AWEYS [born 1955]
- 4 Ahmed Abdi AW-MOHAMED [born 10 July 1977]
- 5 Yasin Ali BAYNAH [born c. 1966]
- 6 Mohamed Abdi GARAAD [born c. 1973]
- 7 Yemane GHEBREAB [born 21 July 1951]
- 8 Fuad Mohamed KHALAF [born c. 1965]
- 9 Bashir Mohamed MAHAMOUD [born c. 1979–1982]

10 Fares Mohammed MANA'A [born 8 February 1965]

11 Mohamed SA'ID [born c.1966]

Further research identifies two "individuals" in the above list as pirates: Abshir Abdillahi and Mohamed Abdi Garaad. A third, Yemane Ghebreab, is an advisor to Isaias Afwerki, the President of Eritrea, a country that does not border Somalia but is in the neighborhood; he also has ties to the People's Front for Democracy and Justice, allegedly a "well known terrorist organization."<sup>38</sup> The other eight have supposedly engaged in activities designed to destabilize Somalia; some have connections with al-Shabab itself, another is a militia leader, and still another is an arms dealer, etc.<sup>39</sup>

We concentrate on the two pirates, profile them, and then compare and contrast them, especially as leaders. We begin with No. 1 on the annex of the US Presidential executive order, Abshir Abdillahi aka Abshir Boyah, and then take up No. 6, Mohamed Abdi Garaad. Fortunately, we have two quality sources, one for each pirate, and I wish to thank their authors straightaway, because without their excellent work, I could not even begin to present Somali pirate leaders as real people. Jeffrey Gettleman, the East Africa bureau chief for the *New York Times*, provides revealing information about Abshir Boyah in "The Pirate Chronicles: For Somali Pirates, Worst Enemy May Be on Shore."<sup>40</sup> And Jay Bahadur, a freelance reporter with a book on piracy in progress, profiles Mohamed Abdi Garaad in "the pirate king of Somalia."<sup>41</sup> Before beginning, one must single out a region in Somalia that has special importance in the history of piracy and the careers of our two leaders. It is Puntland, a semiautonomous region in northeastern Somalia, which has two capitals: Garoowe is the official administrative capital, while Bosasso is the unofficial commercial capital and also the region's largest city. Puntland borders both the Gulf of Aden to its north and the Indian Ocean to its east, which makes it an excellent strategic location for launching and running a pirate business.

If geography foreshadows destiny, then events earlier in one's life also help explain what happens later. Abshir Boyah was born about 1966 in the port town of Eyl, which is in Puntland and on the Indian Ocean coast. Because location of birth is one major key to understanding both Messrs. Boyah and Garaad, we will give readers a greater sense of where Eyl is and then comment on its recent history. The driving distance between Somalia's capital Mogadishu, which is farther south down the coast, and the port of Eyl is 725 miles (1,167km); the driving distance between Berbera, which is on the northern shores of Somalia facing the Gulf of Aden, and Eyl is 458 miles (737km). Within the Indian Ocean littoral the best I could do was find the distances between Mogadishu and Mumbai, the commercial and entertainment center of India, as well as its most populous city; it is located on India's west coast facing the Arabian Sea. The theoretical air distance between Mogadishu and Mumbai is 2,195 miles (3,533 km), but in nautical miles, which pirates appreciate, the distance drops to 1,907. Contemporary Eyl, described as a "pirate den"<sup>42</sup> and "Somalia's pirate town,"<sup>43</sup> is clearly the cradle and headquarters of twenty-first century Somali piracy, but it was not always so. In the early 2000s, Eyl was still "a tiny fishing



port. A few tin-roofed shacks were its only dwellings.<sup>744</sup> A few years have made all the difference. The port still has the shacks but now features new restaurants, new cars, gunmen with “gleaming new weapons,” and “middlemen in smart suits” who “punch numbers into the latest mobile phones.”<sup>745</sup> The development of the port, in short, reflects the growth of piracy: “piracy is big business.”<sup>746</sup>

The fishing port may have once been tiny, but it played a huge role in the pirate phase of Abshir Boyah’s life. He told Jeffrey Gettleman that “he dropped out of school in the third grade, became a fisherman and took up hijacking after illegal fishing by foreign trawlers destroyed his livelihood in the mid-1990s.”<sup>747</sup> This is a revealing statement and valuable testimony on at least two points. First, if his dating is correct and we have no reason to question it, the experience of Abshir Boyah supports the view of those who contend that the modern version of Somali piracy originated in the 1990s, not in the first decade of the twenty-first century. Second, a vacuum of a personal sort motivated his entry into piracy: illegal fishing by foreign trawlers destroyed any opportunity to continue his legal occupation of fisherman.

Like Abshir Boyah, Mohamed Abdi Garaad was born in Eyl, though in 1973, about seven years later than the pirate leader some call “a pioneer.”<sup>748</sup> Like Mr. Boyah, Mr. Garaad began as a fisherman, but took up piracy later than Mr. Boyah, in 2002. They both switched occupations because their jobs were under assault by, as Mr. Garaad told Jay Bahadur, “illegal fishing ships.”<sup>749</sup> They are, he insists, the “real pirates,” and he got into piracy “with the sole objective of defending his livelihood and that of his fellow fishermen.”<sup>750</sup> Some might dismiss their rationales as special pleading, but their grievances are legitimate, deserve serious consideration, and raise the topic of what some call the “other piracy.” Most western analyses of Somali piracy pay insufficient attention to the “other piracy,” the hijacking of fish by foreigners in Somali territorial and EEZ waters. Territorial waters reach out twelve nautical miles from a country’s coast; a country’s Exclusive Economic Zone (EEZ), in the law of the sea, extends out 200 nautical miles and some countries claim theirs goes out much farther. I cannot emphasize enough that to understand fully Somali piracy one must comprehend the “other piracy” and realize that any solution must eliminate both types of piracy together. Since the “other piracy” is so crucial and most western sources neglect it, I now present its essentials in the spirit of elementary fairness. This material is not a digression from the life stories of Abshir Boyah and Mohamed Abdi Garaad, but rather integral to them.

But first we must ask why the “other piracy” has garnered so little attention in the west. The answer is not a mystery to sources from elsewhere in the world. The gross imbalance in coverage has a number of causes, but two are clearly ethnocentrism conjoined with economic interest. Somali piracy gets noticed because it attacks international shipping and hurts many economic interests, but the “other piracy” hurts mainly Somali nationals and only the economic interests of a country in Africa seen as marginal and is thus a local problem. The slighting of Somalia and the economic damage its fishing industry has suffered reeks of ethnocentrism, which is viewing others through self-centered or self-serving categories. The “other piracy,” by the way, is also an international issue, as it involves Illegal, Unreported, and Unregulated (IUU) fishing fleets from Europe,

Arabia, and the Far East in Somali territorial and EEZ waters.<sup>51</sup> IUU fishing fleets represent another type of global organized crime which deserves deeper study, on a country-by-country and company-by-company basis, from those with far greater knowledge of maritime matters than I possess. What I do know is that many people in Somalia and elsewhere are most angry about the harm to Somali fishing grounds. For an outstanding source that captures in a professional manner this deep-seated and growing sense of grievance and also contains an illuminating history of the two piracies, I strongly recommend Mohamed Abshir Waldo's "The Two Piracies in Somalia: Why the World Ignores the Other?"<sup>52</sup> This should be the No. 1 article on any required reading list for Somali piracy; it is a strong expression of a viewpoint most students from the west do not experience in their classroom education.

Let us now summarize the essentials of the "other piracy" in the comparative context of both piracies.

- 1 It is the second and co-equally important of Somalia's two piracies, as argued in the previous paragraph.
- 2 The two piracies are interrelated. The "other piracy," according to the testimony of our two pirate leaders, played a causal role in the launching the first. The author does not write "the second caused the first," because other factors may have influenced individual decisions to undertake piracy.
- 3 Like the first piracy, the second originated in the vacuum created by the collapse of central authority in Somalia in 1991. But our factor of vacuum needs expansion here. When civil authority collapses, it creates a vacuum on land that can also extend to a country's air space, as well as its territorial and EEZ waters. This is exactly what happened to Somalia after 1991: on its land, in its air, and on its waters, both territorial and EEZ. The Somali navy today is not equipped to defend the country's territorial and EEZ waters from either piracy, let alone both. While the Somali navy was re-established in 2009 and is training personnel, it still lacks ships.<sup>53</sup> From an international perspective, naval interdiction today concentrates on the first piracy, not the "other," an unbalanced approach which is achieving some short-run successes but actually fuels the anger that can strengthen the first piracy in the long run.
- 4 Each piracy involves more than one activity. The second piracy involves stealing fish, dumping waste, and "other ecological disasters."<sup>54</sup> The first involves attacking international shipping but apparently, in the actions of some individual pirates, has financial ties to terrorist groups, as we reported earlier.
- 5 Multiple types of organized crime are at play here. The first piracy has its own forms of distinctive organization, as readers will soon see. The second piracy involves those foreign fishing fleets—their companies and respective governments—as well as "powerful interests who want to cover up and protect the profitable business of illegal fishing."<sup>55</sup> In another contribution Mohamed Abshir Waldo provides more information about those foreign fishing fleets and "powerful economic interests." Most relevant for our purposes is his discussion of relations among Somali warlords, companies with

alleged mafia associations, and the mechanics of issuing counterfeit fishing licenses. "In arrangements with Somali warlords," Waldo observes,

new companies were formed abroad for bogus fishing licensing purposes. Jointly owned mafia Somali-European companies set up in Europe and Arabia worked closely with Somali warlords who issued them fake fishing "licenses" to any foreign fishing pirate willing to plunder the Somali marine resources.<sup>56</sup>

And Waldo gives specifics: "UK and Italy based African and Middle East Trading Co. (AFMET), PALMERA and UAE based SAMICO companies were some of the corrupt vehicles issuing counterfeit licenses as well as fronting for the warlords who shared the loot."<sup>57</sup> He refers to these three as "Mafia companies," lists "supposedly reputable firms" who served as "technical advisors" to them, and brings the Puntland Administration into this nefarious web, because in October, 1999, it "gave carte blanche to another Mafia group known as PDIC, registered in Oman to fish, issue licenses and to police the Puntland coast."<sup>58</sup>

This analysis is intriguing and has appeal *prima facie*. After all, the economic history of global organized crime shows that whenever and wherever profits can be made from plunder, especially through intermediaries, one or more mafia organizations may be found. But the term "mafia" as used here needs more definition, explanation, and documentation. In the first quotation above "mafia" appears with a lower-case m in the unwieldy phrase: "jointly owned mafia Somali-European companies." "Mafia" appears with an upper-case m in the description of those three companies as "Mafia companies" and also with reference to PDIC as "another Mafia group." This point may seem minor, but it reflects the confusion over what exactly "mafia" means in these contexts. Is "mafia" used to designate a business that acts in an unusually forceful manner, but does not actually have operational links to an identifiable mafia, such as one of the Russian or Italian mafias? Or do the four companies cited have operational links to some mafia organization, perhaps one unknown in the west? To be fair, Waldo ends this contribution with the phrase "to be continued" and I look forward to a clarification of these matters.

With the essentials of the "other piracy" before us, readers can better understand a big part of what drives our pirate leaders, to whom we now return. We will study what our leaders did in the field of organization, the last of the comparative factors used in this chapter. Organization, readers may recall, encompasses the topics of centralization, decentralization, autonomy, interdependence, strategy, policy, procedures, structures, and personnel. Abshir Boyah, as an early entrant into piracy in the mid-1990s, is regarded as a trailblazer. Yusuf Hassan, the managing editor of Garoowe Online, a Somali news website, told Jeffrey Gettleman, "He's respected as a pioneer."<sup>59</sup> But is he a pioneer in ways other than chronological primacy? Boyah also revealed that he is "a member of a

secretive pirate council called ‘The Corporation.’”<sup>60</sup> Unfortunately, “The Corporation” remains “secretive” and we know little about how it operates. It reminds one of “The Company” from Mexico, the drug directorate which contained members of the Gulf cartel and its once ally and now rival Los Zetas, as well as the various national commissions that punctuate the histories of the US mafia and the mafias in Italy.

One fact, though, we can surmise with confidence. “The Corporation” represents a centralizing force in Somali piracy, but we do not know how great a force. Indeed, just as the terms “Italian mafia” and “Russian mafia” are umbrella terms that cover a number of individual mafias, so also is “Somali piracy,” in fact, a set of many individual pirate businesses, which have been estimated at from five or six to dozens of operations. So, from the standpoint of interdependence—that combination of centralization and decentralization every business has—Somali piracy exhibits a pervasive decentralization, because first and foremost it is actually many businesses. “The Corporation” could have several centralizing functions, depending on how cohesive it is and how much power it can exert. If it lacks executive power to set strategy or policy, it may function, as most US mafia commissions do, as a forum for consultation on common problems, which is still exceptionally useful and may represent the most practical expression of centralization for a business activity that thrives on decentralization. My intuition is that “The Corporation” now functions primarily as a forum for discussing a wide range of issues, which can touch upon other topics listed above under organization: strategy, policy, procedures, structures, and personnel. Under procedures I classify tactics, which must be a dominant topic as Somali piracy today confronts three threats, from insurgent Islam (al-Shabaab and Hizbul-Islam) which wants its revenue, from religious Islam which regards it as a stain, and from naval interdiction which wants to destroy it.

Individual pirate businesses exhibit their own versions of interdependence. Consider, for example, the operation of Mohamed Abdi Garaad, “the pirate king of Somalia” and the second of our two featured leaders. He explained in an interview with Jay Bahadur

how he exerts direct control over 13 groups of pirates with a total of 800 hijackers, operating in bases stretching from Bosasso to Kismaayo, near the Kenyan border. Each group has a “sub-lieutenant” who reports directly [to him], and none of them makes a move without his authorization.<sup>61</sup>

So whereas Somali piracy as a whole is strongly decentralized, at least one operation, perhaps the most extensive, is highly centralized, at least in substantive decision-making. Garaad, his nickname coming from the Somali word for “clan elder,” practices a hands-on style expressed in the creation of a managerial hierarchy that has served him and his business well so far. This is a minimalist but efficient hierarchy, with only one level of middle management, the “sub-lieutenants”; it reminds the author of the vertical hierarchy of US mafia families, which has only one level of middle management, the Capos or *Caporegimas*.

But the Garaad organization also contains important elements of decentralization. In structures, there is not one group of pirates but rather thirteen; so, in the category of procedures, there can be significant operational decentralization. Garaad may have discovered an optimal size for a group of maritime hijackers that ranges from sixty-five to seventy personnel, more or less. While Garaad himself can try to impose some uniformity in operating procedures among the thirteen groups, he can also give different commands to different groups. Structures also encompass the location(s) of a business; the Garaad organization has a number of bases that stretch hundreds of miles along the Indian Ocean coastline. These elements of decentralization have major implications for the security and survival of the Garaad organization. It is still a risky business, but it cannot be destroyed by a crippling strike on one base nor on one operating group of pirates.

Overall, in its many individual businesses, Somali piracy is far more decentralized than centralized, but it does derive a certain guiding cohesion from what some believe is a single model. “Hijacking,” Robert Wright reports in the *Financial Times*, “has developed into a highly structured social and business model.”<sup>62</sup> He notes that “pirates’ business practices are effective primarily because of their simplicity.”<sup>63</sup> The medium of transactions exemplifies this simplicity: “everything is done by cash,” especially US\$100 notes, which pay for “the cars, houses, televisions and wedding parties.”<sup>64</sup> The wedding party is a special institution in Somali society that shows the complex interweaving of social and business relationships: it is an opportunity both to celebrate and distribute. Accountants supposedly “divide up the ransoms. There are carefully worked out formulae determining how much is paid to everyone, from the lowliest guards to gang leaders.”<sup>65</sup> Finally, the model embraces a code of conduct, “which proscribes, for example, the harming of crewmen, with fines for miscreants.”<sup>66</sup>

In retrospect, Somali piracy, the first of the two piracies covered here, has proved remarkably resilient and creative in its first decade. This record testifies to the strength of the causes of the first piracy, the caliber of its leadership and other personnel, and the unbalanced approach brought by the international community, which attacks the first piracy but not the second piracy—the illegal fishing and ecological terrorism inflicted on legal Somali fishing grounds—and thus only further enrages many Somalis. The “first piracy,” as earlier noted, confronts three threats—from insurgent Islam, religious Islam, and naval interdiction. The “first piracy” changes its tactics as the international naval presence grows in the Indian Ocean and the Gulf of Aden.<sup>67</sup> For instance, pirates now go out farther and farther, as earlier noted, to capitalize on the inescapable fact that you cannot have a naval vessel everywhere in the Indian Ocean. And perhaps anticipating a time when they cannot capture as many ships, they seem to be trying to maximize their return from a particular mission by capturing a more high-value target. How the “first piracy” will deal with insurgent Islam and religious Islam—and these must always be carefully distinguished—is not fully known at this writing. In early May 2010, several hundred insurgents from the Hizbul-Islam group captured Haradhere, one of the pirates’ bases, but the pirates

apparently moved the three ships held captive there up the coast about seventy miles to Hobyo, another base.<sup>68</sup> The author does not know how secure Hobyo is from further insurgent intrusions.

Solutions to the “first piracy” that will make it disappear completely may not exist. But constructive steps can be taken: (1) accept the fact that the “two piracies” must be addressed together; any plan that considers only the “first piracy” will fail; (2) accept the fact that a solution which is only military will also fail; and (3) accept the fact that the tap root of the “first piracy” goes down deep into Somali soil. To be sure, the power vacuums on land and water have played their parts. But “social conditions” for most Somalis, especially for the younger generations, are bleak: few legitimate jobs, exacerbated by the destruction of the Somali fishing industry by the “second piracy.” A program of economic development that creates jobs fairly is required for the entire country, but especially for Puntland, if one serious about piracy. Reviving and protecting Somalia’s legal fishing industry would greatly help in this regard. An anonymous military analyst said it best, “You have hungry people who don’t have any legitimate way to make money. They think, ‘We want a piece of this pie.’”<sup>69</sup>

## 13 Vignette

### International drugs trafficking, organized crime, and terrorism in North and West Africa

The links among illegal drugs trafficking, organized crime, and terrorism are emerging with less murkiness in different parts of the world, and we continue to follow the contemporary practice of distinguishing terrorism from organized crime, even though they are both businesses and terrorism, technically, could be viewed as a particularly heinous subset of organized crime. In any event, we have no intention of over-generalizing about entire regions of Africa in this vignette. When we write “North and West Africa” in the title, we mean routes, locations, elements of organized crime and international terrorism, as well as their collaborators inside and outside of governments. The vast majority of the citizens of these two regions have nothing to do illegal drugs trafficking, organized, crime, or terrorism. Throughout this book we are determined to place illicit activities in their proper perspectives: our goal, as always, is to isolate the evil, not smear the innocent.

Multiple types of possible links are under study here. Relations between illegal drugs trafficking and organized crime make up one set of two-way links that have been developing for many decades in many areas of the world. Another set of two-way ties brings together illegal drugs trafficking and terrorism, which can be variously dated, depending on how one defines terrorism. But for more modern manifestations of terrorism, such as al-Qaeda and the various Taliban collectives, the links go back to the 1980s–1990s in Asia. A three-way version, which connects drugs trafficking, organized crime, and terrorism, has more recent origins and surfaced in North and West Africa in the first decade of this century. The two-way links are harmful enough in themselves, but the three-way version increases the odds that catastrophes will occur. We are not the boy who cried out “wolf, wolf” when there was no wolf. In fact, the growing threats out there, possibly armed with weapons of mass destruction, imperil our very lives. In truth, the three-way version of links is the most dangerous development in the global economic history of organized crime the author has encountered and he wants readers to be on high alert: *semper vigilatus, fortis, paratus, et fidelis*. Having sounded the equivalent of a maximum alarm fire, we return to an analysis of the links among international drugs trafficking, organized crime, and terrorism in North and West Africa.

We first set a stage that spotlights geography and commercial history. With respect to geography, we look at principal features of the two regions and begin

with North Africa. Three key words here are water, sand, and mountains. To its north, North Africa is located on the southern shores of the Mediterranean littoral, one of the great environments for historical analysis as noted in Part I. To its west, North Africa faces the Atlantic Ocean, while to its east it borders the Red Sea and the Sinai Peninsula, which is east of the Suez Canal. To its south is the Sahara Desert, which already extends massively into North Africa itself. The Atlas Mountains reach from the Atlantic Ocean and Morocco in western North Africa, across Algeria, to Tunisia and the Mediterranean Sea in central North Africa. For West Africa four key words are water, sand, Sahel, and savanna. Like North Africa, West Africa also faces the Atlantic Ocean to its west but also to its south, as the region approximates a hump that juts out from the western coast of Africa. Like North Africa, West Africa is profoundly influenced by the Sahara, which constitutes its northern border, so to speak. While West Africa has nothing comparable to the Atlas Mountains, it does have two other important geographical features: the Sahel and the savanna, both of which are zones that run from west to east, the Sahel below the Sahara and the savanna below the Sahel. Zone should not convey an impression of uniformity. The Sahel, for instance, has irregular boundaries and does extend into some North African countries, like Algeria, as it tracks south of the Sahara along its entire distance from the Atlantic Ocean to the Red Sea (2,400 miles (3,860 km)). The Sahel is, above all else, a varied zone of transition, between the Sahara and the savanna, as it combines semi-arid stretches, scrubland, and savannas, which are grasslands, with seasonal water availability. Besides the savanna just south of the Sahel, there is another extensive savanna in central, east, and south-east Africa; both give Africa the world's largest area of savanna.

The Sahara deserves special attention, as it is the dominant geographical feature of North Africa and a common border of North and West Africa. Sahara means desert in Arabic, so we follow the concise convention of referring to the desert only as the Sahara. It is vast, covering 8.2 million km<sup>2</sup> (about 3.3 million mi<sup>2</sup>), and reaches across all of North Africa from west to east, and goes north-south from the Mediterranean to the sixteenth parallel. By the way, the US, including Alaska and Hawaii, is only slightly larger at 3.7 million mi<sup>2</sup>.<sup>1</sup> And the Sahara is not all rocks and sand. It is

dotted with oases, small fertile pockets supplied with water from underground caches or mountain streams and aquifers that run into the desert. Oases often cultivate subsistence crops as well as dates and figs. They are also important water stops for desert travelers and herders.<sup>2</sup>

Through criminal lenses this geography is appealing, but not for reasons the law-abiding appreciate. Thousands of miles of Mediterranean and Atlantic coastline, some of it guarded but most of it not, constitute a porous border with ample opportunities for the import and export of illegal commodities and peoples. A major mountain chain arcing across half of North Africa furnishes sanctuary and protection for illicit activities and their perpetrators. And the great desert offers



multiple assets criminals can use. The Sahara is too massive for effective policing everywhere, which can enable the hunted to hide or escape. It also contains time-tested trade routes and strategically placed oases that can facilitate the transit of contraband. These trans-Saharan trade routes are the most relevant topic from commercial history for those who believe that “what’s past is prologue” and deserve emphasis here. Running roughly north to south, the caravan routes go back at least to 1000 BC and intertwine the histories of North and West Africa. Some believe that their most vibrant period of commercial activity extended from about the eighth century AD into the late sixteenth century. They lost some of their importance as the Portuguese thrust southward along the Atlantic coast of Africa and opened up sea routes that offered alternatives to land shipments across the Sahara. At one time, there were three major north-south routes, which played roles in the rise and fall of some states and empires. For instance, the ancient empire of Ghana, not to be confused with the modern nation-state of the same name, benefitted from its strategic location near the trans-Saharan trader routes; it lasted from about AD 300 into the twelfth century. And Kanem, another important polity, was based at the southern terminus of the trans-Saharan route that connected Tripoli in the north to the region around Lake Chad in the south; it lasted from *c.* AD 800 into the sixteenth century, when Bornu took it over. Individual routes increased or decreased in importance depending on such factors as (1) the supply of and demand for what they carried and (2) the strength or weakness of whatever powers controlled their northern and southern termini and points in between. I recommend readers consult the cited sources for maps and more detailed analysis.<sup>3</sup>

While the “past is prologue,” the present may also be prescient. The Sahara offers more modern modes of transport. Do not forget about the Trans-Saharan highway or about the desert in relation to transit by air. The Trans-Saharan highway, begun in the 1970s, is apparently still a work in progress. The latest credible evidence the author found estimates that the highway was about 75 percent complete; this was in 2007.<sup>4</sup> At this writing, no reliable construction update was available. This is a major infrastructure project, designed to link Algiers, Algeria, in the north on the Mediterranean Sea, through Niger, to Lagos, Nigeria, in the south, which is on the Atlantic Ocean, a distance of about 4,500 km. *The main highway is situated on an existing trade route across the Sahara.* Even when officially complete, the journey will not be without challenges, as sections of the highway across the central Sahara run through very harsh conditions and necessitate vehicles appropriately equipped; parts of the highway are susceptible to flooding, but this is not a unique problem in travel by road.

As far as the Sahara and air transport are concerned, international flights regularly overfly the desert; the author himself did so twice in 1973 on his way to, and return from, Dar es Salaam, Tanzania. This was a research mission for his first book; something far more sinister is now occurring there, which brings us directly to the central task of this vignette: analyzing relations among international drugs trafficking, organized crime, and terrorism. A major example of

these links originates with the accidental discovery on 2 November 2009, of the wreckage of a Boeing 727 in the Gao region of Mali, “an area affected by insurgency and terrorism.”<sup>5</sup> Sources agree on one thing found in the burned debris of that wreckage—cocaine—but at first glance conflict on the quantity: “traces of cocaine”<sup>6</sup> or “with up to 10 tonnes of cocaine from Venezuela on board.”<sup>7</sup> Actually, there is no conflict, because “up to 10 tonnes” can mean an ounce or “traces.” I do not know how extensive the fire was or the exact state of the wreckage, but I am inclined to go with “traces” or a lower weight as cocaine is not fire-resistant. In any event, the important contribution of the latter source is to identify “Venezuela” as the country of departure, since this places the 727 flight in the context of well-established drug routes linking South America and Europe through West Africa, except that the flight was intended, not to go on to Europe, but to deliver its cargo somewhere in the Sahara or Sahel, “where militant groups such as the north African branch of al-Qaeda operate.”<sup>8</sup>

On 8 December 2009, more than one month after the discovery of the 727 wreckage, Antonio Maria Costa, head of the United Nations Office on Drugs and Crime, told the UN Security Council that his office had “‘acquired evidence’ of new trafficking routes across Chad, Niger, and Mali.”<sup>9</sup> These originate in the meeting in the Sahara of two streams of illegal drugs—heroin coming into Eastern Africa from Asia and cocaine arriving in West Africa from South America. Supposedly “50 to 60 tonnes of cocaine were trafficked every year across West Africa while another 30 to 35 tonnes of Afghan heroin [were] being trafficked into East Africa every year.”<sup>10</sup> Drugs trafficking into East Africa takes advantage of the power vacuums in Somalia and Yemen (see previous chapter) and in West Africa the country of Guinea-Bissau “was becoming a trafficking hub.”<sup>11</sup> Costa implied that “aircraft delivering illegal drugs” were replacing “traditional caravans,” giving drug trafficking in the Sahara and Sahel “a whole new dimension.”<sup>12</sup> While aircraft have become an important alternative, the author seriously doubts they are completely replacing land-based transport, including caravans, in the transport menu of drugs trafficking. Smugglers are adept at combining different types of transportation in the same journey, as the operations of the Colombian and Mexican drug cartels demonstrate. Multiplicity of routes promotes deception, which minimizes risk. As we have emphasized throughout, this approach requires an investment of more resources, including time and labor, but accords with the criminal concept of economic efficiency, which accepts the trade-off between more resources spent and greater security obtained.

In the original text of his speech Costa provides some details about how this commerce operates which the news reports we cite do not give. Most significant is his description that “cocaine from the West is being traded 1:1 with heroin from the East.”<sup>13</sup> So, on the surface, this is countertrade or barter, but Costa interprets these exchanges in a different way: “drugs are becoming a sort of new currency in the area.”<sup>14</sup> How are drugs functioning as “a sort of new currency” for the Sahara and the Sahel? Diamonds, which we discussed in connection with the resource wars in Sierra Leone and the Democratic Republic of the Congo (Chapter 11), function as both funding and reserve currencies, because they

possess four attractive characteristics—durability, versatility, intrinsic value, and portability. Neoclassical economic theory (see introductory chapter) posits a three-fold demand for money: for transactions, for speculation, and for precautions. A funding currency relates to the transactions demand in this framework; a reserve currency, to the precautionary demand. Speculation is buying or obtaining something mainly for the purpose of selling it later at a higher price. Some would insist the speculation is getting something solely in order to sell it for a higher price, but the author believes “solely” is too restrictive and hence prefers “mainly” or “primarily.” A reserve currency may also relate to the speculative demand for money in the neoclassical framework, as one may buy a reserve currency not only as a safe harbor but also as a way to store an asset until the time is more favorable to sell it for a profit.

How do cocaine and heroin measure up to diamonds? Well, neither is particularly durable nor can they match the particular versatility of diamonds. But both have legitimate medical uses as painkillers. Heroin, for example, is essentially very powerful morphine (which comes from opium) and can be prescribed for severe pain in the UK, but not in the US. Moreover, both cocaine and heroin are eminently portable and transportable. We know that both are functioning as funding currencies in the Sahara and Sahel to purchase weaponry and other items considered necessities by insurgent and terrorist groups. In theory, both drugs could work as reserve currencies, particularly for speculative purposes as just explained. Some may hold part or all of their drug supply in reserve in order to wait for a more favorable time to do whatever they want to do with it. But does the traditional distinction between extrinsic and intrinsic value apply to cocaine and heroin as they function as “a sort of new currency” in the Sahara and Sahel?<sup>15</sup> A short review of this distinction would be helpful. Intrinsic value, as noted in Chapter 11, inheres in a commodity. The classic set of examples comes from coinage. Some coins contain gold, silver, or copper; these metals embody intrinsic value. Extrinsic value, as it applies to a conventional money supply, is what a government says something is worth; the classic example is paper money, whose intrinsic value is the cost of the paper and ink a note embodies. Governments historically have debased coinage by widening the difference between the intrinsic and extrinsic values of a particular coin.

Now ask, does any of this make sense in the Sahara and Sahel? We know that cocaine and heroin have extrinsic value, defined here as what participants to a transaction agree something is worth, because they are acceptable as funding and possibly reserve currencies in this area. But do the drugs embody intrinsic value? Users would argue that pleasure and relief from pain embody intrinsic value, but that personalizes the concept to a subset of the population, whereas intrinsic value in the sense of precious metallic, mineral, or gemstone content has universal validity. Clearly, more information is needed about the monetary cognitions of the exchangers and possessors of cocaine and heroin in the Sahara and Sahel. This is a task for *ethnoeconomy*, a branch of *ethnoscience*, which is a type of cognitive anthropology (see Chapter 1). In an earlier article the author combined techniques from *ethnoeconomy* with the method of economic history in an

endeavor to identify and analyze colonial African moneys.<sup>16</sup> In that article he had sufficient evidence; for the two new African moneys in the Sahara and Sahel—cocaine and heroin—he presently lacks enough detail to proceed. Perhaps in the future captured documents or court records will build an evidentiary base he can use.

While it is crucial to obtain more information about how the Sahara-Sahel Connection works, we should not lose sight of its significance in the triangular relationship among drugs trafficking, organized crime, and terrorism Costa develops in his UN speech. Illegal drugs “enrich” organized criminal groups, but even more as “terrorists and anti-government forces in the Sahel extract resources from the drug trade to fund their operations, purchase equipment and pay foot soldiers.”<sup>17</sup> Credible evidence thus points to the involvement of both organized crime and international terrorism in this more recent version of drug trafficking routes: Africa is no longer just a transshipment point between Europe and the western hemisphere, but the Sahara and the Sahel now constitute important destinations in their own right. But exactly what links are at issue here? Costa underscores an “enriching” link between organized crime and illegal drugs, and an “extracting” connection between terrorists and insurgents, on the one hand, and illegal drugs, on the other. But we have, in effect, only two sets of bilateral relationships: between organized crime and illegal drugs; and between terrorism and insurgency and those drugs. But is this an authentic triangular relationship, which includes ties between organized crime and terrorism/insurgency that go beyond their involvement in the same commercial flows and features operational links? In other words, do organized criminal groups and those dedicated to terrorism and insurgency just co-exist or do they cooperate in some manner in this commerce? The original text of the Costa speech is silent on these questions.<sup>18</sup> Whether this silence proceeds from lack of information or possession of classified intelligence he cannot disclose the author obviously does not know.

Other evidence, however, begins to establish the triangular connection among organized crime, terrorist groups, and international drugs trafficking in operational terms. The best evidence to date consists of records associated with two court cases developing in US federal court, Southern District of New York. The first is a criminal complaint filed there against three Malian nationals on 18 December 2009. This case focuses “on a criminal organization in Ghana and elsewhere in West Africa that investigators believed worked with Al Qaeda, moving drugs to North Africa and on to Europe.”<sup>19</sup> Oumar Issa, Harouna Touré, and Idriss Abelrahman “face charges of conspiracy to commit acts of narco-terrorism and conspiracy to provide material support to a foreign terrorist organization.”<sup>20</sup> These three defendants allegedly agreed “to transport cocaine through West and North Africa with the intent to support three terrorist organizations—Al Qaeda, Al Qaeda in the Islamic Magreb (‘AQIM’), and the Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia, or ‘FARC’).”<sup>21</sup> FARC first appeared in Chapter 8. The historical significance of this case is that it is “the first time that associates of Al Qaeda have been charged with narco-terrorism offenses.”<sup>22</sup> The transport of this cocaine supposedly was to unfold in at least five phases:

- 1 shipments of cocaine would come from Colombia to Ghana by airplane;
- 2 the drugs would then move to Mali, possibly through Niger, by Land Rover 4×4 vehicles;
- 3 the drugs would receive “armed protection across the Sahara”;
- 4 “a Brazilian criminal organization would handle the transfer from Morocco to the Canary Islands,” a Spanish archipelago situated about sixty miles west of the Atlantic shores of North Africa; and
- 5 a lab in Europe would process the cocaine.<sup>23</sup>

More details about the defendants, the planning and proposed implementation of the alleged “conspiracy,” and the meticulous investigation by law enforcement can be found in the criminal complaint, which is worth reading in its entirety, although one must bear mind that not everything learned is revealed there.<sup>24</sup> The criminal complaint is designed to establish probable cause for an arrest, so only a sufficiency of evidence is presented. And, as an agent with the US Drug Enforcement Administration who worked on the case wrote, “I have omitted mention of some of the facts known about the defendants in order to protect sensitive sources of information.”<sup>25</sup> The consequences for our investigation are not altogether benign. We learn little, for instance, about the “Brazilian criminal organization” mentioned above in phase four. Still, the criminal complaint casts adequate light on a trilateral relationship among drugs, organized crime, and terrorism which illustrates the traditional version of drugs trafficking that uses North and West Africa as transshipment points.

The second court case also testifies to the staying power of those well-established drug routes that link South America, West and North Africa, and Europe. But this case also suggests that some of the cocaine entering Africa from South America stays in Africa, although there is no explicit mention of the Sahara-Sahel Connection. The second case features a larger and more diverse set of alleged miscreants and illuminates strategies they follow against legitimate governments. Insurgency is involved; FARC, “the world’s largest supplier of cocaine,” is allegedly a provider of that drug in this case.<sup>26</sup> But no ties are claimed with al-Qaeda or its affiliates, so terrorism in this sense is not an issue. Indeed, none of the defendants are charged with terrorism, but it is still relevant for our trilateral analysis, as the US government has designated FARC a foreign terrorist organization.<sup>27</sup>

The second case contains two indictments that together depict a truly transnational ensemble of “conspirators.” But remember the following statements are allegations in indictments, documents which aim to portray defendants in the worst possible light. The S8 09 Cr. 524 Indictment sketches five defendants. Chigbo Peter Umeh, 42, from Nigeria, “is a broker who assisted various international narcotics suppliers in shipping numerous tons of cocaine from South America to West Africa, from where the cocaine was transported to Europe or elsewhere within Africa.” We draw attention to the phrase “or elsewhere within Africa” as a possible link with the Sahara-Sahel Connection. Salazar Castano, 44, from Colombia, “is a cocaine supplier based in Colombia and Spain, who,

together with his co-conspirators, sent large commercial aircraft containing cocaine from South America to West Africa, as well as smaller, private airplanes that departed from clandestine airstrips in Venezuela.” Konstantin Yaroshenko, 41, from Russia, “is an aircraft pilot and aviation transport expert who transported thousand-kilogram quantities of cocaine throughout South America, Africa and Europe.” Nathaniel French, 51, from Ghana, “assisted drug suppliers by providing logistical support and coordination for maritime shipments of cocaine across the Atlantic Ocean.” And Kudufia Mawuko, 57, also from Ghana, “assisted the drug suppliers through his extensive knowledge of maritime navigation, including the development of sea routes that could evade law enforcement radar.”<sup>28</sup>

The 10 Cr. 457 Indictment presents three more “conspirators.” Gilbrilla Kamara, 40, from Sierra Leone, “has actively sought to recruit South American drug trafficking organizations to establish operations in various West African countries, including Liberia, Guinea Conakry, Guinea Bissau, Sierra Leone, and Nigeria.” Kamara thus appears as a central facilitator in encouraging South American organized crime to establish subsidiaries, as it were, in West African locations. Kamara has also “made efforts to corrupt and influence Government officials within the West African region in order to establish safe havens for the receipt, storage, and trans-shipment of thousands of kilograms of cocaine.” Gennor Jalloh, 33, and Ali Sesay, no age given, also come from Sierra Leone; they “have assisted Kamara with his drug distribution enterprise and with his efforts to corrupt public officials for the benefit of South American drug trafficking organizations.”<sup>29</sup> This indictment identifies the principal strategy those organizations pursue to penetrate West Africa: undermine national governments by corrupting as many officials as possible. The principal tactic in implementing this strategy can best be summarized by paraphrasing a famous movie line: “show them the money,” lots of cash—in bags, suitcases, and steamship trunks, whatever. The drug cartels and other trafficking organizations keep billions of US dollars on hand for transactions or funding purposes. Those organizations probe and push until they find government officials who cannot resist all that money. Both strategy and tactic have succeeded numerous times in many West African countries. In an important article in the *Financial Times*, Matthew Green spotlights West Africa and analyzes how “the world’s poorest nations are becoming a main route for cocaine shipments to Europe—with illicit cash turning soldiers, police and politicians into willing accomplices.”<sup>30</sup> But when “conspirators” targeted Liberia and brought their millions, they contacted the wrong people. One was the son of the current President of Liberia; he and another individual cooperated with the US Drug Enforcement Administration in gathering evidence that led to those two indictments. One can only hope that “soldiers, police and politicians” in other West African countries can summon the political will and moral courage to “just say no” to the agents of personal degradation and community disintegration.

This completes Part IV.

## Part V

# Asia and the Western Pacific

In the last part of this book we consider three topics which all have great transnational significance. The first two involve major criminal groupings with global reach. In fact, anyone compiling a top ten list of the most important criminal phenomena in the world today would surely have to find places for the Chinese triads and the Japanese yakuza. We use the words “groupings” and “phenomena,” because neither the triads nor the yakuza are a single organization, with any kind of administrative center, but rather many individual societies or syndicates. Moreover, the adjectives “Chinese” and “Japanese” have both ethnic and geographical meanings. Mainland China and the Japanese archipelago are the cradles of the triads and yakuza, respectively, but both have achieved a criminal penetration and enduring global presence that is striking and deserves analysis from economic history. Our central question is, how could they become so transnational?

On a superficial level, all the triads seem alike, so also do the yakuza. Well, as we have already shown, if you have seen one mafia in action, you have not seen them all. This observation also applies to the Mexican and Colombian drug cartels and we hypothesize that the same conclusion will emerge from our study of the Chinese triads in Chapter 14 and the Japanese yakuza in Chapter 15. For one thing, we know right away that not every triad or yakuza has the same core business or set of businesses. And economic history has taught us that the types of businesses an organization runs can influence any number of matters it must consider, such as its structures, procedures, personnel, policies, and strategies, even the mix of centralization and decentralization (interdependence) it develops. So we will study the origins and evolution of both triads and yakuza with the assistance of organization and any other relevant factors from our comparative framework. In addition, comparisons and contrasts between triads and yakuza will be made where appropriate.

Chapter 16 offers a vignette on a set of issues pondered in Chapter 13: the types of links among international drugs trafficking, organized crime, and terrorism. North and West Africa were our focus there; here we turn to Afghanistan and its environs during the last thirty years or so. Our primary aim is to elucidate those links, not so much to provide a running critique of the approaches followed by every side in the present conflict, which is playing out on multiple levels. However, these approaches affect those links and we must necessarily analyze them as such.





## 14 Triads

Before anything else, two questions demand immediate answers. Where does the term “triad” come from? And what does it mean? The first is much easier to answer than the second. “‘Triad’ was coined,” Paul Lunde notes, “in 1821 by Dr. Milne of Malacca in the first English description of the Three Unities Society.”<sup>1</sup> Dr. William Milne (1785–1822) was the western “pioneer in the study of Chinese secret societies,” a Scottish missionary, and principal of the Anglo-Chinese college in Malacca, which is located in the southern region of the Malay peninsula, on the straits of Malacca, and in the present country of Malaysia.<sup>2</sup> “Triad” is thus shorthand, inspired by something known as the Three Unities Society, which itself calls for definition. Sources conflict as to the preferred name for this group. Lunde uses “unities”; others refer to it as the “Three United Society.”<sup>3</sup> The “three unities society” and the “three united society” are English names for yet another entity, the Samhehui, which was a secret society in the tradition of the Tiandihui. “After suppressing the Lin Shuangwen rebellion in 1786,” Yiu Kong Chu notes,

the Qing government in China declared the Tiandihui an illegal society. Consequently, all societies which adopted the name and ritual of the Tiandihui were forced to go underground or to change their names to escape detention. One of those was the Samhehui (Three United Society), better known as “Triad.”<sup>4</sup>

So this is, in brief, the origins of the term “triad.”

Now what does “triad” or in its fuller designation the “Three United Society” mean? Put more simply, what three things are united? Martin Booth suggests that members see the world as “tripartite, a unity of the three main powers of nature: heaven, earth and man.”<sup>5</sup> Whether this world view was integral to, or had any influence on, the criminal ethos that increasingly infused the triads as they developed is beyond the author. What is evident is the mystical nature of the concept of the threesome. It is not unique to Chinese or triad culture. Threesomes play crucial roles, for example, in Christianity, with a Deity known as the Trinity consisting of the Father, Son, and Holy Spirit, and in aspects of Jewish thought.<sup>6</sup> For secret societies association with a threesome could only enhance

the desired aura of an impenetrable presence. And practically speaking, the concept of a threesome led to all sorts of material objects: “Many of the early society flags, used in ceremonies or paraded into battle, bore a triangle. Both the name and the emblem are the origin of the modern term for all Chinese secret societies—the Triads.”<sup>7</sup> Thus, the term “triad” was coined with a particular organization in mind, the Samhehui (Three United Society), but eventually embraced “all Chinese secret societies.” In the midst of all this nomenclature, one should not lose sight of a crucial fact: the term “triad” is a foreign invention, by William Milne, and used primarily by foreigners to refer to Chinese secret societies. The Chinese themselves “refer to the societies either under their individual names or, collectively, as Hak Sh’e Wui, the Black Society.”<sup>8</sup> The fact that “triad” is shorthand has two important consequences. For outsiders attempting to understand them, shorthand can promote stereotyping: if you have seen one, you have seen most or all. For insiders, stereotypical thought about them has strategic value, as the shorthand becomes an obstacle to the kind of precise analysis that might inform law enforcement approaches which could damage them.

Having explained the meaning of the term “triad” and where it originated, we can now turn to the secret societies themselves—their origins, criminalization, domestic development, and expansion overseas. But first we set a stage that assembles salient facts from Chinese geography and history. Our concern here is with information that will help us better understand the triads. Let us begin with geography. Situated in eastern Asia, China is a vast country, with a land area of 9,569,901 km<sup>2</sup>, and a water area of 27,060 km<sup>2</sup>. It is the third largest country in the world after Russia and Canada. If one does not count territories whose inclusion is controversial, China slips to fourth and the US becomes the third largest country. Either way, the distances are still daunting. From east to west the country spans 5,026 km (3,123 miles). Its total coastline is about 14,500 km and its land boundaries total 22,117 km. The long list of countries with which China shares borders would facilitate the transnational expansion of any Chinese organization. To illustrate this critical point, consider the following. In alphabetical order, the Chinese border with Afghanistan is 76 km, Bhutan 470 km, Burma 2,185 km, India 3,380 km; with Kazakhstan 1,533 km, Kyrgyzstan 858 km, Laos 423 km, Mongolia 4,677 km, Nepal 1,236 km, North Korea 1,416 km, Pakistan 523 km, Russia (north-east) 3,605 km, Russia (northwest) 40 km, Tajikistan 414 km, and Vietnam 1,281 km. In addition to these fourteen countries, China has borders with its two special administrative regions, 30 km with Hong Kong and 0.34 km with Macau.<sup>9</sup>

Hong Kong and Macau deserve special notes, since each plays an important role in triad economic history. Hong Kong is located off the southeastern coast of China and faces the South China Sea.<sup>10</sup> It covers 1,104 km<sup>2</sup> (50 km<sup>2</sup> of water) and is now one of the most densely populated areas of the world. Its overall density is 6,420 people per km<sup>2</sup>; the Kwun Tong district has 52,160 people per km<sup>2</sup>.<sup>11</sup> Its residents “live on the Kowloon Peninsula adjacent to the Pearl (Xi Jang) River estuary, the mainland New Territories, Hong Kong (Xianggang) Island and an additional 254 outlying islands.”<sup>12</sup> Hong Kong has two geographical assets of great strategic value: its location and its port. It is located

on international shipping lanes and has a land border, as noted, with the People's Republic of China adjacent to that country's Special Economic Zone (SEZ) of Shenzhen. The Special Economic Zone is not unique to China; India, Kazakhstan, the Philippines, and the Russian Federation, among others, have their own versions. In China the SEZ is given the power and flexibility to implement its own policies, which usually aim to attract foreign investment and thereby stimulate economic activity.<sup>13</sup> The Special Economic Zones of Shenzhen, along with those of Xuhuai and Shantou, are all in Guangdong Province in the southeastern part of the country, close to those international shipping lanes and the great port of Hong Kong. Known as Victoria Harbour, this port is situated between Kowloon Peninsula and Hong Kong Island; it is one of the deepest maritime ports in the world, which in itself has immense strategic value in economic, financial, and military senses.

Some might reckon Hong Kong's highly dense population as a third geographical asset, although others might emphasize the downsides of urban congestion and compact living space. From afar, we view it as an asset that can work for both legitimate and illegitimate businesses. In economics there is a concept known as market density, which has general and specific meanings. In its specific sense it refers to the number of potential consumers of a certain product, as measured in some spatial unit, such as square miles or square kilometers. In its general sense market density also looks at consumers by geographical unit, not so much in terms of concentrated demand for a particular product but more in terms of an overall economic dynamism that can result from so many people living in such little space. In Hong Kong high market density in a general sense works for both legal and illegal businesses, whereas density in relation to a particular product seems a more useful concept for legal businesses, because how can one estimate which consumers in a market will provide what kind of demand for which product or service furnished by organized crime?

Macau is also located off the southeastern coast of China and faces the South China Sea.<sup>14</sup> It sits at the end of the peninsula formed by the Pearl River estuary to its east and the West River to its west. Macau actually consists of the Macau Peninsula and the islands of Taipa and Coloane. While Macau does not have a harbor like Hong Kong's Victoria Harbour, its location is a great geographical asset in two ways: its proximity to Hong Kong and its contiguity with China. Significantly, it is only 60 km (37.2 miles) almost due west from Hong Kong. It is much smaller in physical size than its neighbor; in 2000, Macau's total land area was about 23.6 km<sup>2</sup>. But its closeness to Victoria Harbour and Hong Kong's highly dense consumer market confers economic advantages. Like Hong Kong, Macau has access to international shipping lanes and shares a land border, as noted, with China, which is also adjacent to a Special Economic Zone, the Zhuhai (Xuhuai) zone.<sup>15</sup> Hong Kong and Macau, however, have taken different paths of economic specialization over the years. Whereas Hong Kong functions as a major facilitator of international shipping and one of the world's most important financial centers, Macau has emerged as a premier global destination for a tourism that centers on casino gambling.

But Hong Kong and Macau exhibit one more similarity that is also a theme of general Chinese history: manipulation and sometimes exploitation by outsiders. Hong Kong and Macau both have a colonial heritage. Each was once a colony of a European imperial power: Great Britain controlled Hong Kong; Portugal ruled Macau. Hong Kong had great geopolitical importance for Britain; its expanding empire needed the dominant sea power represented by the Royal Navy and that navy prized the port of Hong Kong. Portugal came to occupy Macau in the latter phase of its own imperial expansion across the Indian Ocean and into the South China Sea; Macau was first a trading center and then became a territory. Portuguese control of Macau lasted much longer, for about 422 years, until that territory was handed back to China in 1999. Britain gained possession of what was then Hong Kong only in 1842, when China ceded it after losing the First Opium War (1839–1842), to be discussed shortly. In 1898 “China leases the New Territories together with 235 islands to Britain for 99 years from 1 July.” In July 1997, the British returned Hong Kong, including the New Territories and the islands, to China after more than 150 years of colonial overrule.<sup>16</sup>

The list of foreign interventions in China is long and includes the opium wars with Britain, the various US military interventions, and recurring conflicts with Japan, especially two wars.<sup>17</sup> A sampling of examples etches China’s predicament. The aforementioned First Opium War, also known as the First Anglo-Chinese War, had two commercial goals: (1) forcing China to open up to western trade and (2) protecting Britain’s thriving opium sales in China, a drug which was grown legally in British India. The deep involvement of the British government in the opium trade, by the way, is firmly in the time-honored traditions of governments benefitting from the trade in narcotics, even if the drug in question was considered legal in certain jurisdictions. In the First Sino-Japanese War (1894–1895) China was defeated, forced to cede the offshore island of Taiwan to Japan, and recognize the independence of Korea, which Japan would occupy from 1910–1945. The Second Sino-Japanese War (1937–1945) ended only with the unconditional surrender of Japan in 1945. This conflict is known in China as the War of Resistance against Japan and was the culmination of multiple incidents and a relentless Japanese imperialism which aggressively sought control of Chinese resources, including food and labor.

Foreign intrusions painfully reminded the Chinese of how weak their government was in confrontation with the agents of imperialism and their “lackeys,”<sup>18</sup> to echo Chairman Mao Zedong, who led the People’s Liberation Army to victory over the Kuomintang, led by Chiang Kai-shek, in the Chinese civil war which ended in 1949. The theme of foreign intervention helps explain Mao’s motivation: he was determined to destroy what he saw as the alliance between feudalism and imperialism that was harming his country.<sup>19</sup> The civil war and the eventual triumph of the Communist Party over the Nationalist Party (Kuomintang) were watershed events in triad history and here is why. During the civil war the triads worked with the losing side, the Nationalists, with whom they had long-standing relations. For example, Dr. Sun Yat-sen, the Nationalist leader who overthrew the unpopular Manchu dynasty in 1911, founded Hong

Kong's first "homegrown" triad, the Chung Wo Tong (Lodge of Loyalty and Righteousness), in the early 1900s; it remains one of the most powerful triad groups.<sup>20</sup> Chiang Kai-shek, who succeeded Sun Yat-sen as Nationalist leader in 1926, also had triad connections. He was a member of the Green Gang, a powerful triad based in Shanghai, which is a major port city located on the eastern coast of China at the mouth of the Yangtze River; in the early twentieth century Shanghai was a triad stronghold. Chiang Kai-shek had "a background in art theft, extortion, and armed robbery."<sup>21</sup>

Is this a process of organized crime embedding in organized politics or the other way round? I cannot tell. Anyway, with his qualifications and social network, Chiang naturally turned to the triads for assistance when he wanted to sever links with the Communists in 1927. Backed by the Kuomintang, the Green Gang went after "labor unionists, communists, and left-wing intellectuals, killing more than 5,000."<sup>22</sup> These "hits" deeply disturbed and angered Mao, who had once thought that the triads, if properly led, could become a revolutionary force: so much for wishful thinking. The triad alliance with the Nationalist Party was annoying enough, but when they undertook murder for the party, that seemingly ended their future on mainland China when Mao Zedong assumed power in 1949. The defeated Nationalists fled to Taiwan, which is in the western Pacific Ocean about seventy-five miles east of mainland China, and developed their headquarters there; mainland triads followed suit.

These important historical and geographical facts, as well as our initial discussion of the meaning of the term "triad," all set the stage for analyzing the overriding question posed in the introduction to Part V. How could the triads become so transnational? The triads could become so transnational for the following six reasons.

- 1 They share a common culture that promotes exceptionally strong bonding, which helps an organization stay intact as it operates in difficult environments.
- 2 They have the right approach to interdependence—that mix of centralization and decentralization every organization has: in other words, their structures are supple.
- 3 They sometimes work out various types of alliances with other triads and organized criminal groups.
- 4 They locate in cities that already have significant populations of ethnic Chinese. In fact, legal Chinese immigration prepared the way for the diffusion of the triads, as it created urban neighborhoods where triad members arriving later could move about and not attract attention or suspicion solely for the way they look.
- 5 The urban settings that were a triad favorite for security reasons were also valuable for building underground economies, even "twilight zones," as dense populations created potentially strong markets for the products and services of organized crime, as noted in our earlier discussion of Hong Kong. And

- 6 Triads evolved diversified mixes of businesses—core, major, and secondary—that were suitable for their particular locations and which also could facilitate transnational expansion if so desired.

## 1 Bonding

In a comparative sense, the bonding of triad members is among the strongest of all organized crime groups in the world. It is thus worthwhile to inquire why this is so. In too simple terms, triad bonding is so strong because triad culture is so strong. Culture, as I noted in Chapter 1, embodies the character or ethos of a group as reflected in the ways its members think and act. Every culture thus has many facets; here we focus on two major sources of triad culture.<sup>23</sup> The first is a shared historical memory on such matters as where the triads come from, their original purpose, and how they evolved. The second consists of certain triad procedures, including initiation rituals, which join members one to another and to the group. Both historical memory and procedures contribute mightily to triad culture. As to the first, historical memories can become misty, nostalgic, and even mythical, but certain facts about the triads in this regard are clear. The triads did not invent the secret society in China, whose birth some date as early as the T'ang dynasty (AD 618–907), “when Buddhism was outlawed and driven underground.”<sup>24</sup> Many T'ang officials followed Confucianism and viewed Buddhism as disruptive.<sup>25</sup> The T'ang emperor started a persecution of Buddhism in 845: “more than 4,600 monasteries and 40,000 temples and shrines were destroyed.”<sup>26</sup> So the first secret societies originated during times of religious persecution and had as their primary purpose the protection of their members; the White Lotus sect was “probably” founded in this hostile environment,<sup>27</sup> but an alternative view locates its spiritual ancestry much earlier, in the fourth century AD.<sup>28</sup> While the origins of the White Lotus sect are cloudy, its legacy for the triads is crystal-line: “Modern Triads identify with the patriotic and nationalistic aspects of the White Lotus, as well as their Buddhist beliefs.”<sup>29</sup>

Just as the secret society in China did not originate in criminality, so also were versions of the secret society—the triads—not oriented to illegal activities in their earlier history. To be sure, the secret societies later subsumed under the term “triad” first proposed, as noted at the outset, by William Milne in 1821 were more insurgent and even revolutionary, in the eyes of the governments of the day which declared them illegal. But from the perspective of their membership, those societies had one *raison d'être*: survival in the face of political persecution, just as the White Lotus and other early secret societies endeavored to outlast periods of religious oppression. Modern triads cherish their tradition as organizations designed, first and foremost, to protect their members. *BBC News* put the benign essentials of triad historical memory thus: with origins in the Chinese feudal period, “the triads began as secret societies based on the principles of clan alliance, personal indebtedness and mutual protection.”<sup>30</sup> But, much later on, the picture turned dark: “in the first half of the twentieth century they

[the triads] had become ruthless criminal organizations, first in Hong Kong and then across the Chinese diaspora.”<sup>31</sup>

There are striking parallels between the history of the triads and that of the Sicilian Mafia, La Cosa Nostra. In Chapter 2 I argued that the antecedents of this organization originated in the later European Middle Ages, when European feudalism was unraveling and nation-states were developing, especially in France and England. Those early associations were legal and specialized in guarding property that government was unable or unwilling to protect. So, on both Sicily and mainland China in their respective feudal eras, antecedent organizations emerged with the primary purpose of protection. The proto-La Cosa Nostra was concerned with property and people; the proto-triads seemed to have the protection of people as their uppermost objective. Fast forward: we know that major criminalization of La Cosa Nostra accelerated during the nineteenth century; that of the triads in the first half of the twentieth. What happened during the interims is murky. There may always be a few bad apples in the best-intentioned organizations, but when the decisive tilts towards criminalization began and why is not clear in either case. These are probably not the types of dramatic shifts that lend themselves to specific dating, but who knows? Both the triads and the Sicilian Mafia were already structured to move successfully into illegal activities, because of their characteristics as secret societies and bonded brotherhoods. The insuperable evidentiary problem is that at the times of these transformations, members usually did not talk to the media nor leave written records. One can surmise that when a critical mass of leaders with criminal propensities came to the fore and feasible opportunities presented themselves, pervasive criminalization could proceed.

Besides historical memory, certain triad procedures, especially initiation rituals, contribute to triad culture and, in turn, triad bonding. Let us spotlight triad initiation ceremonies, which on paper are more elaborate than those one must successfully negotiate to become a “made” member of any of the Italian or Italian-influenced mafias with which I am familiar. I refer readers elsewhere for detailed recreations of traditional triad initiation ceremonies,<sup>32</sup> as I will concentrate on contemporary versions, comparing and contrasting the approaches of the triads and the US mafia. Readers should bear in mind one critical fact: descriptions of triad initiation ceremonies found in the literature may not reflect the ways they are actually used today. Over time the trend has become to simplify and shorten these procedures, both for the US mafia and the triads, partly in response to increasing surveillance from law enforcement. Today the Hong Kong triads, for instance, “still conduct initiation ceremonies, but they are considerably simplified.”<sup>33</sup> But, even in this new era of economical initiation, one can discern similarities and differences between the approaches of the triads and the US mafia, which we consider first.

A concise contemporary description of a mafia induction occurred in a trial in US federal district court in Cleveland, Ohio, in 1999. Lenine Strollo was reputedly the Don of an organized crime family based in Youngstown, Ohio; he had “flipped,” which means he turned state’s evidence, when he decided to become a

cooperating witness in the trial of three men who were once members of his “family.” On 3 March 1999, Strollo was asked on the witness stand about the ceremony in Pittsburgh, Pennsylvania, that marked his induction into the mafia. He responded, “you get together with the other members, you took an oath, draw blood from a finger and burn a religious card to take an oath of silence.”<sup>34</sup> The essentials of this ceremony, therefore, involved witnesses, human blood, the incineration of a religious object, and an oral oath—the *omertà*, the famous blood oath of secrecy. This is the strongest possible oath, because it bonds a member for life and carries the ultimate sanction if broken: death.

As for the triads, one version of their simplified induction contains basic elements of the traditional ritual, which can take up to three days to perform and features thirty-six oaths.<sup>35</sup> The shorter form includes a sponsor for the recruit, an emphasis on the voluntarism of his joining, a recitation of triad history, swearing of an oath before an altar, a reminder of the severe consequences of betrayal, swearing allegiance to his brothers, and something to do with blood, the recruit possibly drinking his own blood mixed in with that of others.<sup>36</sup> So both mafia and triad inductions have witnesses, oaths, and blood rituals. The mafia version features the burning of a religious object, which may seem at first glance disrespectful to religion, but that may not always be so, as some believe that when they burn the card carrying the image of a saint, so also will they burn if they break the oath: “enter live, leave dead.” The triad version unambiguously respects religion or at least spirituality, as the recruit swears an oath before an altar “which is decorated to represent the mythical triad capital of Muk Yeung.”<sup>37</sup> Yet even in its shorter version, the triad induction remains more elaborate than that of the US mafia, but I’m not so sure that mafia inductees need to have the highlights of mafia history recited to them at their initiations: most of them know it through oral histories passed from one generation to the next. Lastly, an important but difficult question is, do simplified initiation rituals result in less strong bonding? In other words, does a three-day event weld a stronger bond than a twenty-minute initiation? I am not in a position to answer this question. But if the oath is the *sine qua non* of the bonding coming out of an induction and if breaking that oath brings death, then simplification may not lessen the induction bond. So perhaps it is neither the length nor the elaborateness of the ceremony, but the quality of what is performed that matters most.

## 2 Structure

Triad societies are, by all accounts, among the most efficiently structured criminal organizations in the world today. Many use the term “efficiently structured” without defining it. In our view, “efficiently structured” means using the least bureaucracy to achieve a desired goal. Put in conventional terms from economics, it means getting the most results from the least amount of bureaucracy, which here encompasses such items as the labor of leaders and other personnel, the layers or levels of administration in an organization and how much these cost to set up, staff, and operate, expenses incurred in information technology and



other types of communication, and, last but surely not least, security issues. Some might equate “efficiently structured” with “minimalist bureaucracy,” but this view would be wrong. In some cases, the situation may fit this description, but in others bureaucracy would not be minimalist. In fact, it may involve increases in one or more of those items I have just enumerated, but it could still be efficient, because the notion of an “efficient criminal structure” is a subset of the principle of criminal economic efficiency, emphasized throughout this work, which accords to security considerations greater roles than legitimate enterprises might assign. With this background on “efficient criminal structure” before us, we can explain in what ways the triads are efficiently structured. It is important to understand how this is so. A big part of the answer lies in how triads combine centralization and decentralization; in other words, how the triads have worked out versions of interdependence that most suit their needs. As all the triads do not have one overarching headquarters, decentralization is the first word used most frequently to characterize triad organization. But what exactly do centralization and decentralization mean for the triads? And do these concepts have different meanings on different levels of triad administration?

First, a word on sources is necessary. The Hong Kong triads, because of their longevity and success, have achieved archetypal and even legendary status in triad history. Much research and writing on triad organization understandably concentrates on them. This has positive and cautionary aspects: it is good that we have credible evidence on the organization of some triads, but it is important that we not assume all other triads worldwide follow the Hong Kong model in every respect. And it is just as important that triads elsewhere which depart from the Hong Kong template are not dismissed as “mere gangs” or triad pretenders. Indeed, the construct “Hong Kong model” is itself an over-generalization: not every Hong Kong triad is alike in terms of organizational cohesiveness and leadership acumen. But archetypes can become legendary; this process blurs substantive differences that analysts must still take into account. In any event, historical method counsels that all triads, from Hong Kong or elsewhere, must be appreciated in their own terms: but beware a Hong Kong-centric fallacy. With these caveats in mind, we proceed to centralization and decentralization.

An iconic antecedent of the modern triads pioneered a certain version of interdependence that remains influential today. The Tiandihui, mentioned in our discussion of the origins of the term “triad” at the outset of this chapter, was not in its own beginnings primarily an insurgent organization but rather “a mutual protection society” that was able to expand rapidly, in part because of “its decentralised structure.”<sup>38</sup> Yiu Kong Chu argues that the Tiandihui did not build a centralized organization because “its main purpose was to form pseudo-familial networks among unacquainted people through the rituals of sworn brotherhood for mutual protection.”<sup>39</sup> In context “pseudo-familial” seems out of place: “false” family networks? Perhaps the author means “quasi-familial”: the networks were not extended families but functioned *as if* they were. In any event, decentralization brought at least one great recruiting advantage: structures were “flexible enough for any unacquainted people to form their own society units at any time

at any place according to the needs of their members.”<sup>40</sup> While Yiu Kong Chu emphasizes decentralizing aspects, he also addresses centralizing forces, without labeling them as such. The Tiandihui could remain a “universal secret brotherhood” because of the centralizing power that shared customs created: members of all units “were able to communicate and offer mutual protection whenever they met through the society’s unique method of mutual recognition, such as passwords, poems, signs, and secret gestures.”<sup>41</sup> The Tiandihui thus developed the combination of centralization and decentralization that best suited their needs: in the languages of economics and business, they achieved their optimal interdependence. Such creativity would come to characterize more modern triads as they too grappled with their own challenges.

The modern Hong Kong triads would develop the concepts of centralization and decentralization further by giving them specific meanings on various levels of administration. While the Tiandihui created horizontal structures—quasi-familial networks not connected upwards to an overarching authority—the modern Hong Kong triads have articulated vertical hierarchies which seem more symbolic than managerial. In fact, a Hong Kong triad may actually consist of “several independent groups.”<sup>42</sup> They “form and organize themselves with similar ceremonies and hierarchical systems,” but downstream members do not take orders from an upstream supreme leader.<sup>43</sup> Indeed, a major issue in triad studies has been “whether the societies are centrally structured or highly disorganised.”<sup>44</sup> Yiu Kong Chu argues that neither alternative is correct: “In fact, Hong Kong triads are neither a centrally structured nor an unorganised entity, but loose cartels consisting of numerous autonomous societies which adopt similar organisational structure and rituals to bind their members together.”<sup>45</sup> As a non-specialist in triads but an avid student of comparative organization, I wonder exactly what both our sources mean and have the following questions. What is an “independent” group? How can there be such a thing as an “unorganized entity”? Isn’t that an oxymoron? To exist an entity must have something to give it coherence, which implies rudimentary organization. And what is a “loose cartel”? Is cartel even the right word here? Is the author using the term “cartel” in the sense of the Mexican drug cartels, which are not true cartels, as I demonstrated in Chapter 6? So in this instance we have a loose use of a “loose cartel,” which makes me wonder how close we are to triad realities.

Let us address these concerns as best we can. From the evidence presented by both sources it is clear that an “independent” group is really an “autonomous” one, which Yiu Kong Chu recognizes. I defined autonomy in Chapter 1: it basically refers to the amount of operational freedom local units of an “entity” possess. A group cannot be completely “independent” and still belong to a triad. Furthermore, the choice between “centralized structure” and “unorganised entity” is unrealistically disjunctive and one alternative—“unorganised entity”—is fatuous, which Yiu Kong Chu again appreciates. The solution—“loose cartels”—is vague and I fear misleading. Everything presented in the “Organisation” chapter in *The Triads as Business*, an indispensable book for crime studies,

supports my contention that “confederation,” not “loose cartel,” best captures the organizational realities of the Hong Kong triads.<sup>46</sup> Here is why. A confederation is an organization in which the balance of power tilts more towards local member groups than the center. Some infer from this imbalance that the “center” in a confederation is automatically “weak.” This view is wrong. To be sure, a confederation does bestow on local units considerable operational freedom or autonomy, but the center in a confederation can have significant power.

In writing about the Hong Kong triads from 1914 to 1942, which “were the most organized and disciplined of those to exist in Hong Kong,” Yiu Kong Chu notes that “in practice the headquarters exercised little influence over the branch societies,”<sup>47</sup> which were “autonomous organisations.”<sup>48</sup> But there is a crucial difference between control over the daily activities of local groups, which headquarters did not have, and a substantive intervention every now and then, which triad centers did carry out. The center in triads of this era exercised important centralizing functions in arbitration and bonding procedures. In Yiu Kong Chu’s own words, “the main function of the group headquarters was for arbitration when threatened with inter-society and inter-group warfare.” Officials at the headquarters were “usually old and respected society members or businessmen whose community standing commanded some measure of respect.”<sup>49</sup> As to bonding procedures, headquarters were a central location “for initiating new members of branch societies.”<sup>50</sup> In arbitration and initiation, therefore, we see headquarters playing centralizing roles that would complement the decentralizing forces inherent in the branch societies. Yet again, for this era, the triads, in the case the Hong Kong versions, worked out an optimal interdependence for their needs.

The Hong Kong triads after 1942 do not approach the organization and discipline of the preceding period, but they still contribute to our understanding of triad organization. The most striking feature of the 1990s group of Hong Kong triads is their abandonment of the principle of interdependence on the macro-level of the triad itself and its relegation to the organization of particular societies clustered “symbolically under the umbrella of a main Triad group.”<sup>51</sup> In our analysis, a “main Triad group” is the macro-level of the triad itself, which has been reduced to the status of a symbolic umbrella, hardly the protection needed to deal with “inter-society and inter-group warfare,” because no longer does a headquarters exist with powers in arbitration and initiation. “Each society,” in short, “is an independent organisation” and “a triad cartel composed of numerous small sub-groups each controlling their territories at the district level.”<sup>52</sup>

The organization of particular societies reflects the principle of interdependence and again supports my view that confederation, not cartel, is the appropriate word here. Some societies are more organized than others, but the best organized usually have a central committee consisting of influential and senior officials. The central committee functions as the headquarters did for the main triad groups from 1914 to 1942, but with even more powers: it controls promotions, imposes internal discipline, and arbitrates internal and external disputes.<sup>53</sup> Individual societies have managerial hierarchies and levels of administration.<sup>54</sup>

The central committee is the top level; the lowest contains “youth and juvenile gang members.”<sup>55</sup> Considerable autonomy reposes in the middle level, which consists of numerous street gangs each operating in its own territory. In Chapter 9 I asked, what is the optimal size for a gang? There is no universal answer, but the optimal number of core members for a triad street gang ranges from fifteen to twenty; some gang leaders can turn out dozens of helpers if needed. The managerial practice of having core members and associates on call indicates an efficient approach to staffing the middle level of a modern triad society. Lastly, one has to wonder whether there is a connection between the disappearance of a headquarters at the macro-level, which characterized the 1914–1942 era, and the more modern Hong Kong triads which are “less organized and disciplined.” To be sure, central committees engage in dispute resolution, but powers of arbitration at the macro-level, with its more extensive range, could address “inter-society and inter-group warfare” more efficiently.

### 3 Alliances

While physical violence is one technique in the triad modus operandi, negotiation has an important role as well. With their negotiating skills, the triads sometimes work out alliances of various kinds with other triad and organized crime groups. These alliances have helped the triads become more transnational and constitute our third reason. Among the most consequential are triad connections with the yakuza, the Japanese criminal societies which are the subject of the next chapter. I am again indebted to Martin Booth, whose work has given him a global perspective on historical relations among different criminal groups rarely equaled; besides the triad book, his engrossing *Opium: A History*, shows the comprehensiveness of his approach.<sup>56</sup> In his view, “Triad links with the yakuza go back a long way.”<sup>57</sup> The triads, already transnational, helped the yakuza to become transnational, as these groups moved decisively abroad starting in the 1930s, in tandem with the overseas expansion of the Japanese state. I will develop the transnational theme for the yakuza in the next chapter; here I note the ways in which the triads assisted the yakuza in this endeavor. The triads “sold them opium, provided them with women and, in some countries, aided them in the systematic pillaging of national banks, monarchies, rich merchants, religious organizations and criminal fraternities.”<sup>58</sup> One-stop shopping: what more could a criminal ask? Relations between the triads and yakuza continue to this day, but the impenetrable secrecy that cloaks each group renders an up-to-date assessment of their ties elusive. As far as the US is concerned, we know that triads and yakuza are in contact in New York City, California, and Hawaii. In Hong Kong there are documented instances of cooperation between the two groups in connection with illegal drugs trafficking in the 1970s and 1980s, and on Taiwan the triads and yakuza have developed strong relations, buttressed by their shared anti-Communist beliefs.<sup>59</sup> Looking back, one is struck by a recurring theme: helping the yakuza go transnational made the triads even more transnational.

## 4 Location

Location, location, location is a cardinal principle of real estate that also illuminates criminal movements in the economic history of organized crime. The preferred locations for the triads as they expanded globally were ethnic Chinese communities already established overseas. And there are many in place: about sixty million Chinese today live outside of mainland China.<sup>60</sup> Martin Booth underscores this point: “No matter where these migrants have established their communities, triad societies have set themselves up. For centuries they have been an integral and unequivocally inseparable part of Chinese society.”<sup>61</sup> So, in effect, the transnational movement of the triads piggybacked on patterns of legal Chinese immigration and the triads were able to use ethnic Chinese communities overseas as their launching pads. Put in terms of military strategy, the establishment of legitimate Chinese neighborhoods in many cities worldwide created forward operating bases for the triads that often became permanent ones. Does this sound familiar? Italian immigration into the US created a major Italian district in many cities, known as a “Little Italy,” and countless other Italian neighborhoods that would provide havens for the headquarters and operations of mafia families. Having places to go—a network of “safe ports in a storm,” so to speak—gave the triads an inestimable advantage in their transnational expansion.

## 5 Markets

Many of these Chinese communities are located in cities, and urban settings have huge economic advantages for the triads. As we explained in our earlier discussion of Hong Kong, concentrated populations create high market density, with many potential consumers for products and services both legal and illegal. Urban locations also give business people opportunities to benefit from three major types of economies—of scale, scope, and size—which we defined in Chapter 5. Adam Smith, the doyen of classical economists (see Chapter 1), wrote convincingly about the effects of limited markets. His most famous axiom is: “division of labor is limited by the extent of the market.” “Market” has at least two meanings: a wider or more extensive market covers more territory, while a deeper market contains an increasing or denser population in the same area. The basic point is simple: growing markets in whatever sense unleash powerful economic forces. To Adam Smith’s axiom I would add: “capital accumulation is limited by the extent of the market.” Accumulation of financial and physical capital is a goal of every business, and the more capital a business gets, the more options it has. Urban locations, with their denser markets and possible economies of scale, scope, and size, position businesses to maximize their rate of capital accumulation. With more revenue, a business can, if it so desires, increase the width or extent of its market; in triad terms more money could make more transnational expansion possible. Therefore, we believe there is a connection between the lucrateness of urban locations and the robustness of triad transnational expansion.

## 6 Diversification

Lastly, diversification of triad businesses into different products and services can also facilitate a capital accumulation that may assist further triad transnational expansion. Diversification as a process benefits from the fact that so many of those businesses are headquartered in cities. The deeper and wider a market becomes, the more inviting diversification may become for any business, including a criminal organization. But the relationship between market vibrancy and diversification is not causal, only supportive. And diversification from an urban base is only one possible outcome. A criminal group may decide to develop a range of businesses offering various illegal products and services in a geographical market it defines in terms best suited for strategies and policies, which may mean a market that is regional (a region of the US: for example, New England), national, transnational, or some combination of those two. At the opposite end of the spectrum increasing market strength may encourage a criminal group to specialize or at least intensify its efforts on what it is already doing.

Diversification in and from an urban base receives a stellar illustration in the business evolution of the Hong Kong triads. In this discussion I again rely on the factual content of Yiu Kong Chu's path-breaking work on the Hong Kong triads, an evidentiary treasure trove whose emphasis on the triads "as business" accords with my own conceptualization of organized crime. Now a core business of the triads is protection, as it is usually is for organized crime groups, and evidence shows the triads diversifying over time what they offer within their core business. So for the Hong Kong triads diversification has at least three meanings: it can occur within an existing business, but it can also take the form of a triad starting a new business or restructuring its own set of current businesses. Long-standing types of protection include that given to entertainment businesses: "Entertainment business operators, especially in busy tourist areas [in Hong Kong], tend to employ the most powerful triad society in the area to protect their premises against extortionists."<sup>62</sup> Employing the most powerful group of criminals in an area to control other law-breakers is a time-honored practice in the history of organized crime. An example of diversification into another type of protection involves the construction industry. In the 1980s a construction boom began in Hong Kong, which continues to this day, and the triads have taken on the tasks of protecting construction sites.<sup>63</sup>

Diversification also occurs within the overall set of triad businesses. Triads seem ready to capitalize on new business opportunities. For example, that construction boom created demands for many other services, such as interior decoration. "Since the 1980, triads have been found to be participating in the interior decoration business of new residential housing estates."<sup>64</sup> Triads also got involved in the selling of new flats (apartments), which became especially hot items during the property boom of 1985–1993. Some legitimate real estate agencies hired the triads to help them get new flats; what endeared the triads to these agencies was the fact that the triads "had the ability to threaten competitors with violence."<sup>65</sup>

We had hoped to present diversification profiles for individual triads groups, such as the 14K, Wo Shing Tong, and Sun Yee On, which are the three major groups in 2010.<sup>66</sup> These would show what businesses a group started and when, and possibly distinguish core, major, and secondary businesses over time, but available evidence does not support this undertaking. We do know three facts. First, every triad was from its inception in the business of protecting its own members and then diversified into selling various types of protection to outsiders. Even the Tiandihui in its earliest years had members who sold “private protection to those who needed to travel frequently for a living.”<sup>67</sup> Second, for many centuries triads have been involved with narcotics, which are now “by far the most lucrative triad enterprise.”<sup>68</sup> For example, the 14K group, from its base in Hong Kong and with a substantial transnational presence in Asia, Europe, and North America, is a major player in the contemporary international trafficking of heroin and cocaine. And, third, triad business activity is far-reaching. Martin Booth provides a valuable overview of triad businesses that is global, historical, and comprehensive; this portrait reinforces the author’s view that the triads have commercialized every presently known type of criminality, which represents the ultimate in diversification.<sup>69</sup>

We next consider the transnational expansion of the yakuza.

## 15 Yakuza

As we did for the term “triad,” we pose two questions concerning “yakuza.” Where does this word come from? And what does it mean? The first question has a straightforward answer; the second has multiple definitions. “Yakuza” comes from a card game called *oichokabu*, which is like baccarat because the point value of a particular hand is based on the final digit of that hand’s total score. To illustrate, the literal meaning of “yakuza” comes from a hand that contains cards worth  $8+9+3 = 20$  points. The point value of each card in the hand creates the three syllables of the word “yakuza”: *ya* for *yattsu*, which means eight, *ku* stands for nine, and *za* for *san*, three, all of which combine to produce “yakuza.”<sup>1</sup> The history behind this choice of cards—who came up with this hand, when, and why—is murky. What we do know is that in *oichokabu* 20 points translates as 0 points, since 0 is the final digit of the hand’s score, the worst possible outcome for the player. So the answer to where the term “yakuza” comes from—a gambling milieu—leads to its original meaning: “yakuza” meant “no points” or “useless.” Later meanings would come to include “gambling people” or “useless” people.<sup>2</sup> Indeed, this expansion of meanings is critically important, as the word “yakuza” would be used to “denote a person who is not valued by society, a misfit, loser, or outcast.”<sup>3</sup> And these meanings would become central to yakuza identity, since “the Yakuza traditionally liked to project the image of being underdogs or rejects.”<sup>4</sup> In a word, they like think of themselves as outsiders, able to understand the plight of the downtrodden and willing to fight the oppressive structures of society on their behalf. These self-conceptions are, of course, self-serving, but can be used to justify “robbing from the rich” and other criminal ventures. As a final point under meanings, the word “yakuza” is ambiguous in its application: it can refer to the overall grouping, an individual organization within that grouping, or individual persons who are members of the aforementioned.

The yakuza are sometimes associated with another name, with meanings neither as humble nor noble as those associated with “yakuza” itself, but rather pejorative in fact. This is the term *Boryokudan*, which literally rendered from the Japanese means “violent band,” “violent group,” or “tough gang.” This word has undergone its own expansion in meaning, much to the further derogation of the yakuza in any of the applications just noted. *Boryokudan* is how the Japanese



police refer to the yakuza. In the domain of law enforcement and from the perspectives of some other observers, *Boryokudan* has come to mean “degenerate, violent gangsters with no sense of tradition or honor,” a definition which the yakuza regard an “insult.”<sup>5</sup> Yet *Boryokudan* appears in works of scholarship, with no explicit indication that writers are hurling insults. In fact, *Boryokudan* as a collective term is used by some to encompass various criminal organizations.<sup>6</sup> This usage rests on a basic definition of the word *Boryokudan* as “any of the various Japanese criminal gangs of centuries-long tradition, which combined in the 20th century into mafia-like organizations. Members, often called *yakuza* (‘good-for-nothing’), or *gyangu* (‘gangster’), adopt samurai-like rituals and often bear elaborate body tattoos.”<sup>7</sup> In this view, *Boryokudan* is the universal set that embraces all Japanese criminal gangs and *yakuza* has only one application—as a term for an individual person. In light of these vastly different usages of “yakuza” and *Boryokudan*, I would just counsel readers to be wary as they enter the thicket of Japanese criminological nomenclature; for simplicity’s sake, I will stick to “yakuza” in this chapter.

With this vocabulary in mind, we can take up the yakuza in all three of those applications noted above. But first we set stage with essential facts from Japanese geography and history that will help us understand the yakuza better. Let us start with geography. Located in eastern Asia between the North Pacific Ocean and the Sea of Japan, Japan is an archipelago consisting of thousands of islands, the four largest of which are Honshu, Hokkaido, Kyushu, and Shikoku. Honshu is the main island, the largest and most populous, while Hokkaido is the second largest and most northerly island, though the least commercially developed. Kyushu and Shikoku are, respectively, the third and fourth largest islands; both are located southwest of Honshu, but Kyushu is southwest of Shikoku. The character of Japan as an archipelago, with a total coastline of 29,751 km (18,486 miles), heightens the military and commercial significance of its surrounding sea lanes. For instance, the Sea of Japan is a strategic waterway between Japan and mainland Asia and is becoming more important as a highway of commerce. About the size of Germany or the US state of California, Japan has as its closest neighbors Russia, China, North Korea, and South Korea; these all lie to its west across the Sea of Japan.<sup>8</sup>

Cities, both at home and abroad, have special importance for the yakuza, as they do for the triads. As Paul Lunde observes with respect to Japan itself, “Yakuza organizations operate across the country but are especially powerful in the cities of Tokyo, Kyoto, and Kobe.”<sup>9</sup> These are all located on the main Japanese island of Honshu. Tokyo, the country’s capital, lies on the eastern side of Honshu, as the Tokyo Metropolis has a population of more than thirteen million people, and is one of the greatest cities in the world. Kyoto, in the center of Honshu, has a population of about 1.5 million people and belongs to the Osaka-Kyoto-Kobe metropolplex. Kobe is on the south side of the island, about 500 km west of Tokyo. With about the same size population as Kyoto, Kobe is a major port city with a cosmopolitan reputation and headquarters for many important corporations. The Yamaguchi-gumi, the largest yakuza organization with about

17,500 members is based in Kobe, whose status as a port city had an enormous influence on the origins of this criminal syndicate. The Yamaguchi-gumi “arose from the gangs who organized labor on the Kobe docks in the early 20th century, paralleling developments under [Charles] ‘Lucky’ Luciano in New York at the same period.”<sup>10</sup> The Yamaguchi-gumi will return later in this chapter.

Japanese history also illuminates the evolution of the yakuza. One theme has special relevance: the expansion of the Japanese state abroad, which greatly affected the overseas activities of the yakuza. State expansion can be territorial, as in the actual acquisition of land by force or negotiation, or it can be economic, as in extending the economic influence of a state in various overseas locations; needless to say, territorial expansion can also have a significant economic dimension. The facts of Japanese territorial expansion are straightforward; some of these we touched upon in the last chapter, but a consolidated presentation of all them here will put Japanese actions in the proper perspective. During the period from 1894 through 1910 Japan took major steps toward becoming “a full-fledged member in the club of imperialist powers,” as it “forcefully acquired three major foreign territories.”<sup>11</sup> These were “Taiwan in 1895 after the Sino-Japanese War of 1894–5; Korea as a protectorate in 1905 after the Russo-Japanese War of 1904–5, then as a colony when unilaterally annexed by Japan in 1910; and the Kwatung Leased Territories in 1905 in southern Manchuria when Japan succeeded to Russia’s leases after the Russo-Japanese War.”<sup>12</sup> In the late 1920s “extreme nationalism begins to take hold in Japan” and the 1930s were a decade of further territorial intrusions.<sup>13</sup> In 1931 Japan invaded Manchuria and in 1937 Japan went to war with China, again. By the end of 1937 Japan had captured Shanghai, Beijing, and Nanking; Japanese forces committed atrocities, including the “Rape of Nanking,” in which up to 300,000 Chinese civilians were killed.<sup>14</sup>

It is worthwhile to reflect on Japanese territorial expansion in the context of theories of imperialism, because the forces that motivate a nation-state to act abroad may be similar to those which influence criminal organizations to expand overseas. The period from 1894 through 1910 was seminal, and Bill Gordon assesses Japanese acquisitions during this time in light of various theories of imperialism. He considers theories associated with the names of John Hobson, V. I. Lenin, and Joseph A. Schumpeter. Hobson, who appeared in connection with the Anglo-Boer War in South Africa (Chapter 10), argued that the “taproot of imperialism” was “surplus capital in the home country in search of profitable investments in foreign countries.”<sup>15</sup> Lenin followed the position of Karl Marx (Chapter 1) that imperialism was the “monopoly stage of capitalism” and as such featured “the concentration of production and capital” into large-scale firms, “the export of capital,” and the “division of territories of the world among the great capitalist powers.”<sup>16</sup> And Schumpeter appealed, among other things, to what he thought were the inherent tendencies of the state to expand and dominate and “believed that imperialism represented the survival of older social structures, such as a warrior class, within a capitalist economy.”<sup>17</sup> Gordon concludes that the theories of Hobson and Lenin do not accord with the facts from the period under review and that, while Schumpeter’s theory is illuminating, “it fails to

explain how Japan suddenly became an aggressive conqueror of foreign territories after two centuries of self-imposed peaceful isolation.”<sup>18</sup> The best explanation, he argues, comes from the theory of nationalism, which is supported by the following points: (1) Japan’s concern for its national security; (2) Japan’s imitation of the imperialism of western powers; and (3) “Japanese national ideals and personal characteristics.”<sup>19</sup>

I agree with his analysis, especially since the theory of nationalism receives massive corroboration from the late 1920s through World War II (1939–1945), but I offer a major addendum to this discussion. Human motivation is usually mixed, rarely one-dimensional; this axiom applies to individual people as well as to organizations. So although the theory of nationalism is most persuasive for this time period in Japanese history, one must recognize the importance of economic and business factors in Japan’s putting its nationalism into practice, indeed in the very origins of this nationalism. Moreover, specific theories of imperialism which highlight economy and business, such as those of Hobson and Lenin, may not explain a particular sequence of events, but that does not mean that economic and business factors have no importance whatsoever for the time period in question. A compelling example of this mixed motivation is the Greater East Asia Co-Prosperity Sphere, which formally dates from 1940 but whose origins reach back decades. In theory, this sphere was to be “an autarkic bloc of Asian nations” under the leadership of Japan and without any participation by the West.<sup>20</sup> Autarky refers to self-sufficiency, and this represents a goal of Japanese nationalism: to demonstrate the ability of Japan and the entire region to operate without Western interference. Underlying this quest was economic necessity, which drove Japan to seek abroad the raw materials and other necessities its archipelago lacked or could not produce in the needed quantities. As envisioned, “the co-prosperity sphere stretched from the coal mines of Manchuria to the oil fields of Indonesia. It was to provide a self-contained and geographically diversified set of sources of supply and markets.”<sup>21</sup> Japan’s loss in the World War II doomed this version of the Greater East Asia Co-Prosperity Sphere, but not its relevance for our analysis.

The implications of theories of imperialism for explaining the transnational expansion of criminal organizations are intriguing. Do any of the theories considered above, in whole or in part, shed any light on the possible motives for transnational criminal expansion? As these groups are businesses and not charitable or spiritual organizations, materialistic explanations that partake of economy and business seem to hold the greatest promise. Hobson and Lenin both wrote about surplus capital seeking profitable opportunities overseas; so also do criminal groups pursue similar opportunities, even if their capital is not surplus. But criminal organizations also export human capital (leadership and other personnel) as well as other resources in an effort to identify and develop those business opportunities. Schumpeter’s approach posits an axiom—that all bureaucracies tend to expand until they hit an “immovable object”—and this tendency is clearly present in every major criminal organization featured in this book. In fact, going transnational is one way to become a major criminal

organization. It's like the original version of the horror movie *The Blob* (1958), in which an alien life form continues to expand and devour everything in its path until Steve McQueen, remembering its dislike of the cold, has it frozen and transported to the North Pole; the movie hints that The Blob may return, whereas in the real world bureaucracies always come back.

The significance of this background material from Japanese geography and history will become more apparent as we analyze the central question of this chapter, how could the yakuza become so transnational? Readers will immediately discern similarities between this analysis and how I elaborated the factors that enabled the triads to become so transnational, but important differences will emerge. The yakuza could become so transnational for the following seven reasons.

- 1 Like the triads, the yakuza share a common culture that promotes exceptionally strong bonding, which helps an organization stay intact as it operates in difficult environments.
- 2 They have an approach to organization that capitalizes on their strengths; for instance, the yakuza are family-oriented in a literal and a metaphorical sense; they have elements of family interwoven with their organizational structures and procedures.
- 3 Like the triads, yakuza organizations form alliances with other organized crime groups, including other yakuza.
- 4 In the early phases of their transnational development, yakuza organizations followed the overseas expansion of the Japanese state, which I detailed above. This experience contrasts sharply with that of the triads in relation to the Chinese government, which had no overseas imperial stepping stones and which after 1949 tried to push them out of mainland China.
- 5 In their transnational expansion, the yakuza, like the triads, locate in cities or other communities that already have populations of ethnic Japanese. This allows them to blend in, as also noted under our triad discussion.
- 6 As it did for the triads, the economics of urban locations favors yakuza criminal activity. And
- 7 yakuza organizations have developed diversified mixes of businesses suitable for their circumstances.

## 1 Culture

Yakuza organizations have a bonding strength on par with that of the triads. And, like the triads, yakuza bonding is so strong because yakuza culture is so strong. Forging the cohesiveness of yakuza culture are shared historical memories and certain procedures, including rituals, which bond individual people to one another, their particular organizations, and the overarching brand name of "yakuza." Those shared memories draw strength from a reading of history that associates yakuza origins with some of the most legendary figures in all of

Japanese history and culture, the samurai. We first introduce the samurai and their code of personal conduct, Bushido, and then discuss the origins of the yakuza and how they relate to the samurai. In the Japanese language the word “samurai” has roots that mean “to watch” or “to guard.” The definitions of samurai include warrior, a member of the military aristocracy during the feudal period in Japan (AD 1185–1603), and a member of the samurai class, which continued through the Tokugawa Period (1603–1868) and beyond.

The samurai over the centuries evolved a code of personal conduct, Bushido, which translates literally as “way of the warrior.” Bushido deserves serious study, because it still exerts enormous influence on contemporary Japanese society. Some have commented that if one wishes to understand the mindset of Japanese business people, one must learn the basic principles of Bushido. This observation holds true, the author believes, for legitimate as well as criminal business people, with the major caveat that while the yakuza and other Japanese criminal organizations respect Bushido as a model, they selectively apply its precepts in practice. Bushido does have cross-cultural analogues: “Bushido is not unlike the chivalry and codes of the European knights.”<sup>22</sup> It stresses qualities of character that should command respect everywhere; these include loyalty, self-sacrifice, justice, sense of shame, refined manners, purity, modesty, frugality, martial spirit, honor, and affection.<sup>23</sup> “Martial spirit” is the only quality that might not be literally accepted in a universal code of behavior, but I interpret its core meaning as a fierce dedication to one’s community that might eventually require physically protecting it. The author strongly recommends as the indispensable primary source *Bushido: The Way of the Samurai*, which distills the essence and ethos of Bushido.<sup>24</sup>

Bushido has an eclectic intellectual and religious ancestry that may help explain its wide appeal. It contains elements of Buddhism, Zen, Shintoism, and Confucianism. Let us touch briefly on each in turn. Buddhism gives to Bushido its philosophy of death and danger: “the Samurai do not fear death because they believe as Buddhism teaches, after death one will be reincarnated and may live another life here on earth.”<sup>25</sup> Believing in reincarnation gives the samurai a type of immortality, which insulates them against a fear of death, because the death of their present bodies is not the end of their existence. Zen is a school of Buddhism that excels in meditation, which “teaches one to focus and reach a level of thought words cannot describe.”<sup>26</sup> Zen teaches one to “know thyself” and not to limit one’s self.<sup>27</sup> A samurai uses Zen meditation to “drive out fear, unsteadiness and ultimately mistakes,” which “could get him killed.”<sup>28</sup> Shintoism is a Japanese doctrine that enshrines loyalty and patriotism; indeed it “provides the backbone for patriotism to their country, Japan.”<sup>29</sup> The samurai “believe the land is not merely there for their needs.”<sup>30</sup> The intense patriotism fostered by Shintoism motivates the samurai to protect and nurture the land for the benefit of all citizens. Lastly, Confucianism “gives Bushido its beliefs in relationships with the human world,” including the environment and family.<sup>31</sup> But the samurai did not accept the writings of Confucius that dealt with the human being as an intellectual: “an intellectual specialist was considered to be a machine.”<sup>32</sup> While the

samurai meditate, they are first and foremost men of action. As is noted in *Bushido: The Way of the Samurai* under the heading “Samurais: Men of Action,” “they must jump into the midst of the world of profit and honor and, if necessary, run through the hell (of egocentric calculation and self-interest).”<sup>33</sup>

One way to demonstrate why the samurai retain such a powerful grip on the Japanese imagination and in Japanese culture, indeed on yakuza imagination and in yakuza culture, is through *The Seven Samurai* (1954), one of the greatest movies of all time. Akira Kurosawa directed and shared writing responsibilities with Shantou Hashimoto and Hideo Ogunni; I wish to acknowledge the towering achievement of all three writers and the director. Put too simply, the movie tells the story of a village of poor farmers that hires seven unemployed samurai to protect it from a gang of roving bandits, who want to steal the harvest. The ending is bittersweet: the bandits are defeated, but some of the samurai lose their lives in defending the village. Loyal to one another and focused on their task, the samurai persevered and achieved an incandescent triumph, although the surviving samurai felt they had lost and the villagers won. Be that as it may, the crucial, overriding, and inspirational point is that the samurai remained steadfast through all their trials and accomplished their mission. The author saw this movie as a college student but when he read the plot synopsis again as he wrote this chapter, chills still ran up and down his spine: it is that powerful a movie for an outsider. If it is that moving for a Westerner, imagine what it means to a cultural insider. The self-image of the yakuza, reported at the outset of this chapter, as defenders of the oppressed draws enormous sustenance from this cinematic legend.

Movies aside, what are the origins of the yakuza in the real world and how do the yakuza relate to the samurai? As with most organized crime groups, there is no founding day for the yakuza; indeed, their origins cannot be pinpointed to a specific month or even year: an era is the best we can do. The yakuza originated probably earlier rather than later in the Tokugawa period (1603–1868), “the time of shogunate, when Ieyasu Tokugawa unified the country of Japan.”<sup>34</sup> The Tokugawa period brought an end to civil war but not yet a completely stable nation.<sup>35</sup> The unification of Japan, with the attendant reduction in violence, had great consequences for the samurai. Many had supported themselves by protecting local citizens from gangs, which flourished in an environment where there was no strong central authority with the power to enforce law and order; this was the historical milieu of *The Seven Samurai*. The advent of relative peace “left as many as 500,000 samurai unemployed.”<sup>36</sup> There were not enough jobs in the legitimate economy to absorb them all; many entered the merchant class, but those who did not “had to find other means of support, and many turned to thievery and criminal methods to support themselves.”<sup>37</sup> So a subset of the samurai, faced with the adverse “social conditions” that led so many unemployed in southern Italy to the Italian mafias and those without work in Jamaica to the posses, became criminals.

At this juncture controversy surrounds the origins of the yakuza. Some believe that these samurai are the ancestors of the modern yakuza. The modern

yakuza prefer a different explanation. A group of people arose to defend their villages from those criminal samurai; these protectors became known as the *machi-yokko* (servants of the town). Modern yakuza understandably associate themselves with the *machi-yokko*; it is much better public relations to present one's origins as rooted in good rather than evil. In fact, "the official yakuza history portrays the group's ancestors as underdog folk heroes who stood up for the poor and defenseless, just as Robin Hood helped the peasants of medieval England."<sup>38</sup> On the question of origins, the "official yakuza history" is really a collection of legends that are not amenable to factual corroboration. So depending upon your viewpoint, the origins of the yakuza may or may not have actual links to the samurai. The author regards the *machi-yokko* interpretation as too conveniently self-serving to make it credible; he believes some yakuza ancestors probably were among the samurai who went bad, but there is no reliable evidence to resolve this dispute. Wherever the truth lies, modern yakuza view the good samurai as their spiritual ancestors and the Bushido as a font of wisdom, which as criminals they can only apply selectively, as noted.<sup>39</sup>

The self-image of the yakuza, as outcasts who protect the oppressed, constitutes a powerful and primary bond of yakuza culture. Other strong bonds emerge from certain procedures, including customs and rituals, which should also be appreciated as cementing the ties of criminal brotherhood. Let us spotlight the yakuza initiation, which shows the importance of relations based on family and how these contribute to the power of the initiation bond.<sup>40</sup> The crucial relationship here is between a *oyabun* and a *kobun*. *Oyabun* literally means "father's role"; *kobun*, "child's role." The yakuza initiation features someone playing the "father's role" and an initiate in the "child's role." Readers may recall from the previous chapter the essentials of the mafia initiation: the pricked finger, the blood, the burning of a religious card, and taking the omertà, the blood oath of secrecy. In the yakuza initiation sake (rice wine) replaces blood.

The *oyabun* and the initiate sit face-to-face as their sake is prepared by the *azukarinin* (guarantors). The sake is mixed with salt and fish scales, then carefully poured into cups. The *oyabun*'s cup is filled to brim, befitting his status; the initiate gets much less. They drink a bit, then exchange cups, and each drinks from the other's cup. The *kobun* has then sealed his commitment to the family. From that moment on, even the *kobun*'s wife and children must take a back seat to his obligations to his yakuza family.<sup>41</sup>

Tony Soprano, the central character in the iconic Home Box Office series *The Sopranos*, which ran from 1999 through 2007, was often torn by the conflicting demands of his two families—mafia and human—but a yakuza member should never, in theory, experience this turmoil, as the demands of his yakuza family must always take precedence over those of his human one. As a final point, one can reflect on the comparative uses of the concept of family by different criminal organizations. In the universe of the US mafia, the Chinese triads, and the Japanese yakuza, the latter use bonds based on family relationships most

structurally. The US mafias use family more rhetorically, as in my mafia family; however, the relationship between the Don and his subordinates may approach but does not equal the closeness of the *oyabun-kobun* bond in the yakuza. My impression is that the triads are not as overt in their use of the concept of family; they seem more like business brotherhoods, with social bonds forged in sometimes extensive initiation ceremonies and other procedures.

## 2 Organization

Unlike the triads, which balance centralization and decentralization in their approach to interdependence, yakuza organization favors centralization a lot more than decentralization, with elaborate vertical hierarchies interwoven with family-based relationships. Indeed, as Anthony Bruno notes, “the guiding principle of the yakuza structure is the *oyabun-kobun* relationship,” as explained above.<sup>42</sup> Both the US mafia and the yakuza are hierarchically organized. But a US mafia family economizes on levels of organization, as illustrated in Chapter 5: the Don at the top, supported by the Underboss, the Don’s stand-in; the *Caporegimas* are the only level of middle management; they have hands-on involvement with the soldiers in the street. In sharp contrast, the yakuza are almost lavish, from the perspective of conventional economic efficiency, in creating levels of management in their vertical hierarchies. Just as there are different definitions of “yakuza” as explained at the outset, so also are there various interpretations of the vertical hierarchy of a yakuza crime “family.” Paul Lunde, for instance, sees five levels: the *Oyabun* or supreme boss at the top; underneath him are the senior advisor and the No. 2 and No. 3 men; below and responsible to the senior advisor are advisors, accountants, and secretaries; underneath the No. 2 and No. 3 men and listed below the advisors, accountants, and secretaries are the senior bosses; and beneath and responsible to the senior bosses are the junior bosses.<sup>43</sup>

As a student of comparative organization I am struck by several features of the Lunde hierarchy. The senior advisor seems to be managing a set of subordinates whose occupations do not all go together, from the perspective of one who is a double-outsider—to the organization and to Japanese culture. Specifically, accountants and secretaries certainly are akin, because they are necessary for a business, but to have advisors in this group, unless their responsibilities are clearly defined and we have no way of knowing this, is mixing people who specialize in speculation with those trained in the nuts-and-bolts of a business operation. Moreover, the chain of command has two tracks: the first, just discussed and the second, which runs from the boss, through the No. 2 and No. 3 men, down to the senior bosses, and then to the junior bosses. The roles of the No. 2 and No. 3 men are not clear. Is No. 3 the stand-in for No. 2, if No. 2 cannot serve? Or does No. 3 have his own set of responsibilities? If No. 2 and No. 3 do not speak with one voice, the transmission of orders down the chain of command will be garbled. With the Lunde hierarchy and the author’s reflections before us, we can sympathize with Anthony Bruno’s argument that “levels of management



within the Yakuza structure are much more complex than the Mafia's.<sup>44</sup> To illustrate this complexity he offers his own description of the yakuza hierarchy, which we summarize. Beneath the supreme boss are the senior advisor and the headquarters chief. The No. 2 man is a "regional boss responsible for governing many gangs"; he has an assistant "who is responsible for several gangs of his own."<sup>45</sup> There is a "lesser regional boss," with his own assistant.<sup>46</sup> A "typical Yakuza family" will also have dozens of "younger brothers" and many "junior leaders."<sup>47</sup> Lunde and Bruno agree on the supreme boss, senior advisor, and No. 2 man, but then each proceeds along his own path of bureaucratic proliferation. Familiar to observers of over-bureaucratization elsewhere are Bruno's assistants, who have with their own assistants, who presumably have their own assistants.<sup>48</sup>

Without a doubt, the Chinese triads and the US mafia are more efficiently organized than the Japanese yakuza in conventional terms: they economize on the use of their personnel and try to get the most from those they use. But the notion of criminal economic efficiency counsels us against being too hasty in judging the yakuza. The near "lavishness" they exhibit in multiplying the levels of management in their vertical hierarchies and staffing them with what appears to be a superabundance of personnel may or may not have an explanation in the concept of criminal economic efficiency. All the "assistants," the "younger brothers," the "junior leaders," multiple advisors, two chains of command, etc.: are the leaders following a tested strategy of the Medellín cartel, as reported by its accountant Roberto Escobar in Chapter 8, of putting as many people as possible on the payroll in order to give them a vested interest in the survival of the organization? Or is the rationale not so Machiavellian? I do not know. This is one of many unanswered questions about the yakuza; another concerns the elements of decentralization in yakuza organizations. Surely there must be some; an organization cannot be centralized in every respect, because that would constitute hyper-centralization, with ominous consequences. That organization could not respond in a flexible and timely manner to a local crisis, since everything would have to be referred up the chain of command for approval, a time-consuming and potentially paralyzing process. This is the lesson, for example, of the colonial government in the Belgian Congo (Chapter 11). Unfortunately, no one has yet written a book on the yakuza in the mould of *The Triads as Business*; its author Yiu Kong Chu pays attention to the kinds of concepts and details that enabled me to advance my own analysis of the triads in the previous chapter far beyond what I can do here for the yakuza.

### 3 Alliances

Like the triads, the yakuza benefitted in their transnational expansion from alliances with other organized crime groups, including some already under the yakuza umbrella. These alliances are numerous and are found in many countries throughout the world; a small sampling will show the geographical scope and diversity of yakuza transnational relationships.<sup>49</sup> We single out South Korea, the Philippines, the US, and the Russian Federation. The Philippines "have become

a center of the Japanese mob's international operations, second only to South Korea."<sup>50</sup> In fact, "since arriving with the sex tours of the 1970s, the yakuza have found the Philippines their home away from home in the tropics." In the Philippines the yakuza form alliances not only with other criminal groups but also with numerous people in the seemingly legitimate worlds of politics and business. In the criminal world the yakuza work with "increasingly sophisticated Filipino gangs" as they penetrate gambling, fraud, and money laundering.<sup>51</sup> I will have more to say about specific yakuza business activities later in this chapter. In the legal world the yakuza have made "important political connections" with the establishment in the Philippines: they "have bribed their way into a lucrative, long-term relationship with both local businessmen and bureaucrats."<sup>52</sup>

In the US, alliance activity of the yakuza is particularly noteworthy in Hawaii, but exists also in California, Nevada, and New York. In Hawaii the yakuza "work with local crime gangs, funneling tourists from Asia to gambling parlors, sex shows and bordellos in exchange for kickbacks from the locals."<sup>53</sup> In California they "have made alliances with Korean and Vietnamese gangs and furthered their traditional partnerships with the Chinese triads."<sup>54</sup> "Like most American organized crime groups, the yakuza love Las Vegas" and "they are instrumental in steering Asian tourists to establishments owned by Americans who pay substantial 'finder's fees.'"<sup>55</sup> And in New York City yakuza members

have made loose alliances with the American Mafia. Although cultural differences and the language barrier make a strong bond nearly impossible, the two groups have been able to cooperate in illegal gambling operations, with the yakuza channeling Japanese tourists to illicit after-hours casinos around the city."<sup>56</sup>

To present the final example under the rubric of yakuza transnational connections, we return to the Russian Federation and the so-called Russian mafia, which is, as readers may recall (Chapter 3), an umbrella term covering hundreds of organizations. The yakuza and the "Russian Mob" are expanding their ties. A favorite location for their cooperative rackets is Vladivostok, the Russian Federation's largest port city on the Pacific Ocean and "one of Russia's most mobbed-up cities."<sup>57</sup> In sum, "the future offers great opportunity for Russo-Japanese criminal activity."<sup>58</sup>

#### **4 Japanese imperialism and 5 Location**

We now consider together the fourth and fifth reasons that explain how the yakuza could become so transnational, because both rest on the concept of piggy-backing. Yakuza transnational expansion followed the imperialism of the Japanese state. To illustrate, "the Yakuza's first overseas operations were in China and Korea."<sup>59</sup> The assumption of power by the Communist Party in China in 1949 made that country a hostile environment for the yakuza (and the triads), but the yakuza continued to develop their relations with South Korea, which

explains why this country is the No. 1 location for relations between the yakuza and local criminal groups as noted above under point three. Koreans would become “extremely important in Japan’s underworld.”<sup>60</sup> From the late 1970s on, the yakuza “began to invest heavily in South Korea and young Koreans were sent to Japan to learn mob skills.”<sup>61</sup> The yakuza were thus strategically positioned “to speed up greatly the access of organized crime to South Korea, in particular by infiltrating the docks and the construction industry, people trafficking, sex tourism, drug and gun running, and the illegal disposal of toxic waste.”<sup>62</sup>

Besides the expansion of the Japanese state abroad, the yakuza also piggy-backed on the communities of ethnic Japanese already living in cities and other communities throughout the world. A compelling example of this dynamic is the US state of Hawaii and its beautiful capital, Honolulu, which the author has visited thirteen times; Hawaii has already appeared above under point three as a venue of vibrant cooperation between the yakuza and local organized crime groups. Yakuza can easily blend in on the Hawaiian archipelago and here is why. Of all the US states, Hawaii has the “highest percentage of Asian residents—41.6% in 2000, when its Asian population numbered 503,868.”<sup>63</sup> “Of Hawaii’s Asian residents in 2000, 201,764 were Japanese, 170,635 were Filipino, 56,000 were Chinese, and 23,637 were Korean.”<sup>64</sup> In 1900 the Japanese exceeded in number the earliest Asian immigrants, the Chinese, and have since gone on to “become a significant factor in state politics.”<sup>65</sup> The importance of a large, politically connected Japanese community in Hawaii is a great asset for the yakuza as they continue to penetrate the islands.

## 6 Markets

The economics of urban locations favors criminal enterprise and capital accumulation. I analyzed the theory underlying this statement in the previous chapter when I explained the fifth reason why the triads could become so transnational and refer readers there. But it is worth reflecting briefly on the importance of cities for the yakuza. We have already seen the importance of three Japanese cities—Kobe, Kyoto, and Tokyo—for the yakuza, as the Yamaguchi-gumi in particular use Kobe as their base. Vladivostok, the largest Pacific port in the Russian Federation, functions as a hub for growing relations between the “Russian Mob” and the yakuza. And three US cities—Honolulu, New York, and Las Vegas—are favorites of the yakuza as they increase their penetration of US business and economic life. Tokyo, with its metropolitan population of more than thirteen million people, has a thriving underground economy and “Tokyo Vice” has spawned its own important literature that should not be neglected in comparative criminal studies.<sup>66</sup>

## 7 Diversification

As I emphasized the principle of diversification when discussing triad business activities, so also do I see the same principle at work in yakuza business mixes. I

will not repeat here my analysis of the benefits of diversification and refer readers to the previous chapter where I explained the sixth reason why triads could become so transnational. The essence of the argument is that diversification can facilitate a capital accumulation that may further assist transnational expansion. In this the final section I spotlight the Yamaguchi-gumi, the yakuza group that is Japan's largest criminal organization, and then discuss yakuza penetration of Japan's financial markets, a development of recent decades that shows the principle of diversification in practice.

Named after its founder, Harukichi Yamaguchi, the Yamaguchi-gumi originated, as noted earlier, in the gangs that organized labor on the docks of Kobe early in the twentieth century, but it was not until after World War II that it emerged as the formidable organization the world knows today. Kazuo "the Bear" Taoka (1913–1981) is largely responsible for that development. A gifted leader and entrepreneur, he "is considered the most successful Yakuza boss ever."<sup>67</sup> Like Charles "Lucky" Luciano, he had exceptional organizational skills. Moreover, he had a visionary strategy for building up the Yamaguchi-gumi as a business organization that employed the principle of diversification. He became *oyabun* or godfather of the Yamaguchi-gumi in 1946 and "transformed a small waterfront gang into Japan's most powerful criminal coalition."<sup>68</sup> He used his flair for organization to increase the membership in the Yamaguchi-gumi so that it could successfully challenge and defeat rival organizations. "Before long, Taoka had expanded into the usual fields, in Osaka as well as Kobe."<sup>69</sup> The "usual fields" at that time included extortion, fraud, gambling, sex-related businesses, real estate, kickback schemes, and guns. But later on in his tenure as leader, he would take the organization into illegal drugs, which had been previously forbidden. He also developed strong ties with powerful figures in the legitimate world and "wielded immense political influence."<sup>70</sup> When Kazuo Taoka died from a heart attack in 1981, "the Yamaguchi-gumi controlled some 2,500 businesses, including language schools and hospitals, with an estimated \$500,000,000 annual revenue."<sup>71</sup> I will let Paul Lunde's assessment of Taoka's legacy speak for itself:

What made the Yamaguchi-gumi so successful, able to ride out gang wars and a temporary split in the 1980s, was Taoka's foresight in combining tradition with innovation. He pioneered forcing legitimate businesses to accommodate the presence of the Yakuza and encouraged seizing new opportunities, including drugs—formally forbidden—both at home and abroad.<sup>72</sup>

As we have just seen, the yakuza have long-standing relations with legitimate Japanese business. So it is not surprising that when the yakuza wanted to diversify in the business world, they would endeavor to penetrate Japanese financial markets. This strategy parallels a similar one pursued by elements of the US mafia with respect to sectors of the US financial markets, which I have tracked elsewhere.<sup>73</sup> During the last decade or so the yakuza have mounted "a

widespread assault on the country's financial markets that may have left hundreds of listed companies riddled with mob connections."<sup>74</sup> Moreover,

police investigators suggest that the yakuza have become voracious traders and manipulators of listed Japanese shares, and, via a network of about a thousand apparently legitimate front companies, occupy big positions on the shareholder registries of many companies that may not even be aware of the connection.<sup>75</sup>

These yakuza activities "have effectively turned the mob into the biggest private equity firm in Japan."<sup>76</sup> So entrenched and sophisticated are these activities that "close observers of the Japanese mafia believe that the problem now may be beyond control."<sup>77</sup> Joshua (Jake) Adelstein (see note 66 to this chapter) notes a striking example of this sophistication: the recent emergence of mob-backed auditing firms. "It is by getting these auditing firms to sign-off false company accounts," he said, "that the yakuza were able to manipulate both the apparent earnings and stock prices of numerous small listed companies."<sup>78</sup> He added, "the police are worried, but they are understating the problem. Organised crime has made tremendous inroads into the Japanese financial sector. The bad guys now have everything in place to manipulate the stock market."<sup>79</sup>

Next we complete the book with a vignette on international drugs trafficking, organized crime, and terrorism in Afghanistan.

## 16 Vignette

### International drugs trafficking, organized crime, and terrorism in Afghanistan

In Chapter 13 we set out the types of links that can exist among international drugs trafficking, organized crime, and terrorism and then analyzed them in certain parts of North and West Africa. To summarize, there are three major types; the first two are bilateral, while the third is trilateral. Bilateral ties can connect illegal drugs trafficking and organized crime, as well as illegal drugs trafficking and terrorism. The third and most ominous type is trilateral: relations develop among illegal drugs trafficking, organized crime, and terrorism. In the third type, organized crime and terrorism, which is also an especially execrable subset of organized crime, can deal with each other directly or, more likely, through intermediaries. We now consider these links primarily in Afghanistan but also as they affect surrounding countries, continents, and indeed the world. In fact, relations already exist, as demonstrated in Chapter 13, between Afghanistan and the rest of the world through the Sahara-Sahel Connection that bestrides North and West Africa. This connection brings together two flows of illegal drugs coming from different directions: South American cocaine entering West Africa and Asian heroin smuggled into East Africa through Yemen, Somalia, and other locations. In particular, “30–35 tonnes of Afghan heroin [were] being trafficked into East Africa every year” and thence to the Sahara-Sahel Connection.<sup>1</sup> The importance of Afghanistan, the present source of 90 percent of the world’s supply of opium,<sup>2</sup> for all three of the above links is, therefore, incontestable. But this complex commerce is extraordinarily difficult to elucidate with confidence, as its sources of supply shift, its routes change, and its participants seem to vanish into the shadows. For example, the sources of South American cocaine, the western mainstay of the Sahara-Sahel Connection, include a growing component from Peru, which takes advantage of a less robust anti-drug campaign there than the one that exists in Colombia, which for the time being remains the leading South American producer of cocaine.<sup>3</sup>

Before examining in more detail these links in Afghanistan and its immediate neighbors, we set a final stage that features essential facts from the geography and history of Afghanistan. We first consider geography under two rubrics—physical and economic. As to physical geography, Afghanistan “resembles an irregularly shaped hanging leaf with the Wakhan Corridor and the Pamir Knot as its stem in the northeast.”<sup>4</sup> Two terms require explanation: the Wakhan Corridor

and the Pamir Knot. The Wakhan Corridor, “one of the wildest landscapes on the planet,” is a 200-mile (322 km) long valley that connects Afghanistan directly to China; it splits the Pamir Mountains and the Hindu Kush, dividing Tajikistan and Afghanistan.<sup>5</sup> The Pamir Mountains are a major mountain range in central Asia whose precise extent is arguable; the Hindu Kush is about a 500-mile mountain range between northwestern Pakistan and east and central Afghanistan. The Pamir Knot is a junction where such major mountain ranges as the Himalayas and Hindu Kush come together and form the Pamir Mountains. About the size of the US state of Texas, Afghanistan has a “rugged terrain and seasonally harsh climate.”<sup>6</sup> It covers roughly 652,290 km<sup>2</sup>; it stretches 1,240 km from east to west and 565 km from north to south. The country is totally landlocked, bordering the following countries: to the west is Iran (925 km); to the north and northeast are the Central Asian States of Turkmenistan, Uzbekistan, and Tajikistan (2,380 km); at the easternmost top of the Wakhan Corridor is China (96 km); and to the east and south is Pakistan (2,432 km). Though landlocked, Afghanistan’s location has great strategic value: controlling it is essential if one wants to dominate southern Asia.

The economic geography of Afghanistan is noteworthy in this vignette for two very different commodities: poppy plants and minerals. The poppy plant is the source of opium, which can also be processed into heroin; it constitutes a major cash crop for Afghan farmers, who face a challenging growing environment from nature, compounded by war. One specific area in Afghanistan has critical importance for the global supply of opium. This is Helmand province, one of Afghanistan’s thirty-four provinces. Located in southwestern Afghanistan, Helmand province is now the world’s No. 1 producer of opium. This province by itself supplies more opium than all of Burma (aka Myanmar), which is the world’s second-largest supplier of opium after Afghanistan. Opium will return later in this chapter.<sup>7</sup>

While poppy plants, opium, and heroin are sources of present income, apparently vast quantities of untapped minerals may constitute the foundation of Afghanistan’s future wealth and income, which could be used eventually for economic development. The chronology of how this news came to the attention of the wider world is intriguing. “The details of a US Geological Service survey of the country were released in 2007. The US assessment of the worth of the deposits was completed in December of last year [2009].”<sup>8</sup> Then, on 14 June 2010, in a front page article leading at the top of the far right column, the *New York Times* headlined, “U.S. Discovers Mineral Riches in Afghanistan; Economic Boon Is Seen; Expanded Wealth Could Escalate Conflict and Corruption.”<sup>9</sup> Truly, for the general public Afghanistan had been an unknown treasure trove of “mineral riches,” but that anonymity vanished on 14 June 2010. But some questioned the

timing of the release of the information . . . The BBC’s Jill McGivering says that at a time of growing despair about Afghanistan and its government, the portrayal of the country as a potential goldmine could help bolster international resolve and paint the country as a prize worth fighting for.<sup>10</sup>

This portrait, the author adds, could bolster the resolve of all sides in the present conflict.

Whatever the rationale behind the timing, the information released suggests that, at least on paper, the economic future of Afghanistan could be very bright. The country has significant deposits of numerous resources; the top five, estimated in current US dollars, are iron (\$420.9 billion); copper (\$274 billion); niobium (\$81.2 billion); cobalt (\$50.8 billion); and gold (\$25 billion).<sup>11</sup> Niobium, for instance, is “a key ingredient in hardened steel.”<sup>12</sup> All in all, “Metal and mineral development could be worth more than \$908 billion,” James Risen of the *New York Times* reports.<sup>13</sup> The problem, too simply stated, is that possessing these riches and extracting them are two radically different matters. Stephanie Sanok, senior fellow in the international security program at the Center for Strategic and International Studies, put the obstacles concisely: “They [the Afghans] not only don’t have the infrastructure—road, rail and water—but they don’t have basic laws and regulations that will attract investment.”<sup>14</sup> Nonetheless, the vision of Afghanistan as a treasure trove of metal and mineral riches is proving irresistible, and many in the international business community, especially global mining companies, are making preparations.<sup>15</sup>

Besides geography, history also sets our final stage. The history of Afghanistan reaches back thousands of years, is most intricate, and deserves learned treatments this author as a non-specialist is not equipped to deliver. So we spotlight one historical theme and refer readers elsewhere for illuminating works by professionals on the history of Afghanistan.<sup>16</sup> This is the theme of manipulation and abuse by outsiders, one of our recurring subtexts. The major example of this theme we illustrate is that of the foreign invasion, which has occurred on many occasions throughout the history of Afghanistan. Afghanistan’s location, as noted under physical geography, has great strategic value; it is thus not surprising that the country should be the object of so much unwanted and harmful attention. The invaders include Alexander the Great, who passed through about 330 BC; Arab Muslims who entered from the west as Islam expanded after the death of the Prophet Mohammad on 8 June AD 632; the Mongols who followed during 1218–1221; Great Britain which invaded twice in 1838–1842 and 1878–1880; the Soviet Union which invaded in 1979; and the US which invaded in 2001. I will comment in more detail on the two most recent invasions—by the Soviet Union, which lasted until it withdrew in 1989, and by the US, which is still ongoing, as that country continues a military presence in Afghanistan as part of a force under the auspices of the North Atlantic Treaty Organization (NATO).<sup>17</sup>

We are interested in the flawed decision making and planning by the Soviet government that surrounded the invasion and subsequent occupation of Afghanistan, as well as the resistance to the Soviet presence. This war was a watershed event in Russian history (Chapter 3): “most observers agree that the last war of the Soviet Union created or aggravated the internal dynamics that eventually culminated in the dissolution of the country itself.”<sup>18</sup> The lessons from that war are stark. The invading Soviet troops “had absolutely no anti-guerrilla training” nor



any preparation for fighting in “mountainous terrain.”<sup>19</sup> Moreover, they “suffered from the confusion about their goals,” which changed several times, from protecting the regime, to overthrowing it, and so on.<sup>20</sup> And their mission was mired in an ideology about an “internationalist duty” to protect “the socialist revolution in Afghanistan whereas the experience on the ground immediately undermined such justifications.”<sup>21</sup> Finally, from a comparative perspective, “parallels with the American War in Vietnam were obvious and frequently referred to by Soviet military officers.”<sup>22</sup>

The Afghan resistance, which included Muslim guerrilla fighters known as the *mujahedeen* (“strugglers”), received international support from some unexpected quarters. Two central figures in helping this resistance were US nationals Joanne Herring and Charlie Wilson. She was “the conservative Houston [Texas] socialite who first interested Mr. Wilson, a Democrat [US Congressman from Texas], in aiding the Afghans.”<sup>23</sup> During the 1980s Mr. Wilson provided “as much as \$5 billion dollars in arms to the Afghan rebels.”<sup>24</sup> His achievements were the subject of a book and a 2007 movie, *Charlie Wilson’s War*, with Tom Hanks as Mr. Wilson and Julia Roberts as Joanne Herring. Mr. Wilson, part of “the system,” frequently had to circumvent it or work outside it to help the resistance. Since the Herring-Wilson partnership is a stellar example of volunteerism in support of what was perceived as a just cause against an unjust aggressor, I want to share with readers two examples of Mr. Wilson’s resolve and ingenuity. Help went

beyond money. When the Soviets deliberately killed camels and mules to cripple the Afghan fighters’ supply lines, he flew in Tennessee mules. When the Central Intelligence Agency refused to provide the guerrillas with field radios for fear that mujahedeen transmissions would be picked up by the Soviets, he sent an aide to Virginia to buy \$12,000 worth of walkie-talkies from a Radio Shack outlet.<sup>25</sup>

To be fair, the US government was not an idle spectator during this conflict. It provided material assistance to the resistance, notably Stinger missiles, which were used to shoot down Russian helicopters and “became what many consider a decisive factor in wearing down the Soviets.”<sup>26</sup> But after the Soviets left by February 1989, the US, in a critical mistake, ended its support, completely, not just for the resistance but for Afghanistan itself.

There is an ominous operational link between the Afghan resistance to the Soviet invasion and the US invasion of Afghanistan in 2001 and beyond. The Afghan rebels included Osama bin Laden of 9/11 infamy and Islamists who went on to form the Taliban regime, which ruled Afghanistan from 1996 until it was overthrown by that invasion in 2001. Mr. Wilson continued to insist “that the United States had not made a mistake by supporting the Afghan rebels. . . . He said if the United States had helped rebuild Afghanistan, it would have remained stable and not become a safe haven for Al Qaeda.”<sup>27</sup> It was right to support the Afghan rebels, but one will never know, of course, what would have

happened if the US “had helped rebuild Afghanistan.” Wilson’s speculation is intriguing, but history must deal with the facts. And three major facts from post-2001 Afghanistan are stark. First, the Taliban have made a comeback as an insurgency. Second, a multinational force in the country is fighting with problematic results to fulfill a mission that appears to have at least two goals: protecting the central government in the capital Kabul and defeating the Taliban. But this mission is vague: is the force protecting the institutions of the central government or those holding power or both? And what exactly does “defeating” the Taliban mean? We sometimes hear the mission wrapped in the gauzy terms of preparing and/or helping the good Afghans to defend their own country. If it is helping, then NATO may be there forever; if it is just preparing, what are the standards for determining sufficient preparation? In any event, the mission is ill defined, which suggests a strong similarity between the Soviet and the NATO experiences in Afghanistan in this respect. The third fact is the pervasive importance of illegal drugs, both as a source of finance for the Taliban insurgency and as means of enrichment for some members of the legitimate worlds of business and government in Afghanistan. This fact returns us to where we started this chapter, with the third type of relations that can exist among illegal drugs trafficking, organized crime, and terrorism. This is the trilateral version, which contains some type of connection between organized crime and terrorism, in addition to the bilateral relationships between drugs trafficking and terrorism, on the one hand, and drugs trafficking and organized crime, on the other. To further illuminate this version, I will concentrate on connections between opium and the Taliban insurgency.

Opium in support of the Taliban insurgency is a case study in itself of the relations between illegal drugs trafficking and terrorism. Two points must be made right away before we can proceed. The first concerns sharply contrasting interpretations of the Taliban and their insurgency. The Taliban doubtlessly view themselves as “freedom fighters” or wagers of *jihad*, but many others regard them as terrorists. Now I respect self-cognition, but the prevailing convention in most governments worldwide is to call them terrorists and I will follow this protocol. The second point concerns poppy growing; the poppy plant is as readers know the source of opium, the prime ingredient in heroin. Poppy growing is farming, which is a business, and farming is a business with an exceptional number of risks, with disasters and diseases inflicted by nature ranking at the top, followed by crop damage caused by humans and animals, intensified by the destruction caused by war. As a business carrying high risks, poppy farming must be assessed not in a time frame of just one or two growing seasons, but over a longer time period, such as a decade or more. I insert this cautionary note, because the tendency of NATO in Afghanistan, notably evident among some high-ranking US military officers, is to place too much emphasis on the ups and downs of opium cultivation from one year to the next and to take great joy if one crop year is bad.<sup>28</sup> Well, the Taliban understand and implement the concept of storage, as insurance against a precipitous drop in production in one growing season or an excessive supply in another that might drive down prices too much. The goal here is not so much revenue maximization as it is an uninterrupted

revenue flow. In fact, James Appathurai, a NATO spokesman, confirmed that “the Taliban had stockpiled so much opium that taking action to destroy existing crops would make little difference.”<sup>29</sup>

It is important to grasp the resilience of opium as a cash crop in the lives of so many people in Afghanistan. Indeed, it is striking how opium production has even benefitted from the recurring wars in that country. The facts on these matters I trust most come from an iconic contribution in 2010 by Alfred W. McCoy, the world’s premier expert on the historical relations between governments and illegal drugs, especially their trafficking. He notes that three decades of recurring warfare, from the 1980s to the present, has

fueled a relentless rise in Afghanistan’s opium harvest—from just 250 tonnes in 1979 to 8,200 tonnes in 2007. For the past five years, the Afghan opium harvest has accounted for as much as 50% of the country’s gross domestic product (GDP) and provided the prime ingredient for over 90% of the world’s heroin supply.<sup>30</sup>

Opium presently serves two major functions in Afghanistan: “in recent years, opium farming has supported 500,000 Afghan families, nearly 20% of the country’s estimated population, and funds a Taliban insurgency that has, since 2006, spread across the countryside.”<sup>31</sup> McCoy offers a crucial insight into the present Afghan War and I will let him comment *in extenso*:

To understand the Afghan War, one basic point must be grasped: in poor nations with weak state services, agriculture is the foundation for all politics, binding villagers to the government or warlords or rebels. The ultimate aim of counterinsurgency strategy is always to establish the state’s authority. When the economy is illicit and by definition beyond government control, this task becomes monumental. If the insurgents capture that illicit economy, as the Taliban have done, then the task becomes little short of insurmountable.<sup>32</sup>

To this telling analysis I would add a supporting point. Efforts by NATO to undermine that “illicit economy” have been fraught with contradictions. To eradicate or not to eradicate, that is the question, to which NATO (especially the US) has never provided a consistent or cogent response. The question refers to whether the coalition force should destroy the poppy crop, on the questionable premise that destruction would cripple the Taliban insurgency. Sometimes the policy has been to eradicate. But “not surprisingly, the government’s repeated attempts at opium eradication have been thoroughly compromised by what the UN [United Nations] has called ‘corrupt deals between field owners, village elders, and eradication teams.’”<sup>33</sup> At other times, the policy or the actuality has been to look the other way, not to eradicate, for fear of pushing poppy farmers towards the Taliban, as if the farmers needed any more incentive to seek protection from the group that supports their means of making a living. Poppy farmers

in Marja, located in Helmand province, experienced this approach in 2010, after NATO forces claimed a victory over the Taliban there and “fearful of alienating Afghans” the US turned a “blind eye to opium.”<sup>34</sup>

The ties between terrorism and organized crime in this version of illegal drugs trafficking exist not only in the Sahara–Sahel Connection, but also in the Afghanistan–Russian Federation Connection. The United Nations Office on Drugs and Crime (UNODC) estimates that 25 percent of all Afghan heroin is trafficked each year from Afghanistan into the Central Asian States towards the Russian Federation.<sup>35</sup> At some point in this journey, elements of Russian organized crime become involved with transportation and distribution. I have no direct evidence to support this assertion, as this is yet another instance of “looking through the glass darkly” in our analysis of organized crime. But persuasive circumstantial evidence does suggest the involvement of organized crime, including the Russian mafias, and it lies in the ongoing transnational network that the dispersal of illegal drugs from Afghanistan continues to fuel, a network that gathered strength in the 1990s. Alfred McCoy described it then as an “international smuggling trade that tied Central Asia, Russia, and Europe into a vast illicit market of arms, drugs, and money-laundering.”<sup>36</sup>

My central concern in this vignette has been the trilateral version of illegal drugs trafficking that connects terrorism and organized crime in Afghanistan and its environs, not as much with the conduct of the present war. But I will conclude with a saying about that conflict: “NATO has the clock, but the Taliban have the time.”

# Notes

## 1 The ABCs of a comparative economic history of organized crime: a national and transnational approach

- 1 A good introduction to historical method is Marc Bloch, *The Historian's Craft*, New York: Vintage Books, 1964. An insightful writer, with a cosmopolitan approach to history, Marc Bloch is an authentic scholar-hero. He was a member of the French Resistance to the Nazi occupation of France during World War II and shot by the Gestapo on 16 June 1944. He would have been fifty-eight on 6 July of that year. A valuable introduction to the method of economic history, which emphasizes the critical examination of primary sources, is Carlo M. Cipolla, *Between Two Cultures: An Introduction to Economic History*, New York and London: W. W. Norton and Company, 1992. Definitions of primary and secondary sources are provided later in this chapter.
- 2 For a comprehensive listing and analysis of logical fallacies as committed by historians, please see David Hackett Fischer, *Historians' Fallacies: Toward a Logic of Historical Thought*, New York/Evanston, Illinois/London: Harper and Row, 1970. For an illuminating panorama of the forty-two logical fallacies as committed by anyone, please visit Dr. Michael C. Labossiere's Macintosh tutorial named *Fallacy Tutorial Pro 3.0*, online, available at: [www.nizkor.org/features/fallacies](http://www.nizkor.org/features/fallacies) (accessed 8 June 2008).
- 3 Michael P. Kammer and Charles W. Mulligan, *Writing Handbook*, Chicago, Illinois: Loyola University Press, 1953, p. 534.
- 4 See Marshall A. Robinson, Herbert C. Morton, and James D. Calderwood, *An Introduction to Economic Reasoning*, third edition, Garden City, New York: Anchor Books, Doubleday & Company, Inc., 1962, especially pp. 8–14.
- 5 *World of Economics*, online, available at: [www.frbsf.org/publications/education/greateconomists/grtschls.html](http://www.frbsf.org/publications/education/greateconomists/grtschls.html) (accessed 21 November 2007).
- 6 Kelly Evans, "Spreading Hayek, Spurning Keynes: Professor Leads an Austrian Revival," *The Wall Street Journal*, 28–29 August 2010, pp. B1 and B3.
- 7 The classic articulation of mercantilism in all its dimensions—as a unifying system, as a system of power, as a system of protection, as a monetary system, and as a conception of society—can be found in Eli F. Heckscher, *Mercantilism*, two volumes, authorized translation by Mendel Shapiro, London: Allen & Unwin and New York: Macmillan, 1962. See also Chapter 7, "The 'Mercantilist' Literature," in Joseph A. Schumpeter, *History of Economic Analysis*, New York: Oxford University Press, 1963, pp. 335–76. This magisterial tome by one of the most influential economists of all time is exemplary in its attention to historical detail. Another insightful book, which I suggest be used on conjunction with Schumpeter's *History of Economic Analysis*, is Mark Blaug, *Economic Theory in Retrospect*, fifth edition, Cambridge: Cambridge University Press, 1997. For another perspective on mercantilism, see Blaug, *Economic Theory in Retrospect*, pp. 10–24.

- 8 A key primary source is François Quesnay, *Tableau oeconomique*, London: Macmillan, 1894. An indispensable book for the serious student of physiocracy is Ronald L. Meek, *The Economics of Physiocracy: Essays and Translations*, London: George Allen & Unwin, 1962. See also Joseph A. Schumpeter, *History of Economic Analysis*, pp. 223–49, and Mark Blaug, *Economic Theory in Retrospect*, pp. 24–32.
- 9 “Physiocrats,” *The Columbia Encyclopedia*, sixth edition, 2001–2005, online, available at: [www.encyclopedia.com/topic/physiocrats.aspx](http://www.encyclopedia.com/topic/physiocrats.aspx) (accessed 14 December 2007).
- 10 Key primary sources include Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, two volumes, Homewood, Illinois: Richard D. Irwin, Inc., 1963; David Ricardo, introduction by Donald Winch, *The Principles of Political Economy and Taxation*, London: Dent, 1992; Thomas Robert Malthus, introduction by T. H. Hollingsworth, *An Essay on the Principle of Population*, London: Dent, 1973; and John Stuart Mill, ed., with introduction by W. J. Ashley, *Principles of Political Economy*, London/New York/Bombay/ Calcutta: Longmans, Green, and Co., 1909. See also W. W. Rostow, *Theorists of Economic Growth from David Hume to the Present*, New York/Oxford: Oxford University Press, 1992, pp. 13–121 and Mark Blaug, *Economic Theory in Retrospect*, pp. 33–214.
- 11 Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Volume II, pp. 2–192.
- 12 I have relied on factual material contained in the *World of Economics* cited above at note 5 for parts of my own synopsis of the Classical School.
- 13 Key primary sources include William Stanley Jevons, ed., with introduction by R. D. Collison Black, *The Theory of Political Economy*, fourth edition, Harmondsworth: Penguin, 1970; Carl Menger, *The Collected Works of Carl Menger*, London: London School of Economics and Political Science, 1933–1936; Leon Walras, translated by William Jaffe, *Elements of Pure Economics, or, the Theory of Social Wealth*, London: Allen & Unwin, 1954; and Alfred Marshall, with annotations by C. W. Guillebaud, *Principles of Economics*, ninth (variorum) edition, London: Macmillan for the Royal Economic Society, 1961. Other valuable primary sources are J. R. Hicks, *Value and Capital: An Inquiry into Some Fundamental Principles of Economic Theory*, second edition, Oxford: Clarendon Press, 1965; and Joan Robinson, *The Economics of Imperfect Competition*, London: Macmillan & Co Ltd, and New York: St. Martin’s Press, 1965. Consult Joseph A. Schumpeter, *Ten Great Economists from Marx to Keynes*, New York: Oxford University Press, 1965, for essays on Menger; pp. 80–90, on Walras, pp. 74–9; and on Marshall, pp. 91–109. For other perspectives on Marshall, see W. W. Rostow, *Theorists of Economic Growth from David Hume to the Present*, pp. 160–93, and Mark Blaug, *Economic Theory in Retrospect*, pp. 311–405. For an introduction to the Marginal Revolution see Blaug, pp. 277–310.
- 14 E. Roy Weintraub provides an illuminating overview of neoclassical economy theory in “Neoclassical Economics,” *The Concise Encyclopedia of Economics*, online, available at: [www.econlib.org/library/Enc/NeoclassicalEconomics.html](http://www.econlib.org/library/Enc/NeoclassicalEconomics.html) (accessed 1 December 2008).
- 15 Key primary sources include Karl Marx, *Capital*, translated from the fourth German edition by Eden and Cedar Paul, introduction by G. D. H. Cole, London: Dent, 1957; and Karl Marx and Frederick Engels, with an introduction by Eric Hobsbawn, *The Communist Manifesto: A Modern Edition*, London: Verso, 1998. See also Joseph A. Schumpeter, *Ten Great Economists from Marx to Keynes*, pp. 3–73; W. W. Rostow, *Theorists of Economic Growth from David Hume to the Present*, pp. 121–49; and Mark Blaug, *Economic Theory in Retrospect*, pp. 215–76.
- 16 See Ralf Dahrendorf, *Class and Class Conflict in Industrial Society*, London: Routledge & Kegan Paul, and Stanford, California: Stanford University Press, 1959.
- 17 The foremost primary source is John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, London: Macmillan, 1936. Another revealing primary source is John Maynard Keynes, *The Economic Consequences of the Peace*,

- London: Macmillan, 1919. The latter is a well-argued, blistering critique of the Treaty of Versailles (1919), which officially ended the First World War (1914–1918) but sowed some seeds of the Second (1939–1945). Keynes was a member of the British delegation to the peace conference and had insider perspectives on its deliberations. See also Joseph A. Schumpeter, *Ten Great Economists from Marx to Keynes*, pp. 260–91; W. W. Rostow, *Theorists of Economic Growth from David Hume to the Present*, pp. 272–82; and Mark Blaug, *Economic Theory in Retrospect*, pp. 641–88.
- 18 I have relied on factual information contained in the *World of Economics* cited above at note 5 for parts of my own synopsis of Keynesian economics.
- 19 The English Historical School has a long roster of distinguished members, which includes the three scholars mentioned in this chapter—Richard Jones, Walter Bagehot, and John Kells Ingram—but also features such other luminaries as James Edwin Thorold Rogers, Arnold Toynbee, John A. Hobson, and Richard H. Tawney. Key primary sources for those mentioned in this chapter are Richard Jones, *An Essay on the Distribution of Wealth and on the Sources of Taxation*, London: John Murray, 1831; Walter Bagehot, *Lombard Street: A Description of the Money Market*, Home-wood, Illinois: Richard D. Irwin, 1962; and John Kells Ingram, *A History of Political Economy*, second edition, London: A. & C. Black, 1910. For the German Historical School the seminal primary source, very difficult to find, is Wilhelm G. F. Roscher, *Grundriss zu Vorlesungen über die Staatswirtschaft nach geschichtlicher Methode* [*Outline of Lectures on Political Economy, According to the Historical Method*], published in 1843 whilst he was at Göttingen University, Germany. See also Wilhelm G. F. Roscher, *Principles of Political Economy*, the whole translated by John H. Lalor, *et al.*, Chicago: Callaghan and Co., 1878. For the American Institutional School key primary sources are John Rogers Commons, *Legal Foundations of Capitalism*, Madison: University of Wisconsin Press, 1957; Thorstein Veblen, with an introduction by C. Wright Mills, *The Theory of the Leisure Class: An Economic Study of Institutions*, London: Allen and Unwin, 1970; and Wesley Clair Mitchell, ed. with an introduction by Joseph Dorfman, *Types of Economic Theory: From Mercantilism to Institutionalism*, New York: A. M. Kelley, 1967–69. For a short introduction to “American Institutionalism” see Mark Blaug, *Economic Theory in Retrospect*, pp. 700–3. There are a number of New Institutional Schools, including the New Institutionalism, the New Social Economics, the New Economic History, the Public Choice School, and the Law and Economics Movement. An informative point of departure for anyone interested in studying one or more of these schools is “The New Institutional Schools,” online, available at: <http://homepage.newschool.edu/~het/schools/newinst.htm> (accessed 20 January 2008). The section in this document on “Resources on New Institutionalism” is especially valuable.
- 20 I found the bibliography and notes contained in “The English Historical School” most useful. Online, available at: <http://homepage.newschool.edu/~het/schools/enghist.htm> (accessed 30 January 2008).
- 21 Dennis M. P. McCarthy, “Walter Bagehot as Economist,” paper presented to Professor Leon Smolinski, History of Economic Analysis, Boston College, Chestnut Hill, Massachusetts, May 1966, 36 pp.
- 22 I found the bibliography and notes contained in “The German Historical School” most useful. Online, available at: <http://homepage.newschool.edu/~het/schools/historic.htm> (accessed 30 January 2008).
- 23 For an insightful perspective on Wesley Clair Mitchell, see Joseph A. Schumpeter, *Ten Great Economists from Marx to Keynes*, pp. 239–59.
- 24 A seminal source is Ha-Joon Chang, “Breaking the Mould: An Institutional Political Economy Alternative to the Neo-liberal Theory of the Market and the State,” *Cambridge Journal of Economics*, 26 (2002): 539–59.
- 25 I found the bibliography and notes contained in “The American Institutional School” most useful. Online, available at: <http://homepage.newschool.edu/~het/>

- schools/institut.htm (accessed 30 January 2008). I also found the bibliography and notes contained in “The New Institutional Schools,” cited above in note 19, most useful.
- 26 See Wesley Clair Mitchell, *Business Cycles and Their Causes*, Berkeley: University of California Press, 1971, and Joseph A. Schumpeter, *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process*, New York/Toronto/London: McGraw-Hill Inc., 1964.
  - 27 See Dennis M. P. McCarthy, “A Collaboration of History and Anthropology: The Synergy of Economic History and Ethnoeconomy in Illuminating Colonial African Moneys,” *African Economic History*, 24 (1996): 91–107.
  - 28 A strongly recommended analysis, with some perspectives from outside of economics, is Martin Hollis and Edward Nell, *Rational Economic Man: A Philosophical Critique of Neo-Classical Economics*, London/New York: Cambridge University Press, 1975.
  - 29 Michael Shermer, “The Prospects for Homo Economicus,” *Scientific American*, July 2007, online, available at: [www.scientificamerican.com/article.cfm?id=the-prospects-for-homo-economicus](http://www.scientificamerican.com/article.cfm?id=the-prospects-for-homo-economicus) (accessed 23 November 2007).
  - 30 Dennis M. P. McCarthy, “Media as Ends: Money and the Underdevelopment of Tanganyika to 1940,” *The Journal of Economic History*, 36 (September 1976): 650.
  - 31 Michael D. Lyman and Gary W. Potter, *Organized Crime*, fourth edition, Upper Saddle River, New Jersey: Pearson Prentice Hall, 2007, p. 57.
  - 32 A valuable source is *Definitions of Organized Crime*, collected by Klaus von Lampe. Online, available at: [www.organized-crime.de/OCDEF1.htm](http://www.organized-crime.de/OCDEF1.htm) (accessed 29 July 2008).
  - 33 Others have expertly summarized these models and theories elsewhere. Consult Michael D. Lyman and Gary W. Potter, *Organized Crime*, pp. 39–49 (models) and pp. 59–83 (theories). For a thought-provoking analysis that raises essential questions, see Klaus von Lampe, “The Use of Models in the Study of Organized Crime,” paper presented at the 2003 conference of the European Consortium for Political Research (ECPR), Marburg, Germany, 19 September 2003. Online, available at: [www.organized-crime.de/modelsofoc.htm](http://www.organized-crime.de/modelsofoc.htm) (accessed 17 June 2006).
  - 34 See Dwight C. Smith, Jr., *The Mafia Mystique*, New York: Basic Books, 1974; Michael D. Lyman and Garry W. Potter, *Organized Crime*, p. 47; and Don Liddick, “The Enterprise ‘Model’ of Organized Crime: Assessing Theoretical Propositions,” *Justice Quarterly*, 16 (June 1999): 403–30.
  - 35 Consult Dennis M. P. McCarthy, *International Business History: A Contextual and Case Approach*, Westport, Connecticut: Praeger, 1994.
  - 36 *Ibid.*, p. 3.
  - 37 *Ibid.*
  - 38 *Ibid.*
  - 39 *Ibid.*
  - 40 *Ibid.*
  - 41 *Ibid.*
  - 42 *Ibid.*
  - 43 *Ibid.*, p. 2.
  - 44 *Ibid.*
  - 45 *Ibid.*, p. 4. See also Dennis M. P. McCarthy, “International Economic Integration and Business Cultures: Comparative Historical Perspectives,” *Business and Economic History*, 25(1) (1996): 72–80.
  - 46 Avinash K. Dixit, *Lawlessness and Economics: Alternative Modes of Governance*, Princeton, New Jersey/Oxford: Princeton University Press, 2007, p. 13.
  - 47 *Ibid.*, pp. 99–100.
  - 48 *Ibid.*, p. 100.
  - 49 *Ibid.*, p. 149.



- 50 Dennis M. P. McCarthy, *International Economic Integration in Historical Perspective*, London/New York: Routledge, 2006, pp. 99–104.
- 51 “Twilight Zone Introduction,” online, available at: <http://cis.csuohio.edu/~somos/twizone.html> (accessed 6 May 2008).
- 52 Michael D. Lyman and Gary W. Potter, *Organized Crime*, p. 452.

## 2 Italian mafias

- 1 Umberto Santino, “Mafia and Mafia-type Organizations in Italy,” in Jay S. Albanese, Dilip K. Das, and Arvind Verma (eds.), *Organized Crime: World Perspectives*, Upper Saddle River, New Jersey: Prentice Hall, 2003, pp. 88–90.
- 2 Dennis M. P. McCarthy, *International Economic Integration in Historical Perspective*, London/New York: Routledge, 2006, pp. 12–15.
- 3 For a discussion of “commercial currents and techniques” in medieval Europe, see Rondo Cameron, *A Concise Economic History of the World: From Paleolithic Times to the Present*, Oxford/New York: Oxford University Press, 1989, pp. 62–68. There is a valuable map on p. 64 that shows “the medieval economy at its peak,” with the principal trade routes, including those of Genoa and Venice.
- 4 I have used factual information from the following useful source in my own overview of Italian geography. See “Italy” in “Geography” from About.com, online, available at: <http://geography.about.com/library/cia/blcitaly.htm> (accessed 26 August 2008).
- 5 Luciano Cafagna, “The Industrial Revolution in Italy, 1830–1914,” in Carlo M. Cipolla (ed.), *The Fontana Economic History of Europe: The Emergence of Industrial Societies, Part One*, London/Glasgow: Collins/Fontana Books, 1973, pp. 279–87.
- 6 *Ibid.*, pp. 292–96.
- 7 Vera Zamagni, *The Economic History of Italy 1860–1990*, Oxford: Oxford University Press, 2003, p. 114.
- 8 *Ibid.*, p. 115.
- 9 *Ibid.* For a sophisticated summation of “the southern challenge,” see pp. 369–75.
- 10 Dennis M. P. McCarthy, *International Economic Integration in Historical Perspective*, pp. 164–201.
- 11 Europa: The EU at a glance, “Travelling in Europe: Documents You will Need,” online, available at: [http://europa.eu/travel/doc/index\\_en.htm](http://europa.eu/travel/doc/index_en.htm) (accessed 3 September 2008).
- 12 “Schengen Agreement,” *BBC News*, 30 April 2001, online, available at: [http://news.bbc.co.uk/2/hi/in\\_depth/europe/euro-glossary/1230052.stm](http://news.bbc.co.uk/2/hi/in_depth/europe/euro-glossary/1230052.stm) (accessed 3 September 2008).
- 13 Dennis M. P. McCarthy, *International Economic Integration in Historical Perspective*, pp. 194–201.
- 14 This paragraph draws extensively from Jeffrey Robinson, “The Criminal’s Currency of Choice,” 23 July 2006, *Time in Partnership with CNN*, online, available at: [www.time.com/time/magazine/article/0,9171,1218031,00.html](http://www.time.com/time/magazine/article/0,9171,1218031,00.html) (accessed 11 September 2008). For an update, see Dominic Casciani, “500 Euro Note—Why Criminals Love It So,” *BBC News Magazine*, 13 May 2010, online, available at: [http://news.bbc.co.uk/2/hi/uk\\_news/magazine/8678979.stm](http://news.bbc.co.uk/2/hi/uk_news/magazine/8678979.stm) (accessed 3 February 2011).
- 15 Vera Zamagni, *The Economic History of Italy 1860–1990*, pp. 373–5.
- 16 Letizia Paoli, *Mafia Brotherhoods: Organized Crime, Italian Style*, New York/Oxford: Oxford University Press, 2003, p. 16.
- 17 Dennis M. P. McCarthy, *International Economic Integration in Historical Perspective*, pp. 91–2.
- 18 See Tom Behan, *The Camorra*, London/New York: Routledge, 1996. Concerning the controversial origins of the Camorra, “a far more likely explanation is that the Camorra grew out of Neapolitan society during the period of the French Revolution between the end of the eighteenth century and the beginning of the nineteenth century” (p. 9).

- 19 Letizia Paoli, *Mafia Brotherhoods: Organized Crime, Italian Style*, p. 4.
- 20 *Ibid.*, p. 16.
- 21 “Mafia’s ‘Ten Commandments’ Found,” *BBC News*, 11 September 2008, online, available at: <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/europe/7086716.stm> (accessed 28 September 2008).
- 22 Dennis M. P. McCarthy, *International Economic Integration in Historical Perspective*, pp. 92–4.
- 23 Stephanie Holmes, “Sicilians Grow Defiant of Mafia,” *BBC News*, 11 April 2008, online, available at: <http://news.bbc.co.uk/go/pr/fr/-/2/hi/europe/7342106.stm> (accessed 11 April 2008).
- 24 For more details on this campaign see Frances D’Emilio, “Web, Crackdowns Weakening Mafia’s Grip,” *Associated Press*, 14 January 2008, online, available at: [www.addiopizzo.org/public/associated\\_press\\_13-01-2008.pdf](http://www.addiopizzo.org/public/associated_press_13-01-2008.pdf) (accessed 29 October 2010). The Addiopizzo website in Italian can be found at [www.addiopizzo.org](http://www.addiopizzo.org); the English version is located at [www.addiopizzo.org/english.asp](http://www.addiopizzo.org/english.asp)
- 25 See Diego Gambetta, *The Sicilian Mafia: The Business of Private Protection*, Cambridge, Massachusetts/London: Harvard University Press, 1993.
- 26 John Dickie, *Cosa Nostra: A History of the Sicilian Mafia*, New York/Basingstoke: Palgrave Macmillan, 2004, pp. 161–3.
- 27 *Ibid.*, pp. 161–89.
- 28 “Organized Crime in Italy,” *Stratfor Global Intelligence*, 2 May 2008, online, available at: [www.stratfor.com/memberships/115815/analysis/organized\\_crime\\_italy](http://www.stratfor.com/memberships/115815/analysis/organized_crime_italy).
- 29 *Ibid.*
- 30 “Opium,” online, available at: [www.drugs.com/opium.html?printable=1](http://www.drugs.com/opium.html?printable=1) (accessed 13 November 2008).
- 31 See Selwyn Rabb, *Five Families: The Rise, Decline, and Resurgence of America’s Most Powerful Mafia Empires*, New York: Thomas Dunne Books, 2005. Regarding the origins of Luciano’s nickname “Lucky,” Rabb writes, “it is unclear whether he acquired it for his gambling exploits, for surviving gun and knife attacks, or from American mispronunciations of his Italian surname” (p. 31). This book is a meticulously detailed account of those five families; Luciano himself was the first head of the Genovese family.
- 32 For a treatment of Luciano’s involvement in the business of prostitution and his trial, see Hickman Powell, *Ninety Times Guilty*, London: R. Hale, 1940.
- 33 Alfred W. McCoy, with Cathleen B. Read and Leonard P. Adams II, *The Politics of Heroin in Southeast Asia*, New York/Evanston, Illinois/San Francisco, California/London: Harper & Row, Publishers, 1972, p. 18.
- 34 Mario Puzo, *The Godfather*, London: William Heinemann, 1969.
- 35 Alfred W. McCoy, with Cathleen B. Read and Leonard P. Adams II, *The Politics of Heroin in Southeast Asia*, p. 25.
- 36 *Ibid.*, p. 24.
- 37 See Alfred W. McCoy, *The Politics of Heroin: CIA Complicity in the Global Drug Trade, Afghanistan, Southeast Asia, Central America, Colombia*, rev edition, Chicago, Illinois: Lawrence Hill Books, 2003.
- 38 Paul Lunde, *Organized Crime: An Inside to the World’s Most Successful Industry*, London/New York/Munich/Melbourne/Delhi: DK, 2004, p. 62.
- 39 Alfred W. McCoy, with Cathleen B. Read and Leonard P. Adams II, *The Politics of Heroin in Southeast Asia*, pp. 244–5.
- 40 There is a growing literature on leadership, but as an introduction to business leadership I recommend Alan Axelrod, *Elizabeth I CEO: Strategic Lessons from the Leader Who Built an Empire*, New York: Prentice Hall Press Books, 2000.
- 41 Letizia Paoli, *Mafia Brotherhoods: Organized Crime, Italian Style*, p.17.
- 42 *Ibid.*
- 43 *Ibid.*

he or she should “speak easy”—that is, slowly and quietly—to the bartender. The speakeasies were fun places, but they were also beachheads of corruption, as usually law-abiding customers could mingle with real criminals and “the Outfit” regularly paid off the police to ignore what was happening there. So speakeasies were another manifestation of the twilight zone, with customers at risk of corruption and police officers actually corrupted. Finally, Prohibition gave criminal elements great opportunities in public relations. They could appear as public angels satisfying legitimate social needs for entertainment and other pleasures that a government under the influence of over-zealous religious elements was trying to suppress. This image has become entrenched in popular culture and blurs the reality: the US mafia is much more a force for evil than good.

While immigration law and Prohibition greatly helped the US mafia, RICO has adversely affected it. In 1970 a federal law went into effect that gave prosecutors a weapon to go after organized crime. RICO is The Racketeer Influenced and Corrupt Organization Act, Title 18, United States Code, Sections 1961–1968. The original intent of this legislation was to damage and even destroy the US mafia. RICO codifies a crime known as racketeering; the name itself supposedly comes from a mafia word for schemes, which is “rackets.” RICO “makes it unlawful to acquire or maintain a business or enterprise through a pattern of racketeering activity.”<sup>3</sup> Racketeering activity is a wide net and covers many crimes that the US mafia has committed over generations, such as murder, gambling, arson, and extortion.

The weapon RICO gave prosecutors is the ability to indict an entire organization, not just individual people allegedly associated with it and who are suspected of criminal wrongdoing. This approach is important, because many mafia dons had shielded themselves by delegating illegal actions to lower-level members.

Under RICO the government can criminally prosecute and imprison a mafia leader even if that particular mafia boss had never directly committed a crime.” In other words, “the mafia boss can be sent to jail simply for operating a business or enterprise that engages in criminal acts.”<sup>4</sup>

Prosecutors have won numerous RICO-based convictions of members of the US mafia, but the exact number is elusive. These include some high-profile mafia dons. In 1985, for example, the Bosses of all five New York City crime families were convicted under RICO and each received at least one hundred years in prison.<sup>5</sup> The most publicized RICO mafia conviction was that of John Joseph Gotti, Jr., the Don of the Gambino crime family, in 1992. Gotti had achieved a certain rogue status in popular culture. He was the “Dapper Don” who dressed well and the “Teflon Don” whose connections enabled him to sabotage earlier prosecutions. But his enforcer Salvatore “Sammy the Bull” Gravano, mentioned in the preceding chapter, turned against his Boss and broke omertà, the mafia code of silence, and provided testimony that led to John Gotti’s conviction and life sentence. He died in prison in 2002.

There is ongoing debate over RICO.<sup>6</sup> If the original objective of RICO was to destroy the US mafia, it has failed. To be sure, it has weakened the mafia leadership, but the question is, by how much? And beginning in the 1980s the use of RICO expanded to include matters other than organized crime, sometimes leading to frivolous civil lawsuits. Some wonder whether RICO would be more effective if litigation remained focused on its original objective. And a vibrant discussion continues over a crucial phrase in RICO: what should constitute a “pattern of racketeering activity”? Is RICO imposing too high an evidentiary standard in requiring a “pattern”? What if a business engages in multiple instances of criminal activity that may or may not fit somebody’s conception of a “pattern”? The author must remark that, whatever its ultimate impact on the US mafia and this is a work in progress, RICO shows that when organized crime is treated as a business, which is what it is, progress can be made in harming it. The strategy of RICO reinforces the central thesis of this book.

US economic history, the second topic in our setting the stage, shows that the US, like the European Union, is a common market. I have elsewhere illustrated in detail how the US came to be a common market and will only emphasize here one critical fact.<sup>7</sup> This common market, enshrined in the US Constitution and strengthened by US Supreme Court decisions, made possible the development of a truly national market. This market, without undue restrictions on the interstate movement of people or commodities, is a great gift for both legitimate and illegitimate businesses. Once within the US, business people, whatever their intentions or cargo, can travel where they wish, unless criminal elements run afoul of law enforcement. The absence of state barriers to interstate commerce has helped organized crime in both past and present, from the bootleggers during the Prohibition Era to those distributing illegal drugs in the US today. This analysis of the dark side of US economic integration is similar to my commentary on the EU in Chapter 2.

Besides political and economic history, two other subjects yield insights that help us better appreciate the context in which the US mafia developed. The first is urban geography; the second is culture. Urban geography has already proved useful as we showcased Moscow, the headquarters of many Russian criminal groups, in Chapter 3. It is no coincidence that so many US mafia ‘families’ were or are based in cities or in regions that have urban anchors. Why is this so? Cities are hubs, crossroads, gathering places, transshipment points, and headquarters of government entities and business organizations. This does not mean that organized crime can flourish only in an urban area or urban-anchored region or that it absolutely needs an urban base. Depending on the structure and needs of a particular core or secondary business, a criminal organization can benefit from a network of contacts in more rural areas or even from a business sited there. But cities do have one great advantage over rural areas. In economic terms, they are dense markets; in simple terms, they have a lot of people in a compact area.

Three concepts from economics may shed more light on the benefits from locating in dense markets, where demand for one’s product may be higher and opportunities to improve one’s supply chain may be greater. These are economies

of scale, scope, and size: they all derive from the economist's concept of efficiency, which means getting more by doing the same or less. Technological change, a factor in our comparative framework, also promotes efficiencies, but you can realize them in ways other than technological change, such as these three types of economies. Let us explain each in turn. Economies of scale usually come from the supply side, as a business increases or decreases its production of something: both actions can reduce unit costs, depending on market conditions. Economies of scope usually come from the demand side, as a business tries to reach more consumers with different strategies, such as bundling its products. Cable and satellite companies practice bundling, as they strive to be one-stop stores for television, Internet access, and telephone services. Economies of size can be confused with economies of scale, but the difference between them is stark. Economies of size refer to the business itself: how big or small is it. Economies of scale refer to what the business produces.

It is fascinating to see what happens when these concepts are applied to organized crime and its illegitimate businesses. First of all, the needs of a criminal organization for the safety of its members and the security of its operations can sometimes impose constraints on the realization of these efficiencies. To return to the Chicago syndicate during Prohibition, it benefited from economies of size as the overall organization grew, but this was not true of every one of its businesses. The syndicate could not, for example, reap maximum efficiencies from economies of size as they applied to its illegal breweries. These became targets, most famously of a band of federal agents led by Eliot Ness and known as the "Untouchables." They took special delight in raiding the Capone breweries and smashing up their contents. So the syndicate decentralized its breweries, increased their number, and held down their size in order to minimize the damage that the loss of one or more breweries would bring. As a final example here of the many others available we note that in both past and present the US mafia has been a pioneer in bundling its products and thereby trying to reap economies of scope. The mafia excels at bundling its distinctive version of protection with its other products and services. In order for you to enjoy that product or service, you need insurance to protect you: we just happen to provide that insurance.

The fourth and final topic in our setting the stage is culture. Cities can also be homes for immigrant neighborhoods, where arriving generations of different ethnic groups try to establish themselves. These ethnic neighborhoods shelter many law-abiding residents but also the few who impart a more sinister interpretation to the American Dream. The criminals can easily blend in with the others. These neighborhoods have their own distinct cultures that are embodied in how they think and act, and embrace such expressions as their spoken native languages, their imported cuisines, and their allegiances to codes of conduct and particular religions, especially Roman Catholicism.

Intriguingly, both the Roman Catholic Church and the US mafia employ vertical hierarchies to organize their activities. That of the Church is more extensive: it is global, has more levels, and the faithful believe it reaches up to

the Supreme Being. That of the US mafia is family-based but sometimes connects upwards to national commissions, whose effectiveness has varied. Both, however, rely on formidable sanctions. The Church has its hell in the afterlife; the US mafia has its hell on earth. Both organizations today also face common problems: declining memberships, a downsizing of their organizations in some locations, a waning impact of their codes of behavior, and an unsure approach to “becoming relevant” to contemporary society, whatever that means. I will save my economic history of the Roman Catholic Church for next time. Now I wish to address certain aspects of the US mafia in more detail. I will consider organization, leadership, and the evolving range of mafia businesses. In connection with mafia businesses, the topics of government and its vacuums, technological change, and an expanding “twilight zone” will appear. Lastly, I will present my “case study within the case study” of the Cleveland mafia. Let us go right through this list and begin with organization.

It continues to amaze the author, a life-long student of organized crime, that so many people from so many backgrounds, including academia, popular culture, and law enforcement, seem to assume that the basic organizational paradigm of the US mafia has not changed in significant respects since Charles “Lucky” Luciano organized it on the model of the Sicilian Mafia in the 1920s and 1930s. I have sketched this paradigm in Chapter 2 and elaborated upon it elsewhere.<sup>8</sup> But the essential features are worth retelling so readers can consider in one place suggestions I will make about what may be happening in practice to this table of organization. The hierarchy of each US mafia crime family has three levels. On the top level is the Don or Boss, who is the chief executive officer. He is backed up by an Underboss, who is second in command. A Consigliere or counselor advises the Don. There is only one level of middle management, the *Caporegima* (Capos) or captains. Below them are the soldiers who carry out the wishes of upper management on the street.

There is little reason to doubt that this three-level structure remains intact on paper.

And even if it has been formally changed, we would not expect a public pronouncement from the US mafia. My concern is what is happening to this paradigm in practice, because there can be differences, sometimes a wide gulf, between a table of organization on paper and how things are really done. Two important concepts influence our analysis here. The first is interdependence, explained in the introductory chapter, and the second is substitute, which is important for some theorists of economic development but which can be applied to organizations in other fields of human endeavor as well. Recall that interdependence is an organization’s particular mix of centralization and decentralization in practice; tables of organization may or may not provide guidance here. As for the concept of substitute, in economics there are substitute goods, both perfect and imperfect. One example comes from the passionate debate over energy sources and global warming: can natural gas be substituted for petroleum and if so when and how? Alexander Gerschenkron, introduced in Chapter 3, developed a notion of institutional substitute in his theory of the degrees of

economic backwardness. For instance, in cases where market forces have been damaged, destroyed, or never existed in the first place, government will have to assume a greater role in economic development than otherwise. Put another way, government can substitute (imperfectly in my opinion) for private market forces until these gain sufficient strength to develop without such intense public nurturing.

I present this background, because I believe that the US mafia is developing institutional substitutes for what RICO has done to its leadership. These substitutes arise in at least two areas. First, the interdependence of the US mafia crime family may be tilting towards more decentralization and less centralization, not necessarily for every family but for some. I know that an old mafia saying is, “a family is only as good as its Boss.” This would hold true, if the organizational paradigm remained highly centralized. But if I were a strategist for organized crime and confronted an adversary determined to decapitate my leadership, I would have numerous recommendations for an effective counterattack. Among the most important, delegate more actual power to middle management (the Capos) and even to an up-and-coming soldier. I have no evidence to support my hypothesis about shifting interdependence that rises to the evidentiary standard of “beyond a reasonable doubt” and some may dismiss our view for this reason. But such instant rejection would be most unwise, because the US mafia is demonstrably compensating for the loss of part of its leadership.<sup>9</sup> As Jim Margolin, the FBI spokesman in New York, observed, the US mafia is adept at finding new ways to make money and has managed to survive setbacks.<sup>10</sup> Money does help and we will illustrate the mafia’s adeptness at “finding new ways to make money” when we examine mafia businesses later in this chapter. But money by itself cannot compensate for loss of leadership. Other factors have to be involved. If compensation for leadership loss is not coming from a paradigm shift in practice, then where is it coming from?

A second possible source is the formation of relationships with outsiders that economize on the factor of leadership by bringing synergies to the organization. Evidence does indicate that the US mafia is forming more relationships of various kinds with other crime organizations. The initiative for a connection may come from the US mafia itself or from another group. A case in point involves recent efforts of the US and the Sicilian mafias to improve their relations, which have not always been harmonious. An Italian parliamentary report contends that the Sicilian Mafia is rebuilding its networks in the US. With a result that corroborated this view, the FBI implemented in February 2008 “an operation codenamed Old Bridge, a reference to these long-standing links between Sicily and New York,” which brought in more than eighty gangsters in New York with known connections with Sicily; this number included the acting Bosses of the Gambino crime family. In short, the original Sicilian Mafia “has been sending people to the US to form alliances with families with which it had lost contact in the 1980s.”<sup>11</sup>

The most intriguing word in that last sentence is “alliances.” There are many types of alliances between or among entities from various fields of human endeavor. In the world of politics and diplomacy nation-states form alliances. To

promote international economic integration, countries join free trade areas, customs unions, and common markets; all these may be viewed as alliances. And legitimate businesses enter into different kinds of alliances. A business alliance can involve anything of mutual interest to two parties. But one typology from the published literature features five types of legitimate business alliances. These are the sales alliance, the solution-specific alliance, the geographic-specific alliance, the investment alliance, and the joint venture alliance. The characteristic common to all five is that participants cooperate in some way that shares labor or other resources. In the sales alliance companies agree to sell together complementary products and services. In the solution-specific alliance companies agree to work together to come up with a specific solution to some problem. In the geographic-specific alliance companies agree to work together in a particular geographical area. In the investment alliance companies pool resources to invest. And in a joint venture companies agree to undertake an economic activity together.<sup>12</sup>

This typology from the world of legitimate business can help our investigation into alliances in the worlds that are not so legal—the underground economy and the twilight zone. But there is a major difference between cooperation in a legitimate business alliance and a criminal one. Alliances between illegal organizations can also reveal a shared cooperation. The solution-specific alliance is a leading candidate for emulation by organized crime, but my impression is that criminal alliances are often about divisions—of labor, markets, and other resources. Of course, business people contemplating an alliance will always ask themselves two basic questions. Do we cooperate on a specific matter, as in working together in the trenches to get it done? Or do we assign specific areas to each party in order to minimize conflict between us? Some may interpret an agreement to divide as a solution-specific alliance. Organized crime groups may wish to divide up a geographical market or markets and allocate spheres of influence to each organization. They may also prefer to assign specific tasks in an economic process to particular organizations. Take, for example, the complex chains of economic activity that exist in illegal drugs trafficking. An alliance between organized crime groups may delegate a specific function in that chain, such as transportation, to a group that has expertise in handling such matters. When Charles “Lucky” Luciano organized the international trade in illegal drugs after World War II, which I examined in Chapter 2, he crafted a complex network of alliances of various kinds, including numerous solution-specific arrangements. The two types of cooperation, one of sharing, the other of dividing, are, therefore, both worthy of study in context of criminal business alliances.

Against this background, what kinds of alliances are the US and Sicilian mafias forming? Since these are under development, it is impossible to give a complete answer to this question. But important first steps are being taken, as first mentioned above, to strengthen the personal ties between the US and Sicilian mafias. As the Italian anti-mafia commission notes, “many US food distribution and construction firms are now controlled by the US Cosa Nostra, whose bosses are of Sicilian origin and have direct links.”<sup>13</sup> This commission



further states “it has evidence Cosa Nostra [Sicilian] is sending its top members to New York while allowing those expelled by the mob during the clan wars of the 1980s to return home to Sicily.”<sup>14</sup> A shared ethnicity can give a developing alliance a special cohesion, and a strong foundation is in place for perhaps more solution-specific alliances.

Whatever the reason for the ability of the US mafia to survive setbacks, no one denies as Jim Margolin reported above that the US mafia is adept at finding new ways to make money. So it would be worthwhile to summarize here the evolving panorama of businesses associated with the US mafia in order to illustrate that monetary adeptness. This is a partial overview, not a comprehensive economic history of each one of these businesses. We will consider protection, illegal drugs, money laundering, gambling, and cybercrime, as well as heists, frauds, and thefts of various kinds. We regard the first three as core businesses and will concentrate on them. Gambling is a major business, and cybercrime is becoming a major business; we will offer shorter remarks on these. Lastly, we will address all too briefly a last category that admittedly lumps too many things together—heists, frauds, and thefts of various kinds—but taken together they also constitute a major business. We have already demonstrated above the crucial importance of the Prohibition Era in the earlier economic history of the US mafia and indeed for the very organization of organized crime.

First of all, the US mafia guards its first core business of protection and maintains a strong presence in the activities associated with it—extortion and racketeering, which are sometimes called its traditional activities. Remember that the mafia excels at bundling protection with its other goods and services so that it can reap wherever possible economies of scope as explained earlier in this chapter. Government’s use of a broad definition of “racketeering,” as explained under RICO above, to convict mafia members has only partially succeeded; so the rackets or schemes, some old and some new, march on.

The participation of the US mafia in the global trade in illegal drugs, its second core business, took a more systematic form after World War II as Charles “Lucky” Luciano, the oft-mentioned organizational genius who influenced both the US and the Sicilian mafias, brought the organization of that trade to a high level. In recent decades, the US mafia has faced increasingly fierce competition from other criminal groups that have tried to capitalize on the seeming weakening of mafia leadership by RICO. Nonetheless, a widely shared view is that the US mafia will try to maintain its foothold in this lucrative trade. This goal may be achievable in light of the continuing strong demand for illegal drugs, the resilience of the trade, and its chameleon like capacity to mutate when under governmental assault. While we cannot track every twist and turn in the US mafia’s involvement in illegal drugs, we can illustrate the reach and creativity of that presence with an older example and the challenges the trade poses with a more recent one.

The famous “Pizza Parlor” case surely qualifies in the categories of both reach and creativity. Gaetano Badalamenti, who died in prison in 2004, masterminded a crime ring in the US that used pizza parlors to distribute heroin and cocaine between 1975 and 1984. Once known as the “Boss of Bosses” of the

Sicilian Mafia while he was living there, he had to flee and ended up in the US, where his entrepreneurship flourished. He imported heroin from the Middle East and cocaine from South America, sold them through the pizza places, and laundered profits through Swiss bank accounts. The “pizza” ring was worth an estimated \$1.65 billion US dollars. The “Pizza Parlor” case gave new meaning to the term “take out” or “take away.” The reach—heroin from the Middle East, cocaine from South America, money laundering in Switzerland, and an array of pizza businesses in the US—is impressive. And bundling the selling of drugs with the selling of pizza, along with a compulsory side order of mafia protection, is creative and also sound economics, as economies of scope come into play.<sup>15</sup>

The second example may lack the flair of the first but it reveals challenges the US mafia faces on its own turf in the field of international drugs trafficking. This example highlights an important development in that trade: the Mexican drug cartels are more and more sending shipments to elements of the “Italian mafia” in Europe through the US.

This business relationship also connects two other case studies in this book, as it revisits the Italian mafias and prefaces the next chapter, on the Mexican drug cartels. Two essential facts are driving greater emphasis on Europe. As of 2009, the drug cartels confronted accelerating crackdowns by the US and Mexican governments. And, also at this time, there was a major disparity in price between what cocaine commanded in Europe and the US. Europe is a first-class expansion market, because “the demand for cocaine is high and prices are up. A kilo sold for \$20,000 in Dallas is worth up to three times as much overseas, experts say.”<sup>16</sup> So the US has become, in effect, a transshipment point for cocaine coming from Mexico, entering Texas, and eventually reaching Europe. Dallas is an established distribution hub “for drugs smuggled up the Interstate 35 corridor from Laredo. From here, narcotics head out across the country to Atlanta, Chicago, New England and elsewhere.”<sup>17</sup> This is not to deny that some cocaine stays in the US, but much of it is apparently re-exported to Europe.

Providing an organizational framework for these cocaine shipments are “alliances” that the Mexican drug cartels are forming with some of the Italian mafias. In 2008 the US Drug Enforcement Administration (DEA) revealed that “the Mexican Gulf cartel, which supplies Dallas with cocaine, was working with New York associates of the powerful Italian ‘Ndrangheta mafia,”<sup>18</sup> which we introduced in Chapter 2. Another alliance surfaced in August 2008, when a DEA arrest in Dallas County opened an investigative trail that led to the conclusion that “the drug pipeline in that case reached all the way to Europe and the clandestine world of the Camorra,”<sup>19</sup> also sketched in Chapter 2. Details of these drug pipelines can be found elsewhere,<sup>20</sup> but our sources do not address the question, what types of alliances, as defined above, are the Mexican drug cartels and the various Italian mafias forming? Some must be solution-specific alliances that involve transportation and security, but without additional evidence one cannot be sure.

A most pressing question in this entire episode is, where is the US mafia? It must have a role, because some routes the cocaine destined for Europe takes through the US cross the turf of American mafia families. The first alliance

mentioned above concerned the Mexican Gulf cartel and “New York associates” of ‘Ndrangheta. Presumably, these “associates,” if they wish to be there a long time, are not doing business in New York City without paying respects to the mafia family on whose territory they are operating. Perhaps the US mafia is playing the role of a behind-the-scenes facilitator, for a fee of course “because we are not Communists” (to paraphrase Barzini from *The Godfather*), but again one cannot be sure. What does stand out from the Mexican–Italian Cocaine Connection graphically supports the generalizations made above about the international trade in illegal drugs: the demand continues strong, the trade is resilient and has a striking capacity to deal with all threats, and competition among those on the supply side is ferocious.

Money laundering, the US mafia’s third core business, has strong relationships with its first two core businesses and also is connected with a number of factors in our comparative framework. I discussed money laundering in the introductory chapter to this book in connection with organized crime’s quest for legitimacy and the topic of private property rights. I also mentioned it in Chapter 2, when I analyzed the implications of the euro, and especially the €500 note, for simplifying money laundering. I seek to advance my analysis of money laundering in the rest of this book. So here I will show the interaction of the mafia’s three core businesses, present an additional technique for money laundering, and argue that the mafia search for legitimacy proceeds at the same time as it tries to expand the twilight zone and the underground economy.

The cardinal fact is that the US mafia’s second core business—international trafficking in illegal drugs—energizes and expands its first and third core businesses—protection and money laundering. Since the US mafia bundles protection with its other products and services, the increase in the illegal drugs trade increases the demand for protection. The greater profits from that trade increase the demand for money laundering, which in turn increases the demand for protection. A stronger example of synergies among three businesses producing efficiencies and strengthening the entire organization is hard to find in the world of the US mafia.

Let us examine in more detail the impact of increasing profits from illegal drugs not just on the demand for money laundering but on the forms this process takes. As I observed at the end of Chapter 2, the economic chain of greater drug revenue requiring more money laundering can stimulate technological change in money laundering. In the world of legitimate economics technological change embraces a variety of innovations that range from labor-saving machinery to improvements in administrative structures. This thrust also holds in the world of criminal economics, but as noted security and safety considerations can constrain the full realization of economic efficiencies and may in fact dictate the introduction of measures that use more, not fewer resources, such as labor-intensive, not labor-saving techniques. In the economist’s short run, this is more costly, but the result can produce larger profits over time, which is the name of the game for every business. Sometimes the old saw, “you must spend money to earn a lot more money,” trumps the conventional concept of economic efficiency in the near term.

The increasing demand for money laundering is affecting the process itself in two ways. Money laundering faces heightening scrutiny from law enforcement, which was already vigilant to begin with. This unwelcome attention, along with the rising volume of cash, increases the safety and security requirements of the perpetrators, which include not just the US mafia, but also other criminal groups. They have responded with ever longer and more complicated laundering routes. The process of money laundering thus costs more, as it uses more labor and covers more distance. In the language of economics, money laundering is becoming more labor-intensive and more transport-intensive; both these areas contribute to transactions costs. So while the €500 (and €200) notes may simplify money laundering in some respects, in others it is becoming more complex.

Money laundering must, therefore, deal with these two burdens, greater scrutiny from law enforcement and rising transactions costs in labor and transport. One must also reckon the opportunity costs involved in the additional labor and transport. In economics opportunity cost is the value of a foregone opportunity: what criminal activities might the perpetrators be doing in the extra time and travel they now have to invest in money laundering?

The cocaine boom in Europe, which appeared above in the Mexican-Italian Cocaine Connection, is one of the business surges that are increasing the demand for money laundering. As such it can illustrate here what rising transactions costs in labor and transport mean for money laundering in practice. First of all, a caveat is appropriate. The cocaine boom is fueling the demand for euro laundering in particular, but the laundering of drug profits should never be analyzed in the context of only one currency, because even when completely washed and assimilated into the legal, the seemingly legitimate currency may be moved into yet another legal currency to provide extra insurance for the process.

Now the euro-laundering explosion features transcontinental and transoceanic routes that connect four continents: Europe, Africa, South America, and North America. In the basic framework of the trade, the cocaine goes from South America, through Africa, and into Europe primarily through Spain, a major distribution center for the narcotic. The “unwashed” euros travel in the opposite direction, from Europe, down to Africa, across the Atlantic to South America, do not stay there, but end up in the US. Some explanatory notes are in order. Spain does double duty as it also serves as a major hub for euro laundering. Africa plays a crucial role because of its proximity to Europe, especially Spain, and because of its hundreds of miles of unguarded coastline, a criminal advantage reminiscent of the coastlines of Italy and the western Balkans. The “Mexican–Italian Cocaine Connection” through the US is a more recent addition to the basic framework. And while some narco-euros are laundered in Europe, most enter the US, where they penetrate the economic and financial life of that country in numerous ways.

This antiseptic description of euro laundering comes to life in the experiences of the Mazzas, money launderers extraordinaire from Chile. Mauricio Alfonso Mazza-Alaluf, helped by his cousin, Luis Mazza-Olmos, ran a Chilean financial services company Turismo Costa Brava SA, located in downtown Santiago. The

mission of this “family” business was to provide “fund transfer and currency exchange services for its customers.”<sup>21</sup> And it did, massively, on an international scale, with great creativity and profitability for a time, but the owners failed to do their complete due diligence and this eventually caused problems. The Mazzas refined their money laundering routes over time; a comprehensive treatment of their activities can be found elsewhere.<sup>22</sup> Here I wish to spotlight how “unwashed euros” entered the US and what happened to them once there.

The essentials of their movement can be concisely stated. Turismo operatives physically carried huge amounts of cash, usually but not always euros, into the US on airline flights from South America to LAX, the Los Angeles International Airport. A striking feature of their work was how open they were about it. This is yet another illustration of Sherlock Holmes’ dictum that “sometimes the best place to hide something is out in the open.” Once on US soil, the Mazzas “moved their euros with breathtaking openness. Their main tactic was to dutifully fill out paperwork at customs points and financial institutions, using real family and business names.”<sup>23</sup> An armored car service then took the money to Associated Foreign Exchange Banknotes Inc., a currency exchange business with headquarters in Encino, California. AFEX Banknotes converted the euros into US dollars and wired sums to accounts the Mazzas had opened in US banks. There were at least three banks involved: Israel Discount Bank of New York; Harris Bank in Chicago; and J.P. Morgan Chase in Dearborn, Michigan. Their openness also characterized these accounts. When they set up each account, “the Mazzas gave their company’s real name and openly described it as a tourism and currency-exchange agency.”<sup>24</sup> These accounts served as conduits for wiring hundreds of millions of dollars to other accounts located around the world. In my terms, when AFEX Banknotes converted the unwashed euros into US dollars and wired amounts to Mazza accounts in US banks, those actions constituted “integration with the legal,” the first phase in the transformation of dirty money into completely legal money. When the Mazzas disbursed those dollars to other accounts and these further penetrated the financial system, this promoted “assimilation with the legal,” the second and final phase in that transformation.<sup>25</sup>

For the Mazzas, whose planning was so meticulous and implementation so bold, their omissions are all the more surprising. Mauricio Alfonso Mazza-Alaluf was arrested at LAX in March 2007, and eventually “charged with one count of conspiring to conduct an unlicensed money-transmitting business, and one count of conducting an unlicensed money-transmitting business.”<sup>26</sup> US federal law requires that businesses transmitting money must comply with the regulations of the US Treasury and also obtain a license from every state in which they operate if the state requires a license.<sup>27</sup> Turismo, in the Mazzas’ most crucial omission, did not obtain licenses in New York, Illinois, and Michigan, the locations of their three major banks, and all three states required them. Mazza-Alaluf was tried in a bench trial in federal court in Manhattan in November 2008.

Judge P. Kevin Castel ruled that Turismo had not violated US Treasury regulations because those apply only to financial institutions “within” the United States.<sup>28</sup> But he still found Mazza-Alaluf guilty of both counts because Turismo

had violated the licensing requirements of New York, Illinois, and Michigan.<sup>29</sup> Five years in prison are possible for each count. It would have been interesting to see how federal prosecutors would have proceeded if Turismo had complied with state licensing requirements. The Mazza case reminds all money launderers to research the laws in every pertinent jurisdiction and comply with them. To reach a criminal goal one must sometimes employ legal means.

While the Mazza case illustrates one approach to money laundering that is more labor- and transport-intensive, a technique known as *microstructuring* demonstrates a second. In money laundering microstructuring means moving small amounts of cash through many channels to avoid arousing suspicion from financial and legal authorities. Microstructuring is an “extreme variation of a practice called ‘smurfing’—the breaking down of large transactions into many smaller ones to evade detection by federal regulators. That activity was criminalized by the [US] Congress in 1986.”<sup>30</sup> Whereas the Mazzas moved huge amounts of cash over longer distances, those engaged in microstructuring use great amounts of time and labor to deposit their unwashed money in many banks that may all be within the same city. Distance for the Mazzas was extensive, covering longer and longer routes; that for microstructurers is intensive, as they may travel many miles within a one city. A more accurate description of microstructuring is, therefore, an approach to money laundering that is more labor-intensive and distance-intensive in an era of heightening scrutiny. Distance-intensive, rather than transport-intensive, better captures the fact that while microstructurers sometimes use vehicles, they also do a lot of walking.

An illuminating example of microstructuring can be found in the activities of Luis Saavedra and Carlos Roca, copiously documented and clearly analyzed again in the work of Mark Schoofs for *The Wall Street Journal*.<sup>31</sup> They were allegedly “moving money for a Colombian drug-trafficking organization that sells cocaine and the club-drug Ecstasy.”<sup>32</sup> Schoofs provides a fascinating glimpse into “a day in the life” of microstructurers and shows what “labor-intensive and distance-intensive” mean for this technique. I quote his narrative:

At 8:50 a.m. on March 15, 2006, Luis Saavedra and Carlos Roca began going from bank to bank in Queens, New York, depositing cash into accounts held by a network of other people, according to law-enforcement officials. Their deposits never exceeded \$2,000. Most ranged from \$500 to \$1,500. Around lunchtime, they crossed into Manhattan and worked their way up Third Avenue, then visited two banks on Madison Avenue. By 2:52 p.m. they had placed more than \$111,000 in 112 accounts, say the officials, who reconstructed their movements from seized deposit slips.<sup>33</sup>

The dirty money was now ready to be washed. Associates in Colombia “used ATM cards to withdraw the money in pesos, moving quickly from machine to machine in a withdrawal whirlwind.”<sup>34</sup> The ATM was the washing machine and, once withdrawn in pesos, the dirty money was now “integrated with the legal.” It is an understatement to describe this operation as labor-intensive: it required

lots of labor to establish all those accounts, to deposit funds in them, and then to withdraw them. This organization was moving about two million dollars a month, not the huge amounts of cash Turismo did in its heyday. But size is relative and in the eyes of the perpetrators; it depends on how they view the financial and security needs of their businesses.

I realize that the Mazzas, as well as Messrs. Saavedra and Roca, are not “made” members of the US mafia and seem out of place in a chapter dedicated to that organization. But their cases are the most graphic evidence I have of recent developments in money laundering, the topic under immediate discussion here, and suggests what other organized crime groups, including the US mafia, may be attempting. And who knows? Maybe some members of the US mafia were among Turismo’s “customers.” In any event, this completes our analysis of the US mafia’s three core businesses of protection, illegal drugs, and money laundering. We now turn to the US mafia’s major business of gambling and its business that is becoming major, cybercrime.

Gambling has been an important business of the US mafia since its inception and may very well have been a core business in its earlier decades until superseded by money laundering. Gambling is a wager, in money or kind, on something with an uncertain outcome that, if correct, will return to the bettor a reward in money or kind. Gambling takes forms too numerous for exhaustive enumeration here. However, the US mafia historically has had special interests in numbers, sports betting, and casino gambling. And, more recently, it has entered online gambling. Let us consider each in turn.

Numbers, also known as the numbers game or policy racket, is an illegal lottery. With the lure of a big payout for a modest investment, numbers proved especially enticing to the urban poor. The bettor picked three or four numbers against those to be drawn at a later time in some manner and placed a bet with a bookie at a tavern or other location.

Couriers ran the money and betting slips to “policy banks” at headquarters. The profits from numbers, by all accounts, were great, as the odds were heavily stacked against the bettor, but hope springs eternal especially for those who don’t have much going for them in the first place. In the economic history of the US mafia profits from numbers were a significant early and continuing source of capital formation.

The numbers game is a strong example of the mafia filling a vacuum in social wants, as governments had declared lotteries illegal. But when US states, under financial duress and seeking easy sources of new revenue, created their own legal lotteries, this competition, at least at the outset and in some locations, reduced the mafia’s revenue from numbers. There is an ongoing discussion over what happens when government gets involved in a business heretofore dominated by organized crime. Does the government presence decrease, increase, or have no effect at all upon the position of organized crime in that business? There is no blanket answer to this question that holds for every type of illegal gambling activity. One has to go type by type. I will return to the topic of numbers versus legal lotteries in my upcoming discussion of the Cleveland mafia.

Sports betting, the US mafia's second gambling specialty, has not received the degree of legalization lotteries have. There are powerful forces opposed to the legalization of sports betting, which include the National Collegiate Athletic Association (NCAA), the National Football League (NFL), and Major League Baseball (MLB). In 1992 a US federal law went into effect that banned sports betting nationally, "but grandfathered it in four states where it had been previously allowed: Delaware, Montana, Nevada and Oregon."<sup>35</sup> But in 2007 Oregon banned sports betting. And Montana permits only a fantasy sports lottery; betting on real events is illegal. Since legalization in 1931, Nevada has been a haven for gambling of many kinds, including sports betting. Delaware, which had a "brief but unsuccessful flirtation with sports betting in the 1970s,"<sup>36</sup> legalized the practice in 2009. Shortly thereafter the Delaware Supreme Court agreed to hear a case that could determine what types of gambling the state constitution permits. On 27 May 2009, the Court ruled that the law did not conflict with the state constitution. Lotteries that have an element of skill are legal in Delaware, "as long as chance is the predominant factor in winning or losing."<sup>37</sup> And parlays, which are bets on the outcomes of two or more events, are also legal. Some believe that Delaware's example may have a domino effect.<sup>38</sup> But, for the time being, Nevada and Delaware are the only two of the fifty US states that will allow sports betting. And how strong the domino effect may be, if at all, remains to be seen. In any event, a huge vacuum in social wants will still remain that the US mafia will continue fill with enthusiasm.

Casino gambling, the US mafia's third area of interest in gambling, is not a type of gambling, in the sense that numbers and sports betting are, but rather a venue in which many kinds of wagering occur. A casino can offer electronic gambling, such as slot machines and video poker; table games, such as blackjack, craps, roulette, and baccarat; and other games, such as bingo and keno. The exact mix depends on what is legal in the jurisdiction in which the casino is located. Casinos aim to provide gambling in an environment of luxury, with sumptuous food, first-class service, and top-of-the-line entertainment.

The most memorable historical example of the US mafia and casino gambling is Las Vegas in the 1940s and 1950s. Las Vegas developed gambling after Nevada legalized it in 1931, but the city remained a small-time operation, with a largely locale clientele, until mafia members from New York got involved in the early 1940s. Meyer Lansky, who also had ties with Charles "Lucky" Luciano as reported earlier, was ever alert to greater economic opportunities. His old friend Benjamin "Bugsy" Siegel was already running the mob's bookmaking activities from the West Coast. Lansky and Siegel were both Jewish and as such not members of the US mafia, but both developed working relationships with it. It was Siegel who reportedly grasped the enormous economic potential of Las Vegas as a big-time gambling venue and who would subsequently found the Flamingo casino. Lansky and Siegel both liked legal gambling because it economized on the costs of paying off police and politicians. And, with a view that proved far-sighted, both men realized that "legal gambling was also the perfect setup for laundering money."<sup>39</sup> Thus began business relationships that would



lead to direct mafia control over a number of prominent Las Vegas casinos and create a version of the twilight zone that had a flair and charisma rarely equaled, as legitimate entertainers and patrons mingled freely with illegal business people. Speaking of the “top-of-the-line entertainment” in this “twilight zone,” I encourage readers to visit Paul Lunde’s book, not only for its many substantive overviews but also for its marvelous assemblage of valuable photographs, one of which is a great picture of the original Hollywood Rat Pack.<sup>40</sup> This was Frank Sinatra, Dean Martin, Sammy Davis, Jr., Peter Lawford, and Joey Bishop. They are shown standing in front of the giant sign before the Sands Hotel in Las Vegas, which features their names from top to bottom in the order just listed.

The US mafia began to receive greater scrutiny in the 1950s, from law enforcement officials as well as politicians. The FBI was busy researching the US mafia—what it was, where it originated, and how it worked—and compiled an in-house document, the so-called Mafia Monograph, dated 1958, and now available as a download from the FBI Freedom of Information room, along with numerous FBI files on individual mafia leaders. The Mafia Monograph is an outstanding primary source that sums up what some members of the FBI knew about the US mafia in the mid-1950s.<sup>41</sup> And in the early 1950s Estes Kefauver, a Democratic Senator from the US state of Tennessee, held a series of hearings in his capacity as chairman of the Special Committee on Organized Crime in Interstate Commerce. Known colloquially as the Kefauver Committee, the main focus began as gambling. The Kefauver Committee compiled much valuable information on organized crime and something known as the mafia, which Kefauver believed was an importation, not an indigenous creation. This view, of course, is a false dichotomy, as the US mafia has Sicilian roots but has become a uniquely American cultural expression over time. Whatever the veracity of its interpretation, the Kefauver Committee drew attention to a “sinister criminal organization known as the Mafia operating throughout the country.”<sup>42</sup> Even bad publicity is usually good for some things, but not for organized crime. Increased public awareness made it harder and harder to conduct business as usual in Las Vegas, and the mafia’s influence began to decline there in the 1970s and 1980s.

Today officials insist that there is not a hint of mafia involvement in casino gambling in Las Vegas; any such evidence would lead to revocation of a gaming license. The crucial question is, what kind of involvement is at issue here? In the sense of direct control, as in overt ownership of a casino, the conventional view is probably correct. But I caution against smugness in this regard. To paraphrase Michael Corleone, if economic history teaches us anything, it is that the US mafia is increasing the sophistication of its techniques of *indirect* control and influence. One does not have to be the legal owner of an entity as indicated on a deed or even have influence over a majority of its executives. One can use layers of intermediaries to create obstacles of various kinds that move the legal ownership of a casino to make a decision that that actually benefits a certain “sinister criminal organization.” A less Machiavellian approach is to get involved in something casinos need, on the principle that if you can’t own it, you can still supply it. Salvatore “Sammy the Bull” Gravano, whose testimony as noted

earlier was important in convicting John Gotti, may have provided a clue when he referred to casino gambling as one of the “innovative and profitable technologies” the US mafia is penetrating.<sup>43</sup>

Another “innovative and profitable technology” is the World Wide Web, with its entry ramp the Internet, which contains countless other interconnected networks that are not part of the Web. Cybercrime is becoming a major business for the US mafia, and now in the set of cybercrimes is the last mafia area of interest in gambling. This is online gambling which, like casino gambling, refers not to a specific kind of gambling but rather to a venue where many types of gambling occur. Online gambling includes sports betting, bingo, and various types of poker, such as Texas hold ’em, Omaha, seven-card stud, razz, and horse. There is also casino gambling online, with many of the games enumerated earlier, and mobile gambling, which is an ongoing area of improvement for using wireless and mobile phone technology for gambling.

Online gambling is a now a cybercrime because it is illegal in the US at this writing, but there is “a move to relax US online gambling laws.” Democratic Representative Barney Frank, chair of the US House of Representatives Financial Services Committee, “wants to introduce a licensing regime for online gambling companies, modifying anti-gambling laws that led to a series of investigations into executives at companies such as UK-listed PartyGaming.”<sup>44</sup> Frank wants to legalize online betting for US nationals, as “criminalizing the industry puts gamblers at risk by encouraging them to go to unregulated sites overseas.”<sup>45</sup> But who controls these sites and where their headquarters may physically be are hard to say. Geographical expressions such as “overseas” have no meaning in cyberspace, and the web administrators of these sites may be “fronts” or “dummy directors” for that “sinister criminal organization.” The fate of Frank’s proposals is pending.<sup>46</sup> So for now criminalizing online betting in the US is a modern version of the Prohibition Era concerning alcoholic beverages, treated above, and creates the same kind of enormous vacuum of unfulfilled public wants that fostered the emergence of organized crime in those days. In its modern version this Prohibition motivates organized crime to improve its online capabilities, which has implications for all types of cybercrime. These include financial fraud, pornography, and fraudulent web sites pushing various nefarious schemes.<sup>47</sup> A favorite in the last category is a fake Internet pharmacy that purports to sell legal drugs, but they turn out to be counterfeit.<sup>48</sup>

Cybercrime overlaps with the last set of businesses of the US mafia—heists, frauds, and thefts of various kinds. I cannot discuss here every heist, fraud, and theft in the US mafia playbook for the public and private sectors. Let me focus on government, as it is one of my comparative factors, and observe that government affects organized crime not only by what it forbids but also by what it sanctions or encourages. As to the latter, the operational principle is that wherever there is a government program, there is the possibility for criminal activity. That possibility rises if the program is poorly drafted, hastily implemented, or inadequately secured by rigorous accountability and encryption. In point of fact, the federal government pumped trillions of dollars into the US economy in an

attempt to combat the severe recession that began in 2008–2009. This stimulus money doubtlessly will benefit many who need help, but the sums involved are so massive and the implementation was so rushed that the mechanisms of accountability were insufficiently spelled out. These holes in accountability and its enforcement—vacuums if you will—create openings for organized crime and other criminal elements to exploit. Robert Mueller, Director of the FBI, told the US Congress on 25 February 2009 that the federal government’s stimulus and bailout programs create more problems for his agency. “The unprecedented level of financial resources committed by the federal government to combat the economic downturn will lead to an inevitable increase in economic crime and public corruption cases,” Mueller said. “Our expectation,” he emphasized, “is that economic crimes will continue to skyrocket.”<sup>49</sup> The FBI is already stretched thin in investigating fraud, corruption, and gang-related cases, he explained, because after the 11 September 2001 attacks on the US, the FBI moved more than 2,000 employees out of its criminal division to deal with national security.<sup>50</sup> The US Congress may allocate more funds to the FBI so it can better fight financial fraud. But, in the meantime, the news that the FBI is understaffed to deal with economic crimes can only cheer those interested in perpetrating them.

This completes our survey of the US mafia’s three core businesses of protection, illegal drugs, and money laundering, its major business of gambling, its major business in developing cybercrime, and the set of businesses of heists, frauds, and thefts that in the aggregate constitute a major business. Our perspectives have been, for the most part, national and transnational. But the US mafia is pre-eminently local, as many crime “families” with strong geographical ties make up its base. To make our study of the US mafia more realistic, therefore, we now present an under-appreciated organization on its local level, the Cleveland mafia, and will pay special attention to the economic history of its businesses.

The term “Cleveland mafia” has meant different things at different times. Sometimes it was an umbrella term covering rival families contesting for leadership. Sometimes it encompassed centers of power that competed but also cooperated with each other. And sometimes it approached the status of a unitary organization, especially if a strong Don was in charge. The classic example of the first meaning occurred in the 1920s, when the two founding families of the Cleveland mafia engaged in an escalating feud with each other. Members of the Lonardo and Porrello families migrated from Sicily to the US at various times in the early twentieth century and eventually made their way to Cleveland. Brothers from both families operated at first as legitimate businessmen, but they branched out into such criminal activities as robbery and extortion. Their criminal pursuits remained small-time, until Prohibition gave them opportunities to build major organizations. The business experiences of the Lonardos and Porrellos show again how central Prohibition was in the emergence of organized crime as a large-scale business.

Ironically, it was success in an enterprise associated with Prohibition, the corn sugar business, which gave each family the strength to challenge the other for

the leadership of organized crime in Cleveland, Ohio. Because Prohibition is so important in the economic history of the Cleveland mafia, one should have a fuller appreciation of two businesses: first, the “moonshine” business which originated long before Prohibition and, second, the corn sugar business that came into its own during Prohibition. In the language of economics, there had already occurred considerable learning-by-doing in the manufacture of alcohol before Prohibition itself became a legal fact in 1920. This learning-by-doing took place in the moonshine business, which was an early form of bootlegging. Usually associated with rural areas, moonshiners, who got their name supposedly because they worked at night by the light of the moon, made illegal alcohol with techniques that went back centuries. But making alcohol the old-fashioned way took time and depended on one ingredient—pure honey—used in the distillation process; apparently sugar was not used. Now pure honey is a tasty and healthy product in its own right, especially in tea, but whether sufficient quantities could be had for manufacturing alcohol on a larger scale was another matter. And, from the perspective of urban criminal groups interested in bootlegging, time was of the essence, and the old-fashioned way was just too slow. So nascent organized crime learned-from-the-doing of moonshiners the path it did not want to follow.

Instead, the critical needs were a greater selection of manufacturing ingredients to reduce the dependence on pure honey and a process that economized on time. The corn sugar business was one answer to both needs, since adding sugar as a processing ingredient significantly reduced the time manufacturing alcohol required. Rick Porrello, a recognized expert on crime in general and the Cleveland mafia in particular, as well as a former drummer for Sammy Davis, Jr., provides details:

Generally grains were used as the primary ingredient in the raw mixture. But the starch in the grain had to be converted to sugar before being utilized by yeast to create ethyl alcohol. The addition of sugar, first as an additive, then as a primary ingredient cut the processing time significantly. All types of sugar were used.<sup>51</sup>

The corn sugar business was on its way. Corn sugar, which was made from corn, “became the sweetener of choice” in manufacturing alcohol in many big cities.<sup>52</sup> It had other economic assets besides reducing dependence on pure honey and decreasing production time. Corn sugar cost less than cane sugar and “is easier to ferment into alcohol.”<sup>53</sup> One needed about six pounds of sugar to make one gallon of whiskey. The stage was thus set for strong entrepreneurs in the corn sugar business willing to take the risks in order to realize the lucrative returns.

Joe “Big Joe” Lonardo (1884–1927) was one such entrepreneur. He became Cleveland’s first “sugar baron” and the first leader of the Cleveland mafia. He was a “godfather” or *padrone* to the Italian community in Cleveland, as he was called upon to resolve disputes and help people in need, “reportedly even helping an aspiring young Italian medical student with his tuition.”<sup>54</sup> So far this is a

classic portrait of a gifted leader who saw an opportunity and seized it, and paid scrupulous attention to public relations with the wider community along the way. But “Big Joe” Lonardo set up something in his corn sugar business that has significance for economic history in general, not just for that of organized crime.

Home brewing became popular in Cleveland in the early 1920s and “Big Joe” set up a version of cottage industry for residents of Woodland Avenue on the east side of the city. “Cottage industry,” for the non-specialist reader, is a term applied to an early phase in the development of the textile industry in Great Britain during that country’s industrial revolution, which some date from about 1750. In cottage industry people worked at home, spinning and whatever with materials provided them by an intermediary, who would return and collect the finished or semi-finished goods. They were compensated for their labor and retained the overwhelming psychological advantage of working at home, on their own schedules, and not subject to the discipline a factory imposes. Factory industry eventually surpassed cottage industry, because the new machines that were a hallmark of the British industrial transformation were costly and could not be installed in every cottage. Workers thus had to leave the empowerment of their homes and travel to factories; this consolidation of the textile labor force was supposedly necessary to reap the various economies of scale and size these machines made possible. While capital won, the workers lost, as they were, in Karl Marx’s famous phrase, “alienated from the means production.” Moreover, some theorists who favor stages of economic development (see introductory chapter) see this evolution as the superior stage, factory industry, overtaking an inferior one, cottage industry.

Here is how “Big Joe” Lonardo operated his own cottage industry in Cleveland, Ohio, in the 1920s. Rick Porrello recreates the action:

Big Joe Lonardo began providing Woodland Avenue residents with small stills, corn sugar and other bootleg necessities. He was popular because he gave liberal credit. He would buy back the “hooch” [liquor distilled and distributed illicitly], giving the thankful immigrants a small return on their investment, the “commission house” racket. Lonardo resold the final product and his profits reached \$5,000 a week.<sup>55</sup>

Let us consider Porrello’s account in light of the discussion of cottage industry and the stages of economic development that preceded it. First of all, there is one similarity between the treatment of cottage workers in the textile and hooch industries. Lonardo’s payments to his immigrant cottage workers did not fairly reflect the labor they invested. They may have been grateful for the “small return on their investment,” but they deserved more; hence the term “commission house racket.” Likewise, cottage workers in the textile industry did not receive compensation that equitably rewarded their labor, an imbalance the factory system intensified. The common result was that in both versions of cottage industry capital benefited disproportionately.

As to a stage analysis, readers already know my reservations about this approach in general (introductory chapter). In the present matter, I just reject the

contention that cottage industry is inherently inferior to anything: it all depends on the situation. As readers have already seen in connection with the Capone breweries in Chicago, criminality has its own version of economic logic, in which the needs for security and safety sometimes constrain the maximization of economic efficiency as achieved in such areas as economies of scale, scope, and size. Cottage industry, which emphasizes manufacturing in many small-scale locations, was the right approach for the production of whiskey in Cleveland, Ohio, in the 1920s. Factory industry in breweries was appropriate for—what else—beer; but whiskey needed more maturation. Whiskey also required a greater decentralization of production than what the Capone organization did for beer in limiting the size of its breweries and spreading them out geographically. By way of contrast with the emerging Cleveland mafia, the Capone organization outsourced its whiskey production to Canada, an international enterprise which Frank Nitti, Capone's chief enforcer, organized in a stellar manner.<sup>56</sup> The cottage industry for whiskey in Cleveland, Ohio, relied on immigrant homes for maximum geographical dispersion. This strategy also created an effective public relations defense. What "revenooer" [a government agent fighting bootlegging] wants to be photographed smashing into the modest home of an immigrant in the hopes of finding several gallons of hooch? Law enforcement would never be able to count on the cooperation of the general public on any matter henceforward.

"Big Joe" Lonardo's success in the corn sugar business rested on a mafia ruthlessness in eliminating competition and a certain creative exploitation of immigrant labor. But the corn sugar business did not lend itself either to monopsony (one buyer) or monopoly (one seller). Monopsony here refers to a single buyer of the hooch immigrants produced, while monopoly designates a single seller of that hooch to the wider market. Entry barriers were not high, and the market was strong enough to support more than one "sugar baron." Conditions, however, were more favorable for oligopsony (several buyers) and oligopoly (several sellers). Lonardo's deadly tactics did not scare away all competitors, and the Porrellos, the other founding family of the Cleveland mafia, knew those market facts and decided to become a power in their own right in the corn sugar business.

The origins of the Porrello corn sugar business are actually rooted in the experience of one family member with the Lonardo group. Joseph "Big Joe" Porrello (1889–1930), also known as Joey, had worked as a corporal in the Lonardo organization, where he observed its corn sugar business at first hand and the impact it had on that family's power and wealth. With this on the spot learning-by-doing, he decided that the Porrello family could do the same thing and reap the same success. So he got his six brothers together and they all put their money into a new corn sugar business. This was truly a family business, and by 1926 "the seven Porrello brothers, Rosario, Vincenzo (Jim), Angelo, Joe, John, Ottavio and Raymond had become respected corn sugar merchants on upper Woodland Avenue, where they had moved."<sup>57</sup>

When the Porrellos challenged Lonardo supremacy in the corn sugar business, they attacked where it hurt—in the business arena. In April 1927, "Big

Joe” Lonardo left for Sicily to visit his mother and was gone for five months. His absence created a vacuum of power at the top, and the Porrellos seized the moment. Using a familiar tactic from the legitimate business world, they undercut his prices. The Lonardos were charging \$3.50 for 100 pounds of corn sugar; the Porrellos \$2.19.<sup>58</sup> The bootlegging business in Cleveland proved remarkably sensitive to price movements, and the Porrellos established themselves as a major rival posing a severe threat to the Lonardo business and, in turn, to “Big Joe” Lonardo’s leadership of the Cleveland mafia.

Then, as economists like to say, an exogenous event occurred. As tensions between the two families escalated, “Big Joe” and John Lonardo, the Boss and Underboss of the Cleveland mafia, arrived at a Porrello business, ostensibly to play cards with some of their rivals. It was about 8:15 p.m., on the evening of Thursday, 13 October 1927. Shortly thereafter, mysterious gunmen emerged and assassinated both of them. Suspicion naturally focused on the Porrellos, especially Angelo Porrello, but nothing was ever proven. “Big Joe” Porrello became head of the Cleveland mafia, but his tenure lasted only three turbulent years (1927–1930) as he faced continuing problems with Lonardo supporters who had formed another faction known as the Mayfield Road Mob. Police scrutiny of organized crime increased, and the official end of Prohibition harmed a huge source of Porrello economic power in its core business of corn sugar.

The saga of the Lonardos and Porrellos is the most memorable example of the first meaning of the Cleveland mafia as rival families contesting for leadership. It was also a struggle that took place, largely but not entirely, in the conjoined arenas of business and economic history, which is why I have spotlighted it. This was a contest for leadership unfolding against the very background of the emergence of organized crime itself in Cleveland, Ohio, during government’s great gift to crime, the Prohibition Era.

Those three rocky years of “Big Joe” Porrello’s leadership were a time of transition to the second meaning of the Cleveland mafia as centers of power that competed but sometimes cooperated with each other. Two important centers were the aforementioned Mayfield Road Mob and the Collinwood Crew. The first was headquartered in the district of Little Italy, which is on the east side of Cleveland and borders the city of Cleveland Heights to its south. Mayfield Road is a principle thoroughfare that runs through Little Italy, home of many fine restaurants, at least two outstanding bakeries, and an unsurpassed festival that celebrates the Feast of the Assumption of the Blessed Virgin Mary on 15 August. The Mayfield Road Mob had an alternative name, the Lakeview Road Gang, which comes from the fact that Lakeview Cemetery adjoins Little Italy. The Mayfield Road Mob was referred to as the Lakeview Road Gang in *The Godfather Part II*, but the cemetery, which continues today, plays a role in the real history of organized crime. Eliot Ness, who led “the Untouchables” against the Capone organization in Chicago and later became Safety Director of the city of Cleveland, has a memorial there; his ashes were scattered in the cemetery. The Collinwood Crew or Mob gets its name from a famous neighborhood where it was headquartered that is also on the east side of Cleveland. In some sources the Collinwood Crew appears as the Young

Turks. The Collinwood neighborhood, another major area of Italian settlement in Cleveland, is known colloquially as Five Points, because its core is shaped like a star, created by the coming together of St. Clair Avenue, E. 152nd Street, and Ivanhoe Road. From another perspective, these roads are the main avenues of penetration any resident criminal group could follow as it spread its influence outward into the city. The Collinwood Crew at times worked with, even belonged to, the Mayfield Road Mob, but at others it went its own way.<sup>59</sup> The Mayfield Road Mob became the dominant power<sup>60</sup> and from its ranks came the longest-serving Don in the history of the Cleveland mafia, John Scalish, who presided from 1944 until his death in 1976. The Scalish era had its share of turbulence and internal strife, but there were periods when the Cleveland mafia did approach its third definition as a unitary organization controlled by a strong don.<sup>61</sup>

These organizational matters, presented with a touch of local color that comes from personal experience, may not seem directly related to economic history, but they have important implications for protection, the original core business of the Cleveland mafia. Protection, as I noted in Chapter 2, has other dimensions besides that of mafia extortion.

For example, it can be reactive, to defend once attacked, or proactive, to guard against the possibility of attack. Every organization has a finite supply of human energy, assuming membership is not increased or reinforcements not added. So when members are unusually concerned about being physically attacked by other members, that has to diminish the energy that can be devoted to enforcing or increasing the business of protection as extortion. The internecine conflicts of the Cleveland mafia, indeed for any mafia, must have a negative impact on its capacity to “protect” external clients.

An historical overview of the core businesses of the Cleveland mafia would read as follows. Whatever its ups and downs, protection as extortion remained the ultimate core business for the Cleveland mafia. The corn sugar business was a core business that was a sign of its times, and when the Prohibition Era ended, that business receded in importance, although there will always be a demand for various bootlegging activities. Gambling, including numbers, is a core business, but narcotics did not emerge as a core business until the 1960s and 1970s. The growth of narcotics as a core business must have intensified the interests of the Cleveland mafia in money laundering. So the Cleveland mafia engaged in many of the criminal pursuits that occupied its brethren in other locations. But it did bring a creative flair to its involvement in bootlegging with the corn sugar business structured as cottage industry. And it fashioned a notable version of another core business—labor union penetration.

Two of these core businesses—labor union penetration and gambling—warrant a final say. Attempting to control the legitimate US labor movement either directly or indirectly has long been an important mafia business;<sup>62</sup> the once-lucrative pension funds of some unions proved an especially appealing target. The Cleveland mafia was no exception in its desire to establish labor union rackets, but its spectacular ineptitude in dealing with a powerful rival gains it special mention among “the gangs that couldn’t shoot straight,” a phrase inspired by Jimmy Breslin.



Danny Greene was an Irish “businessman” who was contesting the Cleveland mafia for influence over the city’s unions in the 1970s. There was a violent war, punctuated by numerous car bombings, between the Danny Greene group and the Cleveland mafia, which tried numerous times to have Danny Greene killed. A car bomb, detonated by remote control, finally killed Greene on 5 October 1977. So the Cleveland mafia succeeded in winning the battle with Danny Greene, but no one won the war, as it severely damaged organized crime in Cleveland. Rick Porrello offers a compelling account of these events in *To Kill the Irishman: The War That Crippled the Mafia*.<sup>63</sup>

While labor union penetration was a core business in the past of the Cleveland mafia, gambling remains a core business for the attenuated version of that organization which apparently exists today. Casino gambling is now legal in four cities, but remains a “hot button” issue in Ohio politics and business.<sup>64</sup> Numbers, an illegal lottery, has always been a criminal staple, but controversy surrounds the implementation of the official Ohio Lottery in 1974 and the impact it had on numbers. Anecdotal evidence from retired law enforcement officials suggests that the Ohio Lottery initially harmed the numbers business in the Greater Cleveland area. But the crucial word in that observation is “initially” and one has to remember that we are usually limited to anecdotal, not quantitative evidence, in the absence of written records from organized crime. One important academic study is helpful here, because it is based on records seized in a police raid in south Florida. Using this evidence to assess the impact of the official Florida Lottery on numbers, H. Roy Kaplan and William R. Blount concluded that the official lottery initially harmed the illegal games. Money wagered on numbers apparently declined 17 percent in the first week of official operation, but swiftly returned to pre-legalization levels.<sup>65</sup> So there is preliminary evidence to suggest that legal lotteries at least cause initial harm to numbers, but whether this damage persists is still an open question. More empirical studies are needed on the impact of legal lotteries on numbers.

Some have written about the “fall” of the Cleveland mafia and there is no doubt that the organization has suffered greatly from wars, prosecutions, defections, and recruitment problems among the young. If the Cleveland mafia teaches us anything, it is that there is a limit to which blood can be used as a dispute resolution mechanism. To extend Virgil Sollozzo’s comment in Chapter 2, “blood is a big expense, and the loss of too much blood can leave an organization virtually lifeless.” But to paraphrase Vladimir Putin and the author in Chapter 3, “once a Mafia, always a Mafia.” Mafias are almost phoenix-like in their capacities to reconstitute themselves in some manner.

We next take up the Mexican drug cartels, which some now consider the No. 1 organized crime threat in and to the US.

## 6 The Mexican drug cartels

Mexico is more, much more, than the drug cartels that carry its name. But it is hard for outsiders to appreciate the real Mexico, because many media reports and popular culture have unfairly stereotyped the country and its citizens, the vast majority of whom have nothing to do with the drug cartels. Many of the innocent, in fact, have suffered from cartel activities. But stereotypes are nothing new, as most media tend to dwell on negatives and barely mention, if at all, the positives. Return to the 1920s and imagine you are living outside the US. You depend for news about that country mainly on newspapers and radio reports. On many days a major story is the escalating physical violence associated with Prohibition and you begin to feel as if the entire country is under siege by the forces of evil. Then, on closer inspection, you realize that most of the violence is occurring in major cities, several in particular, and that the City of Chicago, Illinois, has leapt to the forefront of the media watch, as its colorful assortment of gangsters, politicians, and federal agents made captivating copy. The Prohibition violence was serious, at times severe, and created a major problem for the authorities, and the organized crime groups that emerged from Prohibition would confront society with even greater problems of enforcement.

Now the parallels with Mexico today are not exact. But the principle of elementary logic remains the same: you cannot infer the whole (Mexico) from the part (the drug cartels). I am not minimizing the drug cartels, which “control the trafficking of drugs from South America to the US, a business that is worth an estimated \$13 billion a year.”<sup>1</sup> They pose huge challenges for the police, the military, and counterterrorism forces. But to sensationalize them and wrap those images around the entire country and all its citizens is a gross injustice. In all our studies of organized crime groups throughout the world, it is critical to maintain the proper perspective and not confuse the law-abiding with the criminal. This approach must be a constant companion in our Mexican case study. That said, we can move forward. Before turning to the drug cartels, we shall set the stage by presenting background information from Mexican political history, economic history, and geography.

First of all, the history of Mexico—political, economic, or otherwise—did not begin with the arrival of the Europeans in the early sixteenth century. The land was home to significant civilizations of Native Americans for many thousands of

years before Europe intruded and ruined a lot of what it found.<sup>2</sup> These civilizations included the Olmecs, the Maya, Teotihuacán, the Zapotecs, the Mixtecs, and the Aztecs.<sup>3</sup> Each deserves careful study in its own terms, but here we draw special attention to the Aztecs, because their civilization was ascendant when the Spanish arrived in AD 1519. The Aztecs themselves had built an extensive empire that reached into Central America and had a thriving capital Tenochtitlan, with a population of several hundreds of thousands, which was located in eastern Mexico on the site of what would become Mexico City. The Aztec Empire came to a sudden end when the Spanish, along with their indigenous allies, defeated it militarily in 1521. The lands of the Aztecs, and many other indigenous peoples in North, Central, and South America, would be incorporated into the Spanish Empire. The Spanish Empire in the “New World,” so called because the world was “new” to the Spanish but not to those indigenous peoples, would eventually contain four viceroyalties or administrative subdivisions. Spain appointed each viceroy and he was responsible to the monarch and the Council of the Indies. Mexico City became the center of the first viceroyalty to be established, the Viceroyalty of New Spain, in 1535. Thus one type of imperialism—the Spanish version—succeeded another—the indigenous creation of the Aztecs.

Imperialism and colonialism are related concepts and I have elsewhere analyzed them in detail.<sup>4</sup> In brief, imperialism refers to the approach of a power to its empire as a whole, whereas colonialism focuses on its treatment of the particular colonies that make up its empire. The political and economic aspects of imperialism and colonialism are often inextricably interwoven and I shall in this connection consider political and economic history together. Mexico remained a formal part of the Spanish Empire until 1821, when it achieved its “flag” or legal independence after a successful war that lasted about ten years. So for about three centuries Mexico experienced Spanish imperialism, which was highly centralized and used colonies exclusively to benefit Spain itself, with little or no regard to the lasting impact on the indigenous peoples or material resources of Mexico.<sup>5</sup> As Rondo Cameron concisely observed, “at first they [the Spanish] merely plundered the original inhabitants of their existing moveable wealth; when this source was quickly exhausted they introduced European mining methods to the rich silver mines of Mexico and the Andes.”<sup>6</sup> So one crucial theme in our setting the stage is Mexico’s experience of imperialism and colonialism, which over three hundred years fostered a lasting sense of grievance associated with unfair treatment by outsiders.

Resentment continued into the independence period, intensified by Mexico’s rocky relationship with the US, sometimes called the “colossus of the north” by people “south of the border” who felt oppressed by their northern neighbor. And the US provided plenty of evidence to foster the “colossus of the north” stereotype. Its diplomacy was often heavy-handed, as it intervened aggressively in an attempt to pick winners and losers in internal political struggles occurring in countries in the region.<sup>7</sup> The loss of Texas in 1836 and other vast tracts of land in the southern and western US in the Mexican-US war in 1846–1848 did not help matters either. The US was viewed, rightly or wrongly, as the successor to

Spanish imperialism in the countries reaching from south of its border deep into South America, with the exception of Brazil, which had been a Portuguese colony. A striking example of blatant US intervention in a country's internal affairs came in 1954 when the Central Intelligence Agency orchestrated a coup against the legally elected President of Guatemala, Jacobo Arbenz Guzmán. The US played the scare card of the possibility of global Communist domination, but Arbenz, while definitely on the left of the political spectrum, was no hard-core Communist. The underlying motivation of the US was to defend the interests in Guatemala of a major US corporation, the United Fruit Company, which felt threatened by Arbenz's land reform.<sup>8</sup>

Two other important topics in our setting the stage are the physical geography of Mexico and its strategic location. Here are essential facts about Mexico's physical geography. Mexico shares, as noted, a border with the US to its north, which is about 3,150km long. To its southeast it has a border with Guatemala that is 871 km long and one with Belize that is 251 km long. Mexico has long coastlines on both its west and east, which total about 9,330km. To its east Mexico faces the Gulf of Mexico and the Caribbean Sea and to its west the Pacific Ocean. A major peninsula highlights each coast. On the west Baja California is a peninsula (1,287km long) that forms the Gulf of California. On the east the Yucatán is a peninsula that forms the Bay of Campeche. Remember the following as a useful overview: "the center of Mexico is a great, high plateau, open to the north, with mountain chains on the east and west and with ocean-front lowlands beyond."<sup>9</sup> Geography thus provides another way to view the unfolding of Mexican history, as the interaction of two or more of these three dominating features—the great plateau, the mountain chains, and the lowlands.

The mountain chains, the central feature of Mexico's topography, have played important roles in Mexican history and they deserve a fuller presentation. There are four important mountain ranges. Two of them cross Mexico from north to south. These are the Sierra Madre Oriental and the Sierra Madre Occidental; they are extensions of the Rocky Mountains coming down from Canada and the US. A third range—the Sierra Nevada—goes from west to east, and a fourth—the Sierra Madre del Sur—reaches from Michoacán to Oaxaca. Mountains thus have a widespread presence in Mexico and not surprisingly have had an enormous impact in many ways. Most of the central and northern territories in Mexico are located at high altitudes. And from a political standpoint, the mountains have historically been locations of resistance to central authority, as the Mexican Revolution of 1910 demonstrated. Most ominously, the mountains today shelter activities of some drug cartels, as the rugged terrain makes military operations against them difficult. We shall return to this topic when we take up the cartels in detail.

Mexico has a strategic location in several senses. It is a land bridge between North and Central America. While Mexico is traditionally classified as part of North America, it has cultural and emotional bonds with Central America and as such constitutes a natural transition between north and south. This facilitating role applies to other domains of human activity. Economics and business benefit from

Mexico's role as a land bridge, but also from the exposure of the country to two of the world's major oceans, the Pacific and, through the Gulf of Mexico and the Caribbean Sea, to the Atlantic. As we have seen in earlier chapters, what benefits legitimate economic and business activity can also foster illegal endeavors. The long coastlines of Mexico, its peninsulas, and its four mountain ranges: all these provide opportunities for illegitimate business, including organized crime.

Powerful economic forces have given Mexico a strategic location in yet another way. Presently, it lies between the northern country that generates the world's greatest demand for cocaine—the US—and the country that has the world's greatest supply of cocaine—Colombia—farther to its south. The east coast of Mexico is open to the import of illegal drugs coming from various off-shore locations in the Caribbean, as well as from Colombia and the other supplier countries to the south. Moreover, the southern land border of Mexico with Guatemala and Belize does not stop importers of illegal drugs from those supplier countries to Mexico's south, just as Mexico's northern land border does not constitute an insuperable barrier to the export of illegal drugs to the US. And the west coast of Mexico more and more constitutes a point of departure for people using boats to reach the southern California coast. They are trying to enter the US illegally and bring illegal drugs with them

As a last point in our setting the stage, the recent economic history of Mexico is marked by a theme that has special relevance to the movement of contraband materials associated with organized crime. This is Mexico's participation in organizations that promote cross-border economic integration or the reduction of barriers to the flow of goods, capital, and people. We have already seen the importance of international economic integration in Europe and the US itself for organized crime. This comes under the rubric, as noted above, that what helps legal business sometimes benefits illegitimate enterprise. Mexico belongs to two major organizations concerned with cross-border economic integration. These are the North American Free Trade Area (NAFTA) and the Association of Caribbean States (ACS), both founded in 1994. We mentioned NAFTA in the introduction to Part II; of the two groups, it has made more progress in actually reducing barriers to economic and business activity among its members, Canada, Mexico, and the US. While the ACS now seems focused on building diplomatic bridges to other organizations and countries, one should not forget the potential of this group for achieving significant cross-border economic integration in practice, which would help businesses of all kinds. It is the geographical sweep of its membership—*island nations in the Caribbean as well as countries in North, Central America, and South America*—which makes the ACS an organization to watch. In 2009 full members were Antigua and Barbuda, the Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Venezuela. And in 2009 associate members were Aruba, France (on behalf of French Guiana, Guadeloupe, and Martinique), the Netherland Antilles, and Turks and Caicos.<sup>10</sup>

This completes our setting the stage for the Mexican drug cartels. The material on geography, strategic location, and international economic integration has obvious relevance to the cartels, but some may wonder why I entered Mexico's imperial and colonial past to develop the theme of unjust treatment by outsiders. Well, the cartels are first and foremost about making money, as they are businesses. But there is a dimension to the sale of illegal drugs in the US that has not been sufficiently recognized. Some speak about "Montezuma's revenge" as payback for his murder and the destruction of the Aztec Empire by the Spanish. Surely the corruption of substantial numbers of US nationals by feeding their illegal drug habits and the attendant undermining of the moral fabric of US society also have an aspects of payback for years of unjust treatment by "the colossus of the north."

Against this background, we are ready to pose the core questions:

- what and who are the Mexican drug cartels,
- why and how did they originate,
- why did they evolve the way they did,
- why do they operate the way they do,
- what have their multiple effects been, and
- what might their vulnerabilities be?

As I have stressed throughout this book, one must not get ensnared in stereotypes. If you have seen one mafia in action, you have not seen them all. Likewise, if you have seen one Mexican drug cartel in action, you have not seen them all. The Mexican drug cartels show similarities with one another, but they also reveal important differences. To assist comparative analysis of these cartels we shall call upon the comparative framework that threads its presence throughout this book. Let us begin with what and who the Mexican drug cartels are.

To answer what the Mexican drug cartels are first takes us back to an elementary problem of definition. What is a cartel? As readers have come to expect, the answer is, there is no one definition of cartel. The term "cartel" has, in fact, has many definitions, depending upon one's perspective, academic or otherwise. A sample of these definitions follows. Dictionaries see cartels in business, government, and human organization in general. A cartel may be "a combination of independent business organizations formed to regulate production, pricing, and marketing of goods by members," or "an official agreement between governments at war, especially one concerning the exchange of prisoners," or "a group of parties, factions, or nations united in a common cause; that is, a bloc."<sup>11</sup> Two definitions from economics are similar but not identical. The first postulates that "a cartel occurs when 2 or more firms enter into agreements to restrict the supply or fix the price of a good in a particular industry,"<sup>12</sup> while the second stipulates that "cartels are agreements between most or all of the major producers of a good to either limit their production and/or fix prices."<sup>13</sup> An examination of definitions from other fields reinforces the impression that while the language may differ, the essentials of a conventional cartel are these.<sup>14</sup>

A cartel is an agreement of some kind among the major producers of some product to control the market for that product in one or more ways, by limiting output and/or manipulating price.

But this is not the whole story. The agreement that binds members of a cartel needs careful consideration. Some cartels may not be able to rely only on the promises of their members to comply with the agreement. In these cases the agreement needs an enforcement mechanism that has two essential attributes. The enforcement mechanism must be able to detect violations in a timely manner and then to impose meaningful sanctions that will also deter future transgressions.<sup>15</sup> An important example from recent decades that relies more on member good faith is the Organization of Petroleum Exporting Countries (OPEC), whose twelve member countries in 2009 controlled about two-thirds of the known oil reserves in the world and about one-third of global oil production. Despite more non-OPEC sources coming online, OPEC still has been able to maintain a significant influence over the price of oil.

The central question then becomes, are the large-scale Mexican drug organizations cartels in the aforementioned context? At first glance, the answer would seem no. There is no overarching formal organization to which the Mexican groups belong that is based on any type of agreement, one that relies on good faith or uses an enforcement mechanism that might qualify it as a cartel in a conventional sense. Yet it would be imprudent to discard the term “cartel” altogether before examining the internal structure of each organization and the various ways these organizations interact with one another, both in the national and transnational arenas. Perhaps there are elements, explicit or implicit, of an informal “cartel over cartels” that influences their behavior towards one another. Perhaps there has emerged a quasi-cartel, an arrangement that performs one or more functions of a cartel over the organizations without being a formal cartel. This arrangement might be similar to a consultative mafia commission that brokers agreements among members that can take the forms of alliances, such as the solution-specific alliance we discussed in the preceding chapter.

There is yet another problem that complicates our answer to the question—what are the Mexican drug cartels. Simply stated, not all the major drug organizations in Mexico are referred to as cartels in every source. Some are called cartels; some organizations; and still others have a specific designation, such as the paramilitary arm of a cartel that has split and gone solo. So, for the time being, the answer to the first question—what are the Mexican drug cartels—must be cautious. Whatever their actual name, all drug groups based in Mexico are organizations, but of what type, we are not sure. We will continue to use the phrase “Mexican drug cartels” as shorthand, as an umbrella term for organizations that may not technically be cartels, because that is the convention of the day. In this chapter we will also consider organizations and other groups not called “Mexican drug cartels,” because one cannot predict what will happen to each organization. Our goal is, in short, to introduce the major drug organizations in Mexico, whatever their appellation.

But the answer to our second now revised question—who are the major Mexican drug organizations—is no less difficult than the answer to the first. One can name names; that is the easier part. The harder part is to determine whether a particular organization is functioning in the field the way it is described on paper. Moreover, when this book is published, the cast of characters may have changed from what we are about to propose. It is thus critical that readers exercise their own due diligence and update our work here and indeed throughout this book.

But even “naming names” encounters the problem of conflicting sources. Stratfor Global Intelligence, in a late 2008 intelligence report, considers six Mexican drug organizations worthy of analysis. These organizations are the Gulf cartel, its collaborator and now emerging rival Los Zetas, the Beltrán Leyva Organization, the Sinaloa cartel, the Juárez cartel, and the Tijuana cartel.<sup>16</sup> Three cartels, according to Stratfor, have other names. The Sinaloa cartel is the Joaquín “El Chapo” Guzmán Loera organization or just “El Chapo.” The Juárez cartel is the Vicente Carrillo Fuentes Organization. And the Tijuana cartel is the Arellano Félix Organization (AFO). Furthermore, in a 2008 overview BBC Mundo notes that “according to government authorities and international organizations, the whole business [illicit drug trafficking] is controlled in Mexico by seven powerful cartels: Tijuana, Juárez, Colima, the Gulf, Oaxaca cartel, Sinaloa and Valencia, working in various points around the country.”<sup>17</sup> Moreover, BBC Mundo continues, “these mafias are in turn associated with larger groups, the so-called Federation (Sinaloa, Juárez and Valencia cartels).”<sup>18</sup> And in a report of 23 March 2009, the Mexican Attorney General’s office listed seven principal groups: the Gulf cartel, the Sinaloa cartel, the Juárez cartel, the Tijuana cartel, the Beltrán Leyva Organization, Los Zetas, and La Familia.<sup>19</sup> We find this last and most recent listing compelling and will use it as our guide.

Before we move to individual organizations, readers need more information about the international trade in illegal drugs, particularly as it affects the western hemisphere.

It is important to realize that the large-scale trade of illegal drugs by large-scale organizations based in Mexico is a development primarily of the last four decades, gathering force only in the 1970s. Now organized crime in Mexico has its roots in the 1800s, but this was not organized crime on a large scale. The drug smuggling groups on the US–Mexico border through the 1960s support this generalization. They were small-scale operations that had, in short, “limited reach and resources.”<sup>20</sup>

Developments exogenous to Mexico, as an economist might write, drove the emergence of the Mexican drug cartels. Two developments were crucial and both originated in the US. The first concerned the increasingly popularity of a particular illegal drug. That drug was cocaine and the US demand for it began escalating in the 1970s. The timing of cocaine’s takeoff in the US is beyond this author’s expertise to elucidate, but he well remembers the penetration of popular culture by a seemingly innocuous and seductive phrase that would ultimately prove insidious and destructive. This was “recreational drug use” and its necessary supply



category, “recreational drugs.” He also recalls the relentless mockery and shrill sarcasm aimed at a 1936 movie that was undergoing a revival in the 1970s. This was the classic if somewhat heavy-handed anti-drug film entitled *Reefer Madness*. The premise of that cult film is simple: smoke cannabis (marijuana) and the rest of your life is predetermined. You will automatically experience a series of horrors that will cause you to lose your mind. Smokers and other takers of cannabis seem determined to prove that reefer use does not bring reefer madness, but then, well, we can also do cocaine because it’s only a “recreational drug,” as long as we don’t cross the line and descend into the “madness” of hard drugs, like opium, heroin, morphine, crack cocaine, and crystal meth.

Sadly, as things have worked out, the exaggerated premise of *Reefer Madness* contained an element of truth. For some people disciplined drug use is a contradiction in terms. For them “soft drugs” lead ineluctably to “hard drugs” and their own descent into the long nightmare of drug addiction. Anyone contemplating any recreational use with any illegal drug, soft or hard, should view *The Man with the Golden Arm*, a gritty 1955 movie in black and white, with a stellar cast headlined by Frank Sinatra, Eleanor Parker, and Kim Novak, and with a haunting musical score by Elmer Bernstein. While it is easy to dismiss *Reefer Madness* as a camp flick, it is impossible to avoid the disturbing questions that *The Man with the Golden Arm* brilliantly raises with its stunning realism.

In any event, whatever the deeper sociological and psychological reasons for the strong US demand for cocaine and other illegal drugs, it continues unabated as we write and demonstrates anew a basic proposition of business and economics. Where there are demanding consumers, there will emerge willing suppliers. This proposition has a corollary with far-reaching implications: the stronger the demand becomes, the more organized the business response can be. The takeoff of cocaine in the US in the 1970s found willing suppliers in the Colombian drug cartels (see Chapter 8), which had serviced the US for decades, as well as in the Mexican drug organizations that while getting stronger were not yet cartels. The increasing revenues from their trafficking in illegal drugs in the 1970s enabled the Mexican groups to buy more political influence and power through outright corruption of public officials or the penetration of their apparatus by insiders from organized crime. But it would take the second exogenous development originating in the US to power the transformation of those Mexican groups into large-scale business organizations.

This second development was the concerted endeavor by the US government in the 1980s to shut down the Caribbean transit corridor for bringing illegal drugs up from Colombia and other southern supplier countries into the US. The “Caribbean Connection” was the central drug route from the south to the US through the 1970s. It was also the domain primarily of the Colombian cartels, which the US aimed to harm as well. But as smuggling along the Caribbean transit corridor became more difficult, the drug traffickers, in a move that demonstrates again the creativity and resilience of the international trade in illegal drugs, simply switched routes and Mexico became the main conduit for moving illegal drugs from South America into the US. The rise of Mexico as the

preferred route for smuggling illegal drugs into the US coincided with the emergence of large-scale organized crime participating in that trade, the so-called Mexican drug cartels.

Coincidence does not, of course, betoken causality. But in this case the requirements of participating in the trade in illegal drugs on a high level moved Mexican criminal businesses to organize themselves on a larger scale. In this sense, then, switching more of the action in illegal drugs to Mexico did create not Mexican organized crime or Mexican business in illegal drugs on a smaller scale, but the Mexican drug cartels themselves. This process also validates the above corollary—the stronger the demand becomes, the more organized the business response can be—in a geographical manner. With the change in smuggling routes, Mexican criminal organizations experienced the strong US demand for illegal drugs on their home field, so to speak, and this immediacy strengthened their motivation to organization on a larger scale. Finally, there is an ominous irony that pervades US government strategy against illegal drugs in the 1980s and beyond. The attempt to damage the Colombian drug cartels by depriving them of their favorite “Caribbean Connection” indirectly created even more dangerous forces in the Mexican drug cartels, which are not in South America but right next store to the US. In combating the devils they claimed to know, officials begot the much more lethal devils they still don’t fully comprehend.

One more issue deserves consideration before we turn to the individual Mexican drug organizations. There is a striking similarity between the 1920s in the emergence of large-scale organized crime in the US and the 1980s for the same development in Mexico. In both cases it was government action that was the essential force. Both actions were well meaning, according to the lights of their sponsors. Prohibition was intended to save humanity in the US from the perils of drink, and interdicting the Caribbean Connection was supposed to reduce the supply of other dangerous substances that would also corrupt the US citizenry. But both had unintended consequences that were arguably worse than the problems they were supposed to control and the law of unintended consequences received corroboration once again.

But there was an important difference as well. Prohibition created a classic vacuum, of the kind that is one of the recurring factors in our comparative framework, that organized crime was eager to exploit. The demand for alcoholic-based beverages did not yield to government manipulation and remained strong. Organized crime groups in Chicago and Cleveland, to recall the two examples developed in this book, stepped into the vacuum and developed organizations that not only resembled but also were large-scale corporations. These had divisions, financial oversight and accountability, and managerial hierarchies that the structure of a mafia family facilitated. The attack on the Caribbean Connection did not create a vacuum in the Prohibition sense but rather a vacuum of another kind. Switching the primary transit route for illegal drugs to Mexico encountered a vacuum of missing necessities, like the transport infrastructure needed to move large quantities of contraband through the country undetected. To fill that vacuum and provide that infrastructure required the large-scale organization up

to that task. Both Prohibition and the assault on the Caribbean Connection presented incredible opportunities to organized crime. Government, unknowingly, made these groups an offer they could not refuse. Seizing both opportunities necessitated the transformation of smaller-scale operations into larger-scale organizations.

This transformation was not identical for every group and did not produce uniform drug organizations in Mexico. In fact, as we now introduce each organization, we will try, where possible, to point out similarities and differences between and among them. Each organization has a public record of particulars, which includes its geographical sphere of influence and some information about its organization, leadership, and business activities. These records are sketchy, never complete, often murky, and subject to instant revision by forces on the ground in Mexico and beyond its borders. Let us provide more background on geographical sphere of influence, organization, leadership, and business activities in turn. A geographical sphere of influence is more than the headquarters or base of an organization, but designates the territory where that organization exercises hegemony or dominant influence at the time. Furthermore, a geographical sphere of influence does not occupy land whose boundaries have been established by a licensed surveyor and filed with the appropriate legal authorities. These spheres are not fixed but have fluid lines of demarcation, as organizations compete for space and each organization has its own ups and downs. Now the leadership of most groups seems arrayed in a hierarchical fashion on a table of organization, but determining which leader is actually doing what is difficult. The arrests of allegedly prominent leaders of an organization would seem at first glance to weaken it, but no one knows for sure about the quality and availability of back-up leadership. If such is available, merely removing a top leader might not cause the organization to skip a beat. Finally, the business activities of each organization are always in motion. We know that the core businesses of the drug organizations are—surprise, surprise—drugs and money laundering, but many are branching out into such lucrative fields as kidnapping for ransom.

Even with these evidentiary challenges, we are not bereft of a factual foundation. We have enough information in those four areas—geographical sphere of influence, organization, leadership, and business activities—to offer basic introductions to the economic history of each major Mexican drug organization. Where evidence is available on other factors from our comparative framework, we will include it. We will proceed geographically from north to south and start in northeastern Mexico with the Gulf cartel and Los Zetas.

### **The Gulf cartel and Los Zetas**

The Gulf cartel originated during the 1970s in bootlegging operations and shifted to cocaine in the 1980s and 1990s.<sup>21</sup> The economic history of the Gulf cartel, therefore, corroborates the central importance of the decade of the 1980s for the emergence of two crucial developments: the switch to Mexico as the primary transit route for illegal drugs entering the US from the south; and the emergence

of larger-scale organized crime in Mexico itself. Los Zetas began with former elite officers in the Mexican army and others with commando training. In the 1990s it became the paramilitary wing of the Gulf cartel and acted in this role as its “enforcers.” But now, by all accounts, as governments intensify their attacks on the Gulf cartel, Los Zetas is emerging as an independent force.

The Gulf cartel, which takes its name from its nearby neighbor the Gulf of Mexico, is based in Matamoros, in the Mexican state of Tamaulipas, which is just south of the US border. Its sphere of influence encompasses that state, the Mexican border state of Nuevo León, portions of eastern Mexico, and outposts in numerous foreign cities, including many in the US. The Gulf cartel has its own version of a strategic location. Its stronghold in those two border states and its proximity to the Gulf of Mexico has enabled it to dominate for a long time “drug trafficking through eastern Mexico” as it brings “cocaine shipments through ports on the Gulf of Mexico.”<sup>22</sup> A US federal indictment announced on 20 July 2009, which I will discuss in more detail below, describes the partnership between the Gulf cartel and the Zetas as smuggling “the drugs into Mexico from Colombia and Venezuela, using Panama and Guatemala as transshipment points.”<sup>23</sup> And “key trafficking corridors for the organization are the states of Tamaulipas, Coahuila, Nuevo León and Veracruz.”<sup>24</sup> Clearly, the “Company,” as the partnership between the Gulf cartel and the Zetas is known, has a western hemispheric reach and beyond, which explains why law enforcement gives such intense scrutiny to this partnership and its members.

The federal indictment mentioned above, which concerns reputed leaders of the Gulf cartel and the Zetas, provides fascinating insights into what some US federal officials think the internal organization of the Gulf cartel is. In this respect it is like the US Mafia Monograph (1958), compiled by the FBI for in-house use, which gave the state of FBI thinking on the US mafia in the mid-1950s, which was somewhat superficial (Chapter 5). The federal indictment of alleged Gulf cartel and Zetas members is thus a valuable source, well worth discussing, but with limitations that are well worth taking into account.

Indictments are inherently tendentious documents. Their authors present what they deem “the facts” in ways designed to put the defendant(s) in the worst possible light. In short, indictments are neither fair nor balanced. And not all indictments are the same in their level of interpretation of the alleged activities of the defendants. For instance, the indictments of the money launderers reported in Chapter 5 were fairly straightforward in their recitation of the documented movements of the involved individuals. By contrast, the federal indictment under present review, while seemingly factual, contains a high level of interpretation of which individual was actually doing what in the “conspiracy” alleged here. Our view of the historical accuracy of this indictment is as follows. Imparting a specific management role to a particular person may or may not be correct, but it is less likely that the authors of the indictment would lie about the management structures they claim to reveal. Now with the passage of time and the accumulation of more evidence about the operations of Mexican drug organizations, this articulation of internal organization may require modification. But for now it is

the most illuminating evidence we have, an outstanding primary source as defined in the introductory chapter, and we will quote it extensively. For the record the indictment under examination here is *United States of America v. Antonio Ezequiel Cárdenas-Guillén, Jorge Eduardo Costilla-Sánchez, Heriberto Lazcano-Lazcano, et al.* There are other indictments on this alleged “conspiracy,” but this is the “superseding indictment,” United States District Court for the District of Columbia, filed in open court on 9 June 2009, but not publicized until 20 July 2009.<sup>25</sup>

The indictment discerns a “triumvirate” that manages “the far-flung enterprise” that is the Company by “dividing its territories among themselves.”<sup>26</sup> As to the “triumvirate,” “The Company was led primarily by a governing council or ‘triumvirate’ composed of three of the defendants, Cardenas-Guillen [Antonio Ezequiel Cárdenas Guillén], Costilla [Jorge Eduardo Costilla Sánchez], and Lazcano [Heriberto Lazcano Lazcano].”<sup>27</sup> As to part of “the far-flung enterprise,” “The Company controlled hundreds of miles of Mexican territory along the border of Mexico and the United States, including the border of Mexico and Texas.”<sup>28</sup> And as to “dividing its territories,” “The Company divided its territory into areas known as ‘plazas’ along the Mexico–United States border and assigned each plaza region a leader known as a ‘plaza boss.’”<sup>29</sup>

The basic organization of the Company is thus hierarchical, with interesting variations. There is a trinity of leaders at the top, but whether these are co-equal is impossible to say from the indictment. If not, there may be a hierarchy within the triumvirate. Our guess is there is at least a pretense of co-equality so that the “governing council” can function without excessive friction. Whether there is a “first among equals” in the triumvirate, in the sense of a mafia “Boss of Bosses,” is not known. Moving down the table of organization, we find middle management, but in how many layers is not apparent from the indictment. The territorial leadership, called the “plaza bosses,” is fascinating, but how many “plazas” and “bosses” there are is yet again elusive.

The triumvirate is not an innovation in legitimate organization, but it may be so in the criminal world. When it is described as a governing council, the mafia’s use of the national commission comes to mind. In the history of the US mafia, as we have noted, not all commissions have been alike; most have been largely forums for consultation among the dons of the individual mafia families. But there was one US mafia commission, the one pioneered by Charles “Lucky” Luciano in the 1930s, which exercised more substantive executive power. In this way the Company’s governing council and the Luciano mafia commission are remarkably similar in function, though the size of their membership differed. The governing council had only three members; the Luciano commission significantly more, but the exact number is not known.

The transportation infrastructure created by “The Company” combined travel by water, air, and land. To wit, the three defendants named above allegedly “directed the transportation of The Company’s cocaine and marijuana shipments via boats, planes, and automobiles from Colombia and Venezuela to Guatemala, and to various cities and ‘plazas’ in Mexico.”<sup>30</sup> Under their direction, “The

Company transported shipments of cocaine and marijuana by means of motor vehicles from Mexico to cities in Texas for distribution to other cities within the United States.”<sup>31</sup>

The communications infrastructure was also diverse. Namely, “the defendants and other members of The Company utilized Nextel ‘push-to-talk’ telephones and UHF/VHF radio communications to coordinate shipments of cocaine and marijuana and to evade law enforcement surveillance.”<sup>32</sup> These instruments recall the factor of technological change from our comparative framework. Here we have a blend of the newer, with Nextel’s signature “push-to-talk” telephone, and the older, UHF/VHF radios, although the latter are constantly being improved.

Electronic equipment was not the only feature of The Company’s communications infrastructure. Transmissions were often coded. Specifically, “the defendants and other members of The Company often spoke in coded language during telephone conversations to disguise and conceal the nature of their cocaine and marijuana trafficking activities.”<sup>33</sup>

The indictment, unfortunately but understandably, does not reveal any details about the “coded language.” The US federal government will make public what it knows about “The Company” only on an as-needed basis. In this situation, enough material was presented to obtain indictments. Perhaps more evidence will emerge at trial, if these ever occur.

The final excerpt we consider from the indictment speaks to organization, infrastructure, and technological change at the same time. That is to say,

the defendants and other members of The Company utilized sophisticated record keeping programs by means of laptop computers and “flashdrive” memory-storage devices, which maintained a comprehensive database that included records of cocaine shipment accounts, plaza boss identities and plaza locations, payroll amounts, payments made to law enforcement officials, and money received and owed.<sup>34</sup>

This is the one area where the author has reservations about The Company’s approach to organization. It is impossible to tell for sure from the indictments whether that “comprehensive database” was intact in its entirety in one or more computer files or “flashdrive” memory-storage devices. Centralizing computerized records, indeed handwritten or typed documents, creates a massive vulnerability for a criminal organization. The Rothschilds, whom we profiled in an earlier work, were among the pioneers of strategic record keeping; that is, devising ruses to conceal a client’s real assets and even keeping multiple books, one for an unsympathetic government or invading army, and one with the accurate facts, hidden somewhere in a sub-basement or secret tunnel in one’s residence.<sup>35</sup>

I am not arguing against computerized record keeping, but against centralizing the core document of an organization, its lifeblood, in one location, and recommending a sophisticated approach to record keeping that memorializes the skullduggery from an earlier era. Since the indictment is not clear about exactly

how that that “comprehensive database” was maintained or even whether law enforcement has complete possession of it, it is possible that “The Company” was employing its own ruses in this regard. Any organization that can devise a “coded language” to converse on the telephone can decentralize and protect its “comprehensive database” with different techniques, including codes of various complexities.<sup>36</sup> These steps require more of an organization’s resources and some may view them as economically inefficient for this reason. But as we are stressing throughout this book, the criminal concept of economic efficiency, while overlapping with the conventional one, must accord an even greater role for considerations of security and safety in decision-making. It is a necessary cost of doing business and like insurance: criminal organizations have to buy more of certain kinds of it than legal organizations.

The indictment targets “The Company’s” leadership, another factor we are tracking here, beyond the membership of “the triumvirate.” Another top leader not in the “the triumvirate” but in the indictment is Miguel Angel Treviño Morales, who “allegedly controls the Mexican border city of Nuevo Laredo, where the [Gulf] cartel is believed to funnel large amounts of drugs through the busy truck crossing into Laredo, Texas.”<sup>37</sup> The indictment lists nineteen plaintiffs. The first four are the top leaders just mentioned, but fifteen “lieutenants” or members of middle management are also specified. Going after both upper and middle level management at the same time gives this indictment a sagacity not all legal assaults on organized crime have exhibited. Citing fifteen “lieutenants” potentially reduces the pool of back-up leadership that could step up to a top job if prison or death created a vacancy. But as of this writing, the indictment remains a “most wanted” poster, since none of the plaintiffs are yet in custody. Still, the federal government has tools to punish even the missing. The US Treasury Department has designated the top four leaders of “The Company” as “narcotics kingpins,” which means that the federal government can freeze their assets.<sup>38</sup> This is a move in the right direction. As with RICO, discussed in Chapter 5 in connection with the US mafia, when you treat organized crime as a business and its members as business people, you can harm them.

The exact relationship between the Gulf cartel and Los Zetas is a subject of considerable speculation. In a report dated 11 December 2008, Stratfor suggested that Los Zetas had “split” from the Gulf cartel, a process that “was complete by spring 2008.”<sup>39</sup> Furthermore, “though details on the current relationship between Los Zetas and the Gulf are murky, it appears that the two groups continue to work together, but that Los Zetas no longer take orders from Gulf.”<sup>40</sup> And in a report aired on 8 August 2009, Michael Ware, one of CNN’s best investigative reporters, described Los Zetas as “Mexico’s most feared drug cartel,” principally because their commando training makes them so efficient in perpetrating physical violence on a horrendous scale during the ongoing “drug wars” in Mexico. He suggested that Los Zetas was becoming “more like a business,” with meetings that even include votes on assassinations. And he pointed out that Los Zetas are engaged in an open recruitment campaign, with prominently displayed posters that promise better pay and benefits than the regular Mexican army

offers. Other sources document a growing penetration of legitimate politics in Mexico by Los Zetas.<sup>41</sup> This is a time-honored technique organized crime groups in the ascendancy use to increase their power and influence, as they try to blur the distinction between the legitimate and illegitimate worlds in their versions of the twilight zone.

It is clear that Los Zetas are transitioning from their role as the paramilitary arm of the Gulf cartel towards becoming an independent large-scale business organization with a multiplicity of activities. The new Los Zetas, however, “continues to work” with the Gulf cartel, as Stratfor observed. Indeed, the aforementioned indictment presents a fascinating mix of members from both groups working for “The Company,” which is a truly hybrid organization. To cite only a few names from the indictment, Heriberto Lazcano-Lazcano, a member of the “triumvirate,” was “the leader of Los Zetas and the security chief of the Gulf Cartel.” Miguel Treviño Morales, not in the “triumvirate” but one of the top four leaders of the Company, “was recognized as second in command of the Los Zetas.” And Jaime Gonzalez-Duran, the person listed no. 5 in the indictment, “was an original member of the Los Zetas and served as a regional commander of the Los Zetas.” The indictment cites nineteen plaintiffs; eighteen are mentioned by name, while one is referred to “first name unknown, last name unknown.” Of the eighteen mentioned by name, the author counts seven as allegedly having ties to Los Zetas.<sup>42</sup>

Besides organization and leadership, we are also tracking the evolution of an organization’s businesses. The Gulf cartel got its start in the 1970s, as noted, in bootlegging operations that involved smuggling contraband into the US, but switched to cocaine in the 1980s and beyond. Cocaine is contraband as well, of course, so smuggling contraband of different types is clearly a core business of the Gulf cartel. Some may prefer to use “illegal drugs and everything associated with them,” instead of smuggling contraband, as the name of this core business. A second core business is protection, the distinctive kind of protection that brings the Gulf cartel closer in a crucial respect to the various mafias we are considering in this book: you must pay us to protect you from us (extortion). In a fashion reminiscent of the European Middle Ages when local medieval lords would assess tolls on travelers through their realms, the Gulf cartel treats its “plazas” as fiefdoms and may tax anyone moving contraband or aliens through its domains. The cartel does not stop there, as it vigorously sells its “insurance policies” to business people in many lines of legitimate work and collects taxes (*piso* or *cuota*) from them. Major businesses of the Gulf cartel include money laundering and what the author calls offenses against the person: human smuggling, kidnapping for ransom, murder, and running guns. As law enforcement intensifies attacks on its illegal drug activities, the organization seems to be diverting more resources to its other businesses. Government action is thus a driving force in the diversification of the Gulf cartel. The price of making progress in the “war on illegal drugs” is apparently an increase in other forms of criminal activity, a tainted outcome and another example of the law of unintended consequences at work.



As the younger organization, Los Zetas does not have the history or experience of criminal activity the Gulf cartel has, but this group has come far in the fifteen years or so it has been active. Whatever the eventual outcome of their shifting relationship, Los Zetas will always owe the Gulf cartel an enormous debt for letting it learn in two ways: from inside observation and also from learning-by-doing, an economist's concept that has already appeared in this book. Its roots as a paramilitary organization with leaders trained in the military and law enforcement have exerted a major influence on the Los Zetas' "business model," so to speak. A core business is protection as extortion in the classic criminal sense reiterated above, but this is not protection promised by bulky criminals in the "muscle end of the business" that have little or no military training or even basic skills of self-defense, let alone knowledge of tactics.<sup>43</sup> In short, Los Zetas do not provide ordinary mercenary services but enforcement and protection on a very high level of competence in planning and implementation, supported by advanced technology. As far as other businesses go, trafficking in illegal drugs is moving from a major to a core business, while money laundering is becoming a major business. Like the Gulf cartel, Los Zetas treat offenses against the person as business activities: human smuggling, kidnapping for ransom, and contract killing.

The sophistication of Los Zetas in tactics and technology is an incredible advantage for the organization in three ways. First, it makes them the *primus inter pares* among Mexican drug organizations, a force that must be reckoned with by the law-breaking and the law-abiding alike. Second, it gives them a huge asset to bring to any potential inter-cartel alliance they may wish to join. And third, it will help them greatly in any war in which they get involved. Their sophistication derives in part from the fact that many members of Los Zetas have inside experience with the military and law enforcement agencies, which enables them to think like their adversaries. The ability to "think like your opponents" is a priceless asset in itself and helps us understand another reason why Los Zetas are so dangerous.

The Gulf cartel and Los Zetas have a combined sphere of influence in Mexico that extends from northeastern Mexico down through a substantial inland swath of eastern coastal Mexico and curves up to include the Yucatán Peninsula. Their spheres both include numerous outposts in foreign cities, including many in the US. We now move to western Mexico and the state of Sinaloa, which borders the Pacific Ocean and reaches from northwestern through west-central Mexico. This is the homeland for the Sinaloa cartel or Federation, sometimes called the Pacific cartel after its western neighbor and sometimes the Joaquín "El Chapo" Guzmán Loera Organization after its most famous or infamous entrepreneur and leader.

### **The Sinaloa cartel**

While its sphere of influence within Mexico is not as geographically extensive as that of the Gulf cartel and Los Zetas nor its home base as strategically sited as the Gulf's is, the homeland of the Sinaloa cartel nonetheless does have valuable strategic attributes. For one thing, it faces the Pacific Ocean and, across the water from northern Sinaloa state, the Baja Peninsula: water is conducive to major

smuggling activity. For another, mountains cross Sinaloa state and, as noted in previous chapters, these provide havens for clandestine behavior of all kinds. For still another, it is not that far from the US–Mexico land border; only the state of Sonora stands between the Sinaloa cartel and Arizona.

The decade of the 1980s was critical for both the Sinaloa cartel and Joaquín “El Chapo” Guzmán Loera. Let us first illustrate this point for the cartel and then for “El Chapo,” which is Mexican slang for a short and stocky man. The Sinaloa cartel greatly expanded during the 1980s as it deepened its involvement in “the smuggling of Colombian cocaine, Mexican marijuana and methamphetamine, and Mexican and Southeast Asian heroin into the US.”<sup>44</sup> By the late 1980s the US Drug Enforcement Administration, in fact, considered the cartel the largest drug trafficking organization in Mexico. The experience of the Sinaloa cartel furnishes yet another example of the centrality of the decade of the 1980s for the development of large-scale organized crime in Mexico.

The meteoric rise of the Sinaloa cartel continued through the 1990s and into most of the first decade of the twenty-first century. By the mid-1990s it supposedly had reached the size of the Medellín cartel from Colombia at its peak (see Chapter 8). And by 2006, the Sinaloa cartel “had virtually complete control of the Mexico-Arizona border plazas.”<sup>45</sup>

“Plazas” appeared earlier in the indictment of alleged leaders of “The Company,” the hybrid organization of the Gulf cartel and Los Zetas, as divisions of territory which permit more efficient administration of illegal drug activities by creating a layer of middle managers called “plaza bosses,” but they are more than that. “Plazas” are “border exchange areas in which black-market exchange flows in both directions.”<sup>46</sup> “Plazas” are, therefore, two-way exchange arenas in the underground economy, in which commerce involves more than the smuggling of illegal drugs into the US.

The year 2008 was not a good one for the organizational cohesiveness of the Sinaloa cartel. “In early 2008,” one source reports, “the cartel allegedly split into a number of warring factions, including the now-independent Beltrán Leyva Organization (BLO).”<sup>47</sup> BBC News also refers to the departure of the BLO as a “split,”<sup>48</sup> while Stratfor refers to the ending of an “alliance” between the Sinaloa Federation and the Beltrán Leyva Organization.<sup>49</sup> It is not completely clear why the “split” in the Sinaloa cartel occurred when it did or at all, but the result is evident. The Beltrán Leyva Organization, like Los Zetas, has emerged as strong organization in its own right, with considerable experience, an established presence in the narcotics business, ample organization, and a willingness to make alliances with other organizations that are mutually beneficial. Before we turn to the leadership of the Sinaloa cartel and the fabled career of Joaquín “El Chapo” Guzmán Loera, we insert as appropriate here a thumbnail sketch of the Beltrán Leyva Organization.

### **The Beltrán Leyva organization**

Based in Mexico southeast of the Sinaloa Federation, the Beltrán Leyva Organization is a family operation with a “long history in the narcotics business.”<sup>50</sup> This

“long history” is, in many respects, not yet part of the public record. But we do know that as Los Zetas did for the Gulf cartel, so did the Beltrán Leyva Organization secure drug routes for the Sinaloa cartel, such as controlling access to the US border through Sonora state. The Beltrán Leyva Organization reaches far beyond its home base, as “it maintains operations on both Mexican coasts and its northern and southern borders, which move significant quantities of cocaine into the US.”<sup>51</sup>

The most intriguing aspects of the Beltrán Leyva Organization for our work lie in the nature of its bureaucracy: the command structure, number of personnel, and level of redundancy. Here redundancy does not refer to firing someone or to something that is superfluous in a frivolous or unneeded sense, but to back-up capacity based on considerations of safety, security, and the very survival of an organization. Let us begin with the command structure of the Beltrán Leyva Organization. It is hierarchical, but family ties are interwoven with the top level of leadership. Into January 2008, five brothers constituted the core leadership, but in that month the Mexican army arrested Alfredo “El Mochomo” Beltrán Leyva, whose work the organization greatly needed. Alfredo Beltrán Leyva “commanded two groups of hitmen for the BLO, and was allegedly in charge of transporting drugs, bribing officials, and laundering money for the [Sinaloa] Federation at the time.”<sup>52</sup>

As to number of personnel and back-up capacity, Stratfor notes that before the pivotal arrest of Alfred Beltrán Leyva, the five brothers had “many people under their command and plenty of infrastructure to branch out on their own.”<sup>53</sup> These two assets—“many people” and “plenty of infrastructure”—have served the organization well. It was able to survive the arrest of a key leader, overcome other setbacks, and emerge stronger, giving it credibility in pursuing cooperation with such other organizations as Los Zetas, the Gulf cartel, and the Juárez cartel. For example, the BLO apparently compensated for the arrest of its Colombian cocaine supplier by developing a relationship with the Colombia’s Norte del Valle cartel.<sup>54</sup>

The utility of these two assets for the Beltrán Leyva Organization suggests the need to reformulate the concept of bureaucratic efficiency (there is such a thing) for criminal organizations. In short, those interested in a leaner, more frugal approach to bureaucracy need not apply. “Many people” may strike some as excess staffing, but it is a valid precaution for a criminal organization which daily faces the possibility of the deaths of its members from unnatural causes. And “plenty of infrastructure” is prudent preparation for an attack by rivals or law enforcement, which may take out part of its transport or communications infrastructure. In some fields of human endeavor, there can never be enough back-ups.

## **The Sinaloa cartel**

In 2008 the Sinaloa cartel not only survived the “split” with the Beltrán Leyva Organization and the loss of the Vicente Carrillo Fuentes organization in Ciudad Juárez (the Juárez cartel) but hardly skipped a beat. Stratfor opines that

the Sinaloa cartel is “perhaps the most capable drug trafficking organization in Mexico.” This surely testifies to the leadership skills of Joaquín “El Chapo” Guzmán Loera, whose career now commands center stage. We begin with a few remarks about his origins and then move to the 1980s.

No one knows for sure why a particular person chooses a life in organized crime. But lack of resources and opportunities play their parts. Parents have little or no money to pay for their child’s education, which can place a cruel ceiling on that person’s development. And even if one had the requisite educational credentials, the legitimate economy may offer few job opportunities. In brief, “social conditions,” Vera Zamagni’s phrase borrowed to explain the concentration of Italian mafias in southern Italy in Chapter 2, may be hostile to legitimate economic development and almost compel younger people to consider working in the underground economy. Guzmán Loera’s life decisively illustrates these points. He grew up in very poor circumstances and would reputedly sell oranges to get money for a meal; his formal education ended with the third grade. But there is one salient fact about his beginnings that says a lot about what was to come: where he was born. Let me share with you the description provided by David Luhnnow and José de Córdoba, two brave journalists, in their excellent study of “El Chapo”:

One of four brothers, Mr. Guzman was born [4 April 1957] in a Sinaloa mountain hamlet of some 40 houses known as La Tuna. La Tuna sits in Badiraguato County, which has the dubious distinction of being the birthplace of most of Mexico’s famous drug lords. Badiraguato’s location has a lot to do with it: It’s the gateway to Mexico’s “golden triangle,” a remote, mountainous intersection of Sinaloa, Durango and Chihuahua states, where opium and marijuana have been grown for generations.<sup>55</sup>

Three facts stand out from this quotation. First, from the standpoint of our earlier setting the stage, one sees the importance of mountains in the personal and institutional histories of the Mexican drug cartels. Second, one realizes how far into the past the growing of opium and marijuana extends for this area; truly many generations have experience with and accept the production of illegal drugs as a normal business activity. And, third, that Guzmán Loera was born in the county that has cradled so many of the big names in Mexican drug trafficking makes one think that the aphorism, “location, location, and location,” has yet another meaning.

In any event, not much is known about his early years, so we will pick up his story in the 1980s, the pivotal decade for the emergence of large-scale organized crime in Mexico. During those years, Guzmán Loera, still in his early 20s to early 30s, “rose through the ranks to become a top lieutenant for Miguel Ángel Félix Gallardo, another Badiraguato native and former cop who had become Mexico’s top drug lord.”<sup>56</sup>

Mr. Gallardo, known as *El Padrino* or the Godfather, had “cobbled together a super-cartel dominated by fellow Sinaloans called ‘the Federation.’”<sup>57</sup> Mr.

Gallardo was the glue that held this version of a federation together and, after he was arrested in 1989, it unraveled and his lieutenants got important parts, such as the border crossings that served as smuggling points (plazas). Helping the Godfather gave “El Chapo” unparalleled opportunities to learn from observation and by doing. This observation and learning-by-doing served him well as he built his own empire, which started with one of those border crossings, the one at Mexicali, about seventy miles from Tijuana, which he and a close friend inherited from the dissolution of “the Federation.”

“El Chapo” is both entrepreneur and leader. He introduced important innovations to illegal drugs trafficking, when “he pioneered the use of underground tunnels across the US-Mexico border to ferry drugs” and when he used “an assembly line packing cocaine into chili pepper cans under the brand Comadre, exporting the drugs to the US by rail.”<sup>58</sup> While not an innovation, he took bribery to higher levels. In payment for the drugs, “El Chapo” imported millions of dollars packed in suitcases flown into Mexico City’s airport, “where bribed federal officials made sure there were no inspections.”<sup>59</sup>

Besides innovation and corruption, what stands out from this list of dirty deeds is “El Chapo’s” use of multiple types of transportation, including tunnel, rail, and air, in his business, which reminds one of “The Company’s” unwillingness to be locked into one approach.

Guzmán Loera’s ascent has not been tranquil. He has fought wars with law enforcement and other drug organizations, engaged in Machiavellian behavior to discredit rivals he feared, served prison time and escaped, probably with the acquiescence of officials.<sup>60</sup> But at a time when the Sinaloa cartel suffered the losses of the Beltrán Leyva and Fuentes organizations and he personally came “under attack from nearly every other cartel in Mexico,” he “has maintained his long-standing alliances with his high-ranking lieutenants” who “have continued to work with him.”<sup>61</sup> Though the more recent version of the Sinaloa Federation has contracted, “El Chapo’s” leadership skills include the ability to preserve personal alliances critical to his own survival. But he has not led a diversification of the businesses of the Sinaloa cartel beyond the usual stock in trade of an organization of this type, which are various drug activities, money laundering, extortion, and arms smuggling. The author thinks that if Charles “Lucky” Luciano were around today and confronting a situation similar to what is unfolding in Mexico, his instinct would be to organize a true cartel in the economic sense of all the drug organizations in an endeavor to get the best price for product and minimize violence, as “blood is a big expense.” But that is old-style Italian mafia, not new-style drug trafficking machismo.

We have space to present three more Mexican drug organizations: the Juárez, Tijuana, and La Familia cartels. We begin with the Juárez cartel, because of its once close relationship with the Sinaloa Federation, move west to the Tijuana cartel, and finish with the newest organization to register its presence on the police blotter: La Familia.

## The Juárez cartel

This organization, also known as the Vicente Carrillo Fuentes Organization (VCFO), is based in Ciudad Juárez, in the Mexican state of Chihuahua, which is right across the border from El Paso, Texas. Its sphere of influence includes much of northern Chihuahua state and regions of the states of Nuevo León and Sonora. It is thus primarily a northern Mexico cartel, but its influence reaches far beyond its own sphere, as it possesses the great strategic asset of controlling one of the major drug routes from Mexico into the US, with a business that earns billions of US dollars every year. As such it can also be a primary target for rivals who wish to challenge its hegemony over this “plaza.”

The founding of the Juárez cartel occurred in 1993, which means it does not fit into the neat picture of the 1980s as the crucial decade for the emergence of large-scale organized crime in Mexico. Evidently, this generalization must be refined: the 1980s were only the beginning of this development, which continues to this very day, with the appearance of such organizations as La Familia in 2004. The founding and subsequent organization of the Juárez cartel were family affairs. Amado Carrillo Fuentes was the founder with the assistance of his uncle and he “brought his brothers and later his son into the business.”<sup>62</sup> After he died, a short war broke out over who would succeed him. Vicente Carrillo Fuentes, the man whose name the cartel now carries, emerged “as the victor, and formed a partnership with his brother, nephew, and a few others—most notably the Beltrán Leyva brothers.”<sup>63</sup> Vicente Carrillo Leyva, the nephew, is reputedly second in command.

The “Leyva” in his name is not a misprint, as the Juárez cartel “has had a long-standing alliance with the Beltrán Leyva brothers, based on family and business ties.”<sup>64</sup> So while the organization of the Juárez cartel is hierarchical in a conventional sense, it exhibits special family features: ties based on membership in the Fuentes family and from intermarriage between the Juárez and Beltrán Leyva organizations.

The Juárez cartel has passed through periods of greater and lesser cohesiveness. During part of the 1990s, the cartel was in “flux” and therefore vulnerable.<sup>65</sup> The Tijuana cartel (see below) is located to the west of the Juárez cartel and it “wielded most of the regional power.”<sup>66</sup> The death of Amado created a temporary power vacuum which the ascent of Vicente Carrillo Fuentes filled, but the Tijuana cartel continued its regional hegemony. In 2001, after “El Chapo” Guzmán escaped from prison, many members of the Juárez cartel defected to the Sinaloa Federation. A war between the two cartels ignited in 2004, because of reciprocal assassinations, but abated in 2005–2006 as the Sinaloa Federation was fighting the Gulf cartel. This hiatus allowed the Juárez cartel to re-energize itself, though it apparently has not yet regained its former strength from the late 1990s into 2000.<sup>67</sup> In 2008 the Juárez cartel was fighting its former ally, the Sinaloa cartel, for control of the Juárez “plaza.” Stratfor estimates that in this year alone the “fighting between them has left more than 2000 dead in Chihuahua state.”<sup>68</sup>

The significance of these and other wars (both inter- and intra-cartel) for our factors of organization and leadership is momentous. They weaken the organization of individual cartels by consuming resources that might otherwise be put to strengthening productive business activities. In particular, they deplete leadership and other personnel, which obviously harms the present and future of any organization. The prevalence of physical violence, frequently excessive, also points to vulnerabilities in the overall organization, or more accurately the lack of any overall organization, of Mexican drugs trafficking. The absence of a true cartel, which can function as a dispute resolution mechanism, removes checks and balances that could reduce the level of physical violence and economize on resources.

### **The Tijuana cartel**

The Arellano Félix Organization (AFO), or the Tijuana cartel, is based in far western Mexico just south of the California border. Its sphere of influence goes beyond its headquarters and includes portions of northern Mexico that abut and sometimes penetrate the sphere of the Juárez cartel located to its east. Just as the Juárez cartel and the Beltrán Leyva Organization use organizational hierarchies interwoven with family ties, so also the Tijuana cartel has a hierarchy anchored in family leadership. But in 2008 the family leadership of the AFO suffered from the arrests of high-ranking members. “The most symbolic,” according to Stratfor, “was the October arrest of Eduardo ‘El Doctor’ Arellano Félix, the only original Arellano Félix brother who had evaded capture.”<sup>69</sup> The decimation of its family leadership led to internal conflicts and the cartel split into two factions. A nephew of the Arellano brothers, Fernando “El Ingeniero” Sánchez Zamora, leads new factions. An enforcer for the original brothers, Eduardo Teodoro “El Teo” García Simental, heads the other. Fighting between the groups has claimed hundreds of lives, and other cartels have tried to take advantage of the split. The Sinaloa cartel, for instance, is reputedly backing one faction, hoping that betting on the right side will bring Sinaloa “access to the United States that control of Tijuana would provide.”<sup>70</sup>

### **La Familia**

A relative newcomer to the world of big-time Mexican drugs trafficking, La Familia Michoacana has been a significant name on the police blotter only since 2004. It originated as a gang, but graduated to the status of a “separate cartel” in 2009.<sup>71</sup> Like the Beltrán Leyva Organization, La Familia is based in the Mexican state of Michoacán in the southwest. La Familia’s headquarters is thus sandwiched between the spheres of influence of the Sinaloa cartel to its north and west and the Beltrán Leyva Organization to its south and west. At first glance, this location renders La Familia vulnerable to a pincer attack by an alliance of the Sinaloa cartel and Beltrán Leyva Organization, but it also gives La Familia options to ally itself with one or the other against the one left out. So the location of La Familia is strategic but in a mixed sense, as it can work for or against this “separate cartel.”

While La Familia is a “separate cartel” in the eyes of law enforcement, it is more than that from the perspectives of other observers. These views begin with the origins of La Familia in the early 2000s. It may have started as an anti-cartel, according to one of its founders, who portrayed it as determined to eradicate the “trafficking of crystal methamphetamine,” other narcotics, and the collateral activities of drug organizations: “kidnapping, extortion, murder-for-hire, highway assaults, and robberies.” This angelic motivation, if it were ever real in the first place, soon dissipated, as the alleged agency of light succumbed to the forces of drug darkness. The actual origins of La Familia may be more about power than morality. Its members may have wanted to thwart efforts of a group associated with the Sinaloa cartel or “prevent Los Zetas from entering what they considered their territory.”<sup>72</sup>

Some believe that La Familia has interests that go beyond just making money. It invests considerable time in developing a “cult-like mystique” and refining “pseudo-evangelical recruitment techniques that experts and law enforcement authorities say are unique in Mexico.”<sup>73</sup> The organization has made the Mexican political process one of its core businesses, as it seeks influence through cooption, corruption, intimidation, and revenge killing. More politicians are being arrested for involvement with the drug traffickers. On 4 September 2009 the Mexican federal police detained the mayor of a town in Michoacán, “on suspicion of aiding drug traffickers. Eight other mayors have been arrested in recent months in Michoacán, which is home to La Familia, a drug organization known for corrupting the police and politicians.”<sup>74</sup> The range of La Familia’s activities has led some to conclude that La Familia is a “hybrid organization” that combines elements of an “organized crime syndicate, terrorist organization, and insurgency.”<sup>75</sup> The author believes more information is needed to sustain the use of the terms “terrorist organization” and “insurgency” in connection with La Familia, but there is no doubt that it resembles an “organized crime syndicate.” This discussion returns us with confidence to the central thesis of this work: whatever else an organized crime group may be, it is a business. Moreover, a business can do things that do not bring money directly to it and still remain a business, because these activities touch upon public relations: building an image, recruiting personnel, or increasing a client base.

To reflect, these seven organizations—the Gulf cartel, Los Zetas, the Sinaloa cartel (Federation), the Beltrán Leyva Organization, the Juárez cartel, the Tijuana cartel, and the La Familia cartel—by no means constitute the totality of Mexican drug traffickers, as many other groups, some quite small and localized, claim their respective market shares. But as we write the seven are the major players and their sketches reveal important facts about the treacherous highways and byways of illegal drugs trafficking in Mexico and beyond.

Some facts concern organization on different levels. On the national level, there is no authentic cartel, as economics defines it, overseeing this lucrative business. To be sure, there have been federations of various sizes and durations, but one collapsed in the aftermath of the death of a charismatic leader and another greatly contracted as some members for one reason or another went their



independent ways. To be effective, a true cartel does not need to include all the producers and/or sellers of a product or set of products, as the experience of OPEC mentioned earlier demonstrates. The author cannot predict what percentage of product a real Mexican drug cartel would have to control to exercise significant influence. What he knows for sure is that the term “cartel” as applied in the Mexican context to date is a gross misnomer. Terminology is not a minor matter. What is the point of searching the economic theory of cartels for insights here, if the organizations under study are not really cartels? A more fruitful use of academic theory would be to revisit the typology of business alliances presented in Chapter 5 and indeed the entire book *Building, Leading, and Managing Strategic Alliances* by Fred A. Kuglin with Jeff Hook, because Mexican drug organizations seem to regard alliances as a favorite tool of business procedure and even strategy. But without knowing the particulars of specific alliances the author cannot go further.

On the level of the individual cartel, organization is hierarchical with some distinguishing features. All cartels have layers of middle management, but “The Company,” the hybrid of the Gulf cartel and Los Zetas, introduced a specific type of middle manager to deal with their drug “plazas,” the “plaza boss.” A number of cartels are family businesses to some degree and have members in high leadership positions. The Beltrán Leyva Organization, the Juárez cartel, and the Tijuana cartel exhibit family-based hierarchies. All family businesses, whether legitimate or not, face the critical problem of succession or intergenerational transfer. Our limited studies elsewhere have shown that for some well-known family businesses the third generation was a moment of truth, as an organization was either blessed with somebody in that generation who could lead well or cursed when the talent pool dried up.<sup>76</sup> The problem of succession is even more daunting for criminal businesses, as important family members may be killed, arrested, and possibly imprisoned, starting with the first generation. The Juárez and Tijuana cartels faced this problem, whereas the Beltrán Leyva Organization, with the five brothers, weathered leadership setbacks better. The history of Mexican drug cartels also shows that an enforcement arm of a cartel may develop into an independent organization, even another cartel. Los Zetas emerging from being enforcers for the Gulf cartel into a formidable force on its own is a striking example of this possibility, which is why law enforcement should pay special attention to the enforcers other cartels employ. For example, the Juárez cartel

relies on two enforcement arms to exercise control over both sides of the border. La Linea, a group of current and former Chihuahua police officers, is prevalent on the Mexican side, while the large street gang Barrio Azteca operates in Texas, in cities such as El Paso, Dallas, and Austin.<sup>77</sup>

The organization of many Mexican drug cartels also shows a high degree of technological sophistication in communications infrastructure, which includes intelligence gathering. So strong is this characteristic that Stratfor suggests the

Mexican cartels “are not typical criminal gangs. The cartels are billion-dollar organizations that employ large groups of heavily armed enforcers, and many of the cartels have invested the time and resources necessary to develop highly sophisticated intelligence apparatuses.”<sup>78</sup> The author is not sure what a “typical criminal gang” is in the first decade of the twenty-first century and would not claim some special status for the Mexican drug cartels, because he knows other modern criminal organizations that also deploy advanced technologies. But he will concede that as a subset of global organized crime Mexican drug cartels are known and feared for this capacity, as well as for their willingness to engage in excessive violence as a procedure in the pursuit of some policy or strategy.

The physical violence is excessive, because it violates the long-established principle of proportionality that informs both legitimate law and criminal revenge or retaliation. The assassinations of Mexican officials as retribution for suspected drug-related arrests are becoming more frequent. No way is murder a proportional response to a drug arrest, since the suspects are still alive (as Don Vito Corleone said in the first *Godfather* movie to the undertaker Bonasera, “but your daughter is still alive.”) If the idea is to intimidate, there are proportionate ways to do this, without pushing the body bag count of the Mexican drug wars well into five figures. Excessive violence does have cultural and social roots. For while organized crime groups are businesses, whatever else they are, criminality has profound social and cultural dimensions that the author defers to the expertise of others to elucidate.

The consequences of the rise and expansion of the Mexican drug cartels are pernicious, pervasive, and far-reaching.<sup>79</sup> The physical violence is escalating and spilling across national frontiers, a phenomenon that itself has multiple effects.<sup>80</sup> The wealth and power of the cartels has enabled them to spread corruption nationally and transnationally. As to the latter, the cartels are reportedly recruiting in the US teenagers as assassins and college students as couriers.<sup>81</sup> Many college students, hard pressed for cash, are vulnerable to temptation. All we ask is that you deliver unopened an unmarked package to a destination we’ll tell you on a prepaid cell phone and you can earn hundreds, even thousands of dollars. You are not actually doing anything evil. This reminds the author of how criminal elements corrupted college basketball players in the US in the 1950s from schools with such illustrious programs as the City College of New York. You don’t actually have to lose a game; all you have to do is win by fewer points than the gambler’s “spread” predicts (or by “shaving the point spread”).<sup>82</sup> Nationally, the corruption of components of the Mexican government, particularly the police and some public officials but not the army, spreads relentlessly, like unchecked cancer cells.

In aspects of the behavior of the Mexican drug cartels lie, for them, dangerous vulnerabilities. In excessive violence is the first vulnerability. This accelerates the depletion of cartel leadership and other personnel, which can weaken organization. If you want to open your own veins in some type of medieval purgation, that is your choice but it puts your organization on a path of self-destruction. Excessive violence is also incredibly bad public relations, as it

scares more people, motivates law enforcement to work even harder, and reinforces portraits of organizations totally out of control and without any redeeming features, such the community services in which many old-style Italian mafias engage. In the inability or unwillingness of Mexican drug organizations to form a true national cartel lies the second vulnerability. A real cartel, in an economic sense, can act as a dispute resolution mechanism, if members grant it that power, or at the very least it can function as a consultative forum, as most of the national commissions of the US mafia have acted. And a third vulnerability gathers potency in the increasingly blatant corruption the Mexican drug cartels are spreading. If society concludes that these organizations are more than just a law enforcement problem but a grave threat to its moral fabric, then the cartels will face a campaign to extirpate them, with techniques that may very well parallel the excessive violence the cartels themselves practice.

We next present a short essay on organized crime in Canada.

## 7 Vignette

### Organized crime in Canada

With so much attention focused on the southern border of the US with Mexico, the activities of the Mexican drug cartels, and the still-dangerous US mafia, one might easily forget about Canada, a proud ally of the US that shares a long and still somewhat porous border with that country. But it would be a grave mistake to exclude Canada from our deliberations in this book, because as the Mexican drug cartels and their drug-trafficking routes come under more sustained attack, experience suggests that Canada itself may be unwillingly drawn more and more into the global trade in illegal drugs. And organized crime in Canada has a long history in its own right, which deserves appreciation in its own terms, not simply as an adjunct to the histories of organized crime in the US and Mexico. In his richly detailed book *Iced: the Story of Organized Crime in Canada* (2009) Stephen Schneider has gone far towards presenting organized crime in Canada in its own terms, thus giving students of organized crime an invaluable resource which this vignette will use. Our plan is as follows. We first set the stage by summarizing relevant facts concerning Canada's geography and economic history. We then analyze major themes from the history of organized crime in Canada. We discern five and will give selected examples.

#### Setting the stage

Setting the stage for Canadian organized crime can be done concisely. The geography of this beautiful, bilingual, culturally diverse, and usually tolerant country presents delights and opportunities to citizens and visitors alike, but also has features that organized crime can exploit in furthering its nefarious activities. From the latter perspective, the most striking geographical feature with major criminal implications is Canada's border with the US: its southern border with the continental US, the "lower 48," and its border with Alaska, the forty-ninth state of the US. These borders total 8,893 km. By sharp contrast, the border between the US and Mexico is about 3,150 km long; Canada's border with the US is thus *almost three times as long* as that of the far more publicized US–Mexico border. It is important to remember that Canada's southern border with the US covers both land and water. For example, the five Great Lakes of North America, as distinct from the Great Lakes of East and Central Africa, are the largest collection of

fresh water lakes in the world and they border the US and Canada. From east to west, they are Lakes Ontario, Erie, Huron, Michigan, and Superior. Lake Michigan is the only great lake that lies within the boundaries of the continental US, but Lakes Michigan and Huron, which are on the border, are technically a single lake so I think we can accept the usual description of the North American Great Lakes as bordering Canada and the US.

Not every lake has lent itself equally to the cross-water international smuggling that is such an entrenched tradition of illegal economic relations between the two countries. One lake that has played a significant role in this activity is Lake Erie, which is located between the Canadian province of Ontario and the US states of New York, Pennsylvania, Ohio, and Michigan. The author is quite familiar with Lake Erie, as he lives within an easy drive from its southern shores. Lake Erie is the smallest and shallowest of the great lakes, but smugglers are more concerned with transit time and islands: how long does it take to get from a Canadian location to a US one and vice versa, how patrolled are various routes, and are there any islands in the lake that might provide cover and possibly a base. The small size of Lake Erie works in its favor as a preferred highway for smuggling, as Prohibition Era activities decisively demonstrated. The western region of Lake Erie features many islands, some in the US and some in Canada. The international boundary passes just south of Pelee Island in Canada and the set of the Bass islands in the US. While we have discussed the Great Lakes, as much attention could have been paid to another consequential feature of Canadian geography for organized crime. That is Canada's most extensive coastline, which totals 202,080 km or 125,570 miles: this is a spectacular distance in global terms.

One final feature of Canada's geography must be noted. Canada is the "colossus of the north" in the best sense. It is a huge country: second in the world after Russia in total area. Canada covers 9,984,670 km<sup>2</sup> or 3,855,100 mi<sup>2</sup>. It occupies about 40 percent of the continent of North America (including Mexico) and is bigger than either the US or China. One pictorial anecdote will underscore these facts. The author enjoys watching television coverage of the Canadian federal elections from the Canadian Broadcasting Corporation (CBC), with Peter Mansbridge as the superb anchor. He watched it on the CBC's *NewsWorld International*, until that channel vanished on 1 August 2005, a great loss still lamented by followers of international current events, and now must settle for whatever C-SPAN carries. Sometimes the set for these broadcasts has as a backdrop a giant map of North America. The boundaries of Canada, this immense country that occupies so much of North America, are clearly marked, but the space on the map to the south is completely blank.

The geography of Canada has, therefore, important criminal implications. The country's vastness makes it easy to get lost, to hide, or to conceal. And the country's extensive boundaries and long coastlines present opportunities to smuggle contraband, commodities or people, in or out. These features give Canada a great strategic value from a criminal perspective, which is enhanced by its location right next to the US, a great demander of illegal services and products.

Fortunately, the geography and location of Canada, along with its many natural and human resources, also give it great strategic value for strengthening its legal economy. The theme of legitimate strategic value takes us to Canadian economic history and one major subject in particular: international economic integration, with emphasis on the North American Free Trade Agreement (NAFTA), which has already appeared in the introduction to Part II.

The North American Free Trade Agreement of 1994 had important antecedents. A critical one was the earlier US-Canada Free Trade Act or Pact of 1989, which laid the groundwork for that 1994 agreement among Canada, Mexico, and the US.<sup>1</sup> It is important to remember how eagerly the then Progressive Conservative government of Canada embraced the concept of freer trade with its No. 1 trading partner, the US. The Progressive Conservatives managed to keep enough public opinion with them on the proposed free trade pact to win a second consecutive term in the federal election of 1988. But there continued significant opposition to the 1989 agreement, which included the Liberal Party, the main challenger to the Progressive Conservative Party in the federal election of 1993. Many factors account for the massive defeat of the Progressive Conservatives (they lost all but two of their 151 seats in the 295 member Canadian Parliament) and the victory of the Liberals in that year: a maladroitness leader and inept campaign; weariness with almost nine years of a Progressive Conservative government; economic difficulties some blamed partly on the 1989 free trade pact; and a resurgent and well-financed Liberal Party. I provide this brief political note to illustrate the fact that Canada, whatever the political rhetoric of the day, the vagaries of public opinion, or the party in government, remains committed in practice to free trade and the essentials of NAFTA. Exhibit A: after winning a strong victory in 1993, the Liberal Party signed on to NAFTA. This non-partisan commitment enhances legitimate strategic value and creates opportunities for trade and commerce that will strengthen Canada's economy, but it also has further implications for organized crime. Reducing cross-border barriers to business and economic activity benefits both the legal and the underground economies. I introduced this theme in Chapter 2, when I discussed the European Union. The benefits for organized crime are greater in the EU, as it is a common market with more economic freedom than a free trade area, which is what NAFTA is, but the advantages for organized crime are still noteworthy in NAFTA. With the stage now set, we now analyze themes from the history of organized crime in Canada and offer selected examples.

### **Themes and examples**

At least five principal themes thread their way through this history. The first theme is that Canada has a long-established historical role in the production, consumption, import, and export of contraband, including illegal drugs. Export or import of contraband is, of course, smuggling, which illustrates the second theme: organized crime in Canada has had a strong transnational dimension from its beginnings. But Canadian organized crime is both national and transnational,

as captured in the third theme: Canadian organized crime originates its own networks but also belongs to some established by outsiders. A fourth theme is that Canadian organized crime groups can have a range of businesses. Smuggling is a core business for many and if it involves illegal drugs, money laundering will emerge as a major business. But depending on the product or products, an organization may add other activities to smuggling, which is essentially about transportation, protection, and bribery, and immerse itself in growing or providing raw materials, processing or manufacturing, and distribution locally and/or internationally. While Canada is a major entrepôt or transshipment point for contraband in transit, it also features its own home grown or home manufactured products. A fifth and final theme is that Canada furnishes a fascinating mix of organized crime groups: some are imports; some are hybrids; and some are indigenous creations. Let us document these themes with specific examples.

Canada's major historical role in contraband has roots that date back at least to the 1870s if not before. Chinese merchants working in Canada played a crucial part in preparing the way for the opium industry.

Between 1870 and 1908, Chinese merchants opened a number of factories in Victoria and B.C.'s [British Columbia's] Lower Mainland to convert raw gum opium into the smokeable form. . . . By the 1880s, British Columbia was now the main North American importer, producer, and exporter of opium.<sup>2</sup>

The origins and development of the Canadian opium industry illustrate multiple themes simultaneously: some beginnings of Canada's role in contraband; transnational aspects of Canadian organized crime with the involvement of Chinese merchants and the import and export of opium; national dimensions with opium's local source of supply and local manufacturing into smokable opium; and how the opium industry relies on both local and international crime networks.

While opium got Canadian contraband going, it was the Prohibition Era in the US (1920–1933) that took it to a higher level. Canada became by far the largest foreign supplier of alcohol-related products to the US; estimates of its share of the US contraband liquor market range from 60 percent to 90 percent. I have already mentioned (Chapter 5) the successful role of Frank Nitti, Al Capone's enforcer for the Chicago syndicate, in organizing the import of Canadian whiskey during Prohibition. Canadian whiskey was highly prized, because of its long and professional maturation process, qualities difficult to replicate in Prohibition-era US. I will now note the apparent usefulness of Al Capone's 407-acre wooded estate in Wisconsin and its lake in this thriving cross-border trade. Capone owned this property, which has guard towers and a stone house with walls that are eighteen inches thick, in the late 1920s and early 1930s. "Local legend claims that shipments of bootlegged alcohol were flown in [from Canada] on planes that landed on the property's 37-acre lake, then loaded onto trucks bound for Chicago."<sup>3</sup> It is entirely possible that this route, if it was real, was part of Frank Nitti's whiskey smuggling network, but the author is not sure as he

cannot rely only on “local legend,” no matter how circumstantially correct it seems. From a Canadian perspective, the US Prohibition Era was good for business and good for government. Bootlegging became a national industry and created thousands of jobs for Canadians. Canadian distilleries and breweries developed regular business relationships with US organized crime figures and played major roles in the large smuggling operations that crossed the US border.<sup>4</sup> And the Canadian federal government also benefitted, since during Prohibition its greatest single source of revenue came from taxes and duties levied on Canadian-produced alcoholic products.<sup>5</sup> Canadian contraband also includes heroin. International routes for drug trafficking have changed over time, as noted elsewhere in this book, but during the 1950s and 1960s Canada played an essential role in facilitating the entry of heroin from Europe into North America. The city of Montreal, in the province of Quebec, became a major distribution center for heroin smuggled into North America. This development was based on a number of factors. Quebec has a special relationship with France in the areas of culture, commerce, and language that the other Canadian provinces do not have. During this period the French Connection in international drugs trafficking, mentioned in Chapter 2, was thriving, and it was logical that Montreal would emerge as the North American transshipment point in heroin smuggling. The US mafia, under the early direction of Charles “Lucky” Luciano (he died in 1962), exercised a dominant influence in the organization and conduct of illegal drugs trafficking at this time, and the Montreal mafia was then under the firm control of its US ally, even though the history of the Montreal mafia should not be portrayed as one of total subservience to its US partner. Montreal’s physical assets also help explain its usefulness as a drug distribution center. It is a seaport located on the St. Lawrence River, which connects eastward to the Atlantic Ocean. And it is a manageable distance from New York City, 329 miles or 529 km, as the crow flies. Its location on the St. Lawrence River became even more strategic after the St. Lawrence Seaway opened in 1959. A great accomplishment by Canada and the US working together, the St. Lawrence Seaway creates a unified way to travel by water from the Atlantic Ocean to Lake Superior and generates economic benefits for both countries. Regrettably, we see once again that what helps the legitimate economy may also support illegal activities. The St. Lawrence Seaway, with a historical drug hub in Montreal, is a convenient entry to the Great Lakes, as noted, and can interconnect there with traditional cross-water smuggling routes. As the crackdown on the Mexican drug cartels makes their southern routes less acceptable, the St. Lawrence Seaway may drag an unwilling Canada more and more into an updated version of major international drug smuggling routes.

Canadian contraband would eventually encompass cocaine and a range of synthetic drugs. The Colombian drug cartels, which are the subject of the next chapter, penetrated Canada with their special product, cocaine, and became more of a presence in the 1990s.<sup>6</sup> Cocaine is not Canadian produced contraband but an import, of course. Canada returned to its historical role as a manufacturer of drug contraband, first established with the creation of smokable opium in the late



nineteenth century reported above, in the 1970s, “when the country emerged as a major producer of synthetic drugs. By the end of the 1990s, Canada had established itself as the continent’s preeminent supplier of high-grade marijuana, methamphetamines, and ecstasy.”<sup>7</sup> Our condensed synopsis should not leave one with the impression that Canadian contraband consists only of illegal drugs and Prohibition booze. Many other Canadian produced products and services fall under the rubric of Canadian contraband. Canada has become, as Stephen Schneider again observes, “an international centre for telemarketing fraud and the counterfeiting of currency, bank cards, and digital entertainment products.”<sup>8</sup>

Our fifth and final theme—Canada features a fascinating mix of organized crime groups—deserves a level of coverage and analysis which this book cannot provide, but we can make a modest beginning. We observe three types of groups: imports, hybrids, and indigenous creations. A hybrid is an import that has become localized, in the sense that it has acquired distinctive cultural and social characteristics belonging to its new environment without losing essentials of its original identity. Put too simply, US mafia families are classic hybrids of American culture and Italian influence. A hybrid could also be an indigenous creation that has become international or, if it is organized as a corporation, multinational. These three categories are suggestive, not dogmatic, with fluid boundaries and some problems. For instance, deciding exactly when an import becomes a hybrid may be difficult if not impossible. In any event, there are numerous organized crime groups in Canada; the exact number seems to elude specialists.<sup>9</sup> Here we concentrate on only one example of each type. For imports, we take up Hells Angels; for hybrids, the Montreal mafia; and for indigenous creations, aboriginal groups. Let us briefly comment on each example in turn.

Hells Angels (the apostrophe disappeared years ago) is a prominent example of what some call biker gangs. These associations are controversial and instantly lend themselves to stereotyping. But not every member who belongs to a biker organization is a criminal, not every biker organization should automatically be labeled a “gang,” and not everyone who rides a motorcycle is a pathological personality in formation. Indeed, the author has known people who consider motorcycling a lifestyle, especially long-distance travel, and not as an activity that is inherently criminal. In fact, the author himself owned a Honda 350 in the thrilling days of yesteryear and to date has never been on any police blotter. So the term “gang” is loaded with negative connotations and must be used with great care. To be fair, biker organizations should be considered on a case by case basis. That said, the Hells Angels do have a notorious reputation as a troublesome organization with an international reach. The important question is: do they deserve this reputation as an organization? “The Angels accept,” Paul Lunde notes, “that there are criminal members within their ranks, but vehemently deny that they are a criminal organization.”<sup>10</sup> The next question is: what percentage of their ranks must be criminal in order for the organization to deserve this appellation? The author does not have an answer to this question, but he does know that the misdeeds of some members garner all the attention while the good works of others apparently go unreported.<sup>11</sup> In any event, Hells

Angels have established a strong presence in Canada. By one reckoning, they have 2,000 members and prospects in twenty-two countries. While the US still remains its base with about 700 members, about 450 live in Canada.<sup>12</sup>

The Montreal mafia is a natural selection for our example of a Canadian criminal organization that is a hybrid. As US mafia families are hybrids of American culture and Italian influence, the Montreal mafia is an intriguing hybrid of French-Canadian culture and influences from US mafia families and Italian mafia families. The Italian influence on the Montreal mafia is not homogeneous, as it really features a struggle between two groups of Italians, the Calabrians and the Sicilians, for control of the Montreal mafia. Readers can find details of this bitter conflict elsewhere; it began in the late 1940s and has continued for more than half a century, with the Sicilian Mafia emerging as the more dominant influence.<sup>13</sup> The Montreal mafia also has a long-standing relationship with the US mafia, especially New York City crime families. At times the US mafia treated the Montreal mafia as its apprentice in crime, particularly if a strong Don of a New York crime family had definite ideas about what role the Montreal mafia should play. Some activities of Joseph Bonanno (1905–2002), who was Don of the Bonanno crime family in New York City, illustrate this point. During the 1950s and 1960s, when Montreal was the dominant drug hub for heroin in North America as reported above, Joseph Bonanno through his influence over the Montreal mafia was ultimately responsible for much of the “smack” imported into Quebec from France.

The indigenous creation—the third type of organized crime group in Canada—can result from the actions of indigenous Canadians or from the activities of Canadians who are not indigenes but still citizens. I will remark briefly on the former. “Aboriginal organized crime” is a controversial construct in Canada today, as Native Americans argue that “the establishment” is using it in ways that stereotype them. To be sure, there are problems with aboriginal youth participating in gang activity, and there are gangs that are predominantly Native American, such as the Redd Alert, Indian Posse, Alberta Warriors, Native Syndicate, and Manitoba Warriors.<sup>14</sup> Furthermore, the cigarette smuggling allegedly involving Native American communities has risen to a level some associate with organized crime. But as I wrote about the relation between Mexico and the Mexican drug cartels, you cannot infer the whole (the community) from the part (a criminal group). Thus, you cannot induce the characteristics of an entire community from the activities of a troubled and troublesome segment. “Aboriginal organized crime” is an unfair over-generalization that should be rewritten as organized criminal activity associated with some members of aboriginal communities. In short, the ethnic adjective must be applied to the alleged perpetrators, who are a small subset of a community, not to the unrefined result of their behavior, as in aboriginal organized crime.

We move to Part III, which covers Central America, South America, and the Caribbean basin, and take up Colombian drug cartels, gangs of the Caribbean, and organized crime in Cuba.

## Part III

# Central America, South America, and the Caribbean basin

In Part III we continue our study of drug cartels, develop our treatment of gangs, and offer a vignette on organized crime in Cuba. The Colombian drug cartels (Chapter 8) have come in waves of hegemony, so to speak. First was the Medellín cartel, then the Cali cartel, followed by the Notre Del Valle cartel. Now there is no dominant cartel, but rather a number of “baby cartels” are operating. Some write about the “dismantling” or the “fall” of a particular cartel, but this situation is analogous to the unraveling of the Roman Empire which accelerated in the fifth century AD. The Empire did not vanish in 476, but had been breaking up into its constituent parts over many decades, a process that continued for many more years. So also the “fall” or “dismantling” of a drug cartel does not mean the disappearance of that organization altogether. Its coherence as an organization with an identifiable center or leadership may have weakened, but its elements can continue as independent agents, form new associations, or align with other groups. So the map of functioning illegal drug agents and agencies in Colombia is far more complicated than just the light flashing next to the location of the cartel that happens to be at the height of its influence. Moreover, the histories of the Colombian drug cartels may provide guidance for the law-abiding and the law-breaking alike. From the viewpoint of law enforcement, what was done right and what was done wrong to combat these organizations? And from a criminal perspective, what did the drug cartels do right and what did they do wrong?

Gangs of the Caribbean (Chapter 9) give us an opportunity to move beyond the stereotypical use of the term “gang” and to show that if you have seen one gang in action, as with mafias, you have not seen them all. There is no consensus definition of “gang,” which is not surprising in light of the fact that there is no consensus definition of organized crime itself, as noted in the introductory chapter. Notwithstanding the ambiguities that follow us everywhere we go in the murky world of organized crime, we will carry on and first survey various “groups of the Caribbean” that are or approximate gangs and then highlight “gangs of Jamaica.” The author began a fascination with Jamaica and its peoples when he visited there in 1980. He will show that just as the drug cartels are only a part of Mexico’s story, so also must Jamaican organized crime groups be placed in proper perspective. Gangs of the Caribbean would be a worthy topic,

even without the extra attention they are now receiving. This has resulted from the crackdown on the supply routes of the Mexican drug cartels, which is deflecting some of that traffic back to the “Caribbean Connection.” Readers may recall that this was the primary drugs route between South America and the US through the 1970s, when law enforcement intensified its interdiction endeavors, which diverted illegal drugs through Mexico, creating some of the conditions for the emergence of large-scale organized crime in Mexico in the 1980s.

A vignette on organized crime in Cuba past and present completes Part III.

## 8 The Colombian drug cartels

The Colombian drug cartels did not invent cocaine. The coca leaf, which provides the raw material for this drug, has a long history of medicinal, therapeutic, and even religious usage. In fact, archaeologists working on Peruvian burial sites have assigned a date as early as 500BC to coca leaves found there.<sup>1</sup> But it was not until 1855 that cocaine was first extracted from coca leaves, and cocaine was legal in the US until 1914. A detailed, fascinating timeline of cocaine can be found elsewhere.<sup>2</sup> While illegal cocaine in the US has always had buyers and suppliers, and elements of organized crime were involved in its distribution, it was not until the 1970s that cocaine entered the world of large-scale organized crime in a massive way. The US demand for cocaine took off in that decade as analyzed in Chapter 6, enhanced by the appearance in 1976 of a new form of cocaine that produced a special rush. This was freebase cocaine, “pushed both by dealers and Hollywood,” and freebasing cocaine became “cool” in the 1980s.<sup>3</sup> Where the demand for a product is strong or escalating, the response of business, as illustrated in connection with US Prohibition, can become more organized. This is exactly what happened again, this time in Colombia and this time with a crucial assist from an entrepreneur and leader of exceptional talent, Pablo Escobar (1949–1993), who founded the first of the big-time Colombian drug cartels, the Medellín cartel, which emerged in the mid-1970s. Timing may be coincidental, but in this case it was causal. The Medellín cartel was a response to the demand for cocaine that began to accelerate in the 1970s and has remained potent ever since.

Various cartels have waxed and waned, but the demand for cocaine has not, and this provides a thread of continuity to our story. We will use our comparative framework first to examine each of the three big cartels in order of their hegemony—the Medellín, Cali, and Norte Del Valle cartels—and then to discuss the “baby cartels.” Throughout we will attempt comparisons and contrasts between and among the Colombian drug cartels. A special focus in this chapter will be money laundering, a major subtheme of this book, as the Medellín and Cali cartels both were pioneers in interweaving the fields of illegal drugs trafficking and modern money laundering. In so doing, they took the art and science of money laundering to higher levels. A note to readers: in Colombia, as in Mexico, the drug organizations are not true cartels in an economic sense, as we

explained in Chapter 6. We continue to use the word “cartel,” because it is the convention of the day for referring to these groups, not because we regard it as an analytically precise term. Before we examine individual cartels, we set the stage with essential information from Colombia’s geography, political history, and economic history.

Colombia interfaces the three regions of Part III: Central America, South America, and the Caribbean basin. The northernmost country of South America, Colombia borders the north Pacific Ocean to its west and the Caribbean Sea to its north, through which it has access to the Atlantic Ocean. Colombia is, in fact, the only South American country which has coastlines on both the Pacific Ocean (1,448 km) and the Caribbean Sea (1,760 km). Northern Colombia is, therefore, the real southern terminus of the “Caribbean Connection.” Moving clockwise from its west, Colombia has land borders with Panama to its northwest (225 km), Venezuela to its northeast (2,050 km), Brazil to its southeast (1,643 km), Peru to its south (1,496 km), and Ecuador to its west (590 km). The Andes Mountains are a dominating feature of the western half of the country, but there are three more types of terrain that are important: flat coastal lowlands, eastern lowland plains, and the central highlands. The economic geography of Colombia reveals an endowment rich in natural resources; these include petroleum, natural gas, coal, iron ore, nickel, gold, copper, emeralds, and hydropower.<sup>4</sup>

Colombia thus has strategic value for both legitimate and illegitimate activities. For smugglers, especially traffickers in international drugs, a headquarters in Colombia means a base in the *terminus a quo* of the Caribbean Connection, which links to the US, its *terminus ad quem*. Colombia’s dual coastlines on the Pacific and Caribbean also have value for smugglers, and the Andes Mountains, in a reprise of a theme we developed for Italy and Mexico, furnish a haven for those on the run and those who may be working on matters that do not benefit from public scrutiny. Colombia’s land borders with five countries, including Brazil, which is the emerging economic powerhouse in South America, give smugglers other options for pursuing their business.

In regard to the political history of Colombia our intent is limited. We note that Colombia has a long history of dissident movements, which are sometimes called insurgencies and sometimes designated as revolutionary groups. Just as it is easy to stereotype mafias and gangs, so also does dissident activity lend itself to facile pigeon-holing in conventional categories. Space prevents us from refining these categories here, but our central point is straightforward. Whatever they are called or in fact are, dissident movements can be another source of energy fueling the international trade in illegal drugs. This relation is a possibility, and does not necessarily or automatically characterize every dissident movement. In modern times, however, illegal drugs do appear to be a major source of income for many of these groups. The Taliban and al-Qaeda (Chapter 15) are the most prominent contemporary examples, but three dissident movements that have operated in Colombia apparently corroborate this connection as well. Specialists see three insurgent groups, or elements of them, that are active in Colombia: the “Revolutionary Armed Forces of Colombia (FARC), National Liberation Army

(ELN), and dissidents of the recently demobilized People's Liberation Army (EPL/D)."<sup>5</sup> To the point, "these groups are now, reportedly, actively involved with drug trafficking operations also."<sup>6</sup> The government of Colombia, with US assistance, is waging a "war" against illegal drugs trafficking, which both governments maintain has made progress; details of this campaign can be found elsewhere.<sup>7</sup> But with respect to insurgencies and their participation in the business of illegal drugs, it is important to remember the following inescapable fact. Even though a specific group may be weaker militarily from the perspective of law enforcement, this does not necessarily mean that its involvement in drug trafficking activities has lessened. In fact, the reverse may be true, as the group may attempt to make more money from illegal drugs to strengthen its operations.

For the economic history of Colombia we sound a familiar refrain. Colombia belongs to two major groups that promote international economic integration. The first is the Andean Community, whose roots reach back to the old Latin American Free Trade Association (LAFTA), founded in 1960.<sup>8</sup> The Andean Community is presently trying to transform itself into a common market. In 2009 full members were Bolivia, Colombia, Ecuador, and Peru; associate members were Argentina, Brazil, Paraguay, and Uruguay. The second group to which Colombia belongs is the Association of Caribbean States (ACS), which began in 1994. Mexico also belongs to the ACS; for the full membership of this organization see Chapter 6. Reducing barriers to legitimate economic and business activity also creates opportunities for those whose intentions are not so public-minded. For example, if you conceal contraband in a dutiable product you are selling and shipping, lowering or eliminating tariffs on that item, in effect, lowers your cost of smuggling. And if an economic grouping simplifies customs procedures among members in order to speed things up, that may also benefit the smuggler of hidden contraband in a dutiable or non-dutiable item, if customs officers wave more products through or give them less thorough attention. Criminal organizations also gain mobility from the abolition of restrictions on the movement of people among member countries, which is what the Andean Community as a common market in progress is implementing. With these facts from Colombian geography, political history, and economic history before us, we can now turn to individual drug cartels and begin with the trail blazer, the Medellín cartel.

### **The Medellín cartel**

Based in the city in northwest Colombia from which it took its name, this organization was the first large-scale comprehensive response of organized crime to the demand for cocaine that took off, as we have noted, in the 1970s. Motivated by the promise of incredibly high returns from illegal drugs trafficking, Pablo Escobar founded the Medellín cartel in that same decade and assembled an "interesting mix of characters" to help him run the business. Among them were José Gonzalo Rodríguez Gacha, who had experience in "Colombia's somewhat

murky emerald trade,” the Ochoa brothers (Jorge Luis, Juan David, and Fabio), “who came from a well-respected ranching and horsing family,” and Carlos Lehder, an accomplished marijuana smuggler, who strongly advocated the use of small aircraft to fly cocaine into the US to avoid “the need for countless suitcase trips.”<sup>9</sup> In the 1970s and 1980s the cartel’s sphere of influence extended far beyond its home city and country. It covered both land and water, encompassing locations in Central America, the US, Canada, Europe, and elsewhere in South America. And, perhaps most critically for its survival as a business, the Medellín cartel was strategically placed to use and monitor the Caribbean Connection, and all its island transshipment points. Estimates will always vary as to how much money the organization made, but total revenue, in a conservative guess, reached into the hundreds of billions of US dollars over the most active years of the cartel, from the late 1970s into the early 1990s.

Pablo Escobar was a violent man and the Medellín cartel reflected his personality. Business procedures charged with violence led to the assassinations of numerous public officials, rivals, and others who may have just have struck him the wrong way. Escobar himself died in Medellín in a gun battle with law enforcement in 1993, and most of his associates were eventually either killed or imprisoned. The pervasive violence the cartel practiced is surely a crucial feature of its legacy, has already entered popular culture through television and the cinema, and is prefiguring the evolution of the Mexican drug cartels. While it is difficult to see through the violence perpetrated by criminals who wreak so much harm on so many people, we must persevere in our endeavors to understand the sources of the power that enables them to do such colossal ill. Pablo Escobar is a major figure in the global economic history of organized crime. It is his organizational legacy that places him there and also explains some sources of his power.

Three parts of that legacy deserve careful attention: the development of the cocaine-producing industry in Colombia; the organization of money laundering in relation to illegal drugs trafficking; and the articulation of the Medellín cartel itself. In all three areas we see Escobar as a leader in the management and entrepreneurial senses (see Chapter 1). The first and second parts reveal more his entrepreneurial abilities; the third testifies to his management skills. One important fact must be emphasized at the outset. Success sometimes rests on serendipity. Pablo Escobar was the recipient of a great gift that ranks on the same level as US Prohibition does for US organized crime. That present, which he had neither requested nor anticipated, was the surge in US demand for a drug that his country was in the position to produce in quantity, given the right boost by a gifted entrepreneur. This takes us back to 1970s: Pablo Escobar was that entrepreneur and we now turn to his role in developing the cocaine-producing industry in Colombia.

Before the demand for cocaine escalated, Colombia had specialized in growing marijuana, not coca leaves. So the country was not prepared initially to provide enough raw material for making the needed quantities of cocaine. “To make cocaine hydrochloride, the white powder sold on US streets, Escobar and his cartel,” John Otis recounts, “at first imported most of their coca leaves and



paste from Bolivia and Peru.”<sup>10</sup> But this approach made them too dependent on foreign sources of supply, with all the uncertainties and possible disruptions this subservience threatens. They knew they had to diversify; what better way than to develop strong production coming from their home base. Pablo Escobar and his associates were nothing if not hands-on entrepreneurs. “But to ensure a steady supply of raw material,” John Otis continues, “they began handing out coca seedlings to Colombian peasants and encouraged them to grow the crop.”<sup>11</sup> They had a wide audience, because small-scale farmers living in a variety of conditions can grow coca leaves. Some people say the best leaves come from the drier regions of the high Andes, but certain species of coca leaves can thrive in other situations. This is not the kind of cash crop conventional economic development encourages for small farmers, but Escobar became “coca’s Johnny Appleseed.” He “turned Colombia into a major cocaine-producing country and helped spread the cultivation of coca.”<sup>12</sup> He laid the foundation for the Colombian cocaine industry so well that it survived his own death. For instance, in the years following his passing, Colombia’s potential cocaine production more than doubled, from 230 metric tons in 1995 to 520 metric tons in 1999 (estimates from the Central Intelligence Agency).<sup>13</sup>

But the cocaine industry includes more than just production; one has to provide transportation, storage, distribution, and protection for every facet of the business. Escobar’s entrepreneurship shows in other phases of the industry as well. I rely here on a book of considerable importance, a unique primary source that should be required reading in any course on organized crime. This is *The Accountant’s Story: Inside the Violent World of the Medellín Cartel*, as told by Pablo Escobar’s brother, Roberto Escobar with David Fisher (2009). To be sure, this work has a pronounced point of view, written by a brother, a survivor of the drug wars, one who desires to present a balanced portrait of his brother, who did not survive. I cannot corroborate many of the anecdotes presented; details may be embellished and episodes selectively reconstructed. The portrait painted here is prima facie, at first glance, requiring back-up evidence. But overall the book is compelling, even gripping at times, and communicates the incredible entrepreneurial energy of Pablo Escobar and his unrelenting attempts to improve his business operations.

Let us sample his comprehensive entrepreneurship. Consider, for one thing, his efforts to improve the concealment of illegal drugs. Roberto Escobar writes that “we could produce and ship ten thousand kilos [of cocaine] every fifteen days.”<sup>14</sup> But “getting those drugs from Colombia into the United States always required forward thinking. We had to stay one step ahead of the DEA [Drug Enforcement Administration]. So Pablo was always searching for new methods of smuggling drugs into the US. Through the years Pablo created so many different systems.”<sup>15</sup> The following is a partial list of these “systems”:

- 1 Emptying out the insides of cheap refrigerators and Sony televisions from Panama, filling them with the equivalent weight of drugs (about 40 kilos), and shipping them as regular freight.<sup>16</sup>

- 2 Mixing the drugs with dried fish, one of Peru's largest exports; it is shipped on freighters all over the world. This method was "very successful."<sup>17</sup>
- 3 Employing chemists to find new ways of concealing cocaine. They

discovered that cocaine could be chemically blended into products made of plastic, metals, and liquids, and when it reached the destination other chemists could reverse the chemical process and purify the cocaine to its original state. It was a chemical circle: paste to cocaine to liquid form, delivery, then liquid to paste to cocaine for sales.<sup>18</sup>

The range of products which contained cocaine was extensive. Pablo Escobar mixed cocaine with fruit pulp from Guatemala and with cocoa in Ecuador. After the chemists "discovered how to liquefy it," he added it to Chilean wine, expensive liqueurs, and the least costly beers.<sup>19</sup>

These examples constitute only a small part of a larger universe of cocaine-containing products and I strongly encourage readers to consult his brother's book for the full presentation. But they strongly affirm the central point that Pablo Escobar was a sponsor of innovation, a motivator of technological change, in the packaging of cocaine. This is the essence of entrepreneurship. As his brother writes, "Pablo was always employing new chemists to create methods of smuggling the product."<sup>20</sup>

Consider, as a second area of entrepreneurship, Pablo Escobar's efforts to improve the actual transportation of his product. This topic intersects with some of the material in the previous paragraph but deserves separate consideration. The Medellín cartel used various types of transportation over the years, but "the primary method of transport was by airplane."<sup>21</sup> Pablo Escobar's first plane was a Piper Cub or something similar, with a single propeller, not exactly a warplane to protect one from ground or air assault. However, "the small size of the plane and the ability to safely fly low to the ground made it able to escape radar detection."<sup>22</sup> It is important to remember that the airplane was usually employed in conjunction with some other form of transportation as the illegal drugs made their way to the US. Pablo Escobar's first plane flew almost exclusively between Colombia and Panama, which functioned as a pivotal transshipment point in two ways. From there drugs were shipped to the US, and in Panama the cartel "picked up cash being sent from America."<sup>23</sup> Pablo Escobar soon expanded the fleet, to include fifteen larger planes, six helicopters, and his own Learjet. The planes did not, of course, fly regular routes or schedules. As the Drug Enforcement Administration became more aware of the extent of the smuggling and "instituted new strategies," the Medellín cartel "used different methods to outsmart the government."<sup>24</sup> In this phase of greater scrutiny Roberto Escobar recalls that "at first the planes landed in Jamaica, where there were enough people on the payroll to ensure they would not be bothered, and then raced to Miami on sleek speedboats, or cigarette boats."<sup>25</sup> He states that planes sometimes dropped the contraband packed in military duffel bags with parachutes onto land

owned by “friendly people” or into the ocean just off the beaches of Miami, where people waiting in speedboats would retrieve them and bring them ashore. In addition, we had “small landing strips hidden all over Florida.”<sup>26</sup>

With so many people on its payroll, the Medellín cartel needed lots of cash. But that was no problem, because the cartel was awash in cash; cash flow was a cash gusher for this group. This brings us to the second area of Pablo Escobar’s institutional legacy: the organization of money laundering in relation to illegal drugs trafficking. I showcase here two primary sources of exceptional value. I continue to use Roberto Escobar’s book, but I have another inside account, written from a different perspective, this time by an author with actual field experience in law enforcement. Robert Mazur worked for twenty-seven years as a special agent for the Criminal Investigation Division of the US IRS (Internal Revenue Service), the US Customs Service, and the US Drug Enforcement Administration. He presents his riveting story in *The Infiltrator: My Secret Life Inside the Dirty Banks Behind Pablo Escobar’s Medellín Cartel* (2009). Money laundering, and indeed money itself, are special concerns of mine as an economic historian and I have elsewhere, as readers already know, presented a short history of money laundering and a conceptual framework for understanding the process.<sup>27</sup> In this book I am more into a Joe Friday (Jack Webb) *Dragnet* mode, “just the facts, please,” and have done that for the Mazzas, as well as for Luis Saavadra and Carlos Roca, in Chapter 5. So for the Medellín cartel we focus on facts: how it actually laundered money over time; how it tried to stay, in Roberto Escobar’s phrase, “one step ahead of law enforcement” in this area as it did in the actual smuggling of cocaine; and how law enforcement dealt with its money laundering.

We start with how the Medellín cartel actually laundered money over time. But facts are sometimes in the eye of the beholder, and here are some facts from the perspective of Roberto Escobar. “The biggest problem we had with the money,” he writes, “was that there was too much of it.” Money laundering was as hard “as it was to smuggle the drugs into America and Europe.” His brother “used so many different methods of cleaning the money.” As for the techniques of concealing cocaine, the list is long for those methods of money laundering. We share a number of these momentarily, but prerequisite to the various procedures for “cleaning the money” was the widely corroborated fact that “there were always people ready to make deals for cash.” With such a receptive and large audience for their needs, the cartel invested in companies, put money in banks and real estate, and let money work its way through the financial systems of a number of countries, notably Panama. Pablo Escobar also bought “magnificent art,” antique furniture, and other “very desirable items.” These acquisitions do not necessarily mean that he was building his own private collection; rather, all these pieces “could be sold easily for cleaned money with no questions asked.”<sup>28</sup>

Pablo Escobar’s entrepreneurial drive led him to “some creative methods that were used with great success” to launder money. Innovators, who are quintessential entrepreneurs, do not have to create something from nothing; this is the

province of the deity (*creation ex nihilo*). Human innovators frequently build on what they have to come up with something new. So it was with Pablo Escobar using the Colombian emerald industry as the foundation for yet another approach to money laundering. Colombia leads the world in the export of emeralds and supplies up to 60 percent of the world market in a trade that earns hundreds of millions of dollars every year. The essence of this technique was to use legal contracts but ship bogus emeralds, “injected with oil to make them shine bright” so they could pass inspection. Legal payment was then sent to Colombia; “millions of dollars were cleared this way.”<sup>29</sup>

I cannot emphasize enough how much cash the Medellín cartel was earning. Roberto Escobar uses such phrases as “truckloads of cash” and “a mountain of US dollars and Colombian pesos,” the major currencies of the cartel. In an anecdote that even if discounted for embellishment would be compelling, he says we had “so much cash that we would spend as much as \$2,500 monthly on rubber bands to hold the money together.”<sup>30</sup> Where to stash it? Of the aforementioned options, banks appeared to be the first choice for years because until 1991 Colombia had no laws that authorized its government to monitor bank accounts. “We put a great amount of our money into banks under accounts opened under the names of our employees and relatives.”<sup>31</sup> This approach worked for “several years,” Roberto Escobar remembers. We paid numerous people to assist or protect us. So many people from the region were on the payroll that the saying became, “When Pablo sneezes, Medellín shakes.” Government officials, whatever their misgivings, “publicly accepted the story that we were successful real estate people and our fortune came from business.”<sup>32</sup> And to amass that much money legally they must have been in the business of buying and selling planets.

Striking changes occurred over the years in how the cartel operated. In the early years, Roberto Escobar maintains, physical violence resulting in fatalities was “unusual.” Many people were making lots of money, no innocent bystanders were hurt, and law enforcement did not launch a major attack on the cartel. “But when the government and our other enemies began coming closer,”<sup>33</sup> things changed, in a big way. Emphasis shifted from laundering the money right away to concealing the cash for indefinite periods. In short, preservation, not cleansing, became the top priority; laundering would occur when secure opportunities presented themselves. This shift necessitated new approaches to protecting the cash. Roberto Escobar played a major role in this concealment and tried to stay “one step ahead” of prying pursuers, whether from law enforcement or rival organizations.

Let us summarize his work in devising new ways to hide the cartel’s cash. Roberto Escobar “created the system of caletas, small hiding places inside the walls of houses or apartments, which we used effectively.”<sup>34</sup> *Caleta* in Spanish means, among other things, small bay or cove. The essentials of the caleta system were as follows. Caletas were not safe deposit boxes, but empty spaces inside ordinary walls, except Styrofoam protected the cash. There may have been one hundred residences or more in the system; an individual caleta may have contained five million US dollars or more; individual residents may have

known money was present but not exactly where; nothing was written down; only Pablo and Roberto Escobar knew the locations of all the caletas. The caleta system had major advantages for a criminal organization. It was decentralized, unwritten, and insulated against one homeowner or apartment dweller telling law enforcement the locations of the other hiding places. But from the standpoint of conventional economic efficiency, it was very labor intensive, time consuming, and not, in the language of economics, optimally responsive to the appearance of a secure opportunity to launder that cash, since it took time to retrieve the cash and that opportunity might vanish in short order. Moreover, the cash had to be changed periodically, because after a while, it starts to smell; the cartel placed coffee in with the cash, because the scent of coffee masks the smell of money. And left too long in one place, cash would deteriorate; it was paper, after all. Still, the advantages of the caleta system outweighed the drawbacks. And the cartel did have other hiding places from which it could get cash more quickly. They stored huge amounts of it underneath a children's swimming pool, in the old tires of big trucks, in plastic garbage cans buried on many farms, in furniture in friends' houses, and, after some went to jail, they buried ten million dollars in plastic cans stored in various locations in the prison. In any event, as we have emphasized throughout this book, criminal economic efficiency accepts the use of extra labor and time in return for safety and security.

Pablo and Roberto Escobar were exceptionally resourceful in developing techniques for concealing and laundering money. But none of their techniques was totally insulated from detection; to be sure, some worked better than others, as Roberto Escobar has testified. The cartel was especially vulnerable when its dirty money was working its way through the financial systems of various countries. In these journeys the cash passed through computers, electronic networks, and human personnel not under the control or influence of the cartel. The power of the cartel's payroll was not, in short, omnipresent. In these situations it was impossible to stay "one step ahead of law enforcement" and the Medellín cartel was, therefore, not insulated from the kinds of meticulous investigations that have resulted in numerous money laundering prosecutions, some of which we have treated in this book. But, as things turned out, the cartel and its various operations proved to have the greatest vulnerability to penetration by undercover agents.

There is one major example of infiltration that warrants careful study by every student of organized crime and it is the subject of the book mentioned earlier, Robert Mazur's *The Infiltrator: My Secret Life Inside the Dirty Banks Behind Pablo Escobar's Medellín Cartel*. The subtitle does not do the book justice; it is about much more than the Medellín cartel. Mazur details his role in Operation C-Chase, which investigated the international trade in illegal drugs and money laundering. This operation netted evidence, for instance, that led to the 1992 conviction of General Manuel Noriega, the former leader of Panama, for trafficking in illegal drugs. The US alleged he received millions of dollars from the Medellín cartel for looking the other way, which may explain why Panama appears more than once in the recollections of Roberto Escobar about the operations of the cartel.



Mazur did not actually penetrate the directorate or inner circle that was guiding the Medellín cartel, but he did spend five years as an undercover agent ingratiating himself with bankers and other business people who had contacts with the Medellín leadership. To do this he became a fictional person: Bob Musella, who was rich, well connected with organized crime, and enjoyed a lavish lifestyle. The creation of Bob Musella as a credible person was a thespian tour de force; Robert Mazur deserves an Academy Award in the category of best actor in law enforcement for this accomplishment. This endeavor required attention to an enormous amount of intricate detail that I cannot fairly summarize or excerpt here; it is all in the book, whose pace reminds me of a Jack Higgins or Dick Francis novel. As with Roberto Escobar's book, I cannot corroborate many of the details, but I can second Robert Mazur's analysis of the implications of Operation C-Chase and what it says about how to deal with organized crime. Let me quote him *in extenso*:

Operation C-Chase took a different approach from the normal one. C-Chase worked because we did the unexpected. No one before had simultaneously established a sophisticated, verifiable front within the financial community and the drug world, becoming a middleman for both. . . . C-Chase enabled us to hear voices in boardrooms and behind closed doors speaking candidly about the acceptability of drug money—not leaving us to rely on duplicitous policy statements or deceitful public speeches. It proved twenty years ago that the banking community is incapable of monitoring itself—and unwilling; the lure of money is just too strong. . . . The greatest weakness the drug trade has is banking relationships. Each dirty banker serves dozens of big-time traffickers, but those bankers don't have the stomach to sit in prison for life. That's the best weakness we can exploit and attack. I only hope that someone someday will think about that.<sup>35</sup>

Well, Robert Mazur, you risked your life many times during Operation C-Chase, wearing a wire, hanging out with violent people, and all. The least I can do to thank you is to underscore the relevance of your insights to the central thrust of my book. I observed above that the Medellín cartel had a double vulnerability. The first was when its dirty cash entered financial systems beyond the influence of its payroll; the second was to human penetration somewhere in the tentacles of its power. Operation C-Chase capitalized on both those vulnerabilities, with devastating effectiveness, and furnishes overwhelming corroboration that organized crime can be harmed if it is treated as a business, which is what all organized crime groups are, regardless of any other functions they may perform. And finances are the blood of any business; disrupting those damages an organization.

For much of its life, before its enemies started getting closer and closer in the late 1980s and early 1990s, to paraphrase Roberto Escobar, the Medellín cartel remained a formidable organization with many assets. Clearly, this was an organization that was ready to pivot on a penny, used combinations of transport

methods, had multiple options to route and reroute drug shipments to “stay one step ahead” of law enforcement, had the logistics in place to coordinate every phase of transportation, from departure in Colombia through the final delivery in the US, and was constantly evolving better ways to conceal the drugs as well as to hide and launder the money. In short, the Medellín cartel was a classic criminal example of a vertically integrated business, which controls every phase of the economic process concerned with a particular industry, from supply through final delivery of the finished product. Three characteristics stand out here: preparedness, willingness to try new approaches, and swiftness. The first and third mark effective leadership, while the second distinguishes flexible entrepreneurship. To be sure, the formidability of the Medellín cartel came from the abilities, skills, and weaponry of its leaders and other members. But this is only part of the explanation for its success. A second reason lies in the organization of the cartel itself. As we have stressed, it was not a cartel in the economic sense, but so what? What is striking is that it wasn’t even a unitary organization, with all parts controlled by one vertical chain of command whose mission was to impose unity. Rather, it was more a coalition of different groups, with a directorate at the top that tried to represent them. Pablo Escobar was *primus inter pares* among the top leaders and tried to set the overall direction of the organization and mediate any conflicts among its constituent groups. He had the charisma and political skills to lead in this manner, and he knew how to mix the right amounts of mediation, enrichment, and intimidation to hold the directorate together and give the Medellín cartel an appearance of unity. In fact, Roberto Escobar describes the Medellín cartel as

an association of choice instead of unified business ... the person at the top of this loose structure was Pablo, because he had started the business and had the best way of shipping drugs and the most people loyal to him ... others have said that they were afraid of him. But they all made a lot of money with him.<sup>36</sup>

What is astonishing is that here was an organization engaged in multiple wars, with agencies of law enforcement and its own business rivals, which was not organized in the highly centralized fashion that characterizes the conventional military. But as he developed the Medellín cartel, Pablo Escobar was able to discover the best mix of centralization and decentralization for his organization, which tilted more towards decentralization than centralization. In modern business language, this mix is known as interdependence, as explained in Chapter 1, and for much of its life the Medellín cartel had optimal interdependence. The cartel could respond so quickly to route changes and new delivery modes because it reposed in its local levels significant decision-making power. The achievement of optimal interdependence for the Medellín cartel, along with the successful nurturing of the cocaine industry in Colombia and the effective interweaving of money laundering with drugs trafficking, constitute the three-part legacy of Pablo Escobar for the economic history of organized crime and

ends our study of the Medellín cartel. One of its enemies that kept getting closer to the Medellín cartel as the 1980s passed into the 1990s was the Cali cartel, the fiercest and deadliest of its business rivals. To an examination of this organization we now turn.

### **The Cali cartel**

Like the Medellín cartel, this cartel had an urban headquarters. Based in the city in southwestern Colombia from which it took its name, the Cali cartel was 331 km (205 miles) south-southwest, as the crow flies, from the city of Medellín. The Cali cartel was thus farther away from the Caribbean Connection and the country of Panama than the Medellín cartel was, but it still retained the overwhelming strategic advantage that it was located in the country which would eventually produce about 90 percent of the world's cocaine. The core of its sphere of influence was the city of Cali and the Valle del Cauca Department, but as its sphere expanded, it bumped into the Medellín sphere of influence to the north, which contributed to the friction between them. The Cali cartel exerted influence elsewhere in South and Central America and was especially strong in certain locations in the US, particularly New York City, with which it had a relationship going back to the 1970s, especially in the borough of Queens.<sup>37</sup>

Sources conflict on dating the origins of the Cali cartel. Ron Chepesiuk places it in the late 1960s, but admits that the cartel's early history is "shrouded in mystery."<sup>38</sup> Roberto Escobar believes that the Cali cartel "got started about the same time" as the Medellín cartel.<sup>39</sup> Even if the germination of the Cali cartel antedated the founding of the Medellín cartel by a few years, the author would still rank the Medellín cartel as the first large-scale comprehensive response of organized crime to the surging demand for cocaine from the US. In fact, the Cali cartel in its earlier years specialized in marijuana, but then switched to cocaine, because the profit differential favored cocaine over marijuana, decisively.<sup>40</sup> Both products yielded rich financial returns. But marijuana was profitable, with a high rate of return, while cocaine was profitable, with a stratospheric rate of return. Business people follow the money, and the Cali cartel was a business. Moreover, the response of the Cali cartel to the surging demand for cocaine was timely but not as comprehensive as was that of the Medellín cartel. Remember that the Medellín cartel was involved in every facet of the economic process concerning the cocaine industry, from fostering an indigenous source of supply of coca leaves in Colombia, through manufacturing, processing, packaging, transportation, delivery, and final sales. The Cali cartel had one advantage the Medellín cartel did not have. It was able to piggy-back on the work of cocaine's "Johnny Appleseed" in Colombia, Pablo Escobar, in increasing the supply of coca leaves. And it had a second advantage over the Medellín cartel. Both cartels quickly became transnational, as soon as they established their first contacts outside Colombia. But the Cali cartel developed early on a special relationship, as noted above, with New York City, which gave it a major base of operations in the largest city in the country that would generate the largest demand for the illegal



drug the cartel would eventually embrace, cocaine. Our profile of the Cali cartel now turns to organization, leadership including entrepreneurship, and money laundering.

No stronger contrast can be found between the Medellín and Cali cartels than in the area of organization. Unlike the Medellín cartel, the Cali cartel was, in the opinion of Roberto Escobar, “a much more traditional business structure, with four recognized leaders, and under them they had accountants, engineers, and attorneys, and then the workers.”<sup>41</sup> The Cali cartel, from this perspective, had a vertical chain of command, with a quartet of top leaders presiding over professional specialists and “the workers,” whoever and whatever they were doing. Other sources present a more detailed interpretation.<sup>42</sup> Here the consensus view is that a distinguishing feature of the internal organization of the Cali cartel was the “cell.” There were a number of these and they operated independently of each other. But each cell had a leader or manager, who reported back to the headquarters of the Cali cartel. In addition, the cartel itself had five functional groups, which dealt, in turn, with trafficking, military matters, politics, finance, and legal matters. A brief comment on each group is in order; the following descriptions are not exhaustive. Trafficking specialized in transporting cocaine; military matters involved the security of the organization and its internal discipline; politics dealt with currying favor with the Colombian government; finance did money laundering; and legal matters concerned representing the cartel and its members in court. The multidivisional structure of the Cali cartel reminds one of the modern multinational corporation, which is what the Cali organization actually was, rather than a drug “cartel.”

From the standpoint of the concept of interdependence, which we applied to the Medellín cartel, the Cali cartel also exhibited elements of both centralization and decentralization, at least on paper. The cell managers embodied the forces of centralization, as did the five divisions or groups that structured the functions of the cartel. The headquarters and top leadership were the most visible representations of centralization, but how powerful the center was as a centralizing force depended on how strongly the leaders led. The cells were the most powerful forces of decentralization, supposedly operating independently of each other. Operational independence, however, is not the same as complete independence, because presumably the cell managers were not only reporting back to headquarters but also transmitting central directives to the members of their respective cells and trying to ensure that these were implemented. And to be precise, the Cali cells had operational independence from one another, but only autonomy with respect to headquarters; that is, they had considerable local decision-making authority but it was not absolute, as headquarters supplied direction.

The cells were the major micro-managerial units of the Cali cartel, but it is not clear what kind of cells these really were. Were they just that—the major micro-managerial units of a large multinational corporation—or did they function as cells did in some well-known insurgency organizations? I think here of the cells in the FLN (*Front de Libération National*), the National Liberation Front in colonial Algeria, given such realistic expression in the outstanding film

about the Algerian War for Independence (1954–1962), *The Battle for Algiers* (1966). Did the members of a Cali cartel cell, for instance, know only the people in their cell or the fewest people necessary to achieve their missions? I bring this issue up because

reports suggest that all three founders [of the Cali cartel] had guerrilla sympathies at least early in their life. One source told British journalist Simon Strong that the three were “friends of the founders of the ELN (National Liberation Army).”<sup>43</sup>

I mentioned the ELN in setting the stage for this chapter. “Sympathies” can lead to the acquisition of knowledge about the objects of those feelings; this information may have influenced their organization of the cartel. With the essentials of Cali organization before us, the question then becomes, did the Cali cartel find its optimal interdependence in practice? To begin to answer that question, as well as to understand more what influenced the organization of the Cali cartel, we move to a discussion of leadership including entrepreneurship.

The Cali cartel had three principal founders: José Santacruz Londoño and the brothers Gilberto and Miguel Rodríguez. That two of these were brothers continues a family theme that characterized the inner circle of the Medellín cartel and threads through the histories of a number of Mexican drug cartels. Kinship is an insufficiently explored factor in the bonding in these cartels, as is the fact that so many of them partake of elements of a family business, with all the pitfalls a family business presents, such as the problem of succession. I challenge my readers to advance our understanding of the topics of kinship and family business in relation to the Mexican and Colombian drug cartels and indeed organized crime in general. Here I can only focus on the three founders of the Cali cartel and their strengths and limitations in relation to leadership and entrepreneurship. I will not reproduce all the personality quirks of the founders (and they had many), but only bring them up if they bear on the subjects under discussion. Some key questions are: did they make an effective team to lead the cartel? That is, did their strengths complement one another and were they able to compensate for their limitations?

The three had styles and abilities that complemented one another, according to material presented by Ron Chepesiuk. Gilberto Rodríguez, the older brother,

looked innocuous enough, but he became known as the “Chess Player” for his ruthless and calculating approach to the drug business. In the beginning, the Chess Player would be a hands-on manager but he eventually stepped back and became responsible for the organization’s strategic planning.<sup>44</sup>

Miguel Rodríguez, the younger brother, “was a micromanager who liked to be involved in the smallest details of the cartel’s day-to-day operations.”<sup>45</sup> Gilberto and Miguel apparently had a managerial version of the “good cop/bad cop” routine going: Gilberto came across as a warmer, more kindly leader, whereas

his brother “was, by all accounts, a difficult boss to work for.”<sup>46</sup> The third leader of the Cali cartel, José Santacruz Londoño, “low key” but “the most violent of the founders,” specialized in coordinating the cartel’s international cocaine transportation network.<sup>47</sup>

This managerial trio evolved an effective division of labor. As far as I can tell, every successful organization has in its leadership a “vision” person and a “detail” person who can work with each other. Both skills are vital to survival: this is an organization’s most needed complementarity. A leadership of all detail people makes for a busy but rudderless ship and one of all vision people makes for excessive reflection without purposeful action. At the outset, the Cali cartel had two detail people and no one working on vision. But Gilberto Rodríguez “stepped back” from his “hands-on” approach to management and let his younger brother Miguel, the driven micromanager, concentrate on details. He took charge of “the organization’s strategic planning” and became the vision person. Whether Gilberto “stepped back” because he recognized the needs of the organization or those of his brother or both is not clear; the important fact for the success of the Cali cartel and its place in the history of organized crime is that he did what he did. José Santacruz Londoño was more involved in logistics and tactics as transportation coordinator; as such he was the type of manager who mediated the transformation of vision into detail. So at least on paper the Cali cartel had the necessary mix: one leader concentrated on vision, a second on detail, while a third specialized in ensuring that the cartel’s core business, cocaine, ran properly.

But did they work well together in practice? Apparently, they did. The three had the right personal chemistry together; the brothers were already bonded and they were able to bond with José Santacruz Londoño and he with them. “Law enforcement officials familiar with the mob’s history say,” according to Ron Chepesiuk, “it is remarkable that for more than thirty years the Rodríguez brothers and Santacruz were able to remain close friends and allies and maintain a relationship not normally found in the cutthroat world of crime.”<sup>48</sup> Chepesiuk quotes Sandy Hill, a Drug Enforcement Agency intelligence analyst, who said that “in all my years of studying the Cali cartel, I never knew the Rodríguez brothers or Santacruz to have any serious disagreements. They all seemed to know their role and were focused on making money.”<sup>49</sup> The crucial word in the aforementioned quotation is “serious,” which means that the three could have had many disagreements that did not, in Hill’s opinion, rise to the “serious” level. I value Hill’s observations, but what matters more is how the cartel members themselves viewed the degree of their disagreements, and not so much how an outsider evaluated them. In any event, the only relevant fact here is that, whatever their tensions and disputes, they did lead and manage together for decades one of the wealthiest criminal organizations in the global economic history of organized crime. The only comparable long-term relationship I can recall was that between Alphonse Capone, the Don and vision guy, and his accountant Jake Guzik, the organizer and detail person, in running the Chicago syndicate during the 1920s and 1930s. Frank Nitti, the enforcer who made

problems disappear, belongs to this trio, but it was really the personal chemistry between Capone and Guzik and their complementary styles that made the Chicago group the iconic large-scale criminal organization of its time.

The development of the Cali cartel is surely one major example of the entrepreneurship of its three founders. The Cali cartel was an innovation, because it successfully combined for large-scale organized crime two heretofore separate organizational templates—that of the multinational corporation, with its multidivisional structure, and that of insurgency, with its multipurpose cell. A second major example of their entrepreneurship came in improving the techniques of money laundering, which we study next.

As did the Medellín cartel, “the Cali cartel continuously looked for better ways to hide its money so it could stay ahead of international law enforcement. As authorities intensified their investigation of the cartel, its schemes became increasingly more sophisticated.”<sup>50</sup> The Cali cartel, as did the Medellín cartel and others, had for decades used a money-laundering process known as Black Market Peso Exchange (BMPE), which uses a third party known as a peso broker, to convert dirty US dollars into clean Colombian pesos. BMPE has a number of versions; here is a nine-step approach I reproduce from my previous book because I want new readers to see an early version of cartel money laundering that is not exactly simple.<sup>51</sup>

- Step 1: The Colombian cartels receive huge sums of money from cocaine sales in the US.
- Step 2: The cartels then sell these US dollars to Colombian money brokers.
- Step 3: In return, the cartels receive clean pesos in Colombia.
- Step 4: The money or peso brokers, in turn, put the drug dollars into the US banking system through various methods.
- Step 5: The peso brokers then offer the drug dollars for sale to Colombian importers.
- Step 6: The peso brokers receive pesos from the Colombian importers.
- Step 7: The peso brokers route the drug dollars to US firms to pay for goods ordered by Colombian importers.
- Step 8: The US firms receive their payments in drug dollars.
- Step 9: The US firms then ship the ordered goods to Colombian importers.

As law enforcement became more adept at identifying BMPE in practice, its practitioners developed refinements to money laundering that aimed for greater sophistication. During the 1980s the Cali cartel became “more sophisticated in developing its networks of front companies and money brokers.”<sup>52</sup> The case of José Franklin Jurado Rodríguez, which Ron Chepesiuk meticulously documents, casts great light on the Cali cartel’s efforts to improve its procedures for money laundering. We have this material because in 1989 a vigilant apartment dweller in Luxembourg noticed that a neighbor down the hall was receiving and sending faxes and phone messages all the time, day and night; and the guy didn’t seem to have a regular job. The concerned citizen complained to the police and wiretaps produced information

that linked Jurado, the neighbor down the hall, to the Cali cartel; Jurado turned out to be a Harvard-educated money manager who had been head of the Cali stock exchange. Further investigation by the Luxembourg police

uncovered a remarkably complex arrangement of money-laundering transactions that Jurado had undertaken for the Cali cartel. He and his partners had opened hundreds of bank accounts throughout Europe in the names of family members, friends, and associates of Santacruz, which he used to deposit large amounts of checks and wire transfers.<sup>53</sup>

The principle Jurado employed here was familiar: multiple bank accounts in the names of real people. But it was their extent, and how they were linked to other phases of one of the Cali cartel's money-laundering strategies, that made them significant.

We have an inside view of this strategy because of a second instance of serendipity for law enforcement, in addition to the report by the concerned citizen living down the hall from Jurado. When the police arrested Jurado, they found a twenty-page memorandum he had written entitled *Phasing*. This document "outlined a plan to money-launder Santacruz's finances and enterprises."<sup>54</sup> *Phasing* is the type of primary source historians cherish: produced from the inside, by the inside, and for the inside. Ideally, a scholar should possess the original document or an authenticated copy of it. This author, however, is not in the ideal situation, but one that is second best, since he has to rely on a secondary source to get to the contents of a primary source. A second best situation can still be good if one has a trustworthy secondary source and I am grateful to Ron Chepesiuk for distilling the essentials of *Phasing* in his indispensable book on the Cali cartel. Let us examine Jurado's plan.

The title *Phasing* provides a key to understanding Jurado's thinking. For him a phase is a "transition period during which assets move from a higher to a lower level of risk."<sup>55</sup> So the driving principle of this plan was progressive risk reduction. There were at least four phases designed to implement this principle. The first phase concerned money from US drug sales the cartel had moved to banks in Panama. As did the Medellín cartel, the Cali cartel found a partner, for some time, in many of Panama's institutions. The Cali cartel had business relationships with a number of Panamanian banks and some of its members even owned at least one of them, the First Inter American Bank. This diversification helped the cartel, because when authorities moved against one bank, the cartel could move its funds to others. The second phase involved research necessary to build a "remarkably complex arrangement of money-laundering transactions" throughout Europe. Jurado personally visited many European banks to find out which "had the most favorable conditions for his client's money."<sup>56</sup> The third phase featured the actual transfer of funds from Panama to that network of European banks, while the fourth and last phase recalls elements of the version of BMPE illustrated above. Here the money moved back to Colombia, "where it could be converted to pesos and used to pay expenses, buy goods, and invest in the local economy—in other words, laundered."<sup>57</sup>

A critique of three matters is in order: Jurado's performance; his plan; and Ron Chepesiuk's interpretation of money laundering. Jurado's performance was strong in two respects. His knowledge was detailed and his onsite research into which banks should be part of the network was comprehensive. But in other respects it was the amateur hour. In his Luxembourg behavior he violated two basic tactics for anyone concerned with personal safety or detection by law enforcement. Tactic No. 1: blend in with your surroundings. Jurado ignored this tactic at his ultimate peril. He drew attention to himself by creating noise when he should have been scrupulously quiet. Besides, he disrespected his neighbors, which falls under the rubric of inept public relations. And tactic No. 2: do not follow a predictable routine. He did have a routine, which was receiving and sending faxes and phone messages at all hours. If he had an answering machine, he should have turned the phone ringer off and the volume on the answering machine way down. He should have muted the operation of the fax machine. Perhaps they were afraid to use e-mail, because it could be intercepted. But faxes are also written documents. If something is not written down, it cannot be introduced as evidence against you in a trial. This was one of the great advantages of Roberto Escobar's system of caletas explained earlier. For someone with the training and experience of Jurado, was it really necessary to write anything down? I would have used cell phones and put them on vibrate, not used chimes, marches, or whatever to alert me. In certain situations I would have used public phones, but not the same one all the time. Remember that the criminal conception of economic efficiency involves more time and labor: get out, walk around the city, and investigate where the public phones are. Unfortunately for Jurado, prepaid cell phones were not available until 1993.

I will evaluate Jurado's plan and Ron Chepesiuk's conception of money laundering together. Chepesiuk suggests that money laundering occurred only in the final stage of Jurado's plan, when the dollars were back in Colombia, converted into pesos, and then used for various purposes. This view is wrong. The "laundering" metaphor is deliberate. Money laundering is a process and each version contains a certain number of wash, rinse, and dry cycles. Each of Jurado's four phases was part of his version of money laundering and each phase, I agree, did progressively reduce risk. It did so, because the dollars deposited in European banks were not the same dollars that were later withdrawn and returned to Colombia. The initial entry of dirty dollars into Panamanian banks was the first step in laundering them. Later movements were probably accomplished by wire transfers, which represent the dollars electronically but not as an actual commodity. Electronic representation and transfer "washes, rinses, and dries the money" and is another form of money laundering. So each phase, not just the final one, contributed to Jurado's approach. In sum, his plan gets much higher marks than his performance; it might have escaped detection for a long time, if human bungling had not brought it down. The principle of progressive risk reduction is sound and could be incorporated into the phases or stages of other approaches to money laundering that are even more recalcitrant to detection.

The Medellín and Cali cartels both had great runs until they were no longer able to stay “one step ahead of law enforcement.” Both had organizational substance, each in its own way, and each discovered its own optimal version of interdependence in practice. Both experienced great financial success and some debate the question, which cartel was richer? Put that way, I cannot answer, because the term “rich” is vague. Is the discussion about income, or wealth, or both? Economists distinguish the two. Income refers to what a person or organization earns in a given time period in return for selling products and/or services. Wealth is a more elusive concept in economics, as it has a number of definitions, but I will settle here for a simple one. Wealth consists of accumulated assets, whether as personal property (personalty) or as real estate (realty). Personalty includes cash, stocks, bonds, savings accounts, checking accounts, works of art, books, furniture, and so forth; realty consists of buildings and the land on which they stand and around them. In the context of these definitions I consider the Medellín and Cali cartels. With respect to income, I see no clear leader. Both cartels had “mountains of cash” at their disposal, running into the hundreds of billions of US dollars. But I believe the Cali cartel was wealthier, in part because its multidivisional structure recognized finance as a separate unit, which encouraged a more professional approach to money management. To be sure, both cartels had lots of investments, but the Cali cartel appears to have invested more in legitimate businesses.<sup>58</sup> This suggests to me that it had a longer time horizon than the Medellín cartel; a long time horizon is necessary for one to take a sustained approach to accumulating wealth.

A final issue concerns the styles of the Medellín and Cali cartels, which brings up the question, which cartel was more physically violent? Most people would answer, the Medellín cartel, Roberto Escobar’s earlier testimony notwithstanding. But I must remind readers that the Cali cartel assiduously cultivated its image as an organization that was low-key, businesslike, worked behind the scenes, and used physical violence only as a last resort. Regrettably, many people have bought into this self-advertisement for the Cali cartel. Straightaway, I emphasize that I am not defending the excessive violence wrought by the Medellín cartel. What I strenuously question is the public relations version of the Cali cartel. Some contrasted the Medellín “hoodlums” with the Cali “gentlemen.” “Gentlemen”? This is ridiculous: evil is evil, whatever its guise or style. The characterizations of the two cartels with regard to style and violence are, in short, gross over-generalizations. Not all members of the Medellín cartel were flamboyant, “drug cowboys,” and the ayatollahs of rock’n’roll. My Exhibit A: Roberto Escobar. Besides, “drug cowboy” is a stereotype of a stereotype. “Cowboy” does not automatically mean “swashbuckler.” Whoever came up with “drug cowboy” was watching too many B-movie westerns. “Cowboys” in the US West and their equivalent in other countries performed valuable services in one of the premier activities of the west, ranching. Furthermore, not all members of the Cali cartel were serious, self-effacing, media-shy, and against the death penalty. Some members evidently faced a lot of situations of last resort that required physical violence, as the Cali cartel had its own fair share of members

who appeared as “gentlemen” but acted as “hoodlums.” I will let a higher power adjudicate the violence question.

In the following section I present a short analysis of the third major Colombian drug cartel, the Norte Del Valle cartel, and then finish with brief observations concerning the “baby cartels.”

### **The Norte Del Valle cartel**

As the third and last (but perhaps not final) major Colombian drug cartel, this organization had the advantage of peaking later and so was in a position to learn and benefit from the experiences of its two predecessors, the Medellín and Cali cartels. Perhaps for this reason, the Norte Del Valle cartel did not advance the theory and practice of the drug cartel in major ways as the Medellín and Cali cartels did, as illustrated in previous sections. Still, this organization deserves attention here for three reasons. It was a well-developed business based on tested economic principles; it has the dubious distinction of probably exporting the greatest amount of cocaine to the US; and its unraveling, along with the fragmentation of its two predecessors, has created a situation of many smaller specialized businesses that may pose even greater dangers to society than the era of large cartel domination.

This cartel was based in the northern part of the Valle del Cauca department in western Colombia and took its name from a prominent geographical feature of this area. The English translation of its name provides the clue: Norte Del Valle means the North Valley, which is located in the north of the Valle del Cauca department. Careful readers may recall that Cali, the headquarters of the Cali cartel, is also located in the Valle Del Cauca department, but Cali, the capital of this department, is situated in the far south. Still, one might envision the geographical proximity of the homes of these two cartels as a recipe for colliding and combative spheres of influence, but the Cali cartel was fragmenting at the same time as the Norte Del Valle cartel was emerging in the 1990s, with the latter coming into its own in the last half of that decade. It is likely, as I observed in the introduction to Part III, that elements of the declining Cali cartel joined or otherwise worked with the rising Norte Del Valle cartel.

The spotlight now falls on Diego Montoya, who officially led the Norte Del Valle cartel from 1990 to 2004. In August 2009, he pleaded guilty in US federal district court in Miami, Florida, to charges of conspiracy to import cocaine and obstructing justice, for which he received a prison sentence of forty-five years. I write “officially led,” because leaders of various cartels in Colombia and Mexico have shown an almost Luciano-like ability to influence criminal activities from prison, unofficially of course. For “Don Diego” Montoya this might include remnants of the Norte Dell Valle cartel that have resurfaced as some of those smaller specialized businesses mentioned in the first paragraph of this section.

His career provides a picture window into the step-by-step process of building a business. His father died when he was fourteen and he had to step in and help with the family’s coffee farm. He soon realized that there was more money in cocaine than coffee and got a job working as a driver and messenger for a local cocaine



laboratory. As we have emphasized throughout this book, learning-by-doing plays a major role in the education of criminal entrepreneurs. As a driver and messenger, he began his schooling in the cocaine industry and also took modest steps in accumulating his own capital, this time in the form of cash. From there it was only upwards in the cocaine world. Two of his brothers and a cousin joined him in starting their own cocaine processing laboratory; so Montoya took the knowledge gained in his very first job in the industry and applied it in starting a similar business. He found in his extended family a ready-made pool of fellow entrepreneurs, which adds yet another example to the lengthening list of cartels that owe a significant debt to kinship. The next step was to develop the transport infrastructure of their growing business. They bought “a fleet of planes and boats, which they would lease to other drug traffickers.”<sup>59</sup> In the language of economics, buying and then leasing illustrates the interdependence of different types of capital accumulation. They bought physical capital—planes and boats—and then used them to generate more liquid capital, as in cash. “By the 1990s, the Montoya family had risen to the top of the Norte Del Valle cocaine cartel.”<sup>60</sup> And, by the end of next decade, all three Montoya brothers would have fallen on hard times, as kinship formed yet another bond, this time for the imprisoned. His two brothers were extradited to the US in 2005 and received lengthy prison sentences for importing cocaine; “Don Diego” would follow.

The fall of the three major Colombian drug cartels, as with that of the Roman Empire in the West, did not mean the disappearance of significant organization altogether. The export of Colombian cocaine has remained strong. What has changed is the scale of business operations: many smaller businesses, specializing in one or more facets of the economic process, now constitute the Colombian cocaine industry. Some of these owe their existence to the entrepreneurship of former members of the big cartels; others are start-ups by entrepreneurs new to the industry. Reliable information on these so-called “baby cartels” is elusive, which is a happy state of affairs for illegal drugs traffickers but not for scholars. Opinion is divided on the implications of the smaller-scale, more decentralized cocaine industry in Colombia. Some are glad that the era of the big Colombian cartels is apparently over, because they had the power and resources to mobilize and ship a large amount of product and one big cartel was, so it was assumed, more dangerous than a set of smaller ones. Others are not so sure, because the totality of effort by the baby cartels compares favorably with the era of the big cartels and it is much harder for law enforcement to obtain accurate intelligence on all the smaller businesses. This writer favors the latter view, since an industry that is producing a harmful product is dangerous, whatever the scale of its businesses. But he does acknowledge the fact that the excessive violence which branded the operations of the big cartels has waned and that the smaller cartels seemed determine to remain as unobtrusive as possible. The reduction of physical violence is surely positive, but it should not lull one into thinking that the threat has receded: it has just changed its guise and style.

We now move east and north to study gangs of the Caribbean.

## 9 Gangs of the Caribbean

The two terms in the title of this chapter both cover vast expanses but in different ways. The topic of gangs is immense and commands a voluminous secondary literature that deals with gangs in many countries throughout the world.<sup>1</sup> There are many types of gangs, with different purposes, different ways of bonding, different types of organization, and different personnel. Gangs are not automatically criminal, but some can be, as I noted in the vignette on organized crime in Canada. In short, beware generalizations: if you have seen one gang in action, you have not seen them all. The Caribbean, or more fully the Caribbean basin or littoral, is colossal in geographical scope. A littoral is a body of water with all its islands and the coastal regions of those countries that border it. Thus, the Caribbean littoral goes from the west coast of Florida, along the coasts of the other Gulf States in the US, down along the east coast of Mexico, then across the northern coast of South America, and out into the Caribbean Sea. The sea itself is one of the largest bodies of saltwater in the world and occupies about 2,750,000 km<sup>2</sup> (1,063,000 mi<sup>2</sup>); it features numerous bays, gulfs, and islands.

The membership of the Association of Caribbean States (ACS), listed in Chapter 6, shows how many countries are in the Caribbean basin. Many of them are island nations: some consist of one island, while others are archipelagoes of two or more islands. For our purposes, the Bahamas, an archipelago of about seven hundred islands that belongs to the ACS, is within the scope of our Caribbean coverage, even though its islands are technically Atlantic, not Caribbean. The Caribbean Connection, mentioned earlier as a major drug route from South America to the US, is thus not a single aquatic highway, but rather a constellation of innumerable drug routes in practice, which is why it was so inviting to drugs traffickers and so frustrating to law enforcement, as its many uninhabited islands could provide makeshift landing strips for small aircraft making dangerous nighttime journeys across the Sea and to the States.

Within the vast expanses of these two topics—gangs and the Caribbean—we are interested in criminal gangs from the Caribbean in general and those that originated in Jamaica and became transnational in particular. The Caribbean countries “with the most severe gang problems” are Jamaica, Guyana, Haiti, the Dominican Republic, and Trinidad and Tobago, which is one country of two islands.<sup>2</sup> For instance, about 200 gangs, according to police reports, have existed

in Jamaica in recent years, while in 2005 “there were 66 known gangs in Trinidad and Tobago with approximately 500 members.”<sup>3</sup> It is interesting to observe that two clusters of proximate countries have the “the most severe gang problems.” In the northern Caribbean, one group contains Jamaica and its eastern neighbors on the island of Hispaniola, Haiti and the Dominican Republic. In the southern Caribbean, the second consists of Trinidad and Tobago and its neighbor to the southwest, Guyana, which is on the northern coast of South America. Whether this proximity is more than geographical coincidence the author does not know. What is clear is how important Jamaica is to the study of Caribbean gangs, which is why we spotlight it in this chapter. Before turning to these groups, we set the stage with useful facts about the geography, history, and social conditions of Jamaica.

Jamaica is an island in the northern Caribbean that is due south of Cuba. It has 1,022 km of coastline; its terrain comprises a mostly mountainous interior and a coastal plain that is not continuous. As a result, while the climate is tropical and humid along the coasts, the interior is more temperate. The Blue Mountains, which highlight the eastern third of the island, are the country’s largest mountain range. Jamaica’s famous premium Blue Mountain coffee, for which the author would do a commercial, is cultivated on the lower slopes; it is Arabica coffee, “the richer-tasting, mountain grown variety,” to bring back Mrs. Olson of Folger’s fame. Jamaica has rich natural resources of bauxite (for aluminum), gypsum, and limestone, but significant problems with deforestation and coastal pollution.

Its location has great strategic value for the military, legitimate commerce, and illegal activity. Jamaica lies between the Cayman Trench and the Jamaica Channel, which are “the main sea lanes for the Panama Canal.”<sup>4</sup> The Cayman Trench or Trough is between Jamaica and the Cayman Islands, a major offshore financial center; they are south of Cuba and northwest of Jamaica. The Jamaica Channel is a strait between Jamaica and island of Hispaniola to the east, which is home to both Haiti and the Dominican Republic as already noted. As to military value, the opening of the Panama Canal in 1914 was said to make it possible for the US Navy to fight two wars in two oceans, which was next to impossible in the days when one had to travel past Cape Horn around the tip of South America to get from the Atlantic to the Pacific. As a country that commands the “main sea lanes for the Panama Canal” from the east, Jamaica has a special significance in the strategic planning for future wars, whatever shape they make take. For legitimate commerce the Panama Canal has proved an incredible boost. Jamaica, for instance, has important trade relationships with China and Japan, which the Panama Canal can facilitate.<sup>5</sup>

Jamaica’s central location in the northern Caribbean has also made it a strategic venue for illegal activity. The country has become a “major transshipment point for cocaine from South America to North America and Europe.”<sup>6</sup> I have been stressing how the Caribbean Connection funnels illegal drugs from South America to the US, but it is salutary to remember that it also channels contraband to Canada and Europe. In addition, “substantial money-laundering

activity” takes place in Jamaica, and “Colombian narcotics traffickers favor Jamaica for illicit financial transactions.”<sup>7</sup> I surmise that as law enforcement paid more attention to the Cayman Islands, which have a long history of receptivity to all sorts of international financial transactions, some money laundering shifted southeast to Jamaica. In short, Jamaica plays multiple roles in the Caribbean Connection, as transshipment point for illegal drugs going from South America to North America and Europe and also as a growing center for illicit financial activities. But there is a national as well as transnational component to the trafficking in illegal drugs, as Jamaica is home to a significant industry that specializes in the production of high-quality cannabis, an unknown quantity of which is exported.

The history of Jamaica, the second topic in our setting the stage, reveals a multicultural and multiethnic country with a troubled history of being used and abused by outsiders. Jamaica suffered the waves of imperial expansion from Europe, the prolonged enslavement of many of its peoples, and an extended period of formal colonialism under British rule. Elsewhere the author has analyzed the organization, strategies, and procedures of the European colonial empires, highlighting the similarities and differences between them.<sup>8</sup> Here the goal is modest: to mention a few features without sinking too deeply into caricature. The Spanish, along with the Portuguese, were in the first wave of European expansion, which began in the late fifteenth century and reached Africa, Asia, and the Americas. The Spanish came to Jamaica in the 1490s and ended up destroying the indigenous peoples, the Arawaks, who were authentic Native Americans living in harmony with the land, not exploiting its resources. The Spanish occupied Jamaica from 1494 to 1655; disappointed that the country had no gold, they used it mainly as a staging base for their further attempts to conquer the Americas, especially what is now Mexico. The Spanish did not attach a high priority to the defense of Jamaica, and the British conquered it without much resistance in 1655. Jamaica, having endured Spanish colonial rule, would now be ensnared in the British version, which featured a momentous approach to the problem of labor supply. The British first tried indentured European labor in Jamaica, but this strategy did not produce the needed numbers. So a decision of enormous consequence was made: to resort to large-scale importation of African slaves to work on the sugar plantations. So began what some call the “slave economy,” which lasted from 1655–1838, and constituted the most sustained and penetrating period of abuse by external forces in the history of the country. Others have analyzed the slave economy far better than I can here,<sup>9</sup> and this was the dominant fact of the first phase of British colonial rule. But one should not forget that Jamaica remained under British administration until it obtained its “flag” independence in 1962. The institutions of British colonial rule thus had more than a century and half after the end of the slave economy to influence Jamaican society. Movie aficionados can experience a flavor of some of these institutions in the first James Bond film, *Dr. No* (1962). Some scenes were filmed in Jamaica towards the end of official colonial rule. For instance, James Bond visits Government House in Kingston, the capital of Jamaica. A

Government House was a standard feature of a colonial British capital; it symbolized British endeavors to create and bequeath stable administrative and constitutional arrangements to its colonial possessions.<sup>10</sup>

The third and final topic in our setting the stage harkens back to Vera Zamagni's use of the term "social conditions" in analyzing why southern Italy is such a fertile environment for organized crime (Chapter 2). Kingston and its environs, as well as other locations in Jamaica, present the "social conditions" that seem to foster the proliferation of gangs on the island. These "social conditions" include chronic unemployment, especially among younger people, an economy that does not seem to promise more opportunities in the future, a growing distrust in legal institutions to improve the situation, and indigenous versions of the so-called "gangsta culture." In 2008, for instance, the unemployment rate for youths (14–24 years) was 25.9 percent, which was more than twice the overall rate of 10.9 percent.<sup>11</sup> In other words, a vacuum of the classic sort that favors criminal behavior exists on the island. If government cannot foster economic conditions conducive to adequate job creation, there are always abundant opportunities in the underground economy that pay more, sometimes much more than work in the legal economy, particularly in the thriving enterprise of illegal drugs trafficking. If government cannot protect its citizens to a reasonable level, they can always join mutual aid societies, such as gangs, for personal protection. Ironically, a major source of insecurity in Jamaica today is gang violence related to illegal drugs. So part of the problem becomes part of the solution, as you either join them or lose without them. In short, when the credibility and capacity of civil institutions are substandard, criminality can flourish. Lastly, the gangsta culture, with its guns, knives, and other weapons, offers those excluded or marginalized by the legal economy a way to self-empowerment, an opportunity to give more than the finger to their enemies legitimate or illegitimate, and a powerful social bond with transnational and even global implications. The riveting attraction of the gangsta culture shows why an exclusive concentration on economic factors in explaining the origins of gangs is narrow and incomplete. The author is ill equipped to analyze gangsta culture and refers readers to specialists in this field.<sup>12</sup> With this background in the geography, history, and social conditions of Jamaica before us, we can address the gangs of Jamaica in more detail.

While "there is no universally adopted definition that specifies the gang's exact size or function,"<sup>13</sup> a rich vocabulary of different types of gangs worldwide has emerged. We cannot define every type here,<sup>14</sup> but we do present information that may help our understanding gangs of the Caribbean in general and those from Jamaica in particular. Bilyana Tsvetkova, writing on gangs of the Caribbean, views Herbert Gayle's definition of gang as a way to encompass "all different types of gangs in the Caribbean" and to distinguish gangs from other "armed groups or organized criminal networks."<sup>15</sup> Gayle's definition is broad: a gang is "any group with three or more persons with some degree of permanence that compete violently."<sup>16</sup> Tsvetkova also cites relevant characteristics in Max G. Manwaring's work: "gangs are mainly interested in controlling territory or

gaining commercial profit through illegal trade. Usually, to mark their territory they draw specific graffiti, tattoo their bodies with a particular sign, or wear distinguishable clothes.<sup>17</sup>

Another approach, one with possible global implications, comes from the economics of organized crime. Stergios Skaperdas and Constantinos Syropoulos consider “gangs as primitive states” and propose a mathematical model of anarchy and explanations from economic theory as to how the gang could form and the importance of coercion.<sup>18</sup> Some readers might be able to build on this material and customize it for specific types of gangs in particular situations. As to the approach itself, this author is not comfortable with the word “primitive”: it smacks of ethnocentrism or, at the least, condescension, as if one is looking down on “primitive” states from the pedestal of a polity more “advanced.” Better phrasing would be “inchoate” or “embryonic” states, or perhaps “proto-states,” which are the early or first forms of states before they enhance their present functions or add others. Usually, the first form of a state has the provision of security for people, their land and possessions, and the state’s territory as a core business. “Gangs as primitive states” is another way to analyze the notion of vacuum, as gangs as “proto-states” furnish services that the legal state can’t or won’t. This is a stimulating approach, but not all gangs are or aspire to be “primitive states” and the challenge is to identify which gang belongs in what category: aspiring, actual, or neither.

Two more pertinent definitions are “street gangs” and “drug gangs,” which Mike Carlie mentions in that cited overview. Malcolm Klein developed this distinction in his influential work on US gangs.<sup>19</sup> The difference is not an exclusive dichotomy, as some street gangs can be involved with drugs in some way. But overall Klein believed the distinction was valid, and he used it to draw contrasts between the two types of gangs. He argued, for instance, that the organization of the drug gang was more cohesive and its leadership more centralized, because of the demands of its core business. I find this distinction intriguing and would like to use it, because it feeds into my comparative framework. But since it originated in a US context, one must be careful in transferring it to the Caribbean. An unknown number of those 200 Jamaican gangs Tsvetkova mentioned above are involved with illegal drugs in some manner, but whether that makes them drug gangs in the US paradigm, with all the assigned characteristics, is another matter. Do Jamaican drug gangs, for example, have more cohesive organization and a more centralized leadership than street gangs or their equivalent in Jamaica? We cannot say until we examine the available evidence, which is disappointingly sparse on the contemporary activities of specific Jamaican gangs.

Five more definitions are germane. An unknown number of those two hundred Jamaican gangs are “youth gangs”; “youth crime,” in and out of gangs, is a growing problem throughout the Caribbean.<sup>20</sup> The terms “national” and “transnational” from our comparative framework also apply to an unknown number of those 200 gangs. The term “national” needs refinement in this context, as an unknown number of those gangs do not really operate throughout Jamaica as a whole, but more in a specific town or region; perhaps local or regional

would be more accurate here. The street gang also belongs in this geographical listing, but a particular street gang could be evolving into a national and even transnational organization. The final two terms, Yardies and Posses, have special meaning in Jamaica and for those Jamaican criminal groups that have become transnational. To a consideration of these two groups we now turn.

Let us first define them. On the one hand, “yard” is an indigenous term, from Jamaican slang; it can refer to someone’s home or a piece of territory. Hence, the term “yardie” is ambiguous and can have multiple meanings. A Jamaican national who moves abroad may refer to himself or herself as a “yardie”; this is an entirely innocent self-description, meaning only that the person comes from the island of Jamaica. Since “yard” can also mean territory and territorial disputes conjure up gangs, “yardie” can also have a more sinister meaning, and there have been many gangs known as “yardies.” On the other hand, “posse” is an imported term, coming from western films produced in Hollywood and elsewhere. The Yardies and Posses emerged in Jamaica during the 1960s and 1970s. The word “posse” has a long history. In the US West of yesteryear, for example, it designated a group of people the sheriff summoned to help him on some law enforcement matter; it is a companion to the term *posse comitatus*, which comes from Medieval Latin and literally means the power or authority of the county.

“Posse” came into use in connection with Jamaican gangs in the 1960s, at about the same time as a sub-genre of western cowboy films, the so-called “spaghetti western,” was having a major impact. The adjective “spaghetti” comes from the great Italian influence in many of these movies; here cuisine characterizes cinema, in an example some today might regard as politically incorrect, or just as inelegant. Spaghetti westerns were, in fact, international productions, filmed in European locations, including Spain. Italian directors guided many of them and they served as launching pads for a number of younger actors who were in the initial stages of what would become distinguished careers. Clint Eastwood achieved recognition in his thirties for his work in the signature “Man with No Name” trilogy, directed by Sergio Leone and with musical scores by Ennio Morricone, which featured *A Fistful of Dollars* (1964), *For A Few Dollars More* (1965), and of course the iconic *The Good, the Bad, and the Ugly* (1966).

What does this journey back into movie history have to do, some readers may be wondering, with Jamaican gangs? Well, cowboy films, especially the spaghetti westerns, have great significance for how early members of these gangs saw themselves and thus constitute one of the major origins of gangsta culture, Jamaican-style. “In the 1960s . . . Jamaican youths,” Paul Lunde observes, “were enamored of the gunslinger ethos of American and spaghetti-western movies.”<sup>21</sup> The “gunslinger ethos” deserves comment. In the history of the US West this ethos was not the monopoly of either “the good” or “the bad.” Lawmen as well as criminals vied to see who could become the “fastest gun in the west.” This was the person who could outdraw his opponent(s); this means pulling your gun out of your holster and firing first and accurately. On the side of the good, US federal marshal Matt Dillon partook of this ethos, but only as a last resort to

fulfill the demands of justice in an unruly environment. Matt Dillon was the fictional marshal of Dodge City, Kansas, in the days of western settlement, in the US radio and television series *Gunsmoke*, which ran for twenty-one seasons on television from 1955 through 1975. James Arness brought him convincingly to life on television; Marshall Dillon was an adult version of someone who tried most of the time to be the perfect Boy Scout: honest, brave, loyal, competent, compassionate, and reliable. But every now and then he would have to gun down some evildoer. On the side of “the bad,” there is a very long list of candidates both real and fictional. As a Humphrey Bogart fan from his school days, the author prefers his breakthrough role as Duke Mantee, “world famous killer,” in the 1936 movie *The Petrified Forest*. John Dillinger, the noted US bank robber, supposedly inspired the character of Duke Mantee. While *The Petrified Forest* is not a cowboy movie per se, it is a western, set in northern Arizona, and definitely in the genre of gunslinger movies. The 1939 movie *The Oklahoma Kid*, starring Edward G. Robinson and Humphrey Bogart, is a cowboy western that also features the gunslinger ethos. Exposed through the cinema to the good, who used gun violence only as a last resort, and to the bad, who routinely employed it for whatever reason, many Jamaican youths, regrettably but understandably, chose the wrong role models. After all, it’s more fun to be bad, obnoxious, and violent, especially when you’re high.

With this background information on Yardies and Posses before us, we can ask the central question of definition. Are Yardies and Posses the same? Some use the terms interchangeably. But are they really two different names for the same organization? Put this way, the answer is, they may be. As far as I can tell, the criminal meaning of Yardie is the foundation term: Yardie refers to a criminal organization based in, or from Jamaica, that is involved with trafficking in illegal drugs and possibly other illegal ventures. Posse is a term some Yardies call themselves; as Paul Lunde again notes, “The term Posse is especially used by Jamaican gangs in the United States.”<sup>22</sup> So, apparently, not every Yardie wishes to be known as a Posse. This commentary should be borne in mind, because when people discuss the histories of the Yardies and Posses, they use the terms so often together readers might conclude they are identical, which they are not. In short, not every Yardie is a Posse, but every Posse is a Yardie. Confusing? Think of it in terms from set theory: Posses are a subset of Yardies. We will continue to refer to Yardies and Posses, when events under review pertain to both.

In any event, the histories of the Yardies and Posses, told together or separately, reveal valuable information that relates to factors from our comparative framework. These encompass government including politics, the evolution of many gangs into transnational groups, and organization itself, including changing procedures, strategies, and core businesses. In addition, money laundering, a major subtheme of this work, also plays a role in the drug activities of these groups, which corroborates again the universal relation between it and trafficking in illicit drugs. Furthermore, the core business of many Yardies and Posses has been illegal drugs for a long time, but not every organization is involved in



that industry in the same way. We will present general observations that characterize both Yardies and Posses and then conclude with a note on the infamous Shower Posse that made a major mark for itself in the US in the 1980s.

Both Yardies and Posses came into their own during the 1960s and 1970s in Jamaican politics. They do not owe their existence exclusively to politics, but this was their first core business. They initially appeared as “urban armed gangs recruited by politicians to organize local constituencies, enforce party loyalty, and bring out voters at elections. The gangs were originally based in the districts of the capital, Kingston, and also in Spanish Town,”<sup>23</sup> which is located about ten miles northwest of Kingston. A turning point for many Yardies and Posses was the Jamaican general election on 30 October 1980. The political party many of them supported was the socialist People’s National Party (PNP) of Michael Manley, which lost that election decisively to the more moderate Jamaica Labour Party (JLP) of Edward Seaga, who succeeded Manley as Prime Minister and reversed many of his policies. The election itself was a landslide: the JLP won fifty-one seats in the legislature; the PNP, nine. Many Yardies and Posses could easily see the way the political wind was blowing and they concluded it would be best for them to leave the country. The disappointing outcome of the general election of 1980 for many Jamaican gangs was thus the primary stimulus in their decisions to become transnational organizations. They did so during the 1980s and established a significant physical presence in overseas locations, first in the US and then in the UK. They concentrated initially on strategic urban locations, such as Miami and New York City in the US and London and other major cities in the UK.

The exact timing of their movement into illicit drugs still remains difficult to specify. During the 1960s and 1970s, when the Yardies and Posses were attending to needs of their first core business in Jamaican politics, some also began to explore a second potential core business—that of trafficking in illegal drugs—and sowed the seeds of what would later become an international network. But it was not until the collapse of their first core business in the aftermath of the 1980 election and the subsequent emigration of many Jamaican gangs that illegal drugs became the primary core business of many Yardies and Posses. It was how they went transnational that mattered: not just with computer networks and a shadow overseas staff, but with substantial numbers of real people on the streets in vital locations. This approach enabled many Jamaican gangs to make international drugs smuggling a dominant core business for the long term.

In the final analysis, the success of Jamaican gangs both at home and abroad rested on their organization: its structures, flexibility, quickness to adapt to scrutiny from law enforcement, and ability to fly below the radar where possible. To be sure, competent leadership is important, but what does it matter if the captain is experienced but the ship is a piece of junk? Let us first discuss the characteristics of organization in more detail. The organization of Jamaican gangs has gone through at least three phases. Back home in Jamaica, when they first emerged, they were “largely based on neighborhood associations and political affiliations.”<sup>24</sup> This was phase one. Their members who came to the US in the

1980s formed their own Posses, presumably replicating the organizational structures they had known in Jamaica, or joined up with existing US street gangs. This was phase two. In either event, the results were not good for the gangs. They became too large and their memberships too easy to identify: they were thus more vulnerable to law enforcement. "As a result, U.S. law enforcement agencies were able to mount successful prosecutions for illegal activity. Imprisonment, deportation, and murder by rival gangs weakened a number of the [US] Posses."<sup>25</sup> So the first two phases of Jamaican gang organization ended in major setbacks; phase one in the Jamaican general election of 1980 and phase two in the successful attacks by US law enforcement and rival gangs.

The third phase represented the comeback and showed an ability to learn-by-doing from previous mistakes. The Posses grew again, this time with major changes in organization, as "the leaders established a hierarchy to insulate themselves from street-level drug dealing but retain control of the profits. Underbosses supervise the gang's daily activities."<sup>26</sup> The Underboss, Paul Lunde notes, is a job that carries great risk: Jamaican gangs usually attack the Underboss of a Posse, not its Boss, in order to convince the Boss to cooperate with them. Now the term "Underboss" immediately reminds one of the organizational hierarchies of various mafias, including those in the US and Italy. But beware: the same name does not automatically carry the same job description. In the US mafia it is the Capos (*Caporegimas*), the single layer of middle management, that usually supervise the daily activities of those underneath them. The Don or Boss provides overall guidance to the Capos, while the Underboss is akin to a US Vice President who has not been delegated some special job. The Underboss in the US mafia does undertake other tasks, but his main job is to be prepared to step in for the Don, in the event of his death, incapacity, or some critical matter that takes him away for awhile. Put another way, the principal task of the Underboss in the US mafia is to wait, and wait, and wait. While we have occasional glimpses into the ongoing organizational changes of Jamaican gangs, I would have to agree with Paul Lunde that, on the whole, "it is difficult to determine to what extent, if any, Jamaican gangs are organized in a way comparable to other crime groups, such as the US Mafia."<sup>27</sup>

There is, however, revealing information in what we just reported that connects back to Malcolm Klein's distinction between street gangs and drug gangs noted above. In the third phase of the history of Jamaican gang organization—the comeback era—we see the introduction of crucial features that definitely signal more cohesive organization and more centralized leadership. A vertical hierarchy can give the leadership some protection from the risks of drug-dealing on the streets; this insulation would work best if those on the street did not know who was above them in the hierarchy. A vertical hierarchy, if enforced, can also ensure that the top level will ultimately control the distribution of profits, assuming that subordinates are honest in reporting and presenting their earnings. The introduction of an Underboss is another step towards greater professionalization. From the Klein perspective of street gangs versus drug gangs, these steps show the Jamaican Posse, specializing in drugs, tightening its organization in response

to the demands of its core business for more effective management and greater security. From the perspective of classical political economy, the introduction of an Underboss represents a division of labor, with that individual specializing in day-to-day management of a gang's activities. And the vertical hierarchy lends itself to endless bureaucratic refinements, as it can accept other specialized jobs and divisions of those. We are not discussing the Cali cartel here (see Chapter 8), with its multidivisional structure and high level of specialization that evoked the modern multinational corporation. But for Posses who are trying to avoid the risks of becoming too large and thus more vulnerable to law enforcement, as happened in the second phase, this articulation of organization is impressive, as it is appropriate for their mission and physical size.

The recurring notion that it is dangerous for a gang to get too large raises a fascinating question: what is the optimal size for a gang? Optimality and optimization are key concepts in economics and perhaps they can help us here. Size has different meanings, such as number of members or weapons, amount of income, and extent of wealth. But the "too large" in relation to Jamaican gang growth refers to the number of members and the fact that greater numbers apparently make a gang more susceptible to scrutiny from law enforcement. There is presently no formula to determine optimal gang membership, but several things we know right away. There is no one answer to the question, what is the optimal membership for a gang. It depends on numerous factors: gang mission, gang activities, gang security requirements, the capabilities of law enforcement to detect, monitor, apprehend, and prosecute, as well as relevant matters from the external environment that might affect those aforementioned factors. Readers gifted in econometric modeling and with knowledge of advanced economic theory might be able to start answering the question about optimal gang size.

Once in the US, the core business of Jamaican Posses became and remained illegal drugs trafficking, but the types of drugs changed. The Posses initially focused on marijuana, but then shifted to cocaine and its even more powerful companion, crack cocaine (see Chapter 8); in recent years Jamaican gangs have established substantial control over the market for crack cocaine. The transition from marijuana to cocaine and its derivatives as the 1980s unfolded repeated a pattern that characterized the experience of other organized crime groups, such as the Cali cartel in Colombia. The 1980s, readers will recall, is a seminal decade in the history of organized crime and illegal drugs trafficking, especially in the western hemisphere, as law enforcement attacks on the Caribbean Connection diverted significant shipments of South American cocaine through Mexico to the US, instead of across one or more of the many aquatic corridors of the Caribbean Connection. But, apparently, not every one of these corridors received the same level of scrutiny and interdiction and Jamaica, which is strategically located as earlier noted in the eastern zone of the Caribbean Connection, continued to function as a transshipment point for contraband drugs going to the US, Canada, and Europe, albeit for a time in a more circumspect manner. In recent decades the robustness of Jamaica's role in the Caribbean Connection has returned, and a

network of connections has developed that links Jamaican Posses, Colombian drug dealers, and various agents and agencies involved in laundering the proceeds from those drug sales.

The essentials of this network deserve consideration, since they present additional perspectives on a major concern of this book, money laundering. Paul Lunde describes one possible crack transaction thus:

A kilogram of cocaine is purchased from a Colombian trafficker and then moved to New York. It is then transformed into up to 20,000 “rocks” of crack. The profit can be around eight times the original purchase price. The Colombian trafficker who sold the drug originally will merely treble his money.”<sup>28</sup>

(A “rock” is a small amount of crack cocaine that resembles more a large pebble than a rock.) The Jamaican Posses developed a network of crack houses called gatehouses; these function as distribution centers for getting those “rocks” to street dealers and then to the final consumers. Gatehouses are located in ordinary buildings, but they are heavily fortified, as they embody the territoriality of various Posses, which is enforced with excessive gun violence. This system of distribution is designed to disperse the product through many sellers, which means that if any one street dealer is caught, that person should be carrying only a modest amount of crack cocaine, possibly leading to a lesser charge against him. Such an elaborate network of intermediaries and sellers may strike some as economically inefficient. And it may well be, in the world of legitimate economy. But this is the underground economy and the “twilight zone” where the rules are different, and a seeming excess capacity or redundancy is actually intelligent insurance against damage wrought by law enforcement. The concept of economic efficiency in the criminal world, as we often emphasize, accepts the use of more labor and time in return for protecting essential structures of the business and increasing the prospects of greater profits.

Laundering the proceeds from these crack transactions can follow a number of routes. Here are four. In the first, the Jamaican Posses finance some street dealers, who buy goods in the US and then sell them in Jamaica; this reminds one of some elements of Black Market Peso Exchange (BMPE) discussed earlier. A second approach uses airline employees, bribed or scared, to carry dirty money with them or look the other way as 55-gallon drums stuffed with cash are loaded into cargo holds of planes bound for Jamaica. A third technique actually works within the rules: amounts of money under \$10,000 can be sent through Western Union. And a fourth approach follows a universal canon of money laundering: investing in legitimate businesses; in these cases, grocery stores and nightclubs.<sup>29</sup>

In the 1970s the two main rival gangs in west Kingston, Jamaica, were the Spanglers and the Shower Posse. The latter reputedly took its name from the fact that it “showered” opponents with lead. The shower metaphor is certainly an apt way to capture the excessive physical violence that so frequently marked gang

# **An Economic History of Organized Crime**

A national and transnational approach

**Dennis M.P. McCarthy**



Routledge Studies in Crime and Economics

# An Economic History of Organized Crime

Organized crime is a growing international phenomenon and, as it intersects with terrorism, an increasingly dangerous force. Organized crime has been studied from the perspectives of many scholarly disciplines, and there is a massive literature on the topic created by academics, journalists, government officials, and the criminals themselves. Surprisingly, while economists and historians have written about organized crime, there is no international economic history on the subject. There is a compelling need for such a book. More organized crime groups are emerging, they are coming from more countries, and the activities of all organizations are diversifying across national borders.

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**Charles J. McCarthy, Esq.**

**1919–2006**

***Firmus maneo.***

**“I remain steadfast.”**



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# Preface

Two intellectual forces are responsible for the creation of this book. The first is my strong interest in organized crime, which dates back to my elementary and high school days in Cleveland, Ohio, USA, during the 1950s and early 1960s. A thrilling television series, “The Untouchables,” which aired from 1959–1963, enthralled me; it recounted, in an appropriately embellished manner, the feats of a group of US Treasury agents called *The Untouchables* during the Prohibition era in Chicago, Illinois, against the Chicago syndicate of Alphonse “Al” Capone, Jake Guzik, and Frank Nitti (see Chapter 5). Eliot Ness (1903–1957) led “The Untouchables” and I greatly admired him, but I must admit that the clipped narration of Walter Winchell and the driving theme by Nelson Riddle made it easy for me to be inspired. A defining moment in nurturing my interest in organized crime came during a trip with my father to see one of the numerous baseball and football games we attended together at the old Cleveland Municipal Stadium on the shores of Lake Erie. On one of those occasions, as we were driving west on the Shoreway towards the stadium in downtown Cleveland, a billboard high above the railroad tracks on the south side of the highway caught my eye, not the newer front of the billboard but a faded sign that still clung to the back. This sign proclaimed, “Ness for Mayor.” Is that the same Ness who worked in Chicago, I wondered. Yes, it was. In my first serious research on organized crime I learned that Eliot Ness resigned as a federal agent in 1935 and became the Safety Director for the City of Cleveland (1935–1942). He also ran, unsuccessfully, against Tom Burke for mayor of Cleveland in 1947. The second primal force pushing this book to completion is my intense interest in economic history, which became my all-time favorite academic subject when I took my first college course in it. It was the convergence of these two strong interests that has brought forth *An Economic History of Organized Crime: A National and Transnational Approach*.

I present this work *not* as a textbook but as a case studies book. And it is a case studies book designed to give readers a global overview of a global scourge: organized crime. Its organizational grid is based on the one I developed for my *International Business History: A Contextual and Case Approach* (Praeger, 1994). This grid divides the world into five geographical sections: Europe, North America, Central America/South America/the Caribbean, Africa, and Asia/the Western Pacific. Each section contains two case studies and a vignette; an

introduction to each section defines main themes and relates the case studies and vignette to them. For my organized crime book I have added something new: for every case study and vignette I set the stage, providing background material that will help readers better understand the subject of the case study or vignette. I am keenly aware from experience with my business history book that not everyone will agree with my conception of what is the appropriate balance between breadth and depth, between coverage and selectivity in my organized crime book. Some will prefer fewer case studies developed in more detail; others will question my choices. This is understandable: *de gustibus non disputandum est*. But if I make people think, whatever their thoughts, I will have succeeded.

There is one thing I did that you should know about right away. I have included an unusually long introductory chapter, partly to deal with the questions of what economic history is and what kind of economic historian I am. One reviewer of my last book (*International Economic Integration in Historical Perspective*, Routledge, 2006) called it “pure Old Economic History.” When I first read these words, I was ecstatic. No one had ever referred to anything I had ever done in my life as “pure.” What a novel and refreshing experience! But then, upon reflection, I thought, “there you go again,” invoking that stale distinction between the Old Economic History and the New Economic History, which is not really new anymore, as it emerged in the 1950s, putting it on the threshold of becoming a senior citizen. Put too simply, the New Economic History endeavors to make economic history rigorous by applying economic theory, statistical analysis, and mathematical techniques to the materials of history. Many practitioners, unfortunately, look down upon the Old Economic History, which employs a wide range of historical sources, takes into account the many intangibles that thread their way through the fabric of historical experience, and strives for a rigor that comes from precision in concept, argument, and evidentiary evaluation. A big problem for the New Economic History was and is its narrow conception of rigor, which is strongly associated, if not equated, with quantitative methods, rendering beyond its powers of illumination problems not amenable to measurement or econometric formulation. A big problem for the Old Economic History is its lack of explicit economic theory in interpreting historical materials. But there is no perfect or complete approach to the subject, which is why I strongly believe that economic history should be a big tent, welcoming and supporting any approach that partakes of some kind of empiricism. My bedrock axiom is that economic history needs both historical method and economic theory, which is why I devote a separate section to each in the introductory chapter.

As for myself, I am neither “pure” nor an “Old Economic Historian.” My last book contained explicit economic theory; so does this one. I am not a math-based economic historian, but I am not a methodological bigot either. I have advanced degrees in both economics and history and as such am trained in economic theory and historical method, but I also have long-standing interests in the law, political economy, and cognitive anthropology (ethnoeconomy). I see myself as an interdisciplinary economic historian writing interdisciplinary economic history. Readers can see for themselves how my approach fits into the grand sweep of things in the introductory chapter.

As I have written, a single-author work is that in name only. For giving me much valuable information I wish to thank Timothy J. McCarthy, Barbara A. McCarthy, Susan F. McCarthy Fiore, and Kenneth Fiore. I talk to my brother, Timothy J. McCarthy, every day, and often he would help me break through some obstacle I had encountered in writing this book. For decades of support and understanding I cherish knowing Fred V. Carstensen and Steve Younker. For timely reports on organized crime in different parts of the world, especially the drug cartels based in Mexico, I am indebted to Stratfor Global Intelligence, which is a first-class intelligence service to which I subscribe; some of their reports are in the public domain. I strongly recommend this service; it is worth every penny. For an inspired suggestion I am grateful to a referee of my last book, who wanted me to expand the chapter on “criminal empires” to include a discussion of more mafias, especially the one from Albania. I could not proceed on this suggestion then, because I had hit my contractual word limit. But I am delighted to say that I picked the Albanian Mafia as the subject of the vignette in Part I to honor this suggestion. I also learned a lot from listening to “Call the Cops,” a radio show on WHK, AM 1420, Cleveland, Ohio; it is actually based in the Cleveland suburb of Independence, Ohio. Hosted by active and retired members of law enforcement, this program introduced me to Rick Porrello and Robert Mazur. I gained an appreciation of the dangers involved in undercover work and stake-outs. And I also discovered that many people in law enforcement believe that “academics don’t know what they’re talking about.” Believe you me, I had exactly the same reaction many times as I sat through interminable faculty meetings, listening to colleagues invest an item of trivia with global implications. But my point to law enforcement is simple: you need as precise a definition as possible of what it is you seek to control or destroy; you need as much information as possible from as many different sources and points of view as possible to be the best prepared. In short, the most careful preparation requires the greatest knowledge. Academic work may not be automatically practical, but it should be an integral part of that stock of knowledge.

I am honored to be a twice-published Routledge author. Routledge is a world-class organization that treats its authors with great collegiality. I thank Thomas Sutton, Simon Holt, and members of the production team whose names I will never know for helping with this book in the most professional manner possible. I also benefitted from careful reviews from three outside referees of my book proposal. Their suggestions really helped me; I am grateful for their time and expertise.

Finally, I always invoke the wisdom of Professor Arthur M. Schlesinger, Jr., who wrote: “once again, may I say that I will greatly welcome corrections or amplifications of anything I have written in this text” (*The Politics of Upheaval*, Boston, Massachusetts, 1960, p. x).

Dennis M. P. McCarthy  
Chester Township, Ohio, USA

PS Dennis McCarthy will return with *A Concise Economic History of the Roman Catholic Church*.





# **1 The ABCs of a comparative economic history of organized crime**

## **A national and transnational approach**

This introduction presents the ABCs of my book: its rationale, method, and plan. Under rationale I explain the need for a national and transnational economic history of organized crime. Under method I argue that economic history can make a unique contribution to understanding organized crime and summarize its method. And under plan I lay out the organization of the book, which is based on a comparative and case approach. Here I develop a comparative framework of ten factors; some of these allow me to address issues in the current research on organized crime.

### **Rationale**

Organized crime is a growing international phenomenon and, as it intersects with terrorism, an increasingly dangerous force. Organized crime has been studied from the perspectives of many scholarly disciplines, and there is a massive literature on the topic created by academics, journalists, government officials, and the criminals themselves. Surprisingly, while economists and historians have written about organized crime, there is no international economic history on the topic.

There is a compelling need for such a book. Organized crime is becoming more national and transnational with each passing day. More organized crime groups are emerging, they are coming from more countries, and the activities of all organizations are diversifying across national borders. While crime itself has many motives and takes many forms, organized crime will always exhibit significant material dimensions. These, too, have changed over time.

### **Method**

Economic history is uniquely equipped to analyze all these changes as well as their material dimensions. It is a hybrid discipline that combines elements of history and economics. As one of the humanities, history always counsels us to study the full range of human experience: the physical, psychological, emotional, and spiritual. As one of the social sciences, economics is more explicitly theoretical and seemingly offers a more precise path to the truth. But one discipline is

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not necessarily more rigorous than the other, and each contributes something that strengthens the other in the composite method of economic history. A proper appreciation of each method will enable us to better understand the composite method of economic history. Consider first historical method.

Two major questions emerge from the literature on historical method.<sup>1</sup> The first is, what is history? There is no one answer this question. History has many definitions. It is “a record of past events,” a “story,” a “systematic narrative told in chronological order,” the “biography of great people,” the “product of what we know about the past,” and of course “the discipline or academic subject.” History has a Greek root, *istwria*, which embodies its core concern. This root means “learning or knowing by inquiry,” and historians endeavor to discover or know the past through “inquiry.”

Central to all these notions is time, as concept, as actuality, as process, as change. We record in time and tell a story in time. A systematic narrative told in chronological order puts a certain definition of time—chronology—up front. All people live and die in time. The product of what we know about the past has emerged over time, and learning or knowing by inquiry takes place in time.

Some regard theological truth as immutable, but historical truth can change, depending on a number of factors. These include the discovery of new evidence, the improvement of techniques for determining the authenticity of evidence, and—yes—the refinement of theory or category.

Time is relentlessly about change and how scholars handle this inescapable fact will determine how closely we approach “historical truth,” which means the most factually accurate account of the past an author believes can be constructed, based on the historical evidence available to him or her at the time of research and writing. Historical truth is thus subjective and mutable.

One word in the root of history suggests a crucial way historical truth can change. The “inquiry” in “learning or knowing by inquiry” means that history is about asking questions, lots of them, especially the right questions. The “right question,” not always perceived that way when it is asked, is one that enables us to look at what we know in a different way or to proceed down a new path that brings us closer to “historical truth.” I respect all definitions of history, but “learning or knowing by inquiry” captures most what history means to me.

Historians “inquire,” using historical method. The second major question, then, is what constitutes this historical method? Sometimes called historical analysis, this method has four exercises: *reasoning*, *criticism*, *evidence*, and *interpretation*. Historical method, in all its parts, is what history brings to economic history. Let us present each part in turn.

### **Reasoning**

Reasoning uses logic. To be sure, there are different types of logic, but Aristotelian logic is the dominant paradigm in western scholarship. Aristotelian logic is a subject by itself and I can only partially acknowledge its utility here. There are many fallacies or errors in reasoning, but at least five bear directly on historical

analysis.<sup>2</sup> These are the fallacies of *post hoc, ergo propter hoc*, defective induction, false assumption, false analogy, and false appeal to authority. Consider the following definitions of these fallacies.

*Post hoc, ergo propter hoc* is Latin for “after this, because of this.” This is the fallacy of false causation. Just because B follows A does not mean that A brought B into existence. In other words, chronological sequence does not imply causality.

Defective induction must first be placed within the wider context of logical processes.

There are two basic processes: deduction and induction. Deduction is reasoning which necessarily draws certain conclusions from stated premises. Here one must proceed with caution, because the word premise has different meanings and picking a premise can bias the conclusion. In the law a premise is a basis, stated or assumed, on which reasoning proceeds. In logic a premise is a proposition supporting or helping to support a conclusion.

Examine the following examples. Since all humans are mortal and Socrates was human, therefore Socrates was mortal. The premise here is indisputably correct: we are all mortal. But a premise must be crafted with precision and accuracy. Does the following example pass scrutiny? Since the Mafia is weakening under assaults from the legal system and the ‘Ndrangheta is the Calabrian Mafia, therefore the ‘Ndrangheta is growing weaker. Our first premise—“all humans are mortal”—is a regrettable fact of life. Our second premise—the Mafia is weakening under assaults from the legal system—is grievously flawed. The term “Mafia” is generic, vague, and too general. There are many mafias: if you have seen one in action, you have not seen them all. Law enforcement has had more success against some than others. Most writers would not use a premise as gross as the one in my second example. Nonetheless, a seemingly sophisticated premise can still be more hypothesis than documented fact: it can support a conclusion by containing within it the seeds of that conclusion and thereby biasing the result.

Whereas deduction may be viewed as reasoning from the top down, induction builds from the ground up. One gathers a number of examples and induces or draws from them a conclusion. Defective induction is an argument “based on too few examples or on an examination made unscientifically, without sufficient variation of circumstances or controls.”<sup>3</sup> Defective induction commits the error of insufficient or tainted evidence. Defective induction raises two questions: how many examples are enough? And what constitutes acceptable evidence in a particular situation?

Both questions raise a central principle in the presentation of evidence. This is corroboration, which involves using a second example to confirm or buttress one already introduced. We will discuss corroboration when we take up evidence.

The fallacy of false assumption can take several forms. Its grossest form is factual error; i.e. the Germans bombed Pearl Harbor. Other manifestations of this fallacy await the unwary. Most insidious for history is moving a word back in time and assuming it retains the same meaning as it has in the present. Sometimes it does; sometimes it does not.

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The fallacy of false analogy occurs in the following argument. Because A and B resemble each other in one or more ways, they will therefore be alike in every way. This fallacy forgets the distinction between similar and identical. It is important to remember the fallacy of false analogy when we discuss the many mafias that populate the global history of organized crime. While they may share similarities, they are not identical. In other words, if you have seen one mafia, you have not seen them all.

The last fallacy for historical analysis considered here is the false appeal to authority. This occurs when one assumes that because a witness has impeccable credentials, everything he or she says is correct. This fallacy constitutes a special hazard for those using the testimony of “experts,” which most scholars do.

### ***Criticism***

Criticism, the second tool of historical analysis, is closely intertwined both with reasoning and evidence, the third component. A general definition of criticism is the act or art of analyzing and assessing the quality of something. Criticism in the context of historical method is the act or art of analyzing and judging the quality of sources.

Historians use different types of sources that are classified in various ways. The distinction between primary and secondary sources is one of the most hallowed in historical method. Primary sources are materials created by people living at the time; they include letters, diaries, public and private reports, newspapers, books such as autobiographies, audiotapes, videotapes, etc. Primary sources are essential for dealing with one of history’s two major tasks. This is reconstructing how people living at the time saw things. Secondary sources, such as books and articles, are based on primary (and other secondary sources) and are thus derivative or secondary, not primary as from a then living witness. Secondary sources are vital for the second of history’s major tasks, the pursuit of “historical truth” as defined above. Put another way, historical truth is a writer’s best call as to what “actually” happened in the past. And reaching historical truth is a process of figuring out what one thinks “really” took place. The distinction between primary and secondary sources is not chiseled in marble, as a secondary source from an earlier era may become a primary source for a contemporary investigator.

### ***Evidence***

A source becomes evidence when it meets certain standards. To help our inquiry, we can borrow from journalism the six questions every good article should answer as early as possible in its presentation: who, what, when, where, why, and how? Likewise, in considering whether a source can become evidence, we need to know who created it, what the document purports to be, when and where it was written and published, with the relevant geographical location(s) defined as precisely as possible, why it was written, and how it was written, which includes what materials the author(s) used.

A piece of evidence has value, called evidentiary or evidential value. Evidentiary value resides in how strong that evidence is. Strength—or evidentiary value—comes in part from the quality of the answers to those six questions: who, what, when, where, why, and how? The definition of quality is straightforward: it means accuracy and comprehensiveness. Can we provide definitive answers to those questions? For example, how much can we learn about the author? The more we know, the more we can assess whether the predispositions of the author (and we all have them) constitute a bias that may significantly tarnish the evidence. (Anyone who claims to be totally objective is having an out-of-body experience.) But what constitutes “definitively”? The definition of “definitive” depends on how rigorous a standard of proof one uses. There are at least two standards of proof one can borrow from the legal world: “sufficiency of evidence” or the more demanding, “beyond a reasonable doubt.”

Evidentiary value also comes from relevance and is enhanced by corroboration. Does the evidence support the argument one is making? If it does not, the answers to those first six questions can be of the highest quality and it won't matter: the evidence is not linked to the point one is making. If the evidence does support the argument at hand, here is where the principle of corroboration comes to the fore. To corroborate means to present evidence that reinforces evidence already introduced. The new evidence itself must have evidentiary value and be directly relevant to the evidence it is supporting.

### ***Interpretation***

This is the last exercise in historical analysis and definitely more of an art than a science. Put simply, what interpretation best explains the available historical evidence? Just as different witnesses can describe the same event in conflicting ways, so can scholars argue over what constitutes the most compelling explanation for the same historical problem or “set of facts.”

To the composite method of economic history, then, history brings its method of reasoning, criticism, evidence, and interpretation. Economics also has much to contribute in its own method, which is rich in theory and technique. To be sure, the methods of history and economics overlap. “Economic reasoning” also relies on Aristotelian logic and practitioners must avoid fallacies that are similar to the pitfalls in historical reasoning.<sup>4</sup> “Criticism” in economics also involves judging the quality of one's sources. Economists can use the six questions discussed under historical “evidence” to assess the quality of their sources. And “interpretation” can occasion ambiguity in economics as well, as scholars there debate the meaning of what appears to be the same evidence.

But theory and technique are the greatest contributions economics makes to the composite method of economic history. Some have even defined economic history as the application of economic theory to history in an endeavor to explain it, at least partially. This definition raises a basic question: what economic theory? The answer goes on for some pages but I ask readers to be

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patient. It is vital to appreciate the diversity of economic theory available to economic historians, which should help one avoid becoming a prisoner of the prevailing paradigm.

### **Economic theory**

Specialists in the history of economic thought will find the following discussion satirically basic and incomplete. But my aim here is modest: to alert those with little or no preparation in economics to the historical possibilities inherent in explicit economic theory. I encourage beginners and even those with a good grasp of basic economics to consult my endnotes, which hint at a literature surely worth exploring in depth. In fact, the field in economics known as the history of economic thought (or analysis) needs to be more closely linked with economic history itself. Here we make a modest beginning.

There is no dogmatic listing of the phases in the history of economic thought. And it would be wrong to refer to the “evolution of economic thought,” because more recent approaches are not necessarily superior to older theories. One approach highlights seven “major schools of economic theory.”<sup>5</sup> These are: the Mercantilists; Physiocrats; Classical School; Marginalist (or Neoclassical) School; Marxist School; Keynesian School; and Institutional School. Let us offer thumbnail sketches of each of these seven schools in turn, but we are acutely aware of the fact that other approaches, such as the Austrian School of economics, deserve attention. The Austrian School distrusts government intervention in the economy and reposes faith in the “free market.” It is experiencing a major resurgence and I urge readers to consult the cited article.<sup>6</sup>

### ***Mercantilists or mercantilism***<sup>7</sup>

The root of the word mercantilism indicates its point of departure in analyzing economy. “Mercantile” evokes “merchant” and mercantilism is concerned with trade and commercial relationships. There is an ongoing debate about whether mercantilism was an economic theory, an economic philosophy, an economic policy, an economic system, or an economic worldview. My own view is that mercantilism is a set of assumptions that influenced decisions by both governments and individual people in regard to economic matters, primarily in the 1500s and 1600s. However, elements of mercantilism can be found as early as the reign of King Louis IX (St. Louis) in France, who ruled from 1226–1270, and the term is still used today. I will explain the assumptions and link them to the various views of mercantilism mentioned above.

As a worldview, mercantilism construed economic relationships as zero-sum games. That is, in a bilateral relationship one party could only benefit at the expense of the other.

Participants were on the fabled contract curve of economic theory, where gains by one automatically entailed losses for the other. That both parties could gain from an economic relationship was not in the mercantilist’s worldview.

Needless to say, this approach made economic relationships adversarial. Acrimony often spilled over into the world of politics and contributed to an atmosphere of war that enveloped so much of the early modern era.

As an economic theory or philosophy, mercantilism can best be seen in how it defined wealth and power. Wealth consisted primarily of precious metals, which then consisted principally of gold and silver. (There is a group of ultramercantilists known as the bullionists who equated wealth and precious metals.) Not by chance did mercantilism develop as nation-states were emerging. Since power required wealth (and military forces), governments, under the influence of mercantilism, sought to acquire as much gold and silver as possible. In countries not endowed with substantial deposits of gold and silver, which characterized much of Europe, governments had to look overseas.

They introduced economic policies to foster the acquisition of gold and silver. At a time when international trade operated on a precious metals standard to achieve balance, a country exporting more than imported would receive an inflow of precious metals. Governments, therefore, encouraged the export of manufactured goods and the import of agricultural products. Manufactures contained more value-added and were more expensive than agricultural goods. This emphasis would produce a favorable balance of international trade and promote the acquisition of precious metals. So dedicated were governments to manufactured exports that they used, and sometimes abused, agriculture. Agriculture was not seen as a source of value in its own right but only as a facilitator of manufacturing by providing inexpensive food to the manufacturing workforce.

Mercantilism is associated with major government intervention in the economy. High tariffs protected domestic manufacturing and numerous regulations aimed to ensure product quality. Not all governments influenced by mercantilism introduced every element in the mercantilist playbook. And some scholars would not even consider it under the rubric of historical economic theory.

But mercantilism represented a systematic attempt to make government policy based on an adversarial view of commercial relations, a philosophy that canonized precious metals, and a theory about how the international balance of payments operated. Its lasting impact can be seen today in the intense debates over types of government economic integration, especially free trade areas. For example, those who view economic relations in free trade areas as zero-sum games share a key assumption with earlier mercantilists.

### ***Physiocrats or physiocracy***<sup>8</sup>

In the history of economic analysis there is some evidence of a version of Newton's third law of physics at work: for every thought there is an equal and opposite thought. Physiocracy may not have been an exactly equal reaction but it surely was a diametrically opposite approach to economy from that espoused in mercantilism. Physiocracy emerged in the 1700s, primarily among a group of French thinkers, led by François Quesnay. Whereas mercantilism treated



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agriculture as the servant of manufacturing, physiocracy elevated agriculture to the central, indeed all-encompassing, role in economic activity. Agriculture and land were, for the physiocrats, the only sources of wealth. Physiocrats insisted that agriculture must be scientifically improved and that there be fair prices for agriculture commodities. This was the first example of an opposite reaction to mercantilism.

The second reaction came in how the physiocrats viewed government. Whereas mercantilism fostered government overregulation, physiocracy championed laissez-faire. That is, government should basically leave the economy alone. So mercantilism and physiocracy were polar opposites here: from maximum government intervention to a minimalist approach.

As with all macro-approaches to economy, physiocracy is not entirely consistent. For instance, how fair prices were to be maintained for agricultural commodities is not fully explained. How would fairness be achieved without some type of government manipulation, unless farmers were to organize in an attempt to drive prices up?<sup>9</sup>

### *The Classical School*<sup>10</sup>

The Classical School is so named not because it has anything to do with the literary classics of ancient Greece and Rome. It is classical, in the sense that for many it is the first authentic school of economic thought. From this perspective, mercantilism and physiocracy are but antecedent doctrines and dogmatic ones at that.

While that may be, Adam Smith (1723–1790), the founder of classical political economy, owed debts to both mercantilism and physiocracy. Mercantilism served as a negative role model for him. In fact, the first eight chapters of Book IV of his seminal work, *The Wealth of Nations* (1776), constitute a blistering critique of mercantilism and its overregulating tendency to restrict and even suffocate economic activity.<sup>11</sup> His solution was to shatter the shackles of mercantilism and have government pursue a far less intrusive role, the laissez-faire that Adam Smith absorbed from the physiocrats. Smith was a selective borrower; he rejected physiocracy's preoccupation with agriculture and argued for a more balanced approach. He could do this, because he had a macroeconomic view of the entire economy; that is, he studied the interrelations of all the components of an economy.

This vision led him to identify three factors that create “the wealth of a nation”: land, labor, and capital. Later on, others would add entrepreneurial ability to produce the classic four factors of production of modern economics. While mercantilism assigned to government the role of a visible hand regulating economic activity, Smith hypothesized the polar opposite: an invisible hand. This is the market, where individuals, pursuing their own self-interests, produce the greatest overall benefits for society.

As befits the first “school” of economics, classical political economy had other notable teachers. Adam Smith was concerned with the creation of wealth and income; David Ricardo (1772–1823), who followed him, focused more on

income distribution among what for him were the three major groups in society: landowners, capitalists, and workers. Ricardo also emphasized the notion of conflict arising from the way the gains from economic activity were distributed. His scenario of conflict rested on his theory of rents and his view of the supply of land as fixed. The growth of population and capital, he argued, would hit a ceiling in the fixed supply of land; this would drive up rents but constrain wages and profits.

Thomas Robert Malthus (1766–1834) and John Stuart Mill (1806–1873) were also luminaries of classical political economy. Parson Malthus, as he was a clergyman, had a somewhat dreary teleological bent to his work. In its famous formulation he believed population increased geometrically, but food production only expanded arithmetically. The law of diminishing returns, which he invoked, produced an unenviable result: declining returns to labor, habitually low wages, and hence low living standards that persisted.

John Stuart Mill was a renowned political philosopher and also the last notable contributor to classical political economy. He took the invisible hand, which Adam Smith introduced and others writing in the classical tradition tended to accept, and began a more critical analysis of the functions of the market. Mill distinguished two market roles: allocation of resources and distribution of income. He argued that the market could be efficient in allocating resources but not in distributing income. This incapacity meant that another force, like society or government, had to play a part in influencing the distribution of income.<sup>12</sup>

### ***The neoclassical (or marginalist) school***<sup>13</sup>

The author prefers the name “neoclassical” school, because “marginalist” might mislead the casual observer into thinking that the contributions of this school were marginal or unimportant. That inference would be hugely wrong. Arguably, neoclassical theory has proved the most influential economic approach in the modern era. It originated in the writings of three economists in the 1870s and 1880s, William Stanley Jevons (1835–1882), Carl Menger (1840–1921), and Leon Walras (1834–1910), and was greatly amplified in the 1890s by Alfred Marshall (1842–1924).

The term “marginalist” comes from the fact that neoclassical theory studies decision making “on the margin,” where “the decider” edges closer and closer to making a final decision. The decision-making process is viewed, from this perspective, as adding units until the last unit, the “marginal utility,” balances what “the decider” has to give up to get it, the “marginal disutility.” This process, to use economic jargon, “maximizes utility” and is central to the “optimization” that every economic agent and agency pursues.

Neoclassical theory offers different perspectives on value and price from those proposed by classical thinkers. Value, in classical theory, was an attribute that resided in an object and manifested itself in the costs involved in creating it. This was, in short, a “substance” theory of value and price was supposed to reflect value.

Neoclassical writers had problems with this view. Buyers, for example, were sometimes ready to pay more, much more, than an object was “worth” in substance theory. So value for them became not inherent, but relational. Value originated from a relation between a buyer and a seller and price followed accordingly. This basic insight underpinned development of supply-demand analysis, which also invoked the concept of scarcity. In simplest terms, rising demand for a product in finite supply would drive its price upward.

Neoclassical economic theory saturated modern economics during the twentieth century and continues today as a vibrant source of insights for conceptualizing the problems of society, economic and otherwise.<sup>14</sup> But it is not the only answer to the question posed earlier, what economic theory does economics bring to the method of economic history?

Besides the seminal ideas, right or wrong, adumbrated in mercantilism, physiocracy, and classical economic theory, there are the contributions of the Marxist, the Keynesian, and the various Institutional Schools.

### ***The Marxist School***<sup>15</sup>

This school is named after its founder and primary expositor, Karl Marx (1818–1883), whose life bridged the eras of classical and neoclassical political economy. His work, however, was rooted in the traditions of classical theory and became an important critique of it. For him value derived from substance and did not originate in the relation between seller (supply) and buyer (demand) as it did in neoclassical theory. Marx was, in particular, greatly influenced by David Ricardo’s labor theory of value, which reposed in one factor of production—labor or the workers—the sole source of authentic value.

While this view did expose him to the criticism that his was a single-factor explanation and possibly fallacious, Karl Marx had more on his mind than just refining Ricardo’s labor theory of value. His vision was, if anything, sweeping. Marx saw relations between labor and capital as containing the seeds of an epochal conflict over the correct distribution of returns from economic activity. The capitalists, better organized, much richer, and more powerful than the laborers, could expropriate, unfairly, for themselves the surplus value that workers created.

Capitalists were able to use innovation or technological change to “alienate” the worker from the means of production. The classic example of this process came during the Industrial Revolution in England, which began about 1750 and featured the introduction of machinery in factories or mills. This caused a sea change in where and how people worked. “Cottage industry,” in which people worked at home and sold their output to an intermediary, declined greatly under the pressures of factory-based machines, too expensive for the individual cottage resident to afford.

The “alienation of the worker from the means of production” went hand in hand with the unemployment brought about by the new technologies. The overwhelming asymmetry of the relation between owner and worker promoted the “immiseration,” or descent into poverty, of the working class.

But all was not lost for Karl Marx. He posited that capitalism was only a phase in the history of economic development. In fact, so substantial was the unemployment induced by innovation and so painful was the concomitant immiseration that a reserve army of the unemployed would arise and seize control of the means of production. The true believers in Marxism are still waiting.

Prophecy may not have been Marx's strong suit, but his use of the concepts of class and class conflict are major contributions to economic history. Regrettably, many academics cannot detach Marx the serious scholar from Marx the fiery ideologue and so treat everything in his work as if it were radioactive. This is unfortunate. The real debate should not be over whether class analysis is illuminating, but what factors, if any, in a given society define class and whether these are sources of conflict. Karl Marx viewed class as based on property—who owned the means of production. Others suggest different approaches. The German-British sociologist Ralf Dahrendorf, for instance, argued that power, and access to it, defines membership in a class, as some people are “order givers” and others “order takers.”<sup>16</sup>

### ***The Keynesian School***<sup>17</sup>

Just as Karl Marx gave voice to the Marxist School, so also did John Maynard Keynes (1883–1946) bring the Keynesian School to life. They share more than just the year 1883. The work of both was a profound reaction to the major events of their times. Marx found the working conditions of nineteenth-century laborers deeply disquieting, as the Industrial Revolution spread from England to the European continent. Keynes lived through the increasing economic and financial instabilities of the 1920s, which eventuated in the Great Depression, a global economic crash that lasted throughout the 1930s.

The work of both Marx and Keynes also had a profound impact on governments and people, both during and after their lives. The writings of Karl Marx have nourished countless movements on the left of the political spectrum. They had a deep influence in particular on one person, Vladimir Lenin, who orchestrated a revolution in Russia from 1917 until he died in 1929. The writings of John Maynard Keynes, especially *The General Theory of Employment, Interest, and Money* (1936), provided a well-argued justification for government intervention in an economy to stabilize it and promote growth. Keynes could create this rationale because he was able to make a decisive break with previous theory for dealing with recessions, which are usually defined as six months or more of zero or negative real economic growth. The conventional wisdom at the time was to leave the economy alone, as it had the resilience to recover on its own. In a recession, that view held, wages and prices would decline and restore full employment. Workers, apparently, would be willing to work for less if the prices they paid declined commensurately. This was a leap of theoretical faith that empirical realities would never justify. Keynes rejected this leap of theoretical faith and contended that the opposite situation would prevail. Falling wages and

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prices would reduce incomes and render the consumer able to spend even less. The economy would falter, decline, and even crash. His solution was direct government intervention.

One should remember two main points about the Keynesian approach. The first is, it concerns both government spending and taxation. The second is, government action should complement, not replace the private sector. When private spending was inadequate and raised fears of recession, government would increase spending and reduce taxes. When private spending was excessive and portended inflation, government would decrease spending and increase taxes. In other words, government action was to be countercyclical: it should counter the private business cycle.

Keynes made a major contribution to macroeconomic or “big picture” analysis in his framework for studying all the factors that determine total spending in an economy. His argument that government should step in to support or restrain private spending, depending on the situation, is theoretically beguiling, but it is not practical. Government action is inherently subject to delay; there would be lags between enactment and implementation of the appropriate legislation. It is very difficult, if not impossible, to get the timing right in asking government to counterbalance the private sector. Nonetheless, economic historians can benefit from the comprehensiveness of Keynes’ elucidation of the role of government in the economy.<sup>18</sup>

### ***The Institutional School***<sup>19</sup>

The Institutional School is, in reality, a spacious campus that houses different approaches to methodology and to a subject that is central to the study of human behavior—institutions. Disputes over methodology pivot on two points: first, the distinction between deduction and induction and, second, what elements of each constitute the “best” analytical approach. In our earlier discussion of historical fallacies we defined deduction and induction. What elements of each constitute the “best” analytical approach has occupied many scholars for centuries and is particularly evident in the histories of the various institutional schools. The subject at issue here—institutions—has three facets: what are they, why are they important, and what is the best way to study them.

Some “colleges” on this campus are older. There is the American Institutionalist School, which emerged in the United States in the 1880s but had deep roots in the English and German Historical Schools. Built later and challenging the American Institutional School is the New Institutional School, which has its variations. Let us first review the roots of the original American Institutional School.

As anyone who has studied economics or listened to economists knows, the discipline is sometimes long on theory and short on reality. In Great Britain, a birthplace of inductive and empirical methods, the abstractions of classical economic analysis, developed by Adam Smith, David Ricardo, and John Stuart Mill (see above), evoked a strong counterreaction. Such early English historicists as

Richard Jones (1790–1855) criticized David Ricardo’s work, for instance, as not based on experience. Such luminaries as Walter Bagehot (1826–1877) and John Kells Ingram (1823–1907) continued insisting that economic theory must emerge from a factual context and so contributed to the crystallization of the English Historical School.<sup>20</sup> The practical thrust of this school shines through in the work of Walter Bagehot, who also founded *The Economist*. A classic example of economic generalizations emerging from rich historical detail is his book *Lombard Street: A Description of the Money Market* (1873).<sup>21</sup>

The German Historical School furnished approaches that both paralleled yet contradicted the inductive thrust of the English Historical School. Wilhelm G. F. Roscher (1817–1894) founded the German Historical School and in 1843 published its central methodological work, *Outline of Lectures on Political Economy According to the Historical Method*. The German Historical School, in the works of Roscher and others, reflected the ongoing tension between inductive and deductive approaches in deriving knowledge. The inductive thrust came in their rejection of universal theoretical systems and in their sifting of history, society, and institutions for insights into economic behavior. They were dedicated, however, to inducing economic “laws” from their evidence and here is where deduction appears. Their search for economic laws led some to formulate historical “stages” in the development of economic organization. Stage approaches can be a deductive constraint on induction. They may function as the kind of premise that excludes evidence that does not support a particular stage approach.<sup>22</sup>

The American Institutional School, like its European influences, rejected the universal claims of economic theory, both classical and neoclassical. Its leading lights, including Thorstein Veblen, John R. Commons, and Wesley C. Mitchell, argued for the importance of studying the full context of economic decision-making and theorizing. This required, as it did with the English and German institutionalists, probing the multiple factors that academicians employ—historical, social, institutional, etc. Ironically, while institutional scholars debunk universalism in the claims of economic theory, they insist on a universalism in method. One must present the total context that theory is supposed to emerge from and help elucidate.

The American Institutional School enjoyed only a transitory hegemony in the institutions of the US economics profession itself—in academic departments and professional societies. But it bequeathed a vibrant legacy with three parts. First, members of that school had a major impact on the compilation of records for economic history. Wesley C. Mitchell, for example, founded the National Bureau of Economic Research to foster the empirical measurement of business cycles.<sup>23</sup> Second, the American Institutional School stimulated the emergence of a more modern yet kindred subject known as institutional political economy.<sup>24</sup> This newer school reminds us that economics and political science were once joined as one in the discipline of political economy before the great separation occurred in the latter nineteenth century. Modern adherents of institutional political economy argue that economics cannot be detached from the

wider environment that academicians analyze under those multiple rubrics of history, society, institutions, etc. They stake their position unambiguously against the assertions of a group that constitutes the third part of the legacy of the American Institutional School. In almost a dialectical way, the American Institutional School (thesis) evoked its own antithesis in the New Institutional School. This, too, is an assemblage of approaches, but while there are variations, all exhibit a common thrust—to explain virtually everything in life in terms of neoclassical economic theory. This theory remains the dominant paradigm today in the economics profession in the United States and much of the rest of the world. The New Institutional Schools continue what the Chicago School pioneered and what to some is the intellectual equivalent of economic imperialism. That is, the Chicago school used the engine of neoclassical economic theory to “invade” areas of society usually not considered within the domain of economics. This approach is the polar opposite of the original American Institutional School, which endeavored to supplement economics with other social sciences as they all developed the full context of human behavior economic theory is supposed to emerge from and help illuminate.<sup>25</sup>

### **Economic theory and economic history: an evaluation**

This partial panorama of seven schools—Mercantilist, Physiocratic, Classical, Neoclassical (Marginalist), Marxist, Keynesian, and Institutional—shows a rich menu of theory economic historians can draw upon to help explain history. It is crucial to remember that there are choices and that economic theory is more than the prevailing paradigm of the day. Moreover, there is no perfect theory that unlocks all the mysteries of all aspects of economy and economic behavior. I now wish to address the question I raised above: what are the historical possibilities inherent in explicit economic theory? Here I can only sample them. I will concentrate on neoclassical economic theory, since it is today the most influential paradigm, but will first comment briefly on the other six schools in relation to the needs of economic history.

Flawed antecedents though they be, the first two schools raise essential questions about the big or macroeconomic historical picture. Mercantilism was surely an early expression of political economy, as it focused attention on the relations among wealth, foreign trade, and government power. Mercantilism cast economics in the service of politics, not vice versa. Mercantilism can be studied for lessons in the pitfalls of overregulation and an unbalanced approach to economy, since it treated agriculture as a second-class citizen, not as valuable in its own right but only to the extent that it helped manufacturing. While physiocracy rightly asserted the importance of agriculture, it swung the pendulum too far the other way. Nourishing agriculture and treating it with respect, not subservience is critical for an economy. But for physiocracy agriculture was the most important sector. So it, too, represented an unbalanced approach to economy and, in its tax prescriptions, rigidly limited what should or could be taxed, creating more inequities.

The classical political economists deserve enormous credit. They examined the economy as a whole and in its many parts. Their works, which should be studied in the original and not through the lenses of other scholars, are sometimes lengthy and their analysis seems ponderous at times to a modern reader. But their approach, while largely theoretical, was comprehensive. Some Institutionalists can decry an insufficiency of empirical evidence that informs many of their conclusions, but they deployed a masterfully detailed approach to economy, leaving a methodological legacy of inestimable value: the big picture must be analyzed as a whole and in all its parts.

Karl Marx is sometimes regarded as a classical political economist. He borrowed David Ricardo's labor theory of value and made it his own when he incorporated it into his own theory of history. His emphasis on identifying the major forces that drive people, governments, and events is meritorious. But if you do not accept that class and class conflict are major historical forces, what do you propose instead? And what do the other "schools" examined here say about this, if anything?

The closest John Maynard Keynes came to a major historical force was in his acknowledgement of a particular kind of cycle—the business cycle. Other scholars, especially Joseph A. Schumpeter and Wesley Clair Mitchell, would research and analyze business cycles in much greater detail.<sup>26</sup> But Keynes was policy-driven and argued that while government could not abolish the business cycle, it could act in ways to make the ups and downs far less turbulent. As noted earlier, his probing of the role of government in an economy was meticulous. And since the role of the state is one of the major categories economic historians use, we are all greatly indebted to Keynes for his guidance in this area.

The original American Institutionalists, and their European counterparts, depicted broad forces shaping people and their economies in a context they developed as completely as they could. But these forces were the academicians' factors—historical, social, and institutional—and sometimes simply asserted as "forces" without defining "forces" and why it is important to study them. "Institutional" forces are a notoriously vague category. What are these "institutions"? Are some more powerful forces than others?

The New American Institutionalists have identified their own major historical force—neoclassical economic theory. For them neoclassical economic theory has an almost evangelical mission—to show the world outside of economics that an economic theory can illuminate so much more than just economic behavior. With claims so ambitious, it is right to subject neoclassical economic theory to special scrutiny here.

Neoclassical economic theory has much to recommend it. If you accept its assumptions, it unfolds with its own relentless logic. Readers earlier viewed some of its essentials: price arises from the relation between demand and supply in something called the "market." Scarcity is a crucial concept, because it affects supply and, therefore, price.

People and organizations are economic agents and agencies that exhibit rationality. This means they seek to maximize utility and minimize disutility.



Key words here are: price; supply; demand; market; scarcity; rationality; utility; disutility; maximization; and minimization.

These key words are found in the three crucial assumptions of neoclassical economic analysis. "Perfect" in these formulations means "complete." The first is, competition is perfect, which means the following. "The market" is where and how buyers and sellers interact, with supply and demand unfettered to determine price. In this imaginary world nothing, no group nor individual, has the power to manipulate price. The second assumption is that decision-makers have perfect knowledge. This situation is clearly the exception, not the rule, which places the second assumption in the imaginary world where the first one exists. The third assumption is that those economic agents and agencies are rational in the manner of maximizing utility (or gains) and minimizing disutility (or loss). This assumption is more realistic than the first two, but even here caveats are needed. One involves the time frames chosen by those economic agents and agencies. A strategy may deliberately incur major short-term losses if these increase the likelihood that a long-term goal, promising enormous gains, is achieved. So the real world, in the relentless onward march of time, demands, very much in the manner of original institutionalists, a factual foundation for theory, which includes defining "short-" and "long-term" in days, months, or years.

While the author regards some projects of the New Institutional School as pretentious and even naïve, overall he sees neoclassical economic theory as promising for economic history if that theory is applied in conjunction with other social sciences. In this regard he is a reincarnated old institutionalist trying to get other social sciences to enrich the historical applications of neoclassical economy theory. "Enrich" means strengthening neoclassical theory by addressing its shortcomings. A crucial shortcoming is its lack of local content concerning perception or more technically cognition, and emotion or feeling. In other words, what individual people see and feel at the time are central to understanding all types of history, including the economic version. To be sure, seeing and feeling do not lend themselves to elucidation through the mathematical and statistical techniques that dominate so much of economic history today. Yet other social sciences stand ready to help. As far as cognition is concerned, economic history can benefit from the application of techniques associated with a branch of anthropology known as ethnoscience and its sub-field ethnoeconomy. Elsewhere I have explained ethnoscience and ethnoeconomy and shown some of the ways they enrich economic history.<sup>27</sup> A greater awareness of multiple perceptions of the same thing will also aid our investigation of organized crime.

One final topic completes our suggestive but not comprehensive evaluation of relations between economic theory and economic history. This is the much discussed "Economic Man," now "Economic Person," or in the Latin some writers prefer, *Homo Economicus*.<sup>28</sup> Economic Person has rational preferences, in the neoclassical sense that he or she tries to maximize gains and minimize losses. Economic Person can also be an "Economic Firm," which

seeks to maximize a specific type of gain—profit—and minimize a certain kind of loss—cost. While a core assumption of neoclassical economic theory, Economic Person did not originate there. Elements of the construct go way back in the history of economic thought, at least to mercantilism if not before. And in the history of human behavior, aspects of Economic Person can be found everywhere, starting from when *Homo sapiens* first emerged from wherever he or she came from. Most human beings, in their own ways based on their own perceptions, try to make themselves better, not worse off. But *Homo Economicus* can be a trap for the unwary, who may fall into the fallacy of the same assumption if they move the term back in time and assume it keeps the same meaning.

*Homo Economicus* has a controversial history. It is a construct, or abstraction from reality, that easily became a stereotype. Some now regard it as defunct, but does that refer to the stereotype or the construct? To write about firms as always and everywhere striving to maximize profits and minimize losses does caricature Economic Person. That said, the behavior of people and institutions through history does show elements of rationality, in the sense that certain things are viewed as desirable and others not so. This is the basic thrust of Economic Person, not that all humans are 24/7 rational utility money-maximizers, which is a gross over-formulation, a straw person set up by hostile critics in order to more easily lampoon the entire construct.<sup>29</sup>

This author strongly believes in a universal economic logic, which builds on the core of Economic Person but tries to humanize him or her by integrating evidence from ethnoeconomy and history. In 1976 I offered the following definition of a universal economic logic and wrapped it in the language of economics. This logic embraces:

modes of reasoning that all aim ... to allocate both scarce and abundant resources and assign each an appropriate degree of use or non-use in accordance with local perceptions of varying constraint intensities. These restrictions include sets of maxima, minima, and precautions. The first contains output, returns, quality, and leisure; the second, costs, waste, and input; and the third, risk functions as determined by time horizons and deprivation possibilities present in the physical environment and human agents of coercion.<sup>30</sup>

That is a lot of jargon. But the essentials can be reprised in plain English. People, aka “economic agents” and organizations aka “economic agencies,” all have things they wish to increase and decrease in their lives. They all encounter various risks and hazards along the way. It is crucial to attempt to see things through their eyes and walk in their footsteps where possible.

All seven schools of economic analysis adumbrated here have their contributions to make to economic history, not only in the area of theory but also in the very categories economic historians employ.

## **Economic history and organized crime: categories**

Economic historians use dozens of categories to organize and analyze their evidence. I offer the following unranked and unrefined list, to which readers may add their own suggestions. Users can cluster categories together and impart their own definitions, as I will do shortly.

### ***Categories of economic history***

- Factors of production: land, labor, capital, and entrepreneurial ability or entrepreneurship
- Types and sources of each factor of production
- Leadership/entrepreneurship/management; types of leadership?
- Population/demography
- Environment: natural resources, etc.
- Law: legal structures, courts, court decisions
- National, international, regional, transnational, global
- Trade and markets
- Exports and imports
- Balance of payments: international or cross-border; between polities within a country
- Infrastructure as transportation and communication
- Bottlenecks in supply and infrastructure
- Organizations/bureaucracies/institutions: types, scale, economic impact
- Concentrations of economic power
- Sectors: agriculture, manufacturing, service
- Role of government/state: government invests, promotes, regulates, and taxes
- Money and banking
- Technological change: invention; innovation; electronic; mechanization, etc.
- Risk: definition and types
- Industrialization as process: definitions; importance of a leading sector
- Role of war
- Role of religion
- Economic vacuum: definitions; economic vacuum as opportunity
- Supply and demand/price/market manipulation
- Economic growth/economic development
- Stages of economic growth/development
- Underground economy
- Twilight zone between legal and illegal economies
- Social relations
- Politics
- Political economy

Every scholar could offer a “top ten list” of those categories most important in his or her research. I have my own list for this book, which I will present in the following section on the plan of the work.

## **Plan of the work**

I will use a comparative and case approach. As to the first, I propose a comparative framework to guide, not straightjacket our analysis. I remain open to the possibility that other categories listed above not on my “top ten list” may help in certain cases, but, in the main, I will emphasize the following ten categories. Some of my choices allow me to address issues in the current research on organized crime.

### ***1 Organization***

Where would a book on organized crime be without systematic attention to organization? Many have attempted over the years to come up with the definitive comprehensive definition of organized crime, but this goal has so far proved elusive.<sup>31</sup> The author regards such an endeavor as futile, because there can be no “one size fits all” or “one size fits most” comprehensive definition of organized crime. The reasons are historical. Organized crime groups have origins, structures, procedures, cultures, and experiences too diverse to encapsulate in a single definition. Indeed, Klaus von Lampe, a specialist in organized crime research and himself a scholar on organized crime, has compiled over one hundred different definitions of organized crime.<sup>32</sup>

The absence of a consensus comprehensive definition has enormous implications for theories or models of organized crime.<sup>33</sup> Theories and models, of their essence, purport to universality, but without a universal definition of organized crime, there will always be an insuperable problem. The inescapable fact is that organized crime is not a unitary concept, but an umbrella term. As I ran my laps around the Ala Wai Canal in northern Waikiki when I was in Honolulu, I marveled at the crews laying the foundation for yet another high-rise building. They would pound the support pillars down through the earth, very loudly and seemingly forever, until they hit bedrock, so the building would rest on a solid foundation. Without a unitary concept to serve as bedrock, theorists and model-builders of organized crime will always face the core question: what is it exactly you wish to explain? Without bedrock, building a towering edifice of abstraction may not be long lasting. And, in the end, a model or theory may turn out to be about a particular version of organized crime, which will not negate its value but will limit its explanatory scope.

While a universal definition of organized crime may not be practical, there are characteristics that distinguish an organized crime group from, say, an organized goodness group. The term “organized crime group” contains the two crucial concepts that require attention—organization and crime itself. We start with the second, because it is less complicated than the first. Many insist that the crime in “organized crime” must involve serious crimes and then go on to concentrate only on those serious crimes. The author accepts the first point, but questions the second. “Serious” here presumably refers to felonies or the equivalent under local criminal law, actions adjudged more serious than misdemeanors, which to

some are no more than normal human peccadilloes. The author believes that “crime” in “organized crime” should be all encompassing and take into consideration any illegality under the laws of a local jurisdiction. Why? The answer is rooted in the history of capital accumulation, which is central to the life of any successful business. Some criminals (business people) may prefer to specialize in petty crime for a time in order to make enough money to undertake “serious” crime; others may want to establish revenue flows from petty crime. Classic examples here involve certain types of illegal gambling. To limit the study of organized crime, therefore, only to serious crime is incomplete and misleading. Let us now turn to organization.

Criminal organization in practice fractures any stereotypes of organized crime that may appear in the popular media and even lurk in some books whose authors should know better. Criminal organization is not necessarily large-scale, whatever that means. Nor does it have to be corporate, featuring a hierarchy with a Boss at the top and various functionaries on descending levels below. Nor is it always about the Mafia, with a capital M, which usually means the Sicilian Mafia or its US offshoot. There are, in fact, many mafias; the word has become more of a generic term signaling a criminal brotherhood. And, apart from the many mafias, there are criminal networks and loose alliances of people who cooperate on certain activities. Even some mafias throughout the world resemble more a network than the corporate structure depicted on the tables of organization so favored by some law enforcement agencies, congressional committees, and scholars. And, as I will continue to insist, if you have seen one mafia in action, you have not seen them all. Moreover, there are many criminal gangs worldwide that should not be analytically homogenized. Finally, there are just criminal “organizations” that defy easy slotting in any category.

*But regardless of the forms organized crime takes, one fact is indisputable: whatever else they were or are, all criminal groups were or are businesses, in some way.* That is, they provide goods and/or services to customers in return for payment in cash or kind. If they are privately controlled, they attempt to make money, if not for the business at least for its personnel. *As a business, an organized crime group can have one or more core businesses, as well as a number of secondary businesses. The group is the overarching business, which has as its components other businesses of different kinds.* I will develop this paragraph in subsequent chapters.

Our proviso “whatever else they were or are” acknowledges the possibility that a particular organized crime group may be something else besides a business. As two examples, it may also be a kinship group, such as an extended family, or a support group, providing perfectly legal services to a community. But it is really the business and economic dimensions of organized crime that lend themselves to the greatest illumination by the method of economic history.

Some may be thinking, isn’t this just another version of the “enterprise model” of organized crime? I don’t think so. The “enterprise model,” expounded by Dwight C. Smith, Jr., in his book *The Mafia Mystique*, blurs the distinction between legal and illegal businesses and suggests that organized crime employs

“normal business operations” and “entrepreneurship” in its activities.<sup>34</sup> This model has significant limitations. First of all, the term “normal business operation” is vague. Even when defined, what constitutes a “normal business operation” can vary greatly throughout the world, which is the setting for my book. Second, the relationship between entrepreneurship, which I will discuss shortly under my second factor of leadership, and organized crime is overstated. To be sure, many members of organized crime display entrepreneurship, but to characterize all organized crime as “enterprise” is, well, too entrepreneurial. Third, I acknowledge that some organized crime groups may be more than businesses, which introduces a realism that the narrow “enterprise model” lacks. And fourth, the “enterprise model” homogenizes organized crime groups. My approach particularizes them and further enhances the realism of our study of organized crime.

To promote this realism, we have a systematic approach for analyzing business organization that can be adapted for our ten-factor comparative framework. In my *International Business History: A Contextual and Case Approach* (1994) I developed a framework for studying international business in all its contexts. Ten categories from that framework are useful here: *centralization, decentralization, autonomy, interdependence, policy, strategy, procedures, structures, personnel, and business culture*. In this book I take up a subset of personnel under the second factor in our comparative framework—leadership—and business culture under the third factor—social environment. I will now define each of the first nine categories listed above; these will also assist our examination of the many criminal businesses under review in this book. Here I excerpt my treatment of these categories in *International Business History: A Contextual and Case Approach* and refer interested readers to the original source.<sup>35</sup>

- a *centralization*. Centralization “refers to how much control the headquarters or center of an organization exerts over its local units.”<sup>36</sup>
- b *decentralization*. Decentralization “highlights the contrary forces” and “points to the degree of control those units have over their own affairs.”<sup>37</sup>
- c *autonomy*. “A companion concept to decentralization,” autonomy “means the ability and capacity to act independently.” Local autonomy “is the degree of operational freedom of those local units.”<sup>38</sup>
- d *interdependence*. All organizations contain elements of centralization and decentralization. A modern concept, interdependence is the “particular mix of centralization and decentralization” that a specific organization exhibits.<sup>39</sup>
- e *policy*. A policy is “a framework that guides action.”<sup>40</sup>
- f *strategy*. A policy can be “a strategy when it is systematically linked to the pursuit of clearly defined goals in the short, middle, or long term.”<sup>41</sup>
- g *structures*. Structures “encompass how a business is organized.”<sup>42</sup> These include its physical capital—buildings, machinery, weapons, and vehicles of all kinds, on land, on sea, or in the air. They are also embodied in the type of organization an organized crime group possesses—hierarchical, horizontal, a

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hybrid of the two, or inchoate, which is defined as “just begun” or “rudimentary.” Inchoate, however, should not be taken in this context as condescending or dismissive. For an organized crime group “rudimentary” does not imply a lack of sophistication. A group may purposefully choose to keep its level of explicit organization simple, even seemingly incomplete, for strategic reasons. What crime-fighting agencies cannot chart they cannot comprehend. So it would be a grave mistake to infer the significance of an organized crime group from its type of organization.

- h *procedures*. Procedures “embrace both the official and unofficial ways a business functions.”<sup>43</sup>
- i *personnel*. These are “the people dealing with those structures and undertaking those procedures.”<sup>44</sup>

## 2 *Leadership*

We broaden our factor of production from entrepreneurship to leadership. In economics, entrepreneurs are people who innovate. They create new things: products, businesses, processes, markets, and opportunities. Economics loves efficiency, and entrepreneurs generate efficiencies, by using the same resources to get more output or use fewer resources to achieve the same output. To be sure, entrepreneurship is one type of leadership, but others are important as well. Managers and administrators may not innovate, but they may save or strengthen a business, for example. Survival and strength are crucial in the world of organized crime, and these achievements may matter for some groups more than innovation. The author, of course, rejects the immoral and illegal values of organized crime, but he strongly believes that their leaders deserve academic respect, in the sense that their careers as business people should be critically evaluated. Indeed, the successful businessman or woman must be part-entrepreneur, part-manager, and part-administrator.

Some may wonder whether *Homo Economicus* or its criminal version *Homo Economicus Criminalis* might enlighten our study of leadership. They may function as points of departure for some, but I vastly prefer my universal economic logic explained above. One must discover what specific things particular criminal leaders are trying to maximize and minimize in order to evaluate those leaders fairly. Here is where empiricism (history) and cognition (ethnoeconomy) play important roles in conjunction with neoclassical economic theory. Put another way, neoclassical theory must be deployed in a context of historical examples and people’s perceptions.

## 3 *Social environment*

This includes the culture that a person lives in, as well as the people and institutions with whom they interact. A culture embodies the character or ethos of a group as reflected in the ways its members think and act.<sup>45</sup> A person can live and work in a number of cultures—of a geographical area, ethnic group, business

organization, church, or community group. The institutions with which people interact may have their own respective cultures. And much has been made of the cultures of criminal organizations, which meld various cultures—national, ethnic, local, and historical.

#### **4 Government**

This refers to government on all levels within a country and all branches of a government: the executive, the legislature, and the courts of law. It also includes organizations fashioned by countries that cross national boundaries, such as the United Nations and its specialized agencies, as well as cross-border groups dealing with one or more concerns—security, politics, and economics—such as the European Union.

The role of law—its presence or absence—has received copious attention from scholars in two fields of the New Institutional School, which I introduced earlier in my panorama of economic theory. The field of Law and Economics emerged in the 1960s and 1970s and continues to flourish in an interdisciplinary fashion. A newer field, Lawlessness and Economics, has gained a certain vigor and flair from such scholars as Avinash K. Dixit in his *Lawlessness and Economics: Alternative Modes of Governance*. As representatives of the New Institutional School, both fields rely on neoclassical economic analysis and have their special areas of concentration, which embrace private property rights including contracts, cost analysis, and applications of game theory.

As my late father, to whom this book is dedicated, was an attorney who inspired in me a life-long interest in the law, I can only applaud the achievements of both these fields in deepening our understanding of the interactions between law and economics in society.

I do, however, have two concerns. These involve, first, the constructs “alternative modes of governance” and “organized crime” and the relations between them and, second, the extent to which signature concepts, such as private property rights, can be applied to organized crime. Let me begin with my first concern and start with the construct “organized crime.”

Under the first factor organization I have already argued that there can be no “one size fits all” or “one size fits most” definition of organized crime. In Professor Dixit’s book there are references to organized crime on three pages. It appears as an unrefined truism, as in “organized crime provides services of information as well as enforcement,”<sup>46</sup> or in the context of a fixation with the Sicilian Mafia or other mafias to the exclusion of other organized crime groups,<sup>47</sup> or in an over-generalization that is categorically wrong, as with respect to functions of economic governance “it usually operates at times or in niches where the state is absent.”<sup>48</sup> As to the unrefined truism and Mafia obsession, I have already discussed stereotypes of organized crime groups under the first factor of organization above. As to the sweeping assertion concerning when and where organized crime operates, I will in the next several paragraphs discuss the concept of “vacuum” which is implicit in this over-generalization. For now I will



simply say if you delete “usually” and substitute “sometimes” that statement would be correct: this revision is more than a nuance.

Just as the construct “organized crime” is used too generally, so is the construct “alternative modes of governance” deployed in sweeping manner. To be sure, the concept of “alternative modes of governance” has proved immensely stimulating in the “policy contexts” of “growth in less-developed countries and transition in former socialist economies.”<sup>49</sup> But in the context of organized crime it needs more precise delineation, because the term “alternative” has several meanings. It may be a necessary choice from a universe of two or more possibilities or a forced choice because there is no other option. The second definition requires further clarification: is the alternative at issue here a theoretical or a practical one?

The construct “alternative modes of governance” raises a crucial question in the study of organized crime. How does an organized crime group relate to its external context or the environment outside of itself? Does it remain distant from it? Or does it purposefully embrace it? Every organized crime group necessarily exists in a wider environment, but it can choose how integrated that relationship will be. The construct “alternative modes of governance” does not address all the modes of integration that can characterize the relations between an organized crime group and its external context. To be fair, it does work in a situation where the second meaning of “alternative” applies: there is no other possibility. This is the classic case of the “vacuum,” which is the next factor in my comparative framework. There I will define more fully what constitutes a “vacuum” for organized crime, but the essence of this concept is an absence of legitimate force from where it should be. Vacuums in this sense have proved incubators for more than one organized crime group in history. The most famous is the Sicilian Mafia, which in its earlier centuries, before it became enmeshed in criminality, provided security for the estates of landowners who could not count on a weak government to protect them. There was, in short, no other security alternative, public or private, for those Sicilian estate owners.

But organized crime groups also exist in external contexts that are not vacuums. And they relate to these situations in various ways. A typology of modes of integration that incorporates modes of governance could begin to clarify the exact relationship between a particular organized crime group and its wider environment. I offer the following preliminary thoughts on this typology. What about those situations where an organized crime group exercises competing modes of governance with civil government? This typology should, moreover, recognize that those competing modes could become conflicting modes. Furthermore, consider those examples where an organized crime group has infiltrated official government and exercises interwoven or complementary modes of governance with that government. So to the well-evidenced alternative modes of governance in a vacuum we add competing, conflicting, complementary, and even interwoven modes of governance in situations that are not vacuums.

My second concern involves the extent to which signature concepts of the construct “alternative modes of government” apply to organized crime. In this connection I highlight private property rights. First of all, the crucial roles that private property rights play in fostering economic growth has received overwhelming evidentiary support and is not an issue here. But as with “alternative modes of governance” so also must “private property rights” be used with care in an analysis of organized crime groups. Every organized crime group deals with many situations that fall along a spectrum that ranges from the totally illegal to the totally legal. For the areas in between we offer two concepts, which appear soon as the seventh and eighth factors in our comparative framework. These are the widely used “underground economy” and my own version of the twilight zone. When organized crime groups participate in wholly illegal activities or transactions that partake of major elements of illegality, I am not so sure that private property rights are uppermost in their minds. To paraphrase an old saying, in these situations possession is not just nine-tenths of the law, but ten-tenths. It reminds me of manorial law under feudalism, which was what the lord of the manor decreed: *ipse dixit et legem fecit* (he himself spoke and made a law). This is the law of brute force; to paraphrase Thomas Hobbes, clubs are trumps.

Now private property rights are important in the totally legal zone of the spectrum and become vital as a criminal group seeks to become more “legit” or legitimate. Money laundering, which I have defined elsewhere in an analysis I hope to enhance in this book, provides the most compelling contemporary case study of the relationship between the criminal reach for legitimacy and private property rights. Organized crime groups and others try to “launder” or eradicate the stains of illegality from money so obtained. The list of laundering methods lengthens and becomes more technologically sophisticated as I write. But they all share a common goal: what I call “assimilation with the legal,” which means that the laundered money is now indistinguishable in every respect from legal money and as legal money enters the domain of private property rights in those countries that recognize them.<sup>50</sup>

### **5 Vacuum**

The scientific definition—a void or space totally empty of anything—is not our direct concern, as we do not wish to get ensnared in the debate over whether a totally empty space is compatible with belief in an omnipresent supreme being. But the scientific definition inspires a conception of vacuum for the history of organized crime. A vacuum is created by the absence of force from where it should be. The force may be public or private. Civil authority may be weak or non-existent in a certain area and government there may lack sufficient military and police power to enforce its directives. These situations beckon criminal elements, unless a countervailing legal organization from the private sector emerges that can exercise governmental functions in the absence of that civil authority.

### **6 *Technological change***

In the conventional definition this involves new machines, processes, procedures, and other products. Driving technological change is innovation, which is all about creating efficiencies, as discussed above under leadership. The “new” here does not have to be something totally new, as a rearrangement or redesign that creates efficiencies can qualify as an innovation that propels technological change. As we broadened the factor of production known as entrepreneurial ability to include other types of leadership, so here do we expand the concept of innovation.

In the history of organized crime, innovation acquires an additional meaning: it is about creating or expanding opportunities. There are different types of opportunities. They may be legal or illegal. Legally, for instance, they may involve building hotels that house gambling casinos. Illegally, they may concern the development or refinement of trade routes and markets for contraband, including illegal drugs. In short, opportunity can involve just about anything that makes money in the short run (that is, quickly) for a crime group. Opportunity is a sub-theme throughout this book, but for now two key points will suffice. First, perception is crucial. One group may see an opportunity where another sees a big problem. And, second, this is not necessarily innovation in the traditional economist’s sense, whose hallmark is efficiency. Innovation here may be more about money than efficiency. Given a choice between the two, most criminals will select money 24/7. After all, they may not be around to reap the benefits of efficiency, as they are in a line of work that greatly shortens one’s time horizon, a phrase from economics that refers to how far into the future one can look in making a decision

### **7 *Underground economy***

This is a generic term used to describe economic activities that operate beneath the radar of government tax collection agencies or law enforcement. “Underground” is not to be taken literally, although criminal conduct of many kinds over the years has unfolded in basements, caves, and tunnels. It is important to remember that the underground economy has many participants and not all of them are members of organized crime.

### **8 *“Twilight zone”***

This is the area where the legal and underground economies intersect or overlap. Inspired by the iconic television series created, written, and narrated by Rod Serling, our “twilight zone” is not “wondrous,” but it is “a land of both shadow and substance, of things and ideas.” Indeed, it is “the middle ground between light and shadow.”<sup>51</sup> It is a dimly lit zone where the light of the law fades gradually as right becomes difficult to distinguish from wrong in the enveloping shadows of illegality. The twilight zone features the cracks in the defenses of the

legal economy organized crime seeks to identify and ruthlessly exploit. They include insufficient encryption for computer programs, inadequate controls over the spending of public monies, and corruptible public officials, to cite only three examples on a list that will lengthen throughout this book.

### **9 National and 10 Transnational**

These are the major geographical categories that frame the origins, growth, and expansion of organized crime groups throughout the world. A crime group develops a headquarters at home and then uses it as a base to plan and implement cross-border expansion; the borders here are national boundaries. Some may ask, why transnational and not international? The facile answer is, transnational is the trendy term. Happily, the trendy term in this instance is also the correct term. The Latin prefixes for these words hold the key. *Inter* can mean “among or between,” while *trans* can suggest “across” or “beyond.” The history of organized crime strongly shows groups trying to establish themselves “beyond” the reach of nation-states, not just functioning “between” or “among” those entities.

These ten factors—organization, leadership, social environment, government, vacuum, technological change, underground economy, twilight zone, national, and transnational—constitute a comparative framework that will guide our case approach. Throughout, I will try to substantiate one simple thesis. As Thomas Jefferson said, “simplest is best.” The thesis is, whatever else it was or is, every organized crime group was or is a business. Going down this path receives support from Michael D. Lyman and Gary W. Potter, co-authors of the paradigmatic textbook in the field of criminal justice, *Organized Crime*. “When we endeavor to rethink strategies to control organized crime,” they write, “we must begin by conceptualizing it as a business, not just an alien conspiracy.” They also touch on other aspects of our comparative framework, when they note that organized crime groups “are affected by the opportunities and constraints of the market, the legal system, politics, underworld commerce, and the community in which they operate.” Moreover, to understand organized crime “we must understand its social context.” Organized crime, they emphasize, is not a “dysfunction in society” or an “alien force”, but “part and parcel of the political economic system.”<sup>52</sup>

The book divides the world into five geographical sections—Europe, North America, Central America/South America/the Caribbean basin, Africa, and Asia/western Pacific. Each part has an overview, case studies of particular organized crime groups, and a vignette at the end. Endnotes and a bibliography create opportunities for readers to study topics in greater detail.



# Part I

## Europe

Europe offers fertile ground for illustrating the proposition that if you have seen one mafia in action, you have not seen them all. Indeed, Europe is the birthplace of the original mafia—the Sicilian Mafia—and many more mafias. There are, for instance, at least five mafias now based in Italy and the “Russian mafia” is an umbrella term that covers many criminal organizations. Moreover, a number of other countries harbor their own mafias, which include those from Albania, Bulgaria, Estonia, and Macedonia.

While Europe is an inviting region for studying a major manifestation of organized crime, our exploration must proceed with caution. The problem of definition, which I raised in the introduction, appears here in another way. A major reason why a comprehensive definition of organized crime has proved so elusive is that the constituent groups covered by that definition are themselves hard to define. Specifically, the term “mafia” has multiple meanings and another term frequently seen in connection with some European mafias—“gang”—also does not lend itself to one fixed definition.

To the challenge of definitions we add the problem of relations—between mafias, between gangs, and between mafias and gangs. These may range from hostility, including warfare, through different levels of cooperation. Relations can be especially murky between gangs and mafias. Sometimes a gang may affiliate with a mafia. Affiliation, not itself a clear process, may prove an end in itself or a step towards even closer relations between that gang and mafia.

The following case studies and vignette address the challenge of definitions and the problem of relations in the context of our ten-factor comparative framework. We will use this framework to identify comparisons and contrasts between and among the organizations in each case study and the essay on vignettes. The first case study considers the five major Italian mafias—La Cosa Nostra (original Sicilian Mafia), ‘Ndrangheta (Calabrian), Camorra (Neapolitan), Sacra Corona Unita (Apulian), and La Stidda (a newer Sicilian mafia). The second case study ventures into the daunting labyrinth that is the Russian mafia, which encompasses hundreds if not thousands of criminal organizations. The terms used for describing these organizations compound the problem of definition, as some are called “gangs” and others are referred to as “clans.” The term “mafia groups” seems to be the back-up characterization for all of them. A lack of information and space prevents us from considering every single Russian mafia group, but we focus on one major organization, the Solntsevskaya or the Brotherhood. A vignette spotlights the Albanian mafia and completes Part I.



## 2 Italian mafias

Italy itself has proved fertile territory for the emergence of hundreds of organized crime groups over the centuries.<sup>1</sup> No one has yet provided the definitive explanation as to why a country that is the homeland for the Roman Catholic Church should also be an incubator for some of the best-known types of criminality in human history. But certain characteristics of the country furnish an outline of an explanation. These reside in Italy's political history, geography, economic history, and social conditions. Let us review each characteristic in turn and begin with political history. Our goal in this review is to organize information that will help readers better appreciate our five Italian mafias.

Italy has a long tradition of absent or ineffective civil authority both at the central and lower levels of government. Its people also experienced for centuries the comings and goings of different political powers, which would establish control over a territory and then lose it during another war. So before Italy emerged as a unified nation-state in the 1860s, its people did not have overwhelming confidence that a stable government would be there to protect them. Even after a government of a unified Italy was in place in an administrative sense, it had difficulty establishing control over its center and especially in many rural areas. So the concept of vacuum, the fifth factor in our comparative framework, has special relevance for Italy.

Geography offers insight into why international organizations both legal and illegal seem to flourish in Italian soil. The country has exhibited a striking openness to the outside world going back to the days of its earliest recorded history and accelerating during the times of the Roman Republic and the Roman Empire. The reasons are there for the eye to behold. The country consists of a peninsula and two islands, Sicily and Sardinia. As a peninsula Italy is open on three sides to water. To the east lies the Adriatic Sea, which separates the Italian peninsula from the western states of the Balkan peninsula, which include Croatia, Bosnia and Herzegovina, Montenegro, and Albania. To the southeast lies the Ionian Sea, which separates the southern Italian peninsula and eastern Sicily from the western islands of Greece. The Tyrrhenian Sea, to the west, is bounded by the western Italian peninsula, Sicily, Sardinia, and Corsica, which France claims. Both the Ionian and the Tyrrhenian Seas are arms of the much larger Mediterranean Sea, which separates Europe from Africa and reaches from the Atlantic Ocean in the west to the Near East.



The Mediterranean Sea is one of history's most important bodies of water. Every one has its own littoral, which includes it and all the lands on and around it. The Roman Empire made the Mediterranean littoral into one of the greatest trading littorals in world history. This was a vibrant network of sea routes for transporting commodities and people that drew cohesion from the spread of the Latin language and Roman law and relied for protection on the administrative and military might of the Roman Empire.<sup>2</sup> The Mediterranean trading littoral created a powerful precedent and laid a foundation upon which future business people, some with mixed motives, would build. For example, during the later Middle Ages (c. 1000–1350) and the Renaissance (c. 1350–1500), the Italian city-states of Genoa and Venice would themselves develop major trade routes with locations in and around the Mediterranean littoral, including those in the Near East and North Africa.<sup>3</sup>

Other geographical features yield more clues as to why Italy is so welcoming to all kinds of international business activity. Let us not forget the land borders Italy shares with many countries on the northern rim of the Mediterranean littoral. These include, from west to east, France (488 km), Switzerland (740 km), Austria (430 km), and Slovenia (332 km). The Italian peninsula has a range of rugged mountains running its length, the Apennines. Sicily, part of Italy and the largest island in the Mediterranean Sea, has a major volcano in the east, Mt. Etna, as well as several non-volcanic mountain ranges. Sardinia, also part of Italy and the second largest island in the Mediterranean Sea, is mainly mountainous with few coastal plains. The country also has a long and, in many places, unguarded shoreline (about 7,600 km in length).

The central thrust of our abbreviated geography lesson is that Italy has a strategic location and other geographical assets. Remember that in criminality, as in real estate and economics, a driving principle is location, location, and location. Situated about midway between the western and eastern reaches of the Mediterranean littoral, Italy is a gateway for Latin American cocaine and Southwest Asian heroin entering the European market. Mountains, which dominate the topography of the peninsula and two islands, offer both a place of refuge for those on the run and a haven for illegal business activities.

And its extended coastline facilitates the entry of tens of thousands of illegal immigrants, many from northern Africa and southeastern Europe, as well as the smuggling of contraband.<sup>4</sup>

The economic history of Italy contributes valuable facts that cast more light on the evolution of organized crime in that country. The first is the entrenched dualism in economic development between northern and southern Italy. Southern Italy here includes the southern region of the peninsula and the islands of Sicily and Sardinia. The southern half of the country, roughly speaking, has for centuries been the less developed and less favored region. Southern Italy is less wealthy than the north, less industrialized, more agricultural, and more rural.

The origins of this dualism antedate the administrative unification of Italy in the 1860s, which was not accompanied by a corresponding economic unification.

The industrialization of the north, which began before 1850, appeared first in the textile industry, especially in the silk-throwing mills of Piedmont and Lombardy, and built on a base of natural resources, entrepreneurship, and foreign investment.<sup>5</sup> Decisions made by the government of an administratively unified Italy sometimes exacerbated this dualism. For example, the central government initiated a high-tariff policy in the late 1870s and expanded it most aggressively in the tariff of 1887.<sup>6</sup> Initially, this policy protected northern industry as well as wheat, a major agricultural export of the south. I cannot logically explain the tariff approach of the Italian government over time, because even Vera Zamagni, a specialist in Italian economic history, refers to “the inconsistent nature of the system”<sup>7</sup> and “the incoherencies in the protective system set up in 1887.”<sup>8</sup> We are certain, though, that an international tariff war began. France, in retaliation for Italy’s high tariffs, expanded the list of southern Italian exports on which it levied tariffs. This damaged exports from southern Italy and many suffered. To be fair and put matters into perspective, more recent central governments have tried to reduce regional disparities with various policy initiatives, but results have so far not met expectations.<sup>9</sup> Economic dualism thus remains a major national problem.

The second fact from economic history that has implications for the development of organized crime in Italy is that country’s membership in the European Union (EU) and its accessory arrangements. The EU, which came into existence in 1994, is a common market with a growing membership. The major goal of a common market is to eliminate as many barriers as possible to the exchange of commodities and the movement of peoples among its member states. It is important to remember that reducing barriers benefits more than the legal economy. Reduction can also create opportunities in the underground economy and the twilight zone, which is the overlapping of the legal and underground economies: these are the seventh and eighth factors in our comparative framework. I have elsewhere compared and contrasted the EU and the USA as common markets, with special emphasis on the law and money,<sup>10</sup> and wish here only to highlight two main points: Italy’s participation in the Schengen Agreement and the eurozone. Both are subsets of the full membership of the EU. Each has, in addition, members from outside the EU.

The goal of the Schengen Agreements, enacted in 1985 and 1990 and incorporated into EU law in 1995, is to create a free travel zone among member states. While there were actually two Schengen agreements, incorporation into EU law as part of the Treaty of Amsterdam made them one, the Schengen Agreement. Schengen rules eliminate all internal border controls but attempt to establish effective controls at the external borders of the EU; they also introduce a common visa policy.<sup>11</sup> As of 2010, twenty-five EU members and three non-EU nations adhere completely to the Schengen rules. The crucial relevance of the Schengen rules for organized crime is that a free travel zone makes it easier for all travelers, whatever their motives and lines of work, to move about. In the language of economics, the Schengen Agreement promotes the mobility of labor and entrepreneurial ability that is both legal and illegal. This is not just an

academic argument, as the Schengen Agreement “has been troubled by fears about illegal immigration and drugs trafficking, particularly from countries such as Italy and Spain which have vulnerable coastlines.”<sup>12</sup>

The eurozone is, in part, the subset of EU members that have implemented the euro, the single currency of the EU. The euro is an example of currency simplification, which involves making a single set of paper notes and coins legal tender for a group of countries or even one political entity. It has enormous economic benefits in terms of reducing the costs and uncertainties associated with exchange. In the language of economics, currency simplification lowers transactions costs, which can facilitate economic growth, defined as an annual increase in per capita or per person income. In 2010 sixteen EU members belonged to the eurozone, but numerous countries outside the EU have adopted the euro as their single currency and others peg their currencies to it. Once mocked but now respected, the euro has become a reserve currency in global financial markets. A reserve currency is one that is widely used for international transactions and can also function as a store of value. I have elsewhere tracked the origins and introduction of the euro, which came into use in 1999, and will not burden readers with these details.<sup>13</sup> Here I will introduce the implications of the euro for money laundering, an activity I am tracking throughout this book. Money laundering is one of organized crime’s greatest growth industries and the euro is facilitating this expansion.

The euro has become a currency of choice for money launderers. Why? The answer lies in good old-fashioned efficiency. This efficiency comes from two facts: first, the euro simplifies, or greatly short-circuits, the process of money laundering; and, second, higher denomination euro notes, especially the €500 note, are very convenient to use. As to the first, how ironic that the euro, itself an example of legal currency simplification, would also be striking example of crime simplification. An essential goal of money laundering is to separate the currency from the crime, which means severing any connection between the crime and where it occurred. The euro eliminates the need to “pre-wash.” Before the advent of the euro, if your crime brought Italian lire, you would have to move that sum into another national currency, say German marks—this is the “pre-washing”—before changing marks into US dollars. When you start in the euro you are already in the world’s second reserve currency behind the US dollar. So no one knows if your euros are the result of drug trafficking in the Netherlands, car thefts in Germany or people smuggling in Italy. Countries in the developing world that do business in Europe are encouraged to use the euro, and it is easy to move dirty cash through them. The “them” includes Eastern Europe, the Balkans, Africa, the Middle East, and the Gulf States. The second source of efficiency—convenience—plays into the simplification of the money-laundering process. The €500 note was not intended by the European Central Bank, which oversees the eurozone, to expedite money-laundering, but it has certainly turned out that way. The smaller size, lighter weight, and high value of this note all enhance its criminal appeal (in 2010 the €500 note was worth about US\$650.)<sup>14</sup>

Joining political history, geography, and economic history in setting the stage for our discussion of Italian mafias is a fourth topic—"social conditions." This is Vera Zamagni's phrase as she discusses the problems of southern Italy. Social conditions embrace civil society as a whole but especially the social and political environment in which that society attempts to exist. Social conditions involve numerous factors, such as opportunities for people to receive an education and obtain employment close to where they were born or grew up, the ability of a government to protect its citizens, and the threats to legal activities from criminal elements, particularly organized crime, which constitutes a major challenge in the southern region.<sup>15</sup>

A quick review of those aforementioned factors reinforces earlier aspects of our analysis. In southern Italy local opportunities for younger people to obtain an education and job are not plentiful, and civil government faces geographical obstacles and popular distrust in enforcing laws in the mountains and rural areas. Geography, in fact, favors criminality, and the concept of vacuum in multiple dimensions stands out. There is the notion of vacuum I have already mentioned: the absence or weak presence of civil government in some areas. But there is another dimension to vacuum that should be stressed: the absence of a government that is perceived as having the best interests of people in the south at heart, which has been a recurring problem since the administrative unification of Italy in the 1860s.

It is no mystery, then, why every major Italian organized crime group has a headquarters in the southern region. It is the land of opportunity for them. They can generate jobs, appear as an advocate for the people by providing them services government can't or won't such as protection, create a need for their own brand of protection by intimidating local business people, interweave their structures with the social organization of villages and clans, take advantage of the mountains and unguarded coasts, and build on the legacy of trading routes connecting Italy with other locations in and around the Mediterranean littoral.

With this background in mind, we ask, what are those major organized crime groups in southern Italy? What do they have in common? And what differences do they exhibit?

We are especially interested in the implications of any comparisons and contrasts for each organization as a business.

There are five major organized crime groups in Italy, all of which have bases in the south. They are, in the order of their apparent emergence, La Cosa Nostra (the original Sicilian Mafia), 'Ndrangheta (the Calabrian mafia), Camorra (the Neapolitan mafia), Sacra Corona Unita (the Apulian mafia), and La Stidda (a newer Sicilian mafia). The oldest and the youngest are based in Sicily; the other three in the southern half of peninsular Italy. The power base of La Cosa Nostra is in northern Sicily, while La Stidda has roots in southern Sicily. Calabria is a region that occupies the southwest of peninsular Italy and is the homeland of 'Ndrangheta. Camorra, or the Neapolitan mafia, takes that name from the city of Naples, a port on the western coast of Italy facing the Tyrrhenian Sea; Naples is in the region of Campania. Puglia is a region on the east coast of southern Italy,

looking towards the Adriatic Sea; the northern part of Puglia shares a common border with a section of eastern Campania. Puglia is the homeland of Sacra Corona Unita.

There is a major obstacle in dating the emergence of these mafias, which rests on the problem of definition that recurs in this work. What constitutes a mafia—all its attributes or just one or two? Indeed, what is the template or model for answering the previous question? Scholarship in recent decades strives to be more rigorous in this regard, as it requires written evidence that can be authenticated and exhibits a lack of enthusiasm for the folklore that sometimes envelops the murky and mystical origins of organized crime groups. The author, as a professionally trained economic historian, believes, of course, in empirical rigor, but he is also open to the importance of folklore in inspiring and motivating the founders of an actual organization that would become a mafia. In other words, folklore, while difficult for empiricists to handle, fosters attitudes, creates mind-sets, and provides role models, without which the founders and pioneers would be long on determination but short on mental stimulation. After all, we have the “Lives of the Saints,” which sometimes partake of folklore and occasionally contain details that cannot be historically authenticated, but which serve as powerful motivators for people seeking virtuous role models. Criminals or those who aspire to a life of crime no doubt have their own “Lives of the Naughty and not Nice,” not yet collected in a single written volume but surely circulating in all the right places as oral histories.

From the standpoint of recent scholarship, “mafia groups have existed in Sicily [La Cosa Nostra] and in Calabria [‘Ndrangheta] since the first half of the nineteenth century.”<sup>16</sup> The author accepts this broad dating, if the question is, when did each group emerge as a manifestation of organized crime? A problem with this approach is that the Sicilian Mafia, for one, had a formative period, of uncertain duration, when it was not primarily organized crime or criminal at all. Accounts vary on this pre-1800 history and they fall short of the evidentiary standard of “beyond a reasonable doubt.” I have discussed some of them elsewhere<sup>17</sup> and do not dismiss them, because taken together they approach the less rigorous standard of “preponderance of evidence.” They show the antecedent associations of the Mafia defending personal honor, the Sicilian homeland from foreign invasion, and real estate from theft and vandalism. These images of the original Sicilian Mafia as protector play a powerful role in shaping the self-image of the organization and how it approaches the outside world. I strongly believe that La Cosa Nostra originated in the later European Middle Ages as one or more legal associations specializing in protecting property that government couldn’t or wouldn’t. This is the classic case of a group born in the absence of effective civil authority, a kind of vacuum I introduced as the fifth factor in our comparative framework.

To be sure, La Cosa Nostra sank into criminality after 1800, but if one ignores the pre-1800 period, one has to answer two questions. Are mafias to be taken seriously only when they become manifestations of organized crime? Are the antecedents of any organization crucial for understanding why it evolved as it

did? With the author's background in history, readers already know his responses. Just as the gestation period is important for understanding the development of an organic life form, so also are antecedents essential for appreciating the evolution of any organization.

There is a consensus that the last two mafias to appear in the public record are Sacra Corona Unita and La Stidda. Sacra Corona Unita appeared in 1983, while La Stidda came to light in 1989, even though its roots may date back several hundred years. Controversy surrounds when the third mafia listed above, Camorra, became a major criminal force. Some note its Spanish roots and suggest that it was transplanted to the Italian peninsula when Spain occupied Naples in the sixteenth century. Others view its beginnings as a major criminal mafia, Italian-style, as unfolding either in the 1700s or the 1800s.<sup>18</sup> I will focus on the older three and reference the newer two where possible; the public record is not as detailed for them. Evidentiary gaps are standard operating procedure in writing about organized crime, which is always an exercise in looking at your subject "through a glass darkly." As I use topics from the comparative framework, I refer readers back to the introduction for definitions of each. I will not use every factor for every organized crime group. Wherever possible, I will draw out the implications for the central thesis of this book that every organized crime group, whatever else it may be, is a business in some way.

The first four topics *organization* encompasses—centralization, decentralization, autonomy, and interdependence—begin to furnish ways to distinguish one Italian mafia from another. Most writing about these topics in relation to criminal organization is linear. It relies on the concepts of vertical and horizontal and is thus two-dimensional. It can present a table of organization for a group, but not the degree to which any concept is embedded in the actual day-to-day operation of an organization and how much it influences human conduct. Nonetheless, with these caveats in mind, the concepts of horizontal and vertical are still useful points of departure for developing more realistic portraits of organized crime in practice.

As the first example, the original Sicilian Mafia has been described as a "loose confederation" of about 100 mafia families.<sup>19</sup> The term confederation itself implies looseness; so a loose confederation must be really loose in an organizational sense. Both a federation and a confederation usually have some kind of institutional center. The center of a federation exerts major control over members; the center of confederation does not. A federation thus embodies significant centralization; a confederation favors decentralization. Members of a federation and a confederation both have local decision-making autonomy, but in theory that autonomy is greater in confederation. I write "in theory," because some federations appear tightly woven on paper but in practice members have found ways around directives from the center.

In a government organized as a confederation, the center would have its own physical headquarters that could consist of a legislature, an executive, and possibly a judiciary. In a criminal organization likened to a confederation, the center, for reasons of security, would not be so visible or articulated. To the

extent that the original Sicilian Mafia has a center, it is not made of building materials. In the 1950s La Cosa Nostra did set up a higher coordinating body, a commission, consisting of important leaders of the individual families. But the real cohesion of La Cosa Nostra comes from intangibles: the families all share “common cultural codes and a single organizational formula.”<sup>20</sup>

These “common cultural codes” embody family values and personal guidelines. They also relate to the social environment, our third comparative factor, and procedures and personnel, two other dimensions of organization. Each mafia family is expected, for example, to respect the independence and integrity of every other family. Individual members are expected to conduct themselves at all times in accordance with prescribed rules. A fascinating sample of these precepts entered the public record in 2007, when Italian police raided a house in the countryside outside Palermo, the Sicilian capital, and arrested Salvatore Lo Piccolo, who was allegedly trying at that time to become the next “Boss of Bosses” for the Sicilian Mafia. Among “his coded notes about the administration” of La Cosa Nostra was a “list of 10 commandments for mobsters.” Here is the full text of the Mafia’s “Ten Commandments” which relate to procedures and personnel.<sup>21</sup>

- 1 No one can present himself directly to another of our friends. There must be third person to do it.
- 2 Never look at the wives of friends.
- 3 Never be seen with cops.
- 4 Don’t go to pubs and clubs.
- 5 Always being available for Cosa Nostra is a duty—even if your wife’s about to give birth.
- 6 Appointments must be absolutely respected.
- 7 Wives must be treated with respect.
- 8 When asked for any information, the answer must be the truth.
- 9 Money cannot be appropriated if it belongs to others or to other families.
- 10 People who can’t be part of Cosa Nostra: anyone who has a close relative in the police, anyone with a two-timing relative in the family, anyone who behaves badly and doesn’t hold to moral values.

The eighth and tenth ‘commandments’ deserve comment. The eighth must apply to discussions within one’s mafia family, not to dialogue between a Mafia member and law enforcement officers. Surely, the Don is not counseling veracity in dealings with the police, which in these commandments is not a Mafia favorite. The tenth excludes “anyone who behaves badly and doesn’t hold to moral values.” Clearly, there is a situational morality at work here. The Sicilian Mafia did emerge as a mutual aid society to protect others and its own members, but it employs physical and mental violence that sometimes becomes lethal. “Moral values,” apparently, should apply on the inside but the outside world is a jungle, where anything goes and self-defense legitimizes fatal applications of force.

The “single organizational formula” that mightily contributes to the cohesion of La Cosa Nostra is expressed in the administrative hierarchy that makes each individual mafia family highly centralized. It also illustrates yet another aspect of organization, structures. Family structures stand in stark contrast to the decentralized organization of the overall Cosa Nostra as a confederation. The hierarchical organization of each individual mafia family is the one so familiar to viewers of *The Godfather* saga, *The Sopranos* epic, and various hearings in the US Congress over the years. Heading each family is the Don or Boss, who is assisted by an Underboss. Middle management consists of only one level: the *Caporegima* (Capos) or captains. On the lowest level are the soldiers, who work the streets and keep insiders and outsiders in line. Power reposes in the don, who delegates tasks to those on the lower levels of organization. Adjuncts to this hierarchy include a consigliere or counselor who advises the Don or, if needed, the Underboss and a group of people vaguely called associates. These people are not members of the family but perform services for it and are compensated in some way.

The bureaucracy of each family is efficient: it is not top-heavy and economizes on levels of administration and personnel. This administrative efficiency is facilitated by those “cultural codes,” and everything else that makes the Mafia a brotherhood, which includes initiation rituals and the famous blood oath of secrecy, *omertà*, the breaking of which is punishable by death.<sup>22</sup>

These facts concerning the organization of the original Sicilian Mafia are well established, although the appearance of Don Lo Piccolo’s “ten commandments” reveals an innovative way to present Mafia “ethics” in the ten-point framework of familiar Christian precepts. Not so appreciated is the significance of this type of organization for the Sicilian Mafia as a national and transnational business. To explain this significance we recall the concept of interdependence, which expresses the blend of centralization and decentralization a particular organization exhibits. The interdependence of the original Sicilian Mafia greatly favors decentralization overall but centralization in the local families.

The positive implications of this type of interdependence for business are striking. Reposing most power in the local families gives maximum flexibility to respond on the ground to problems or opportunities originating on the ground; there is no need to get permission from an upstream bureaucracy to act. The local units of the business (the families) can customize services to fit local needs. They can rapidly develop markets for products and services that extraneous events might create. This type of interdependence helps preserve the life of the business. Crucial resources are already decentralized, and without a visible center in a fixed location a catastrophic attack cannot decapitate the organization. This kind of interdependence also lends itself to refinements, as in the 1950s the families, at the urging of Charles “Lucky” Luciano, decided more overall coordination was needed and set up a commission. And, occasionally, someone will try, as Don Lo Piccolo apparently was, to extend the principle of centralization upward and become “the Boss of Bosses” over a number of Mafia families.



The topic of policy, also listed under organization in our comparative framework, provides a way for us to show the development of the Sicilian Mafia as a business. This organization has pursued many policies over time. Some are general ways to grow and protect a business. Others, more specific, are designed to deal with the special circumstances an organization confronts. I list general policies here. Other organized crime groups share one or more of these policies with the Sicilian Mafia. I provide further explanation below.

- 1 Strengthen protection and expand its definition and coverage.
- 2 Follow the principle of diversification by adding other products and services, even core businesses. Diversification also includes becoming a more transnational business. This means spreading activities across a range of countries.
- 3 Take advantage of existing markets for Mafia products and services and create new ones.
- 4 Continue to expand the infiltration and corruption of seemingly legal entities, like governments. This policy further blurs the distinction between legal and illegal, protects the underground economy, and promotes an expansion of the twilight zone.
- 5 Don't be afraid of technological change. Embrace it and turn it to one's advantage where possible. Be prepared to defend the organization against technological change if it is turned against you.

Let us amplify aspects of this list. The first policy concerns protection, which is the mafia's original business and remains its bedrock enterprise. Now protection can be reactive, to defend once attacked, or proactive, to guard against the possibility of attack. Proactive protection can also be pre-emptive, as in a "first strike" designed to neutralize or destroy the source of a feared or anticipated attack. Proactive protection can also be voluntary or involuntary, freely selected or forced upon someone. The Sicilian Mafia's conception of protection involves all these dimensions. The first policy is to strengthen protection, as just comprehensively defined, and expand its coverage. Protection, in the language of business, is a mafia growth industry. Mafia members defend and guard themselves from hostile forces outside the mafia, from enemies in another mafia family or their own. They also initiate pre-emptive actions against both outsiders and insiders. And, lastly, proud of the protection they offer, they force this service on others.

This final type of "protection" deserves more attention. It is based on fear. In legal terms, it is extortion, which means using physical force or the threat of force to obtain something from someone. It involves payment of the famous *pizzo*, which generates one of the mafia's major revenue streams. In Italian *pizzo* can mean "lace" or "peak," but here it means "protection money." The mafia approaches outsiders, frequently small businesspeople who are more vulnerable to threats and intimidation than owners of larger enterprises, and suggests they need protection from dangerous forces. What or who are these forces? Well, they might just be us. It is refreshing that something so brazen can also be put in

terms from the history of economic thought. Jean-Baptiste Say (1767–1832), a French political economist, proposed a maxim that became known as Say’s Law or Say’s Law of Markets. Put too simply, he argued that without supply there could be no demand. Say’s law is controversial and has been restated numerous times, sometimes in a distorted manner. In fact, John Maynard Keynes (see introduction) rephrased it as “supply creates its own demand,” which is a patent overreach. Intriguingly, in the economic history of criminality, even Keynes’ misleading restatement receives a practical validation. Remember we are concerned with protection money, which is paid monthly and is even negotiable, and not the other types of mafia protection defined above. Here is something taken from the history of economic thought and transported into the criminal world. The mafia has a supply of protection; it creates a demand for it through physical or mental coercion. In this perverted situation, supply does create its own demand, with the assistance of what I call Hobbes’ Law after Thomas Hobbes: “clubs are trumps” or “physical force reigns supreme.”

Protection money—you need to pay us to protect you from us—is a common technique used by organized crime of all types everywhere. It may not always be paid in cash but sometimes in kind—that is, goods or services—and it may not always be negotiable. What is noteworthy about the *pizzo* of La Cosa Nostra is the extent to which it has penetrated Sicilian society, even acquiring in local parlance another name, “the system.” “Italian government figures suggest,” according to Stephanie Holmes writing for BBC News from Palermo, “that 70% of all Sicilian businesses—from the scruffiest tobacconist on the street corner to a multinational exporter—pay some money into the Mafia’s racket.”<sup>23</sup>

Technological change can both help and hurt organized crime. There is an important case study of technological change working against organized crime, in this case La Cosa Nostra, unfolding in Sicily. To appreciate this example I must set the stage with some ABCs most readers already know but everyone will soon know. Perhaps the most consequential technological change of the modern era is the computer, which has spawned numerous other innovations in the field of electronics and elsewhere. The computer has had an enormous impact in the field of communications, with the emergence of the Internet and the World Wide Web. The Internet is one entry ramp to the World Wide Web, but the Internet connects to numerous other networks that are not part of the Web. Technological change in itself, as history has repeatedly shown, can be used for good or ill. And the computer, the Internet, and the World Wide Web reinforce this historical lesson. The Web, in particular, is a source of much valuable information but it is also a cesspool of evil, as everyone entrusted with educating our younger generations must know. Those who ignore these realities do so at their peril.

I now present the major example of technological change working against La Cosa Nostra in Sicily. In 2004 a movement sprung up to challenge “the system” as embodied in the *pizzo*. Law-abiding private citizens then began using the Web as a way to bond together and share their courage and determination. Their numbers are still small in relation to Palermo’s total business community. But their website has become a force, where businesspeople “are finding safety in

numbers to say no to the mob”; they are “openly defying the mafia by signing on to a Web site called Addiopizzo’ (Goodbye Pizzo).”<sup>24</sup> Some may be asking, how can a website hurt the big bad mafia? And the answer is, by itself, it is not sufficient. Law enforcement must continue to track down, arrest, and prosecute mafia leaders in an effort to decapitate as much of the upper-level leadership as possible. Important progress has been made in this regard; the arrest of Don Salvatore Lo Piccolo, reported above, is a high-profile example.

But in an arsenal with the weapons of law enforcement and the courts the website becomes another powerful weapon. The Web generates publicity; its openness casts a powerful searchlight on the secrecy so essential for mafia survival. The Web can turn the rock over and let sunlight dry up the scum on the rock’s underside. And the Web can help break the grip of fear that is the ultimate foundation on which the success of the *pizzo*, other forms of extortion, and indeed organized crime itself rest. In short, this campaign shows entrepreneurship in action against the mafia, with the assistance of the Web, and how technological change properly deployed can illuminate the highways and byways of the underground economy and twilight zone.

The policy of protection practiced by the Sicilian Mafia is comprehensive and far-reaching. Diego Gambetta has ably demonstrated these characteristics in his path-breaking book, *The Sicilian Mafia: The Business of Private Protection*.<sup>25</sup> But he has conceptualized protection in a manner reminiscent of the “enterprise model” I critiqued in the previous chapter. In fact, I would argue he has advanced a “single enterprise” interpretation of the Sicilian Mafia with which I must respectfully take issue. In the language of business, there are core, major, and secondary businesses. Some suggest that an organization can or should have only one core business, but I believe this view is narrow and shortsighted, because it all depends on the organization. Some organizations may wish to apply the principle of diversification in this context and have several core businesses; it all depends on what they find in themselves and their business environments. For terminological purists who insist everything can have only one core, I recommend using the term “major businesses” for additional core businesses. I add “secondary businesses” to this mix, since criminal organizations may wish to keep some type of activity at this level or they are interested in developing another major business but only at their preferred pace.

In this framework protection is for the Sicilian Mafia, as it is for all other mafias, a core business. But this is a special core business for the Sicilian Mafia. It is the first, the foundation core business, the one that embodies the *raison d’être* for the existence of the Sicilian Mafia. But this mafia, as do the others, has other core or major businesses, as well as a number of secondary ones that may or may not become major businesses. Why is this discussion important? The answer is simple, the correct conceptualization matters. I am not writing this book to reveal the inner secrets to policy makers, if I knew them, for wiping organized crime off the face of the earth. What I do know is this. If the intended object of government action is not accurately depicted, a policy will be doomed on paper before it even has a chance to fail in practice. In this spirit, a realistic

description of the Sicilian Mafia must acknowledge that it is far more than a single enterprise or industry and that it has, in fact, evolved from one core business, into a core with several major businesses, and is now the equivalent of a transnational corporation. Particularizing the mafias, rather than homogenizing them, will bring their individual strengths and vulnerabilities into sharper focus. One can then use a scalpel, not a hatchet, to make deep surgical cuts in their revenue arteries in a prioritized manner.

While all mafias have protection as a core business, it is in the areas of product and service specialization that significant differences appear. Let us, in fact, consider all five Italian mafias together and illustrate this contention. The direction of each organization is also related to its transformation from a national to a transnational business. Put too briefly, the Sicilian Mafia, in its criminal version after 1800, specialized at first in protection, cattle rustling, and bribing government officials. Protection was a core business; bribery became a major business, while rustling cattle was not as central.

As time passed, the organization expanded protection and bribery but added other specializations. Histories of Cosa Nostra usually do not treat immigration as a major mafia business, but it demonstrably was. We are not, of course, placing all Sicilian immigration under the rubric of a mafia business. While the vast majority of immigrants were good people seeking a fresh legal start, inevitably among their ranks came a small number driven by illegal opportunities. Sicilians began coming to North America in the 1600s, but Sicilian immigration to the United States remained a trickle until the 1880s when it commenced about four decades of major growth. Between 1901 and 1913, for instance, about 1.1 million Sicilians emigrated and roughly 800,000 came to the United States.<sup>26</sup> Tighter immigration restrictions slowed this movement during the 1920s, although both the good and the bad continued to make up the dwindling numbers of Sicilian immigrants.

The subject of immigration has many dimensions, but here we spotlight the export of mafia leadership and personnel to the United States. Within the overall patterns of Sicilian immigration, organized crime had its own special rhythms. During the 1920s, for example, when overall numbers were decreasing, a number of mafia leaders and subordinates were fleeing Sicily and coming to the United States to escape the persecution that the then dictator of Italy, Benito Mussolini, was directing at the Sicilian Mafia. Mussolini's campaign to suppress the mafia failed. But the flight of mafia members strengthened an ongoing phenomenon: the key roles that Sicilian immigrants played in the emergence of organized crime in the United States, especially the US mafia. James Dickie provides compelling examples of this process in "The Mafia Establishes Itself in America, 1900–1941."<sup>27</sup> In the context of our comparative framework, Sicilian immigration provided a pool of criminal leadership and personnel that expedited the transformation of the Sicilian Mafia from a national into a transnational business.

The later expansion of the Sicilian Mafia into other businesses would reinforce the two-track approach followed by so many other organized crime groups.

The Sicilian Mafia was involved, at one and the same time, in both legal and illegal activities. In the 1950s, for instance, Sicily experienced a major building boom sparked by an infusion of money from the central government into southern Italy. The Sicilian Mafia seized this legal opportunity and gained control of the building contracts, which brought it millions of US dollars but corrupted the construction industry there.

The entry of the Sicilian Mafia into the construction industry in the 1950s prepared the way for its greater penetration of the Italian cement industry in subsequent decades. The Camorra, the Neapolitan mafia, would join the Sicilian Mafia as the two Italian mafias with the greatest demonstrated involvement in the Italian cement industry. This industry appeals to organized crime for three reasons. "It is profitable, allows high levels of local economic involvement, and is a good way to cover illegitimate business."<sup>28</sup> A cardinal criminal axiom thus became: "wherever there is construction, cement is needed."<sup>29</sup> Construction spending is not immune to business downturns, but there are usually projects in the pipeline that can continue, except in times of economic emergency. So involvement in the cement industry is a reasonably reliable, though far from guaranteed, source of cash flow.

The list of criminal activities would continue to lengthen. Besides extortion, corruption, immigration, construction, and cement, the Sicilian Mafia developed a significant presence in illegal drugs, especially heroin trafficking, various frauds including counterfeiting and money laundering, arson, and military arms traffic. Without revenue figures broken down by activity, we cannot categorize with confidence which industries became additional core or major businesses and which remained secondary.

But there is no question that illegal drugs became a core business for the Sicilian Mafia. Illegal drugs—their international trade, their corrosive effects on society's most important institutions, and their damaging and sometimes lethal impact on users—play a major role in the economic history of organized crime. As such all readers should know some basics of these drugs. Let us briefly consider here opium, morphine, and heroin, as they all play a role in the Sicilian Mafia's deepening involvement in the international trade in illegal drugs that we discuss shortly. Where appropriate, we will give the ABCs of other drugs. Opium, morphine, and heroin can be related. "Opium is a naturally occurring substance found in the seeds of the opium poppy. Opium, which contains morphine, is extracted from the poppy seeds and used to produce heroin."<sup>30</sup> Opium need not be used in the production of heroin, as it is a stand-alone drug for good or ill. For good, opium is, for instance, in a medication designed to stop excretory irregularities in humans. And morphine also has beneficial medical uses, as it is in a group of drugs labeled as narcotic pain relievers. But heroin, called colloquially H, snow, smack, junk and other assorted names, is all evil, one of the drugs from hell, along with crack, crystal meth, and methamphetamine.

Our comparative framework again shows its analytical value in explaining the Sicilian Mafia's increasing role as a transnational delivery service for opium, morphine, and heroin. As to leadership in illegal drugs, the Sicilian Mafia owes

its greatest debt to Charles “Lucky” Luciano (1897–1962), who migrated to the United States from Sicily in 1906 and would organize the US mafia on the essentials of the Sicilian model, sketched earlier in this chapter (see Chapter 5). He excelled at organization and was, in this writer’s opinion, an organizational genius. How he got his nickname, “Lucky,” as with so many other matters in the origins of organized crime groups, is murky.<sup>31</sup> In the 1930s he set up a commission of US mafia leaders to adjudicate disputes, discuss matters of common concern, and keep one another better informed of their problems. While there have been a number of mafia commissions in the US over the years, Luciano’s was the most effective. Luciano, who understood the importance of business models, was involved in multiple activities in the US; prostitution was the one that got him imprisoned in 1936.<sup>32</sup> It is hard to communicate to younger readers just how strange are the bedfellows that war creates. But many mafia members were vigorously anti-fascist and thus seen as valuable allies by the US government during World War II, as it fought fascism coming from both Italy and Germany. Luciano was supposedly allowed to run his organized crime network from prison because he provided valuable information to US military intelligence, as the Allies prepared their invasion of Sicily. He also provided help of another kind, as he reputedly still controlled Sicilian ports. As a further favor he was released from prison and deported back to Italy in 1946. His return to Sicily, seen at the time as a reward for patriotic assistance rendered the US government, would turn out to have ominous consequences of the greatest magnitude for the forces of law and order. His criminal career never skipped a beat. And he would come to play the crucial role in organizing the post-World War II international trade in heroin, which greatly accelerated the transnational transformation of organized crime, especially for the Sicilian, Corsican, and US mafias.

This trade illuminates our thesis that every organized crime group is a business and showcases the wide-ranging business skills of Charles “Lucky” Luciano, described by Alfred McCoy, an expert on the international trades of illegal drugs, as “one of the most brilliant criminal executives of the modern age.”<sup>33</sup> This writer has long pondered the question, what made Luciano so good at organization? He was “brilliant,” but he possessed other critical attributes necessary to become a superb business organizer. First, he thought in business terms. This is an acquired skill and not as easy to do as it sounds. For readers who still may think that for a work of purported scholarship the author has an incredibly simple thesis, I respond, my thesis is simple to state to be sure, but thinking in business terms is not so simple. And to appreciate the significance of my thesis one must learn to think in business terms. What does this mean? Thinking in business terms requires that you transfigure everyone and everything into pieces that you place on your chessboard of business decision-making. For leaders of organized crime this can be a lethal chessboard, possibly not as dramatic as the one in *Harry Potter and the Sorcerer’s Stone* (*Harry Potter and the Philosopher’s Stone* elsewhere), but one whose moves carry equal finality nonetheless. When people become pieces on a chessboard, you have depersonalized and objectified them, which makes it easier to kill them.

Some have noted that the fictional Michael Corleone bears certain similarities to Charles “Lucky” Luciano. For readers who are not scholars of *The Godfather* trilogy, Michael was the All-American son of Don Vito Corleone. He was a college graduate, a hero in World War II, the son whom his father wanted to become “Senator Corleone,” or “Governor Corleone,” but certainly never Don Michael Corleone. With a tragic inevitability, as the other sons proved inept, it fell to Michael to give his father protection, the quintessential mafia mission, and eventually to take over as leader of the crime family. Because of the reported similarities between Charles Luciano and Michael Corleone it is not entirely coincidental that invaluable clues to understanding organized crime as a business can be found in these movies, which can enhance our portrait of Charles “Lucky” Luciano. Ultimate credit for these insights must go to Mario Puzo, who wrote the original book *The Godfather*, which I have learned over the years is more than verisimilitude.<sup>34</sup>

I begin a review of relevant comments from these movies with a paraphrase of Sherlock Holmes, who once remarked that sometimes the best place to hide something is out in the open. When Sollozzo was talking to a detained Tom Hagen during the attempted assassination of Don Vito Corleone in the first *Godfather* movie (1972), he said, “I don’t like violence, Tom. I’m a businessman. Blood is a big expense.” That Don Vito was a human being was incidental; all that mattered to Sollozzo was that he represented, in the language of economics, an entry barrier to the trade in illegal drugs that had to be removed. When Acting Don Sonny Corleone, Tom Hagen, Clemenza, Tessio, and Michael were discussing Corleone family strategy in the aftermath of the bungled assassination attempt against Don Vito, Tom Hagen said to an agitated Sonny, “Even shooting your father was business not personal, Sonny!” At that same meeting, when they were considering the elimination of Sollozzo and the corrupt Captain McCluskey, Michael reinforced the same point: “It’s not personal, Sonny. It’s strictly business.”

In *Godfather Part II* (1974), after the family moves to Nevada, Michael himself is the object of an assassination attempt that fails. Michael, who along with “Lucky” Luciano seemed to possess a preternatural sense of who the real enemy was, travels to New York to visit Frank Pentangeli, who took over the Corleone family’s interests in New York and their home after the move to Nevada. Pentangeli is startled to see Michael, who arrives unannounced. During their meeting, Michael reveals that “my father taught me many things . . . keep your friends close but your enemies closer.” What does this Delphic utterance mean? The best illustration in these movies of this principle is how Michael treated long-time Corleone family consigliere and adopted brother Tom Hagen. Michael removed Hagen as consigliere and assigned him another post that was not as close to the nerve center of family decision-making. Hagen was not happy but he complied. There then occurs the bungled assassination of Michael himself in his bedroom. In the immediate aftermath he is conversing with Tom Hagen in one of the most important encounters in the entire trilogy. Michael, who has to leave as “anything is possible,” tells Tom that he will take over as the Don. He

says he knows how upset the demotion made Tom, because he may have felt Michael did not trust him. This was not the case. The real reason why Michael reassigned Tom Hagen and kept him “close” but not “closer” was based on the survival of the family business. Because Hagen was no longer consigliere and not “closest” anymore, he was at this moment “the only one I completely trust.” As they were discussing at this meeting who was behind the attack, Michael also says, “all our people are business people; their loyalty is based on that.” I could go on.

How does this cinematic evidence help us better understand Charles “Lucky” Luciano? Well, Michael Corleone and Charles “Lucky” Luciano both thought in business terms, mafia-style, where termination has more than one meaning. More specifically, they both knew how to position their personnel on the chessboard of business decision-making to maximize their own safety and that of their organizations. They both knew how to pick reliable subordinates, an important asset for any leader but especially for one in the field of organized crime. Insiders, sometimes people “closest” to the don, have carried out many of the assassinations of mafia leaders over the years. A mafia leader thus must have an incredibly high tolerance for self-risk, as he had to work with people who might want to kill him some day. Charles Luciano and Michael Corleone both had that personality trait. Moreover, both had a vision: they knew what they wanted to organize and how. And they practiced the meticulous preparation required to implement their visions. That is, they both thoroughly researched and thought through their decisions. And they were both flexible; rigidity has ended prematurely the career of more than one business leader. No plan should ever be anchored in concrete; plans B, C, or even D may be needed to adapt to changing circumstances. The challenge is to see the wave coming from as far out in the ocean as possible and be prepared to take advantage of it, not be knocked off your surfboard.

Luciano’s activities after World War II, especially in connection with the international trade in illegal drugs, provide compelling examples of those aforementioned business skills. Consider first Luciano’s ability to select the right person for the job. When he was deported from the United States in 1946, he needed someone on the spot to manage his financial interests there. He turned to Meyer Lansky, whom he had known for a long time. As was Luciano, so was Meyer Lansky multi-skilled. He excelled at organization, negotiation, finance, and networking. He helped Luciano organize his heroin syndicate (see below), managed smuggling operations, negotiated with Corsican heroin manufacturers, and cleverly concealed the massive profits from the drug operations.<sup>35</sup>

The narcotics syndicate Charles “Lucky” Luciano organized after World War II was

one of the most remarkable in the history of the traffic. For more than a decade it moved morphine base from the Middle East to Europe, transformed it into heroin, and then exported it in substantial quantities to the United States—all without suffering a major arrest or seizure.<sup>36</sup>



It was the vision and meticulous preparation of Charles “Lucky” Luciano, as well as his other business attributes, that made this “accomplishment” possible. His vision was truly global: he wanted to organize the international trade in heroin. To reach this goal he had to coordinate, in the language of economics, the sources of supply with the markets of demand. This statement is true, but its simplicity does not convey the daunting informational and logistical challenges the actual organization of the trade confronted. The following are some of the issues Luciano had to master: the processes of heroin manufacture, the sources of supply of the ingredients, the people and organizations who controlled those sources, how best to provide protection for all involved from law enforcement, who were those people in and out of government that had to be bribed—what their weaknesses were and how to exploit them—the mechanics of coordinating supply and distribution with demand, and who or what organizations controlled the markets of buyers. In addition, Luciano had to decide how many middlemen were needed, where to position them, and how many layers of insulation were needed between top management and sellers in the street.

I cannot detail here all these issues and refer interested readers to Alfred McCoy’s seminal work and its subsequent revision.<sup>37</sup> Let me just underscore the organizational excellence of Luciano’s drug syndicate and try to explain why this was so. Luciano was meticulous in his preparation, which dictated in this case that he advance step-by-step. According to Paul Lunde, in the years immediately after World War II, even though back in Sicily, Luciano first concentrated on the western hemisphere and used Havana, Cuba, as a major base to organize this arena of the international trade in illegal drugs. Meyer Lansky, as noted, played a major role in this endeavor. Pre-revolutionary Cuba and its dictator Fulgencio Batista were most welcoming to business people of all interests, a hospitality which abruptly ended when Fidel Castro seized power in early January 1959. Luciano was flexible. He was aware of the growing strength of the Castro revolution, which officially began on 26 July 1953 in Oriente Province in eastern Cuba. He knew he had to diversify should the Castro revolution succeed and destroy the Havana connection. So he proposed a pivotal meeting that took place in Palermo, Sicily, in 1957. This was the next step—and a major one—in the internationalization of the trade in illegal drugs, as the Luciano syndicate would now organize a trade that would connect North America, the Caribbean, Europe, and Asia. Luciano wanted his partners from the Sicilian Mafia to be as organized as possible, because one of his cardinal principles was that the organization of the whole (the syndicate) should be supported by the organization of each part (the partners in the syndicate). So he had been urging the heads of the 150 families that constituted the Sicilian Mafia to form a commission to coordinate their affairs, as he had, as noted earlier, established his own commission to oversee the US mafia; they did, and the result was Cupola, or Sicilian commission.<sup>38</sup>

The intercontinental syndicate that emerged from the Palermo meeting had at least two phases. In the first the network relied on sources in the Near East, especially Turkey and Lebanon, for its basic raw material—morphine base—and

used Marseille, a seaport in southeastern France, as a major transshipment point. This was the famous “French Connection” that inspired the movie of the same name (1971) that won five Oscars. Then Turkey began to eliminate its opium production, but this did not stop Luciano, as he remained flexible. He shifted his attention to Southeast Asia, where the long-running conflict in Indochina, which began in the 1940s as an insurgency against French colonial rule, was spreading chaos and destabilizing the region. Luciano had business relations with the mafia based on the island of Corsica and established contacts with Corsican mafiosi who were living in South Vietnam. He brought some US mafia leaders into his coalition, including Santo Trafficante, Jr. Together they ushered in the second phase of Luciano’s organization of the international illegal drugs trade, which took advantage of the lawlessness in many parts of Southeast Asia engendered by the Vietnam War to create a crucial supply and distribution center in the “Golden Triangle.” This is a mountainous, unwelcoming region that contains parts of four countries—Burma (Myanmar), Thailand, Laos, and Vietnam—and which “had become the world’s largest source of opium, morphine, and heroin” by the 1960s.<sup>39</sup> The “Golden Triangle” is yet another example of a vacuum, the fifth factor in our framework. Effective government control is absent, which presents golden opportunities for criminal activities. In a final testimony to the organizational genius of Charles “Lucky” Luciano, his drug syndicate outlived him by many years. Charles Luciano was truly “Lucky” in his criminal career, since he did not die in hail of bullets fired by henchmen of a grasping rival or perfidious associate. He died in Naples, Italy, in 1962 from a massive heart attack, supposedly as he was about to meet someone who was interested in doing a movie about his life. By any standard, he was a superb businessman whose record of accomplishment, evil but brilliant, deserves a full-scale scholarly biography in English.<sup>40</sup>

### **More comparisons and contrasts with the original Sicilian Mafia**

The Sicilian Mafia has focused our attention in much of this chapter so far as it is the original Italian mafia. But the other four Italian mafias mentioned earlier provide instructive comparisons and contrasts with the original Sicilian Mafia. Let us continue with our topic of core businesses, as these can reveal significant details about a particular mafia, and return to the prerequisite mafia core business—protection.

I base the following analysis on my earlier definitions of the types of protection: reactive, proactive, voluntary, and involuntary. The ability of a mafia to provide any type of protection, including self-defense, rests on its strength; power is a projection of that strength. Strength results from both quantitative and qualitative factors. As to the first, strength is measured in many ways. These include numbers of members, associates, weapons, and those who have been corrupted in some manner. The last group plays into a criminal organization’s strength in the world of seemingly legitimate politics. Quantitative strength also

takes into account the money and wealth an organization has amassed, as well as the economic resources it can summon from outside in times of crisis. Each of these quantitative indicators has a qualitative dimension. Membership, for instance, depends partly on recruitment and whether it is producing the right numbers and kinds of new applicants. Moreover, there are qualitative categories that cannot be measured; these intangible items also guide our evaluation of an organization's overall strength. Topping the list of intangibles is how susceptible an organization is to outside penetration. This depends, in part, on how cohesive the culture of an organization is, which is ultimately based on how members bond with one another. Summing up, in assessing strength, we examine anything and everything that might reveal or hint at an organization's vulnerabilities.

With such a lengthy checklist of the components of strength and with five major Italian mafias before us, we obviously cannot provide a complete analysis in this regard in our space limitations. We can, however, demonstrate the usefulness of this approach by spotlighting two issues and their implications. The first is recruitment; the second is vulnerability to outside penetration. Bringing in the needed numbers of new members with the right attributes is a major challenge any organization faces, but it has become a daunting question for some organized crime groups. In her insightful interdisciplinary study of the Sicilian Cosa Nostra and the Calabrian 'Ndrangheta, Letizia Paoli views them as brotherhoods and employs concepts such as a "contract of status" and a "contract of fraternization" to analyze the strengths and weaknesses of their bonding procedures. A "contract of status" requires that a freshly initiated member assume a new identity as a "man of honor" and obey without question directives from superiors. The "contract of status" is also a "contract of fraternization," which means that a new member has essentially joined a mutual aid society and must act in an "altruistic" manner towards his "brothers." For these "contracts" to work recruits must be "people who are already socialized to certain specific values."<sup>41</sup> These values are imbedded in the above definitions as well as in the mafia "Ten Commandments" of Don Salvatore Lo Piccolo discussed earlier. They embrace respect, honor, duty, obedience, and willingness to sacrifice oneself for the good of the group. It may be difficult for some to appreciate the notion of altruism in a criminal setting. But what outsiders see as organized crime, illegitimate and corrupting, insiders view as a mutual aid society, based on the principle of self-defense and therefore necessary and legitimate.

Here enters a big problem for today's mafias, according to Letizia Paoli. The pool of potential recruits with prior socialization to the requisite values is dwindling, and "this places clear limits on the supply of available candidates from which mafia families can recruit their members."<sup>42</sup> Neither she nor I have full explanations for the shrinking numbers. But I do know that many see honor and respect as old-fashioned concepts and that some even regard duty and obedience as the province of those who "are not with it." These views are not limited to younger generations. And I am convinced that illegal drugs, while producing stratospheric profits for organized crime, are taking an increasing toll among those who might constitute the future leadership of their organized crime groups.

Junkies do not make good leaders, of anything. In another confirmation that life sometimes imitates art, the warning from Don Vito Corleone in the mid-1940s against organized crime's involvement in the trade in illegal drugs is proving prophetic in a way he may not have anticipated. They are undermining the future of organized crime, one potential leader at a time.

Whatever its causes, the reduced supply of recruits has profound implications for organized crime as business. Paoli concludes "as a result, over the last three decades members have found it increasingly difficult to internalize the competencies necessary to compete successfully in international illegal markets."<sup>43</sup> In simpler language, many newer members are not up to demands of the illegal international marketplace. Waning competence has a huge impact on the quality of protection an organized crime group can provide and the declining numbers of recruits affects the quantity of protection a group can command.

The second issue concerning strength featured here—vulnerability to outside penetration—has already had a major impact on which organized crime groups dominate what core businesses. While all five major Italian mafias derive a significant portion of their identities from geography and hence have a bond to a specific location, their individual members have additional ways they may bond with one another. For members of some mafias, their primary human bond with one another is membership in a specific crime family. The culture of that organized crime group generates its own *esprit de corps*, which also works as a bonding agent. But if history has another lesson for us, it is this: blood is thicker than water and culture. This precept receives striking confirmation in a contrast between the Sicilian Mafia, Cosa Nostra, and the Calabrian mafia, 'Ndrangheta.

Informers from within, people who "flip" and become government witnesses, have hurt the Sicilian Mafia. The Calabrian mafia has faced "very few mafia informers."<sup>44</sup> A major reason lies in how members of 'Ndrangheta bond with one another; they are all related by blood ties or marriage, which is not the case in Cosa Nostra. The more ways members of any group bond with one another, the stronger their stake in the organization is and the less vulnerable they are to corrupting forces from outside.

The weakening of Cosa Nostra in the 1990s as a result of the number of informers and prosecutions created opportunities for other organized crime groups. Its declining strength created a vacuum in certain businesses others were eager to exploit. This is not the classic vacuum marked by an absence of effective governmental control, but rather an intramural version between groups competing for market share in the same business. Those businesses included weapons, counterfeit goods, and illegal drugs. Two organized crime groups that capitalized on the diminution of the Sicilian Mafia are the Camorra, the Neapolitan mafia, and 'Ndrangheta, the Calabrian version. Illegal drugs are a core business for these two groups, but without disaggregated revenue figures I am not sure whether weapons and counterfeit goods are more than secondary businesses for them.

First came the rise of the Camorra, which used its access to the port of Naples on the Mediterranean to attract drug shipments northward from Sicily. Not only

is the port of Naples strategically located, but the layout of the city itself is also well suited to the clandestine exchanges that dominate illegal activities. Drug circulation in Naples is based on a network of thousands of selling points in the “quarters” and “sub-quarters” of the city; these are open day and night and even mobile.<sup>45</sup> The Camorra is an urban organization, knows this territory well, and was thus able to transform “the Naples area into one of the cheapest markets for cocaine and heroin in Europe.”<sup>46</sup> I defined opium, morphine, and heroin in my earlier discussion of the Luciano syndicate. Now I must add cocaine. Derived from the leaves of the coca plant, cocaine has legitimate medical uses as a topical anesthetic in surgery, but it can also be a powerful narcotic in itself or in combination with other drugs. It is a “powerful central nervous system stimulant with potent cardiovascular (heart and blood vessel) side effects.”<sup>47</sup> Cocaine usage can lead to abuse and addiction, which are major health problems worldwide at the same time as they are business opportunities for organized crime.

Believing in the importance of diversification and unwilling to rely only on illegal drugs, the Camorra also developed the commerce in weapons and counterfeit products.

The Camorra has taken advantage of the emergence of China as a global economic power to “enter the market for Chinese-made counterfeit goods. It uses the port of Naples to collect and distribute counterfeit sneakers, handbags and accessories.” In addition, many authentic goods entering Naples become tainted with illegality, as organized criminals seize them to avoid customs duties. “The Camorra thus has managed to turn Naples into an illegitimate free-trade zone for criminal activity.”<sup>48</sup>

As Cosa Nostra suffered misfortunes in the 1990s, so did the Camorra encounter its own problems in the following decade. One came from within: the Camorra war of 2004–2005 was an internecine struggle that sapped the energy of the organization. The second came from government, as the police cracked down on the Camorra in 2006. These setbacks reduced Camorra power and created yet another intramural vacuum.

‘Ndrangheta, already in the ascendancy in some sectors of the trade in illegal drugs, used this lessening of Camorra power to gain even greater market share: it reputedly controlled 80 percent of the cocaine traffic between Colombia and Europe about 2008. This dominance helped elevate that group from a strong power in Calabria into a transnational organization, which some label as effectively a multinational crime organization. A report by the Euripses research institute estimates that the Calabrian mafia has an annual income of almost 3 percent of Italy’s gross national product; illegal drugs account for more than 60 percent of that income. The same report “warns that the crime syndicate is increasingly penetrating the legal economy, not just in Italy, but further afield, as it seeks to launder its drug profits.”<sup>49</sup> Facilitating penetration of the legal economy is the immense control the 130 mafia families that constitute ‘Ndrangheta wield in Calabria. One indicator of this control is the growing infiltration of local political councils achieved by ‘Ndrangheta.

As the two newer mafias, in the sense of public awareness, Sacra Corona Unita and La Stidda have not compiled as detailed a historical record as our first three. But there is some evidence on the business activities of Sacra Corona Unita and little on those of La Stidda. With geography playing such a major role in a group's choice of activities, it is not surprising that Sacra Corona Unita would take advantage of its base in Puglia, in the Italian "boot," which looks across the Adriatic Sea towards the Balkans. Its links across the Adriatic underpin the principal business ventures of Sacra Corona Unita, which include trafficking in illegal drugs, illegal immigrants, contraband weapons, and foreign cigarettes. Cigarette smuggling is an especially lucrative business, as the taxation of the product, by the countries of the European Union and others, creates a profitable illegal market that entices smugglers. Some in the EU believe that higher cigarette taxes will reduce consumption and thereby promote general health.<sup>50</sup> But this approach delights the criminal mind as it focuses narrowly on legal consumption and just increases the attractiveness of cigarette smuggling as perhaps even a core business for some criminal groups.

The precise extent of cigarette smuggling involving Italian organized crime is not known, but evidence from police and court records suggests that the business is not minor. In 2008, for example, Switzerland charged ten people in what was alleged to have been "a decade-long mafia cigarette smuggling operation." Switzerland claimed to have broken up the smuggling ring in 2004. The essential facts of the case, as presented from the viewpoint of law enforcement, are as follows. The ten were accused of "having laundering well in excess of US\$1 billion in Ticino from the early 1990s until 2001." (Ticino is an Italian-speaking canton or state in the Swiss confederation located in the south.) The Swiss prosecutor's office stated that for a decade, "nearly the total flow of money from cigarette smuggling the criminal organizations Camorra and Sacra Corona Unita were running via Montenegro went through Switzerland." Financial couriers channeled the money to Swiss bank accounts. In short, "Italy's powerful Camorra and Sacra Corona Unita organizations" are "accused of having used Switzerland as a hub for laundering money."<sup>51</sup>

La Stidda, the so-called fifth mafia, remains somewhat enigmatic in its business activities. It operates, as noted, in southern and eastern Sicily, away from the power base of Cosa Nostra in the north and west. Even though weakened as a transnational force, the original Sicilian Mafia still remains formidable as a national organization, especially in its own island homeland. Sources conflict as to what business activities La Stidda is pursuing. Stratfor, for one, believed in 2008 that La Stidda "has only begun and it is unclear whether they have entered the drug trade—a lucrative facet of Italian organized crime determining who the real powerbrokers are."<sup>52</sup> This statement is correct if the "only has begun" part refers to transnational business activities, because the loosely structured and chameleon-like La Stidda has long-term historical roots including antecedents that were not yet criminal. I believe that La Stidda is consolidating its base in Sicily and has undertaken criminal activities on mainland Italy as well as overseas. It must be carving out a niche in the international trade in illegal drugs,

because this business is a too great a criminal opportunity to ignore. The profits are sky-high, human entry barriers can be bribed or “popped,” and the international trade in illegal drugs cries out for another Charles “Lucky” Luciano, who could this time organize the trade on a truly global basis. Perhaps someone in La Stidda believes “he is that guy.”

While protection is a mafia’s primary mission and ultimate core business, illegal drugs and money laundering are the sometimes intertwined businesses furnishing financial support that keep, more and more in the modern era, a mafia alive. Where there is activity in illegal drugs, so will there be money laundering, which is why I also believe that La Stidda is laundering money.

Summing up, the range of businesses in which Italian organized crime engages is substantial and shows the ability of each group to take advantage of what it has in terms of organization, leadership, location, political influence, income, and wealth. Different mafias have their own inside rankings of what their core businesses are. But one strong documented conclusion that emerges from this case study is the importance of protection, illegal drugs, and necessarily money laundering as core businesses for Cosa Nostra, ‘Ndrangheta, Camorra, and Sacra Corona Unita, with circumstances suggesting that La Stidda is now involved in all three. Certain groups may have special interests in businesses such as cement, cigarette smuggling, weapons smuggling, counterfeiting, and others. But the big three are indubitably protection, illegal drugs, and money laundering.

Indeed, more and more all criminal roads lead to and through money laundering. In fact, a striking feature of criminal expansion in the modern era of illegal drugs trafficking is just how widespread are the effects from the rise in drug-related profits. These profits push an acceleration of money laundering, propel penetration of the legal economy as one way to launder drug money, and the greater availability of funds to be laundered stimulates technological advances in the ways money can be laundered. These effects all receive more attention as we present the other case studies of organized crime in this book.

### 3 Russian mafia

The question that *BBC News* posed in 1998 is as valid today as it was then. The headline of an overview of organized crime in the Russian Federation asked, “So who are the Russian mafia?” In keeping with the problem of definition that is our annoying but necessary companion in this book, the answer is, there is no consensus answer. Some analysts cast their net wide; others offer more narrow interpretations. The wider view is that “the Russian mafia” is an umbrella term that covers what “may be thousands of mafia groups in Russia.”<sup>1</sup> From this perspective, there is no single, unified Russian mafia, but rather a number of mafias or mafia-like groups with identities that derive in part from their having a physical location within the Russian Federation. This view matches the reality of organized crime in Italy. There is no single, unified Italian mafia, but rather mafias with specific geographical bases in Italy, as the previous chapter has illustrated.

Narrower outlooks in defining the Russian mafia rest on narrow approaches to the term mafia itself. Federio Varese provides one such approach in his informative study of the Russian mafia. Heavily influenced by Diego Gambetta, whose book on the Sicilian Mafia I critiqued in the preceding chapter, Varese postulates that “a mafia group is a particular type of organized crime that specializes in one commodity.”<sup>2</sup> That commodity is, not surprisingly, protection. Only organized crime groups that specialize in providing protective services are, therefore, worthy of the appellation “mafia.” Gambetta and now Varese offer versions of the “enterprise” model, which I earlier argued is restrictive. Varese compounds the debilitating narrowness of this model by his insistence that any organized crime group that does not concentrate on protection cannot be a mafia. This view is wrong. An entity does not become a mafia because of product specialization, but because it is a brotherhood (or possibly a sisterhood) that perpetrates criminal activities, functions as a business, and has bonding procedures that can include rituals, codes of secrecy, and rules of decorum, such as those “codified” for the Sicilian Mafia in Don Salvatore Lo Piccolo’s “Ten Mafia Commandments” listed earlier. As brotherhoods mafias are mutual aid societies and by definition are involved in self-defense, the most elemental form of protection, even before they venture into the other types of protection analyzed earlier. Varese believes that a mafia can have only one core business, indeed only one business of any kind, to use the terms of this book, and that business is protection. This formulation is also wrong.



With our significant reservations about a narrow approach, we prefer a wider approach to the Russian mafia. It will reveal a diversity of criminal organization within this entity that a narrow approach homogenizes and give this chapter a realism of presentation that will better help students and professional crime fighters alike. We first provide an overview of Russian organized crime that uses the categories of political history, economic history, and geography. This is more than just setting the stage, as we did for the Italian mafias in the previous chapter. We then focus on a major theme that emerges from the overview—relations between the Russian government and Russian organized crime—and consider it first in the context of an approach known as “alternative modes of governance,” analyzed in the introduction. To give this theme a realism of presentation we spotlight a range of specific examples. The first concerns “former spies” and their current business activities. The second turns to the famous or infamous Russian oligarchs, a group of powerful business people, who will initially appear in the overview. The third highlights one Russian mafia, Moscow’s Solntsevskaya Bratva, also called the Brotherhood, which, according to some, has risen to the top of the table of organized crime organizations throughout the world. Let us begin with the overview and address political history.

The conventional approach to the history of organized crime in Russia acknowledges that while criminality has been a problem from time immemorial, organized crime as such did not emerge as a significant phenomenon until the early twentieth century, particularly in the aftermath of the Russian Revolution of 1917.<sup>3</sup> This dramatic upheaval sprang from converging discontents—with the poor performance of the economy, with the unwillingness of Russia’s rulers (the czars) to share power, and with Russian participation in World War I. The failure of the first group that tried to run the country—an alliance of liberals and moderate socialists—enabled the Communist Bolsheviks, led by Vladimir Ilyich Lenin (1870–1924), to seize power. The Communists so hated the Romanov dynasty that had ruled Russia from 1613 to 1917 that they executed the surviving family members on 16 July 1918. The Communists eventually established the USSR, the Union of Soviet Socialist Republics, also known as the Soviet Union. It lasted from 1922 until it unraveled in 1991, splitting into the Russian Federation and fourteen other countries.

While the Russian Revolution of 1917 originated in certain instabilities, it unleashed others. This was a disorderly transition of power, which created the vacuums in which organized crime can thrive. And so did the early groups that would constitute what has become known as “the Russian mafia.” During the Revolution and its aftermath, food and other necessities of life were scarce, “and organized crime sought to provide them—for a price.”<sup>4</sup>

There is another side to the origins of organized crime in Russia that conventional wisdom omits. This omission rests on the crucial and, in this writer’s view, unwarranted assumption that organized crime is the province only of the private sector or some combination of private and public sector activities. We accept the view that organized crime can originate in the policies and strategies of governments themselves and need not at any point involve the private sector. So there is, in the past and present, private organized crime and public organized crime.

From this perspective, the emergence of public organized crime in Russia antedates the appearance of private organized crime by centuries. Agriculture has always shouldered a disproportionate burden in Russian history, and the central government's treatment of millions of small-scale Russian farmers has not always been a model of economic justice. These farmers are called variously peasants or serfs, depending on how closely tied a farmer is to the land, and there are different groups within the peasantry. A serf had fewer rights than a peasant possessed. Government's approach to Russian farmers over time is an immensely complicated topic, which I lack the expertise to elucidate. But one long-term conclusion can be sustained: on the whole, the state viewed agriculture, much in the spirit of mercantilism, as a sector that should serve others, like itself or industry. And government's use of agriculture frequently became overuse. The next issue is: how does one interpret this overuse? One does not have to be a Marxist or a Marxist-Leninist to subscribe to the following viewpoint. This overuse at times constituted abuse, which falls under the classic rubric of exploitation and hence can be regarded as criminal. Many small-scale farmers suffered grinding inequities that surely qualify as exploitation.

The Russian Revolution in 1917 turned out to be one group of autocrats, the communists, replacing another, the czars. The abuse of agriculture continued under Communist rule, sometimes in episodes of persecution and murder. The kulaks were a group of so-called "wealthier" Russian peasants with more land and other resources than other elements of the peasantry. Their existence disturbed Communist leaders, as they deviated from the homogeneous peasantry Communist political correctness dictated and might pose problems for Communist rule. Joseph V. Stalin (1879–1953) was powerful political figure in the Soviet Union. He was general secretary of the Communist Party from 1922 until 1953 and premier of the Soviet Union from 1941 to 1953. A ruthless guardian of party orthodoxy, Stalin orchestrated the brutal repression of the kulaks in the 1930s, which aimed at nothing less than their complete elimination as a group. Estimates vary as to the number of kulaks who were murdered in the cause of ideological purity, but a conservative count runs into the tens of thousands. The list of public organized crimes in the Stalin era is lengthy and includes such events as the forced famine in Ukraine in 1932–1933. Designed to crush an independence movement, this famine resulted in an estimated seven million deaths from starvation. The repression of the kulaks and the Ukraine famine are public organized crimes recorded over and over again in destroyed lives.<sup>5</sup>

Private organized crime had its ups and downs in the Soviet Union. After initial successes in supplying those necessities of life during the Revolution, private organized crime faced implacable foes in Lenin and Stalin, who took over upon Lenin's death in 1924. Lenin tried to use the power of the central government to suppress private organized crime, but results were few. Stalin was, to no one's surprise, harsher. Ironically, one of the most notorious perpetrators of public organized crime in history would also be one of the staunchest opponents of private organized crime. It was all about power in a virtual dictatorship; Stalin could not abide the existence of organized groups that represented alternative

sources of power in Russian society. So he sent many criminals to the infamous Soviet gulags or forced-labor camps. Some leaders of private organized crime did escape Stalin's persecution, but only if they had strong connections to the official power structure, the Communist Party and its spreading bureaucracy.

Stalin's death in 1953 proved a turning point in the history of private organized crime in Russia. After his passing, about eight million prisoners were released from the gulags. Among them were members of the society of the *vory-v-zakone* or thieves-with-a-code-of-honor. This was a "criminal fraternity," Varese observes, "that flourished in the Soviet camps between the 1920s and the 1950s and re-emerged in the 1970s," whose history "has yet to be written."<sup>6</sup> It was a major antecedent of the more modern Russian mafia whose influence continues today.<sup>7</sup> And so increased, substantially, with the gulag releases the pool of organized crime leaders and members present at large in Russian society. This is another case of a recurring theme in the history of organized crime: prison as a cradle or haven for future criminal activities. As with the *vory-v-zakone* in Russia, so also with Charles "Lucky" Luciano, who is the most famous illustration of this theme from the annals of Italian (and United States) organized crime.

In the aftermath of Stalin's death, elements of Russian organized crime would build upon a crucial phenomenon that had protected unknown numbers of their leaders during Stalin's repression: strategic links with government officials. In fact, linkage would become infiltration, increasingly so as the Soviet Union went through its final four decades. During Leonid Brezhnev's time in power, from 1964–1982, organized crime achieved an infiltration of the highest ranks of the Communist Party. The *vory-v-zakone* "were allowed to buy goods outside of the Soviet Union and operate smuggling routes in return for supplying the Communist Party with foreign luxury items, which were given as rewards for good behavior within the party."<sup>8</sup>

Just as the Russian Revolution of 1917 and its aftermath opened up opportunities for private organized crime, so also would the collapse of the Soviet Union in 1991 unleash the same dynamic. The disintegration of central power, and the break-up of the Union into fifteen of its constituent parts, created an enormous vacuum or a series of vacuums into which organized crime would rush. "Following the collapse, basic government functions—such as social security, the pension system, some electrical grids, dispute settlement and the distribution and protection of property—either disappeared or were hopelessly inefficient."<sup>9</sup> Indeed, some suggest that after the collapse "organized crime exploded, filling every state and nonstate void."<sup>10</sup>

It is hard to imagine a more favorable environment for private organized crime than the period from 1991 until Vladimir Putin became President of the Russian Federation in 1999. Consider, for instance, the impact on the various protective services organized crime provides. The KGB, or Committee for State Security, was the government agency that centralized the functions of security, intelligence, and secret police in the Soviet Union. Its disintegration left many government workers underpaid or without a job altogether. In consequence, thousands of KGB agents went to work for organized crime groups. This, in

effect, left citizens without a functioning state police and created another vacuum that organized crime could exploit, this time with ex-KGB personnel boosting the capacity of organized crime to provide its distinctive brand of “protection.” The ensuing situation prompted Boris Yeltsin (1931–2007), then President of the Russian Federation, to call Russia in 1994 “the biggest mafia state in the world,” where “the superpower of crime . . . is devouring the state from top to bottom.”<sup>11</sup>

The 1991–1999 period also gave a group of powerful business people many opportunities to strengthen their own positions in Russian society. These entrepreneurs are known as the “oligarchs,” a name that in US business and economic history might translate as “magnates” or “tycoons.” One must tread carefully in generalizing about the oligarchs. But it can be said that some got their start during the last years of the Soviet Union when Mikhail Gorbachev was in power. From 1985–1991 he served as the last General Secretary of the Communist Party of the Soviet Union and from 1988–1991 he was the last Soviet head of state. His were the last major endeavors to save the Soviet Union. He advocated policies he believed would achieve that goal, but some contend they, in fact, hastened the dissolution of the USSR. One such policy was *perestroika*, which means restructuring. Introduced in June 1987, *perestroika* was a set of reforms designed to liberalize or loosen up the Soviet economy, which had become incredibly rigid during all these years of central planning. *Perestroika* created its own economic opportunities for those both in and out of government, and some business people who would become the oligarchs were among the first to seize these openings. Ironically, a group that gained so much from the collapse of the Soviet Union also benefited from the final attempts to save it.

The oligarchs all harbor the entrepreneurial flame and they all must deal with the two worlds that affect so many of their activities. These are the worlds of government bureaucracy and organized crime. But beyond these statements accurate analysis is complicated, since it is difficult if not impossible to discern where the boundaries of these two worlds are located, probably because they are shifting in real time. So we are left with thought-provoking efforts to capture the diverse origins of the oligarchs. “Some oligarchs,” according to Stratfor Global Intelligence, “were former politicians, some were former criminals and some were well-connected businessmen operating in the gray area. The oligarchs worked with organized crime, either because they had to in order to conduct business or because crime was their business strategy.”<sup>12</sup>

This is a set of alternatives live from the twilight zone, the eighth factor in our comparative framework. How does one distinguish someone working with organized crime “because they had to in order to conduct business” from someone whose “business strategy” is crime? We applaud recognition of “the gray area” in the above quotation, but readers can immediately appreciate why it is so easy to libel individual oligarchs and why reporting on them has become so controversial. Which oligarch belongs in what category? What kinds of evidence are appropriate for answering the previous question? Media reports, which vary in quality to begin with, could be suggestive but hardly definitive. Government documents could be tendentious, since the Russian state has a long record of

singling out for “special attention” strong individuals who might establish competing power centers. This “special attention” can include distorting the activities of someone in the official record for political purposes. Furthermore, what constitutes corroboration in describing an oligarch? Corroboration is a central principle in evidentiary amplification discussed in the introduction.

And there is the problem of bias. The oligarchs as a stereotyped group are not universally beloved by the Russian people, as they are viewed as products of Russia’s problems. From this perspective, some might apply another term from the US historical experience: “robber barons.” This was an unflattering characterization of the captains of US industry and commerce who allegedly made their fortunes on the backs of working people. There was a “muckraking” tradition in US writing, especially in the later 1800s and early 1900s, which sought to expose corruption, actual or alleged, in politics, business, and any other area of public life.<sup>13</sup> The oligarchs are confronting their own “muckrakers” in the media and in the Russian government of Mr. Vladimir Putin. Wealth elicits a variety of reactions from people not so favored by ability, connections, luck, and fate; some of them are not so pleasant and can, in fact, lead to revenge of different kinds. So it goes with the Russian oligarchs.

All these caveats should not discourage analysis of the oligarchs, but one must proceed with caution; the amber light is showing on the railroad semaphore. I will return to the oligarchs when I focus later in this chapter on the most important theme in the history of organized crime in Russia: the relations between the worlds of the state and organized crime. I remarked above about the shifting boundaries of these two worlds. Some, as with President Boris Yeltsin and Stratfor, believe these worlds intersect or overlap. Before I take up this theme, I want readers to know some essential facts about Russian economic history and geography that underscore its significance.

One reason why relations between government and organized crime are so central is that the state itself has assumed such a great role in Russian economic development over the centuries. Indeed, a central theme in Russian economic history is the importance of the state, for good or ill, in Russia’s economic development. So when organized crime infiltrates or influences the state, it is not penetrating an insignificant set of institutions. It is establishing an inside presence in the single most important bureaucratic force in Russian history. Some would argue that the Russian army and the Russian Orthodox Church should be listed among the most important bureaucratic forces in Russian history and I respect that view. But the army, technically at least, is part of the state and I regard it as the most important physical force in Russian history. Likewise, the Russian Orthodox Church, which outlasted Communism and its persecutions, is the most important spiritual force in Russian history.

The importance of the Russian state receives affirmation from certain approaches in the corpus of theorizing about economic development. Economic development and economic growth are related concepts. Economic growth is measured in per person increases in annual income, whereas economic development is a broader term that encompasses all the changes in structure, policy, and

attitude that can promote economic growth. Economic welfare completes a trio of connected notions. This is the most subjective of the three, but clearly increases in one's annual income give that person more freedom to define what constitutes his or her own version of economic welfare.

The general thrust of these theoretical approaches that involve government is that the greater the obstacles to economic development, the more the state must intervene in an economy. Some use the notions of economic backwardness or underdevelopment as short hand for a lengthy list of problems a country or region must overcome to increase economic development. I greatly prefer to cast the challenges to economic development in terms of specific, documented obstacles that must be eliminated or reduced, and not in the vague constructs of backwardness or underdevelopment. Besides their gauziness, both notions are saturated with ethnocentrism or culture-centered views of the world.

But there is one approach that, despite its unsteady anchor in economic backwardness, contains elements worth consideration and, furthermore, is most relevant here. I refer in particular to the analysis<sup>14</sup> of Alexander Gerschenkron, an influential economic historian who was born in Odessa in 1904 and as a youth fled the Russian Revolution. He assigns to the state a greater or lesser role, depending on how economically backward a society is or, in my words, how great the obstacles to economic development are in that situation. He posits that there are three degrees of economic backwardness. In the least backward cases private market forces could be expected to play a greater role and the state, while important for providing essential services such as security and law, would not be dominant. In the middle range of cases financial intermediaries, such as banks, would be counted on to step forward and the role of the state would expand somewhat. In the most "economically backward" situations, the state had to play the commanding role, because only it had the power and other resources to remove or reduce those obstacles to development. Historically, according to Gerschenkron, Great Britain was in the "least backward" group, Italy was in the middle category, and Russia was among the most "economically backward." So even aspects of the theory of economic development show why the Russian state, apparently so needed for economic development, is such an unusually inviting target for infiltration by organized crime.

Geography is the third and last factor in our setting the stage for Russian organized crime. Two levels of geography are important here: the geography of the country as a whole and that of the city of Moscow. On the national level, one striking feature is the vastness of the landmass Russia occupies; it is the largest country in the world in terms of total area and stretches about halfway around the globe. Russia covers a total area of 17,075,200 km<sup>2</sup>; 16,995,800 km<sup>2</sup> is land, while 79,400 km<sup>2</sup> is water. Russia's coastlines border the Arctic and Pacific Oceans; the country touches the Caspian, Baltic, and Black Seas. Sitting in the Eurasian heartland, Russia is both European and Asian; its great Ural Mountains separate the two continents. To fly by jet from Moscow in the west to Vladivostok in the east on the Pacific Ocean would take about eight hours. By the trans-Siberian railroad that same trip would require at least four days. The

Russian Federation, which inherited about 76 percent of the USSR's landmass, spans eleven time zones, the same as the Soviet Union did. By contrast, the US encompasses six time zones. The contiguous forty-eight states cover four time zones; Alaska includes two more, while Hawaii is actually in the western of Alaska's two time zones (Hawaii-Aleutian standard time). Such vastness does not guarantee an abundance of neighbors, but for Russia its extensiveness and the dissolution of the Soviet Union have produced the following fourteen. These countries are China, North Korea, Mongolia, Kazakhstan, Azerbaijan, Georgia, Belarus, Lithuania, Poland, Ukraine, Norway, Estonia, Latvia, and Finland.<sup>15</sup>

A second important characteristic of national geography is Russia's location at the intersection of Europe, Asia, and the Middle East. This location has enormous strategic advantages for Russian organized crime, which gains access to some major markets and producers as well as opportunities to build relationships with other criminal organizations. Most groups within the Russian mafia have bases in Moscow. Working from there and through former Soviet states to the south, they have developed connections with suppliers and clients in East Asia and the Golden Crescent, which is an opium-rich region that includes Iran, Afghanistan, and Pakistan. The Golden Triangle in Southeast Asia played a major role in the international drug syndicate organized by Charles "Lucky" Luciano (see previous chapter); the Golden Crescent has a similar function in the transnational operations in illegal drugs of groups in the Russian mafia. Russia's strategic location offers opportunities that go far beyond trading illegal drugs. Russian criminal groups have organized routes that enable them to smuggle various goods to and from the Middle East. They also trade in a number of commodities to and from the European and US markets through ports on the Baltic and White Seas. Their effectiveness in organizing these transnational routes testifies to their success in dealing with the vastness of Russia itself.<sup>16</sup>

Indeed, according to Stratfor Global Intelligence, "Russian organized criminal groups oversee a network that colludes with criminal entities all over the world." The ascendant transnational character of Russian organized crime emerges from the "list of their contacts," which is a "virtual index of worldwide organized crime." Here, in Stratfor's view, are eight alleged participants in the Russian "network." Some are listed with business activities that presumably interest Russian organized crime.<sup>17</sup>

- 1 Triads. These are Chinese criminal societies involved in counterfeiting.
- 2 Yakuza. These are Japanese criminal groups involved in extortion and smuggling.
- 3 Korean criminal groups. Active in rural Korea, they are involved in drugs, extortion, and illegal fishing.
- 4 Turkish drug traffickers. They function as a crucial "gateway" for drugs traveling between Asia and Europe.
- 5 La Cosa Nostra.
- 6 'Ndrangheta.
- 7 Camorra.

- 8 Colombian drug cartels. These are “individual drug trafficking groups that usually focus on cocaine.”

The triads, yakuza, and Colombian drug cartels are each the subject of later case studies. We have already introduced Cosa Nostra, ‘Ndrangheta, and Camorra in the previous chapter. And Turkish drug traffickers also made a cameo appearance in the previous chapter.

The second level of geography we consider here is urban and focuses on the city of Moscow, the capital of the Russian Federation. With over twelve million residents in the metropolitan region, Moscow is the center of action in many ways. In politics it is home for the Russian President, the government bureaucracy, and the legislature. It is the hot spot for business activity. And with so many criminal elements in attendance as noted above, Moscow is also the capital of Russian organized crime. The city is more vibrant than ever, presenting a mixture of the legal and the illegal that is hard to separate but giving insight into that “gray area” which is an integral part of Russian culture and so unfathomable by westerners.

In a wonderfully evocative essay entitled “Moscow Never Sleeps,” novelist Martin Cruz Smith and photographer Gerd Ludwig capture “the sinister magic of a city that reveals its true colors at night.”<sup>18</sup> This is essential reading for anyone interested in modern Russia and contains fascinating material not directly germane to this book. But there are passages that touch on Russian organized crime and will help our attempts to grapple with the gray area or twilight zone, where the legal and illegal worlds intersect. This is the factor in my comparative framework that becomes more crucial with each passing day for understanding organized crime everywhere.

“Moscow Never Sleeps” asks,

Who Is In Charge? Vladimir Putin? His successor, Dmitry Medvedev? The legendary oligarchs? The KGB disguised as a kinder FSB? (There does seem to be an active or former secret agent on the board of every major company.) Well, as they say in Russia, “Those who know, know.”

What is certain is that there is money in Moscow, big-time money. “Millionaires are as common as pigeons.” Moscow has “more billionaires than any other city in the world.” The “rich and mega-rich constitute a social class who were loosely called the New Russians when they first appeared in the 1990s.” Some of them are survivors of industrial shake-ups; others have discovered that starting a bank is more profitable than robbing one.<sup>19</sup>

“Moscow Never Sleeps,” which treats nightlife as fun but also as revealing much about a city, highlights a certain casino. A question is posed to an employee of this casino. Is it a criminal enterprise? Absolutely not, the employee responds. “That is, no more than any other enterprise. Maybe 10 percent. For their own protection everybody had a ‘roof.’ Don’t think of it as the mafia, think of it as alternative police.” A Russian told Martin Cruz Smith that “Americans



would never understand Russia because Americans saw things as black or white, nothing in between, while Russians saw a gray area of perhaps 80 percent.”<sup>20</sup> In this “gray area” can be found some of the origins of the oligarchs and other members of the so-called New Russians.

The comment above that for his or her own protection everybody had a “roof” deserves explanation. The “alternative police,” a memorable sobriquet for Russian mafia groups, charge for their protective services, the demand for which they often induce by intimidation. This “insurance premium” is called *krysha* in Russian, colloquially translated as “roof.” It is analogous to *pizzo* levied by La Cosa Nostra, discussed in the previous chapter. But there is one striking difference between payment for protection in the Italian and Russian cases. Russian mafia groups are not the only protective forces that charge *krysha*. Sometimes the official security forces do as well. And sometimes there are competitive situations between the two services. In the Italian case there are doubtless instances of grateful citizens giving the legitimate police and military “gratuities” in cash or kind for extra effort on their behalf. But this behavior is not the same as Russian official forces extracting the same kind of payment as Russian organized crime does. From the perspective of local business people in Russia, the familiar idiom applies: they are caught between the devil and the deep blue sea. But sometimes the question is, which devil? Criminal groups vie for turf, which may lead to a rearrangement of spheres of influence in Moscow. A business owner may become a target of several criminal groups competing to see which one will collect *krysha* from him or her.

Roustam Kaliyev, a keen observer of the war in Chechnya and Russian organized crime, offers a graphic description of *krysha* in practice and focuses on what happens when a business owner confronts a possible switch to a new *krysha*:

Two presentable young men appear in the company offices. They ask to see the owner or manager and sit down with him in private. The “guests” question the manager in detail about the business. Then they offer they own protective services. The manager typically responds that he does not need their services because he already has protection ... or because the company pays its taxes and otherwise obeys the law. The racketeers leave the office calmly, but check into the information. Depending on what they find they will proceed as follows: 1) If the company has no *krysha*, they will force the owner to pay tribute. 2) If the company has a weak *krysha*, the racketeers will take over as a new *krysha*. 3) The racketeers will leave the company alone only if the existing *krysha* is connected to the security services or to the Chechens.<sup>21</sup>

Kaliyev argues that the two alternatives under the third scenario “have almost magical powers to rid the businessman of the racketeers. If it’s fairly obvious why connections to the security services would have this effect, the assertion concerning Chechens requires some elaboration.” Chechen business in Russia is “fairly substantial” and “operates on a refusal to pay tribute.” Chechens use “every resource available to them: family connections, the police and courts...” They have “strong networks to protect themselves” and they are willing to fight the

racketeers, as they have warred against the Russian Federation in their homeland, which they regard as their own country. Some of these networks, initially formed for self-defense, eventually became the nuclei for mafia groupings, such as the famous Chechen mafia.<sup>22</sup>

Kaliyev believes, therefore, that Chechens “became virtually the only category of business that could resist *krysha* (though some Chechens did affiliate themselves with governmental syndicates.)” A governmental syndicate is an “important post-Soviet phenomenon” and “a relatively new category” of Russian organized crime. “They comprise MVD and FSB cadres and members of non-governmental security services and mainly seek to profit financially from exercising their powers.”<sup>23</sup> MVD and FSB are both acronyms for the Russian names of government security organizations. MVD is the Ministry of Internal Affairs, headquartered in Moscow. FSB is the Federal Security Service of the Russian Federation, also headquartered in Moscow. The principal successor to the KGB of the Soviet Union, FSB is the main domestic security organization in the Russian Federation.

In the language of economic history, a governmental syndicate in Russia is a type of capitalist organization that combines elements of the public and private sectors. This is a brassy capitalism that uses power, not product, to produce profit. The governmental syndicate is a compelling contemporary example of how representatives of the Russian state and organized crime are working in the same organization to build the distinctive, if not unique, kind of capitalism that is developing in Russia.

This discussion of Moscow completes our overview of Russian organized crime, which has traversed political history, economic history, and geography. One recurring theme in these pages is that organized crime and the state are inextricably linked in the Russian case. But in what ways are their experiences interconnected? Let us summarize. To begin with, the Russian government and Russian organized crime have ties with each other and sometimes their activities overlap. Their interaction has created an intricate tapestry that defies facile description. Sometimes the state and organized crime cooperate in a clandestine manner; sometimes they coexist uneasily in certain situations; and sometimes they are adversaries.

While a step forward, this enumeration is still too general. The daunting challenge is to disaggregate the categories of “government” and “organized crime” and deal in particulars—the activities of specific state agencies and officials, as well as those of particular organized crime groups and their personnel. Kaliyev contributed to this endeavor in identifying “MVD and FSB cadres” as participants in “governmental syndicates.” But problems remain: were these individuals “moonlighting” or doing this work as part of their official jobs? Can this distinction even be made in the Russian “gray area” or “twilight-zone”?

### **Organized crime and the state: modes of governance**

This complexity makes the Russian experience a good test case for a corpus of research I assessed in the introduction. This is the “alternative modes of governance” approach associated with the field of Lawlessness and Economics from

the New Institutional School. Let us reflect on the evidence presented so far in this chapter in light of that approach and my critique of it. “Alternative modes of governance,” as explained by Professor Dixit, is valid, I agreed, in a vacuum where the second meaning of alternative applies. The first applies to a range of practical choices; the second to a situation where the choice is forced because something has to be done and there is no other possibility that someone or some entity will do it. The latter description applies to Russia during and after the Revolution, when elements of organized crime supplied needed foodstuffs and other commodities, and in the aftermath of the collapse of the Soviet Union in 1991, when Russian organized crime “exploded, filling every state and non-state void.” But the Russian case, in addition, validates my suggestion that modes of governance can also be competing, conflicting, complementary, and even interwoven. I must now, in view of the Russian evidence, add “murky.”

“Competing” and possibly “conflicting modes of governance” can be found in the protection business, as already demonstrated, particularly with regard to the collection of *krysha*. This is a legitimate topic in connection with modes of governance, as the rule of law, in the sense of an impartial set of rules and regulations enacted by the government, interpreted by the courts, and enforced by the military and police, does not exist as such in post-1991 Russia. Into this vacuum or void rushed not only organized crime but also members of the official security forces. Both make their own rules, their own laws, and charge for their own protection. When security forces compete with a mafia group to provide protection to a particular business, the security forces usually win, according to Roustam Kaliyev. When other elements of organized crime compete with the Chechen mafia, the latter organization apparently wins out. Threats of physical force, or its actual use, are ubiquitous in this insurance business.

Complementary and even interwoven modes of governance can arise when organized crime infiltrates government in some way. Organized crime, as noted, accelerated its infiltration of the highest ranks of the Communist Party during Leonid Brezhnev’s years in power, from 1964–1982, and presumably penetrated key administrative organs of government. The mode of governance then becomes interwoven, but it might also be complementary if organized crime and government work out separate spheres of influence in relation to some government function. The distinction between interwoven and complementary is logical but elusive. I lack evidence to document the distinction in practice, which is why I will call these modes of governance murky.

### **Disaggregating “government” and “organized crime”**

The specific examples promised in the introduction will help us better understand elements of the categories “government” and “organized crime,” but they will not eliminate the ambiguities that necessarily characterize any analysis of relations between the Russian state and Russian organized crime. If we only locate some of the shadows, our endeavor will be useful. We consider here the

activities of some “former” Russian spies, some oligarchs, and perhaps the most powerful Russian mafia group, the Solntsevskaya Bratva. Let us discuss those spies first.

We put quotation marks in “former” Russian spies, because of the old saying, evoked by Vladimir Putin during his 2000 presidential campaign, “there’s no such thing as a former Chekist.” A Chekist was a member of the Cheka, the original state security organization founded in 1917 by Lenin; it was the predecessor to the KGB. Putin himself is “former” KGB. He speaks fluent German and worked in the former East Germany. This parallels a maxim the author knows well: you can take a boy away from the Jesuits, but you can never take the Jesuit out of a boy.

What is the meaning of the phrase “there’s no such thing as a former Chekist”? Putin speaks positively about his years as a KGB agent; he claims he learned valuable habits of mind that have helped him as president and prime minister. These include the need for total awareness of your surroundings at all times. I would add a security agent must also be a master thespian and adept at masking his or her real feelings and intentions, a useful quality for any head of state or government but especially for one in a country whose citizens see 80 percent of daily life as a gray area. And a security agent must be deeply patriotic, as this line of work is hazardous and may even lead to loss of one’s life. But for “Mother Russia” no sacrifice is too big or too small. So while a “former” spy may have officially left the service, he or she may look at secular business activities through patriotic, even nationalistic lenses, and act as such, which may cause some to think, “there is no such thing as a former spy.” I cannot resolve this question, because to quote again from Martin Cruz Smith’s essay “Moscow Never Sleeps,” “in Russia, those who know, know.” Well, I don’t know, so I don’t know.

What I do know is that a number of sources have noted the apparently widespread involvement of “former” Russian security people in international business and other domains of public life. Reports from two top-level news organizations show the significance of this phenomenon. Andrew E. Kramer wrote an article headlined “Former Russian Spies Are Now Prominent in Business,” published in the *New York Times* on 18 December 2007. He documents the multiple activities of these “former” spies. For example, Mr. Putin “has seeded former [KGB] colleagues throughout government and appointed them to boards of state-run corporations.”<sup>24</sup> Kramer also discusses business activities of people who still are spies: “In exchange for loyalty, Mr. Putin has allowed top F.S.B. officials [the Federal Security Service] to tap business opportunities in Russia’s oil-boom economy by acquiring stakes in companies in oil, telecommunications, retailing and finance.”<sup>25</sup> And he quotes Yevgenia M. Albats<sup>26</sup> about the FSB: “The F.S.B. is no longer just a police organization. It is a business.” She continues, “The problem is, this business has the power of violence. It has troops and intelligence equipment.”<sup>27</sup> Enhancing her thesis that the FSB is a business is another example Andrew E. Kramer cites. Oleg S. Shvartsman, a Russian national who manages a major group of equity funds, acknowledged

that his group serves investors who are close to the top of the FSB and SVR [the international espionage agency of the Russian Federation].<sup>28</sup> All these examples indicate a far-reaching closeness between spies, past and present, and multifarious business activities in the Russian case.

The enduring influence of “former” and present Russian intelligence officers receives added confirmation from the British Broadcasting Corporation. Reporting from Moscow, the BBC’s James Rodgers shows how “Russian ex-spies flex their muscles.” The many ex-spies who have prospered during the Putin era “are known in Russia today as *siloviki*. The name comes from the Russian word *сила*, meaning ‘strength’ or ‘power.’”<sup>29</sup> Rodgers observes “many of those now occupying positions of power in the Kremlin, and in the top levels of Russian business—the two often overlap—are believed to have been KGB agents.”<sup>30</sup> He quotes Olga Kryshtanovskaya, a member of the Russian Academy of Sciences, who has studied the centers of power in the Russian Federation since the late 1980s. She believes about “a quarter of the political elite are *siloviki*,” which she defines as including the KGB but also the military and other security forces. This estimate takes into account only those who have admitted their connections in public. But when one adds those she describes as “affiliated”—not publicly declared—the percentage could rise to 75 percent.<sup>31</sup> That *siloviki* may constitute from one-quarter to three-quarters of Russia’s political elite, with all that implies for business connections inside and outside of government, testifies to the effectiveness of the intergenerational brotherhood that embraces Russian security officers.

The second specific example returns us to the oligarchs, who first appeared in our earlier sketch of the 1991–1999 period and then later in Martin Cruz Smith’s “Moscow Never Sleeps” as the “legendary oligarchs.” I have counseled caution in over-generalizing about them. But some still tar them all with the same brush, which is an unsophisticated approach. One writer in this tradition pontificates thus: “Of course, the ‘oligarchs’ were guilty of a variety of crimes and it couldn’t have been otherwise in a country where the law of the jungle ruled.”<sup>32</sup> Not to be too technical, but in the absence of a rule of law, as defined earlier, how can there be crime in a legally codified sense?

Two more questions come to mind. Is every oligarch indicted in the writer’s own mind? And what specifically constitutes the “variety of crimes” with which the author is charging them?

I am not defending every oligarch, but arguing that their activities have to be examined on a case-by-case basis. To be sure, some have run afoul of the law in Russia and government has gone after them in its courts. The highly publicized Yukos case warrants consideration here because it illustrates simultaneously the activities of one oligarch, his fate and that of his company, and questions over whether the prosecution was based on a neutral assessment of the facts or a political vendetta. Yukos is OAO Yukos; OAO is an abbreviation for *Otkrytoe Aktsionernoe Obschestvo*, which translates as Open Joint Stock Corporation. OAO Yukos was once Russia’s largest oil company and is now bankrupt. The oligarch is Mikhail Khodorkovsky, once the chief executive officer of Yukos

and its main shareholder who is now in prison. The facts of the case appear to be as follows. In 2004 the government of the Russian Federation starting making back-tax claims against the company, which eventually reached into the “tens of billions of dollars.” This sum “crushed” the company. Convicted of fraud and tax evasion, Mr. Khodorkovsky was sentenced to eight years in prison. The government sold off the remaining assets of Yukos, mainly to Russian state companies. In 2006 a Russian court declared Yukos bankrupt.<sup>33</sup>

The conflict between Yukos and the Russian government goes far beyond tax questions. The wellspring of this dispute is the personal rivalry between Vladimir Putin, then President of the Russian Federation, and Mikhail Khodorkovsky, then oligarch *par excellence*. During his first term as president, President Putin and the oligarchs apparently reached an informal understanding that involved the following quid pro quo. The oligarchs would stay out of politics and, in return, the government would not question the privatization deals that greatly benefited the oligarchs. Khodorkovsky was not happy with this understanding and began funding opposition parties in the Duma or legislature. “He claimed this was to encourage a vibrant democracy; the Kremlin suspected him of buying his own political bloc.”<sup>34</sup> Khodorkovsky was trying to establish himself as a formidable political force, but he forgot one of the critical lessons of Russian history: Russia can have only one czar (or czarina) at a time. And he is paying the price.<sup>35</sup>

Besides tax issues and personality conflicts, there is a third arena in which the Yukos episode played out. Members of the siloviki, mentioned above, are involved in Russia’s state-run businesses, and they understandably remain proponents of a dominating role for government in the economy, which harkens back to Soviet-style central planning. Mikhail Khodorkovsky represented a private, highly energized entrepreneurial approach to economic activity, which threatened those siloviki benefiting from their positions in state-run companies. It is no coincidence that those state companies acquired most of the remaining assets of Yukos.

The final chapter in this story has yet to be written. OAO Yukos has filed a massive claim against the Russian government in the European Court of Human Rights, which is located in Strasbourg, France.<sup>36</sup> Represented by two US nationals who are former executives of the company, “Yukos is seeking more than \$42 billion dollars in damages in the case, making it bar far the largest claim yet heard by the European Court.”<sup>37</sup>

What, then, is the significance of the Yukos matter for our sketch of Russian organized crime? The facts of the case suggest, as several Western courts have ruled, that the Russian government’s demand for back taxes “was a politically motivated attack” on Mikhail Khodorkovsky.<sup>38</sup> Yukos itself, as distinct from Mr. Khodorkovsky, may or may not have been underpaying its taxes; it depends on which specialist one consults.<sup>39</sup> What is indisputable is that the Russian government allowed insufficient time for Yukos to respond to its requests. Government was hasty, which aroused suspicions that it was driven by a deeper agenda that could not wait. It was, and the author agrees with those Western courts. The Yukos case, therefore, documents the use of prosecution as a political tool. And

this may not be an isolated instance. For example, Boris Berezovsky, a Russian oligarch and strong critic of Putin, is now living abroad. He insists the Russian government's efforts to have him extradited on fraud charges "are politically motivated."<sup>40</sup> The politicization of justice renders attempts to establish the true criminality of any oligarch extraordinarily difficult. So the ultimate significance of the Yukos case is a warning. The conventional approach to Russian organized crime uses the oligarchs, in whole or in part, as one of its building blocks. But with prosecution as a political weapon, how can we know for sure which if any of the oligarchs "use crime as a strategy," to reprise Stratfor's language? Many business activities of the oligarchs, as with those of many other people in or out of government in Russia, fall into that gray area, the Russian "twilight zone," which seems to expand the deeper one probes into relations between the Russian state and Russian organized crime.

Our concluding example is a Russian mafia that has gained notoriety as it reached the top of the league of global criminal organizations or become, as some put it, "the worst criminal gang in the world."<sup>41</sup> The organization is Solntsevskaya Bratva, sometimes referred to as the Solntsevo Brotherhood, the Solntsevo group, or just as Solntsevo, or just as the Brotherhood. Solntsevo is in the southern district of Moscow; here the organization emerged in the 1980s. I will call them the Brotherhood for simplicity's sake, not because they have exclusive rights to that term. To organize a portrait of the Brotherhood I will rely on factors from my comparative framework.

Consider first topics within the factor of organization and begin with centralization, decentralization, autonomy, and interdependence. These provide ways to gain key insights into the reasons for the success of this organization. In his engaging panorama *McMafia: A Journey Through the Global Criminal Underworld*, Misha Glenny quotes extensively from testimony provided to him by Robert A. "Bob" or "Bobby" Levinson. He is the former agent of the FBI (the US Federal Bureau of Investigation) who headed the Moscow desk of that organization for part of the 1990s.<sup>42</sup> A seasoned specialist in Russian organized crime, Levinson furnishes valuable evidence concerning the organization of the Brotherhood. It "operated differently from other groups, and here lies the key to its success," he observed. It was decentralized, "a loose confederation," and granted its local units—the brigades—considerable autonomy. "Every brigade with its own leader was autonomous, earning its own money. Each brigade organized its own protection rackets and its own scams. The cash was not funneled up to the leadership." The Brotherhood has a minimalist hierarchy, in the sense that there is leadership, not always management, "upstairs." The top leaders were known as the Big Four; Sergei Mikhailov, founder of the Brotherhood and guiding hand, was among them. They also "ran their own businesses but they split profits four ways." The Big Four of the Brotherhood apparently function in the manner of a mafia commission in mediating conflicts within the organization. "If there was a problem between brigades that required the intercession of one of the Big Four, then there had to be a split of profits between Mikhailov and those in dispute as the price of conflict resolution."<sup>43</sup>

The Brotherhood has seemingly achieved an optimal type of interdependence for itself. Interdependence, readers will recall, is the particular mix of centralization and decentralization an organization exhibits. It is a crucial indicator of whether an entity has the right balance of centralization and decentralization. “Right” means that an organization can bend without breaking, because its very survival may be at stake. Excessive centralization promotes rigidity; the organization may be out of touch and unable to respond in time. Too much decentralization can lead to institutional incoherence, the breaking up of the whole into its parts. Let us examine the interdependence of the Brotherhood in more detail and bring in the topics of policy, strategy, structures, procedures, personnel, and leadership. Structures include the concrete ways an organization implements centralization and decentralization for itself and as such overlaps with the concept of interdependence.

The Brotherhood knows what it is. It is, above all else, a business, which corroborates yet again the central thesis of this book. Its survival is tied, therefore, to how well it handles business matters. The foremost business matter is profit: how it is realized, distributed, and then used. The realization and distribution of profit occurs within the type of interdependence fashioned by the Brotherhood and goes far to explain the success and survival of that organization. Each brigade keeps the money it makes; the Big Four “upstairs” does not take a cut, unless dispute resolution between brigades is needed. The localization of profit makes decentralization and autonomy more than abstract concepts. When profits are split, strict equality apparently rules. This procedure ensures fairness, which in turn promotes *esprit de corps*, not only of the brigades but also of the Brotherhood as a whole. As I have already written, it is hard to explain to civilians (those outside organized crime) why sound ethical principles are required to run a lasting organization that does not specialize in virtuous deeds, but they are needed. To retain the loyalty of one’s personnel one must treat them with fairness and respect. And one must also have compassion for their problems, since they are after all fellow members of a brotherhood.

The topics of strategy, policy, and procedures all touch upon a pervasive phenomenon in organized crime everywhere: the threat or use of force. Vadim Volkov has illustrated this phenomenon in the Russian case with a striking realism in his memorable book *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism*. Part of his success derives from the numerous interviews he conducted in preparing this book. As I study these pages, I conclude that in terms of my book, the threat or use of force by Russian organized crime is more than a procedure. It is a policy and, yes, at times, even a strategy. In this context force becomes both a means and an end. The distinction between means and ends, so basic in so many domains of Western thought, disintegrates. Welcome to the Russian twilight zone.

Much of the leadership and personnel of the Brotherhood and other Russian criminal groups shares at least one common trait in their backgrounds. “It is by no means accidental,” Vadim Volkov writes, “that a huge proportion of prominent gang leaders, not to mention rank-and-file members, are former athletes.”<sup>44</sup>



Sergei Mikhailov, who founded the Brotherhood and was introduced above, earned the title of “master of sports” in freestyle wrestling.<sup>45</sup> Sportsmen, Volkov further observes, “naturally formed the core of the emerging racketing groups,”<sup>46</sup> because “sports, especially fighting sports and the martial arts can supply everything needed to create a racketeering gang: fighting skills, willpower, discipline, and team spirit.”<sup>47</sup>

To be sure, “the role of the sports milieu in criminal mobilization”<sup>48</sup> is significant. But the connections between physical fitness and organized crime deserve a fuller context and a more probing analysis. Membership in a karate club, for one thing, does not automatically place one on the road to a career in organized crime. Learning the skills of self-defense is not, for another, inherently criminal; in fact, it is a smart and prudent move, as it may save one’s life someday. “The sports milieu,” in point of fact, can facilitate choosing a criminal vocation, but it does not ipso facto make one a criminal. Just as I stressed the need not to over-generalize about the oligarchs, so I will caution readers that Volkov has not placed his analysis of the sports milieu and the criminal in the wider context of the sports milieu and everyone else in Russia. Specifically, how many people participated in organized sports clubs? What percentage of these actually entered organized crime? It is important not to paint all sports and all participants with the same proto-criminal brush.

Still, even with these cautionary questions, the relations between organized crime and physical fitness, whether in a publicly organized manner or in the privacy of one’s home gym, are a worthwhile subject for further research. After all, physical strength is incredibly important in organized crime, particularly for those in the “muscle end” of the business, and may help save one’s life, whatever one’s role. Art imitates life once again, as it did in *The Sopranos*. Tony Soprano, the don, was sometimes shown working out in his basement. He occasionally used a machine that simulated bench pressing. In “Isabella,” Episode 12, Season 1, originally aired 28 March 1999, two would-be assassins tried to kill him. He benefited from the ineptitude of the killers, but his upper body strength also played a part in saving his life. He was able to pin one of them to the outside door of his SUV as he drove away (and crashed into another car).

There is another question that has more direct relevance for an organized crime group as a business but whose answer may be elusive. Does one’s philosophy for working out influence the way one leads or works in the organization?<sup>49</sup> A philosophy for working out includes what sport(s) and activities one chooses and why, what level of discipline one brings, on what level of intensity one operates, and what the overall rhythms of one’s workout pattern are. As to the latter, does one, for instance, alternate “hard,” “medium,” and “easy” days? The crucial question then is: does one bring that same philosophy to the business? If the activity requires a long-term view, such as training for and running longer distances, does a long-term approach carry over into business? From my own experience I know that long-distance running is excellent preparation for writing a book, which is not done in one day. The kind of deliberate conditioning needed for a race, which makes you focus not on whether a particular day was good or

bad but on where you are after weeks or months of training, helps you weather the reality that some writing days are more productive than others and some not at all.

Sergei Mikhailov, the founder of the Brotherhood, was, as noted, a “master of sports” in freestyle wrestling when he was younger. The ultimate goal of freestyle wrestling is to pin your opponent to the mat, which is easy for me to write. But this sport requires great quickness, strength, endurance, patience, caginess, and the ability to anticipate your opponent’s moves and pre-visualize your responses. Vladimir Putin learned valuable skills from his service as a KGB agent and his gymnastics career; I can only assume that Sergei Mikhailov gained life lessons from wrestling that he applied to his business, the Brotherhood.

There is nothing specific in the development of the Brotherhood that I can relate to freestyle wrestling as such; perhaps someone with dual expertise in the sport and the Brotherhood can improve our analysis here. But there are characteristics in training for the sport that do apply. The growth pattern of the Brotherhood usually exhibits a sustained, incremental approach to business development (the training), but there is the occasional bold move (the wrestling influence?) that takes the business to another level.

The Brotherhood began in “car showrooms and bars” and then “expanded into hotels and supermarkets. It also controlled three major markets in the center of Moscow and at least three major railway stations.”<sup>50</sup> This is a sustained, step-by-step acquisition of real estate (the car showrooms, bars, hotels, and supermarkets) and spheres of influence (the major markets and railway stations).

A bold move occurred when the Brotherhood decided in the early 1990s that it needed to control a bank or two. From another of Misha Glenny’s excellent oral sources comes important testimony about the nature of Russian banking at this time. Mark Medish worked as a specialist on the Russian economy for the US Treasury during the Clinton administration. He observed,

most Russian banks at this time were not banks in any recognizable or meaningful sense. They did not take deposits or make credits; instead they made easy money by handling government transactions, borrowing state funds at low interest rates then buying high-yield, short-term government bonds, making super profits.<sup>51</sup>

Glenny argues that “the move into banking brought Solntsevo [the Brotherhood] and the top criminal syndicates still closer to the oligarchs.”<sup>52</sup> He is right, if you write “to some oligarchs.”

But the wider criminal significance of the move into banking needs a deeper economic appreciation. Controlling one or more banks, whatever their nature, gave the Brotherhood a great business opportunity to “learn by doing,” as an economist might write. Assimilating the ABCs of the banking business was marvelous preparation for the monetary big time of criminality, money laundering. A bank can function as one type of laundry for money laundering, and the Brotherhood would already have components of an infrastructure for

laundering money in place when it entered this business in a major way as a result of an influx of drug profits.

As the 1990s unfolded, the Brotherhood would establish illegal drugs as one of its core businesses and would be driven into another, money laundering. “All the major criminal groups in the former Soviet Union,” Misha Glenny notes,

had built up extensive business interests in the manufacture of amphetamines and ecstasy, in the importation of cocaine into Europe, and above all in the distribution and sale of heroin from central Asia into Eastern and Western Europe and the United States.<sup>53</sup>

The demonic duo of the modern criminal era materialized once again: the flood of cash from illegal drugs required laundering, as one massive illegality begot another.

(We have defined cocaine and heroin in our case study of the Italian mafias. The following are partial definitions of amphetamine and ecstasy. Amphetamines have legitimate medical uses, but they are illegal as recreational drugs and performance enhancers. An amphetamine is sometimes called speed, amp, or tweak. Ecstasy is the street name of a psychedelic drug. Popular in the nightclub scene, it elevates one’s mood, which is an understatement.)

So from its modest beginnings in car showrooms and bars the Brotherhood has expanded its activities to include by 2009 “rackets in extortion, drug trafficking, car theft, stolen art, money laundering, contract killings, arms dealing, trading nuclear material and oil deals.”<sup>54</sup> Without specific revenue figures it is impossible to document which are core businesses and which are secondary businesses. But extortion (and enforced protection), drug trafficking, and money laundering are likely core businesses for the Brotherhood.

In its ascent the Brotherhood established a reputation for ruthlessness even within the ranks of organized crime. Robert Levinson, the former FBI agent quoted above, describes the Brotherhood as “the most dangerous people on earth.”<sup>55</sup> Their involvement in contract killings, arms dealing, and trading nuclear material may bring them into contact with the forces of international terrorism, which would make them “the most dangerous people on earth.”

In conclusion, the answer to the question posed at the outset “So who are the Russian mafia?” is wrapped up in the larger question, “What is Russia today?” In a speech broadcast on radio on 1 October 1939 Winston Churchill, who as Prime Minister would lead Great Britain through World War II, described Russia as “a riddle, wrapped up in a mystery, inside an enigma.” Some might call this rhetorical redundancy, but the point is forcefully made and has as much application today as it did then. Just as there is no consensus definition of the Russia mafia, so also is there considerable disagreement as to what contemporary Russia itself represents in many areas.

Let us concentrate on the economy of the Russian Federation and ask what kind of economy is it? Two of our previous sources see it their way. Vadim Volkov views it as a form of capitalism in which violent entrepreneurship plays

a major role, which I call brassy capitalism. And Misha Glenny argues that Putin “has fashioned a novel system that brings together aspects of capitalism and Soviet socialism—market authoritarianism.”<sup>56</sup> Arkady Ostrovsky, a third witness called upon here for the first time, addresses the larger question “What is Russia today?” and touches on the nature of its economy. Writing in *The Economist* under the appropriate title “Enigma Variations,” Ostrovsky contends that Russia, while not the Soviet Union, is both a recovering world power as well as a corrupt oligopoly with a market economy of sorts.<sup>57</sup> Others suggest that Russia is evolving a version of state capitalism, because the role of government is still so dominating. Still others prefer the view that Russia remains a socialist state at heart but has made major outreaches to elements of capitalism.

Which view is correct? Brassy capitalism? The hybrid of capitalism and socialism, market authoritarianism? A market economy of sorts? State capitalism? Socialist heart with capitalist outreach?

Readers expect academics to solve every analytical problem with panache and will be disappointed in my appearance here as the Delphic Oracle. I have two answers to the question, which view is correct? The first is instinctual; the second is scholarly. My instinct is to propose my own hybrid: the Russian Federation is evolving a version of state capitalism that is brassy in practice but socialist in its nostalgia for Soviet central planning. This nostalgia nurtures a major government role in creating hybrid agencies and corporations that bridge public and private sectors. As a scholar, I must respond that the jury is still out on this question and may not come in for some time. The reason is rooted in the natures of capitalism and socialism. Both are systems that contain economic relationships that require legal expression. In other words, both capitalism and socialism have two parts: the first is *de facto* (in practice) and the second is *de jure* (in the law). Now the basic institution of capitalism is private property, in which individual citizens or groups lay claim to realty (real estate) or personalty (personal property) or both. Citizens and groups may control realty or personalty, but without a rule of law as defined earlier these will remain only claims, neither certified in law nor enforced by courts with their access to police powers. The crucial fact is that the legal system in Russia today is neither systematic nor independent.<sup>58</sup> There is no contract law in any recognizable professional sense, for instance. Without contract law there can no private property *de jure* and hence no real capitalism.

Where does Russian organized crime enter this analysis? With regard to my scholarly answer, the many organized crime groups have certainly laid claims to realty and personalty in Russia and are controlling them with force. So there are numerous *de facto* manifestations of capitalism in the Russian Federation. Individual citizens, groups, and businesses not involved in organized crime have contributed as well to this phenomenon. But Russian organized crime is one of the major forces creating the conditions for capitalism, albeit in a perverse way.

As to my instinctual hybrid of state capitalism, four simple truths have emerged with exceptional clarity from our presentation of Russian organized crime, a result I had not expected in view of the murkiness of the topic and the

pervasive presence of the gray area in Russian life. Let me summarize these truths. To do that, I ask readers to imagine Venn diagrams or set diagrams from basic set theory. Venn diagrams show the relationships between two or more sets; a set is a collection of things. Think of Russian organized crime, the Russian state, and the Russian oligarchs each as a set. The first truth is, the sets of the Russian state and Russian organized crime are not identical. The second truth is, a subset of Russian organized crime is a subset of the Russian state. The third truth is, the set of Russian oligarchs is not a subset of Russian organized crime. A subset of the Russian oligarchs may, however, be a subset of Russian organized crime. I write “may,” because of my earlier analysis of criminal prosecution as a political tool, which renders court verdicts unreliable evidence of guilt or innocence. The fourth truth is, a subset of the Russian state is a subset of Russian organized crime. This is not the same as the second truth, because different people may be in play here. This government subset in the fourth truth involves activities of some, though not all, security personnel, both active and retired. Is everything perfectly clear? Those interested in Russian organized crime thus face a never-ending challenge: to define and document the intersections or overlaps of the various sets and subsets. This task is further complicated by the fact that the boundaries and contents of our sets and subsets are changing over time.

Next I present a vignette on the Albanian mafia.

## 4 Vignette

### The Albanian mafia

Besides the mafias in Italy and Russia, numerous other groups in and around Europe are sometimes called mafias. We have the Albanian mafia, the Armenian mafia, the Bosnian mafia, the Bulgarian mafia, the Chechen mafia (mentioned in the previous chapter), the Estonian mafia, the Mafia Corse or Milieu Corse, the mafia Italo-grenobloise, the Mafia Marseillaise, the Serbian mafia, and the Turkish mafia, to furnish a list that may not be complete. In addition, some prefer other rubrics to classify criminal organizations that may be mafias. One such title is Balkan Organized Crime, which the US Federal Bureau of Investigation wraps around organized crime groups originating from or operating in Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro, and Romania.<sup>1</sup>

Two questions immediately present themselves. What does “mafia” mean in each case? And what does the national or local adjective modifying “mafia” mean for each organization? As to the first, we know that it is the right question to ask, because while there are general definitions of the term, mafias in practice can vary in significant respects, as we have already observed in the Italian and Russian case studies. As to answering the second, the FBI definition of Balkan Organized Crime provides guidelines. The key phrase is an organized crime group “originating from or operating in” a specific location. To make this definition more realistic we add “originating from and/or operating in...” The definition as stated is a complete disjunction and should not be: an organization can originate from and still operate in its home base.

This qualification notwithstanding, the FBI definition does correctly point to one of the crucial features of these other European mafias. For a number of them, their activities are more, sometime far more, transnational than national. Many of their leaders and other personnel may have ethnic origins in a country and/or carry the passport of that country, but most of their business activities and most of their people operate outside the country of their ethnic or national origin. In an ideal world, if statistics were available, one major way to compare and contrast these mafias would display the percentages of their revenue that derive from homeland and transnational operations. But the world of organized crime is not ideal in any respect and no criminal organization publishes an annual financial report. Organized crime has resisted, understandably, the transparency movement, which is good for itself but not for scholarship.

Also, in an ideal world, I would prefer to present thumbnail sketches of every one of those other European mafias that begin to answer those two questions posed above.

What does “mafia” mean in each case? And what does the national or local adjective modifying a “mafia” mean in each instance? But I confront two constraints. The first is a contractual word maximum, which compels selectivity. And even if I could produce a multi-volume opus, I would still encounter the problem of sources. In fact, there is a great need for a scholarly book entitled *Mafias in the Deep Shadows: the Other European Mafias, Under-appreciated European Mafias*, or something like that. While there is a considerable literature on the Italian and Russian mafias, published materials on other groups are not as copious. Still, we soldier on, since readers need to know that the subject of European mafias embraces many organizations other than those from Italy and Russia.

In selecting my vignette to conclude Part I, I used as my guideline the striking transnational dimension of so many of these other European mafias. So I picked the Albanian mafia, which has a substantial transnational presence, arguably the greatest of any of the under-appreciated mafias.

Before I analyze the Albanian mafia, I need to set the stage, as is our custom, by introducing readers to some facts about the country of Albania that touch upon its geography, culture, political history, and economic history. Albania is located in the western Balkans, with Greece as a southern neighbor, Macedonia an eastern neighbor, Kosovo a northeastern neighbor, Montenegro a northern neighbor, and Italy as a more distant neighbor westward across the Adriatic Sea. Two of Albania’s salient geographical features are its rugged mountains and a lengthy stretch of Adriatic coastline. BBC News believes “the origins of the Albanian people are shrouded in some mystery and their language is unique.” The country is “home to a rich blend of religions and cultures.”<sup>22</sup>

As for its political history, Albania became a Stalinist state after World War II, with an isolationist foreign policy, but with the dissolution of the Soviet Union in 1991 it began a transition to democracy. With respect to its economic history, some major themes are as follows. Poverty is widespread, unemployment is high, and infrastructure is deteriorating. Agriculture, a crucial sector, faces daunting obstacles in obsolete equipment and out-of-date techniques. These difficult circumstances have prompted many Albanians seeking work to leave the country; so there is strong tradition of work-related emigration. There has been progress in political and economic reform in recent times, a fact recognized when the European Union and Albania signed a Stabilization and Association Agreement in June 2006. But much remains to be done in such areas as “stamping out organized crime and corruption.”<sup>23</sup>

“Stamping out organized crime” completely may prove elusive, as some aspects of the country reported above facilitate, not hinder, criminal activity. Let us comment on them in the order presented. Geography works in favor of organized crime. “Rugged mountains” and “a lengthy coastline” evoke our description of peninsular Italy and Sicily. The unguarded coastline of Italy is, we have

already noted, an invitation to people and contraband smuggling; it is not surprising that a major activity of Albanian organized crime is people smuggling. Albania, after all, looks just across the Adriatic Sea at southeastern Italy, the homeland of *Sacra Corona Unita*.

The criminal implications of the Albanian language may not be immediately apparent. The fact that Albanian is unique gives it the status of a secret code, inaccessible to outsiders, in the criminal world. The outsiders here include law enforcement and other criminal organizations. Let them wiretap us; we know they don't have many specialists in the Albanian language on their payroll. Every organized crime group seeks some kind of an edge. 'Ndrangheta, or the Calabrian mafia, has an edge in how its members bond with one another, by marriage or blood ties, as we noted in our Italian case study. This gives 'Ndrangheta a protective line of defense against outside penetration. Albanian organized crime has its own edge in the serendipitous gift of its unique native language. This makes its communications extraordinarily difficult to penetrate. Couple Albanian with the use of pre-paid cell phones, popularized in *The Sopranos*, and Albanian organized crime has an incredible advantage in today's electronic world, a result of the union of language and technological change.

The unhappy economic situation at home that has led many Albanians to leave the country for work is an important factor for Albanian organized crime in two respects. First, I think of Vera Zamagni's phrase "social conditions" in describing why southern Italy is such fertile territory for Italian organized crime. With legitimate high-paying jobs so hard to come by in southern Italy, a life in crime is a strong temptation and may be a forced choice for some. Likewise, working for organized crime may be the only prospect for a high-paying job many Albanians experience in their lifetimes. Second, the tradition of going abroad for work is important for the transnational activities of Albanian organized crime. Albanians view going abroad for work as routine, perhaps even expected, and not as an earth-shattering personal move. This provides cover for a person leaving for the wrong kind of work, because who really has to know the real reason for departing?

I have already mentioned social environment, government, technological change, national, and transnational in my setting the stage. Let me continue to develop some factors and add others from my comparative framework as I examine the Albanian mafia in more detail. Let us focus on organization. Our case studies of the Italian and Russian mafias have demonstrated that the adjectives Russian and Italian are geographical, not organizational: there is no one unified Italian or Russian mafia. The same holds true for the Albanian mafia, which is not a monolithic organization tightly controlled from an administrative center.

The word "mafia" in the Albanian mafia is, however, more just an umbrella term. Members of the Albanian mafia do not belong to a unitary organization, but they possess a unity that comes from language, culture, and social structures. There are other ways for organizations to bond besides enveloping administrative structures. We have already discussed the Albanian language, but must note



here that a unique language provides not only external protection but also contributes in a special way to internal cohesion. The cultures of Albania, as do those of other Balkan countries, have some manifestations in common. One is a particular type of social structure—the clan—that is widespread. Many people are “organized into clans with large familial ties for protection and mutual assistance.”<sup>4</sup> As I have emphasized about mafias, not all mafias are alike and if you have seen one mafia in action, you have not seen them all. Likewise, not all clans are alike and if you have seen one clan in action, you have not seen them all. In short, do not stereotype mafias or clans. For example, in anthropological terms clans can be patrilineal, matrilineal, or bilateral. Patrilineal means members are related through the male line; matrilineal, through the female line; and bilateral, through both male and female lines. The clans of Albania are apparently patrilineal; the family clan in Albania is called a *fis*. Clans can also differ in their internal organization. While it is correct to characterize the Albanian mafia as a group of clans not connected upward through a hierarchy to a controlling bureaucratic center, it is wrong to dismiss the concept of hierarchy altogether. Each *fis* has articulated its own internal hierarchy, as have the families of Italian organized crime and those of the US mafia (see Chapter 5).

From the 1400s, relations between clans evolved in a historical context governed by four principles. The first is *kanun*, or code; the second is *bessa*, or secrecy; and the third is territoriality, which means staking out your space, controlling what goes on in it, and if necessary fighting to defend it. Territoriality led to numerous violent conflicts between clans. So habitual did physical violence become as a means of conflict resolution that we make this phenomenon our fourth principle: might does not make right, but it certainly can determine a winner. These four principles—code, *bessa*, territoriality, and physical violence as conflict resolution—are crucial for understanding the transformation of some Albanian clans into organized crime units and as such deserve more attention. The code takes specific form in Albanian society in “the collection of medieval tribal laws known as the ‘Canon of Lekë Dukagjini,’” which “still remains the organizing structure of the Albanian society.”<sup>5</sup> For instance, honor killings, which are part of the fabric of Albanian society, receive recognition in this Canon. The FBI spells the second principle as *besa* and translates it as secrecy. But M. Bozinovich, who has written extensively on the Balkans from a Serbian point of view,<sup>6</sup> renders it as *bessa* and suggests that it is far more than that. *Bessa* is the “fundamental rule of Canon law of Albanian clansman organization” that “simultaneously converges loyalty, fidelity, dignity, and honor of one’s word.” So pervasive a force is *bessa* in Albanian culture that it appears in many Albanian folksongs, such as this chilling reminder: “death happens because you betrayed a host, when bread is missing to serve the host, death happens for the faith renounced.” Vendetta killings, mentioned above, are designed “to restore the violated honor” and are inherent in this “culture of violence.”<sup>7</sup>

Remember that the description in the previous paragraph applies to Albanian culture as a whole, not a particular version for Albanian organized crime. Some may regard M. Bozinovich’s interpretation of Albanian society as exaggerated

and even warped, because he is looking at Albania from a Serbian point of view. Indeed, in Albania the divisions among clans were originally social, not criminal, and an unknown number of Albanian clans today do not participate in the Albanian mafia. I am aware of the criticism of this article, but frankly many of the critics are not aware of their own biases. I addressed the problem of bias in the introductory chapter and here underscore my own position on this topic. We all have biases, and anyone claiming to be totally objective is having an out-of-body experience. The central question is, do the biases of an observer vitiate the facts he or she is presenting? With regard to M. Bozinovich's analysis of "The New Islamic Mafia," my answer is no. His essential facts are correct, since certain features of Albanian culture and clan organization do lend themselves, indisputably, to the development of Albanian organized crime. Recall those essential facts. Here were entities (*fis*) based on extended family ties and dedicated to self-protection and mutual assistance. They followed a code or set of "commandments," had procedures that involved secrecy, had extensive experience with territoriality, and were steeped in physical violence as a way to resolve conflicts. A strong foundation was already in place for the emergence of Albanian organized crime. Then cultivate contacts with established organized crime groups, learn from their successes and failures, add some national and possibly transnational businesses, and the result would be one of the most brutal, powerful, efficient, and feared organized crime groups in the world: the Albanian mafia.

The Albanian mafia did just that as it built on the foundation it found in Albanian culture and clan organization. Let us first discuss contacts with established organized crime groups. Actual or prospective members of the Albanian mafia did considerable "learning by doing" while in the employ of the US mafia. During the 1970s the US mafia hired Albanian expatriates in the US "as couriers, transporters or assassins." They gained a reputation for efficiency and brutality as they performed these tasks and advanced within the US mafia. By 1996 ethnic Albanians were the main assassins for the Gambino crime family, one of New York's five Italian crime families (see Chapter 5). For instance, Sammy "the Bull" Gravano, an enforcer for the Gambino family who informed on his Don John Gotti, had an ethnic Albanian, Zef Mustafa, as his go-to "clipper" [assassin].<sup>8</sup>

Besides assimilating the nuts and bolts of organized crime as couriers, transporters, and "clippers," ethnic Albanians also learned the "art of the criminal heist" while working for the US mafia. These experiences prepared them to go to a higher level of organization, which involved trafficking in illegal drugs. The "Balkan Connection" refers to a pattern of heroin trafficking that connects Afghanistan and Turkey to the US through Greece, Belgrade, and Kosovo, the much disputed region northeast of Albania that Serbia still regards as part of its sovereign territory. Ethnic Albanians run this branch of the international heroin trade. The Balkan Connection has not received the media attention the French Connection and the Sicilian Connection have, but it is nonetheless critical for appreciating the scope of the global trade in illegal drugs.

In the mid-1980s, Rudolph Giuliani, then US Attorney for the Southern District of New York, led a team that prosecuted some members of the Balkan Connection, who had been caught with at least US\$125 million street-value in heroin. Convictions were eventually won, but members of the Balkan Connection had reportedly issued a \$400,000 contract on two key members of the government team: Alan M. Cohen, an assistant prosecutor, and Jack Delmore, a narcotics agent with the Drug Enforcement Administration, who were then given round-the-clock protection by federal marshals.<sup>9</sup>

One successful criminal prosecution did not a death knell sound for the Albanian mafia. The expansion of its international activity in illegal drugs hardly skipped a beat. Illegal drugs became part of the Albanian mafia's dominant core business, which is smuggling—of commodities and people. The commodities include heroin, of course, but also weapons and other contraband, such as cigarettes. The people, including many children, cross the Adriatic Sea and enter the European Union illegally by way of Italy's long unguarded coastline.<sup>10</sup>

At the same as they were diversifying their business activities, members of the Albanian mafia were winning a wider reputation for their relentless brutality. They brought to the traditional mafia business of protection a level of physical force that even frightened other criminals. As they continue to develop their business activities in areas listed above as well as in money laundering, counterfeiting, and anything that lends itself to the "art of the heist," their concept of retribution scares more and more people. I am not taking a public position on which criminal organization is the world's scariest. But the Russian Brotherhood and the Chechen mafia, discussed in the previous chapter, as well as the Albanian mafia, are leading candidates for this dishonor.

In conclusion, perhaps the most striking feature of the economic history of the Albanian mafia is its growing transnational presence. The organization operates in a number of major European and US cities. It has not stayed out of Italy, but has focused on the north so as not to conflict with the criminal organizations resident in the south. The persistence of the Balkan Connection means that its members or their collaborators are active in the Middle and Near East, into southern Asia, through Europe, and in the US. It is not possible to provide a finished global portrait of the Albanian mafia, as hard intelligence concerning many of its activities, if it exists at all, is not in the public domain.

But the factors that power the growth of this transnational presence are clear. The tradition of going abroad for employment, strengthened by insufficient opportunities for legitimate work at home, is the first major factor. Leaving the country can broaden even a criminal's perspectives, which is all the more necessary given the isolationist streak in Albania's history and the provincialism of its unique language. International perspectives are useful in building transnational businesses. The second major factor concerns the small size of the Albanian home market in relation to the growth ambitions of its criminal groups. In studying the international business history of legal groups, one observes a connection between the size of the domestic market and the timing of the entry of home firms into cross-border activity. There are many factors, of course, in a decision

to go international, but a rough generalization is that the more limited the home market is for one's preferred activity, the sooner one moves into the international arena.<sup>11</sup> This dynamic also characterizes the emergence of some transnational criminal activities.

Among those other factors that play roles in transnational transformation leadership and personnel are critical. In short, the business people involved must have the right stuff. For members of the Albanian mafia, the right stuff includes the very qualities that helped them at home. These qualities all promote solidarity. They speak a language that is unique, have organizations based on family ties, and observe a code of silence. Their clan organization also lends itself well to international transplantation. Clans travel well, whereas organizations with extensive vertical hierarchies connecting the very top to the very bottom are more difficult to export and then re-establish in a foreign market.

These observations conclude Part I. We move to Part II, North America, and take up the US mafia, Mexican drug cartels, and organized crime in Canada.



## Part II

# North America

North America provides an opportunity to continue our study of mafias, witness for the first time drug cartels in action, and gain an overview of organized crime in Canada. The first case study returns to the US mafia, which has already made an appearance in our chapter on the Italian mafias. The second case study considers a subject that is truly topical: the Mexican drug cartels, which have established a strong transnational presence in all three countries that constitute North America: Canada, Mexico, and the US. The vignette at the end of Part II considers organized crime in Canada.

I have a special word for readers. I have already sketched important features of the economic history of the US mafia elsewhere.<sup>1</sup> I will refer to this analysis, but my goal is to build on it in this book. I will refine a number of issues I discussed in that book, but the US mafia is a national, transnational, and local phenomenon, and more attention needs to be paid to its local level, particularly outside the locations that rivet the media and popular culture. So I will introduce an unappreciated organization on its local level, the Cleveland mafia. I can hear readers groan from around the world. The Cleveland mafia? Are you kidding? No, I do not joke about the mafia. The Cleveland mafia is associated with the city of Cleveland, on the southern shores of Lake Erie, in the state of Ohio. It has an economic history as worthy of study as any of the mafias from larger cities in the US. I selected the Cleveland mafia because I am a Cleveland boy born and bred. I did leave for college, graduate school, and an academic job, but I have moved back to my roots. I really never left in spirit, as I visited regularly and followed local news avidly, particularly any items concerning organized crime. To paraphrase Winston Churchill, “I have trodden the terrain.”

The Mexican drug cartels first entered my line of sight as I started researching in the late 1980s what would become the North American Free Trade Agreement (NAFTA), which went into effect on 1 January 1994 and contains Canada, Mexico, and the US. One of the seemingly minor side debates in the run-up to the approval of NAFTA by the US Congress in 1993 concerned the standards for allowing trucks from Mexico to enter the US. These standards encompassed such items as what safety features these trucks should have and how far into the US could they travel. At the time, public discourse appeared more focused on truck safety, but another major issue that shadowed this debate was what

contraband might be hidden in the trucks entering the US. The most feared contraband was illegal drugs. More than fifteen years later, illegal drugs, and all that they bring in community violence and personal tragedy, have become a dominant and now terrifying issue for the countries of NAFTA and all their law-abiding citizens. The issue of truck safety has taken second place to the personal safety of substantial numbers of the populations of all three NAFTA countries, as the so-called “drug wars” have crossed national boundaries and become transnational.

The economic history of organized crime in Canada is interwoven with the economic histories of organized crime in Mexico and the US. For example, the distribution networks of the Mexican drug cartels know no international borders and encompass swaths of Canada. And the US mafia historically has had activities in Canada, and there are mafias in Canada that are hybrids of US and Canadian features. There is, however, one domestic manifestation of organized crime that is distinctly, though not uniquely, Canadian. These are the infamous biker gangs, which are not inherently criminal but which have members who are and they engage in illegal activities. The harmful influence of the criminal component of these gangs seems to be increasing, and we pay special attention to the biker gangs in our Canadian vignette.

## 5 US mafia

The US mafia is a term that covers many crime “families” that have local bases and activities but may operate on the national and transnational levels as well. These “families” come from all around the US. “For a long time there were roughly twenty-six American Mafia ‘families’ going strong across the United States and Canada.” Many are associated with cities; some are connected with regions. They are from Buffalo, New York; Chicago, Illinois; Cleveland, Ohio; Dallas, Texas; Denver, Colorado; Des Moines, Iowa; Detroit, Michigan; Kansas City, Missouri; Los Angeles, California; Madison, Wisconsin; Milwaukee, Wisconsin; New England-Boston, Massachusetts; New England-Providence, Rhode Island; New Orleans, Louisiana; New Jersey; New York; northeast Pennsylvania; Omaha, Nebraska; Philadelphia, Pennsylvania; Pittsburgh, Pennsylvania; Rochester, New York; Rockford, Illinois; San Francisco, California; San Jose, California; St. Louis, Missouri; and Tampa, Florida.<sup>1</sup> It is critical to remember this geographical sweep, since there is a tendency among those who are preparing the obituary of the US mafia to equate or largely associate it with the five crime families from New York City and assume that as those five families go, so goes the US mafia. The US mafia is much, much more than the five New York families, an over-concentration in more modern times we begin to redress by our presentation of the Cleveland mafia later in this chapter.

I will first set the stage by summarizing relevant facts that will help us better understand the context in which the US mafia emerged and developed. Throughout this chapter I use factors from my comparative framework. The facts in our setting the stage come from US political and economic history, and emerge from urban geography and culture as well.

US political history reveals consequential decisions by government, especially in legislation, which have had a profound impact on the US mafia. Some of these decisions involve immigration law, the Prohibition Era (1920–1933), and a 1970 federal statute known colloquially by its acronym as RICO (Racketeer Influence and Corrupt Organizations Act). Let me explain each area of government action in turn. Immigration law was vitally important for the birth of the US mafia. As reported in Chapter 2, waves of immigration from Sicily, notably in the late nineteenth and early twentieth centuries, brought thousands to the US. In these numbers were prospective members of the US mafia, including



Charles “Lucky” Luciano and the future Don Vito Corleone. So immigration created a pool of leaders and other personnel for US organized crime. Moreover, those with actual criminal experience brought knowledge and skills, which meant that the US mafia had elements of an organizational base already in place and was not a creation from nothing.

The Prohibition Era refers to the 1920s and early 1930s in US history when the federal government interdicted almost everything about alcoholic beverages except their consumption. So the “prohibition” in the Prohibition Era was not comprehensive, and government even sanctioned the home manufacture of beer and wine in certain quantities and specifications. This inspired some to interpret “home” with great latitude as wherever they happened to be at the time. Legal prohibition originated in a combination of US Congressional legislation (the Volstead Act of 1919) and the Eighteenth Amendment to the US Constitution, which came into full force and effect on 16 January 1920. Public opinion eventually swung against Prohibition, and almost fourteen years later, the Twenty-First Amendment repealed the Eighteenth Amendment, when it was officially ratified on 5 December 1933.

I have elsewhere presented salient features of the economic history of the Prohibition Era and their implications for organized crime and refer interested readers to this material.<sup>2</sup> I now place that analysis in the context of my comparative framework.

Looking back, we see that Prohibition was a great gift to criminal forces, especially the US mafia. Prohibition is a powerful example of a law that seems to govern human conduct: the best of intentions can produce the worst of effects. Prohibition (or the government) created many vacuums into which the mafia rushed. When the Eighteenth Amendment forbade the “manufacture, sale, or transportation of intoxicating liquors, for beverage purposes,” it opened up opportunities to create illegitimate businesses in manufacturing, selling, and transporting those commodities. The demands of the many illegitimate businesses associated with Prohibition motivated “the Mob” to improve how it was organized, especially in the Chicago region. These are genuine examples of technological change in administrative structures, as the Chicago mafia began to resemble more and more a corporation, with vertical hierarchies, divisions, and professional accounting. Bringing a low-key management style distinguished by his skills in organization and finance was Jake Guzik, Al Capone’s right hand man, in running the Chicago syndicate for more than twenty years. Jake Guzik made major contributions to the organization of organized crime. These remain vastly unappreciated and deserve the deepest study from scholars and anyone else interested in organized crime as business.

Prohibition also gave organized crime opportunities to expand the twilight zone and strengthen its mystique in US popular culture. In the Chicago area, and elsewhere in the US, organized crime was deeply involved in what were known as “speakeasies.” These were bars, nightclubs and other locations where alcoholic beverages were illegally sold. Legend has it that the name “speakeasy” came from the suggested demeanor for a patron who wished to order an alcoholic beverage;