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Organised crime, state and the legitimate monopoly of violence

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# Chapter 17

## Organised Crime, State, and the Legitimate Monopoly of Violence \*

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### Abstract

The concept of 'legitimate monopoly of violence', so much related to the *nature* of states, is also key to understand their *capabilities*. The use of force by the government is sometimes considered illegitimate even in modern democracies, and sometimes its monopoly is contested by more or less legitimate actors, notably organised crime. This chapter discusses the particular relationship between state and organised crime through the lenses of the legitimate monopoly of violence. It explores the role of violence in the appearance and development of states, in presence of both productive and appropriative activities; it then looks at organised crime as illegal organisations often claiming the legitimate use of that violence; and it finally studies the fight between states and criminal organisations for the monopoly of violence.

Keywords: State; Organised crime; Monopoly of violence; State capacity; Anarchy; Legitimacy.

JEL classification: D7; H4; K42; N40.

### 1. Introduction

“A compulsory political association with continuous organization will be called a ‘state’ if and in so far as its administrative staff successfully upholds a claim to the monopoly of the legitimate use of physical force in the enforcement of its order.”

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The definition of 'state' is notoriously elusive, but few people would contend that the one provided by Weber above –or small variations of it– is the one that comes to mind more often. Traced back at least to Hobbes' *Leviathan*, and extensively used by a myriad of scholars, the idea of 'legitimate monopoly of violence' is indelibly linked to the *nature* of states; that is, why and how they appear. Yet it is also crucial to understand their *capabilities*. It is in the end the possibility of exercising coercion that gives states the power to extract resources from the population (giving them fiscal capacity) and to enforce its rules (giving them legal capacity). Coercion is so important that it is hard to conceive a state that does not use violence or the threat of force to rule. In fact, most other definitions of state also centre on coercion. North, for example, talks about state as an organisation that has "a comparative advantage in violence, extending over a geographic area whose boundaries are determined by its power to tax constituents" (North, 1981: 21). It is in taming this violence that states make their contribution to the prosperity of societies.

The "legitimate" or "monopoly" elements of the Weberian take are certainly not less important, but they are more problematic to analyse. Even in modern, developed democracies we can think of occasional uses of force by the government that could be considered illegitimate. And one can think of innumerable cases where the monopoly of violence of the state is seriously contested by actors that could be considered more or less legitimate. Cases abound: at the end of the twentieth century many terrorist groups and *guerrillas*, like the Irish Republican Army, *ETA*, *Sendero Luminoso*, or the *Ejército Zapatista de Liberación Nacional*, received considerable attention; in recent years many consider organised crime in the form of mafias or cartels as the main agents fighting over that monopoly. Related to the latter case, it is interesting to note that at least since the 1980s Tilly was noting that many of the activities carried out by states are not necessarily too different from what we normally refer to as organised crime:

*"If protection rackets represent organized crime at its smoothest, then war making and state making –quintessential protection rackets with the advantage of legitimacy– qualify as our largest examples of organized crime."* (Tilly, 1985: 169)

Tilly has a point there. Save for legitimacy –and, as we pointed out, that being seriously questioned for many states– it is easy to find similarities in the behaviour of states and organised crime. And the presence of those similarities partly explains the complex relationship between these organisations.

In this essay we discuss this particular relationship through the lenses of this idea of the legitimate monopoly of violence. We explore the role of violence in the appearance and development of states, in presence of both productive and appropriative activities, organised crime as illegal organisations often claiming the legitimate use of that violence, and then both states and criminal organisations fighting over the monopoly of violence.

## **2. Anarchy, violence and the state**

Violence *and* cooperation are defining elements of social behaviour. Both have been invoked as key to understand the rise of societies, and the way in which they interact contributes to explain how these societies persist, thrive, or collapse. For once, humans are exceptionally cooperative, even in very large groups of non-related individuals (Henrich and Muthukrishna, 2021). This is surprising because there are no good reasons to think this would be the case *ex ante*. Jean Jacques Rousseau famously stated in his *Second Discourse* (1755) that “nothing is gentler than a man in his primitive state,” but nothing seems to be farthest from the truth (Keeley, 1996). There are at least three pieces of evidence suggesting ‘man in his primitive state’ was *not* gentle at all: the aggressiveness of non-human primates (such as chimpanzees and bonobos), the violent nature of contemporary nonindustrial societies as it is described in ethnographic accounts, and the extensive archaeological evidence that this was indeed the case for primitive societies (Seabright, 2010, Ch. 3). In this sense, Thomas Hobbes appears to have depicted a more accurate picture of life in a ‘natural state’ in his *Leviathan* (1651), when he described it as one of “continual fear, and danger of violent death; and the life of man, solitary, poor, nasty, brutish, and short,” not too different from the one William Golding vividly portrayed three centuries later for the children stranded in the island of the *Lord of the Flies*.

Cooperation is not necessarily to be expected *ex ante* because it usually involves making choices that help or avoid hurting other individuals at some personal cost. In that sense, cooperation is rare in mammals save for humans, and normally limited to cases of close relatives or a small number of reciprocators (see, e.g., Boyd and Richerson, 2005). Kin-based altruism, which explains cooperation between close relatives, and reciprocal altruism, which relates to tit-for-tat behaviour in small groups of people that interact frequently, are quite widespread and can be rationalised in simple models of genetic and/or cultural inheritance (Henrich and Muthukrishna, 2021). That is, in small kin-related groups with only occasional interactions with individuals outside the group, cooperation can be sustained, and the level of conflict can be contained and dealt with informally (Diamond, 1997). But as societies grow in size, those mechanisms cease to be enough. By construction, both kin-relatedness and the potential for reciprocity decline with the size of population, making it difficult to rely upon

informal conflict resolution. And the sources of conflict also quite likely increase. In most cases, the rise of large civilisations was made possible thanks to the appearance of agriculture, which generated a higher potential for economic growth, but also for conflict. Agriculture created a surplus –either in the form of excess labour or an excess product in the form of a non-perishable good such as grain– that could be looted and appropriated (Allen, 1997; Mayshar *et al.* 2020). Here lies an interesting paradox: prosperity increases the risk of violence, and violence hinders prosperity (Dal Bó *et al.*, 2015).

A few societies were able to solve that puzzle and, those that did, relied upon institutions and social arrangements of different sorts. For authors like Acemoglu and Robinson (2016), prosperity is largely dependent on the eventual appearance of inclusive economic institutions, and these are more likely to appear in contexts with inclusive political institutions that show at least some degree of both pluralism and political centralisation. This second element is of particular relevance, because the crucial problem social orders needed to solve to regulate economic activity, impose taxes and provide public goods, was that of violence (North *et al.*, 2009). As pointed out by Bates:

*“Political development occurs when people domesticate violence, transforming coercion from a means of predation into a productive resource. Coercion becomes productive when it is employed not to seize or to destroy wealth but rather to safeguard and promote its creation.”* (Bates, 2001: 101-102)

Societies have been able to domesticate violence in many different ways and the most successful is probably that of political centralisation in the form of a state. Instead of eliminating violence, states have been able to actually tame it via somehow legitimating its monopoly:

*“In most of the world, the activity of states has created a startling contrast between the violence of the state’s sphere and the relative non-violence of civilian life away from the state. [...] European states led the construction of that contrast. They did so by building up fearsome coercive means of their own as they deprived civilian populations of access to those means”* (Tilly, 1990: 68-69)

And the state has been indeed successful in this task. Pinker (2011) provides some empirical evidence validating Hobbes’ idea that the state has been able to deal with the problem of violence successfully. The comparison between states and nonstate societies in terms of deaths in warfare shows an outstanding difference in the percentage of deaths caused by violent attacks rather than natural causes. Leaving aside figures displayed by prehistoric societies for which we have limited records, the percentage of violent deaths in the worst performing state, which is pre-Columbian Mexico, is still much lower (5%) than the average

of the hunter-gatherers' group (14%) and the hunter-horticulturalists' group (24.5%). In this latter group, there is also the last European nonstate society, the Montenegrins, whose percentage is almost identical to the one of the whole group. Similar results are found when comparing states and nonstate with respect to the rate of death in warfare, with an average of 524 annual war deaths per 100,000 people in non-state polities, while 20th century Germany only reached 144. There is a general (mis)perception that many tribes are less prone to wars and are therefore considered pacific. The Semai, a tribe living in Malaysia, is often taken as an example of one of the least violent. Nonetheless, Semai people murder each other at a rate which is comparable to the most dangerous American cities in the 1990s and three times greater than the one of the U.S. in the 20th century.

Yet, the state has not always meant a panacea, nor its absence indicates incapability to deal with the problem. In fact, whereas now nearly all individuals are under the umbrella of a nation-state, not long ago self-governing peoples were the great majority of humankind (Scott, 2010). Non-state polities developed cultural patterns and informal institutions aimed at repelling state absorption and preventing state formation, such as in the vast territory of Zomia superbly studied by Scott (2010), the ideal zone of refuge for all those peoples who preferred to avoid coercion, conscription and taxation. These societies were characterised by extreme equality among individuals, fluid leadership and a strong aversion to authority. Specifically, in South-East Asia these features were often accompanied by religious heterodoxy and multi-ethnic demography. The inhabitants of Zomia were, in fact, quite diverse with respect to ethnicity, culture and religion. However, they shared the choice of having fled a state. The possibility to evade the extraction of agricultural surpluses by the elites, conscription during wars and *corvée* labour during peace must have been strongly appealing to many, which is not surprising as life conditions under early states were probably worse than in their self-governing counterparts.

How societies are able to achieve large-scale cooperation in the absence of state has been explored in different studies, notably in the work of Peter T. Leeson (2014) about anarchy. Anarchy is usually referred to as a synonym of disorder, violence and primitiveness but, according to Leeson, this is not necessarily the case:

*“Governance – social rules that protect individuals’ property and institutions of their enforcement – doesn’t require government, which is but one means of supplying governance. Hobbes overlooked the possibility of self-government: privately created social rules and institutions of their enforcement. He also underestimated the possibility of truly horrible governments.”* (Leeson, 2014: 1; his emphasis)

Leeson (2014) also argues that states, especially when they appear in a predatory form, can even be outperformed by efficient anarchies, that is, one welfare maximising individuals would choose over a government. This is the case of small primitive societies, whose persistence in statelessness can be explained by their relatively small size and homogeneity. The higher level of trade provided by a well-functioning government is in this case an ignorable advantage due to the lack of exchange opportunities. Individuals' low and standardised productive abilities make these societies egalitarian and small enough not to incentivise the creation of a state power which would also need some organizational cost. Thus, stateless societies can only persist when they find themselves in small and isolated environment and in the absence of conditions allowing economic development. A common feature of these cases of 'efficient anarchies' is that societies find somehow private order institutions to deal with the problem of violence in a context where the state is weak or entirely absent, or the society wants to actively avoid the state. What states regard as criminal organisations can sometimes provide such institutions.

### **3. Production, appropriation, and the monopoly of violence**

Organised crime resembles states in that it extracts resources through violence (or its threat) but also supplies protection along with other goods and services. Economic theory has long studied the emergence and development of similar institutions and organisations against the backdrop of tension between productive and appropriative activities. After an early contribution by Haavelmo (1954, pp. 91-98), this issue has been addressed in a variety of ways by the literatures on rent seeking, conflict, cooperation, crime, and more generally public economics and political economics (e.g., Olson, 1993, Allen, 1997; Dixit, 2006; Konrad and Skaperdas, 2012; Dal Bó *et al.*, 2015; Mayshar *et al.*, 2020). It is impossible in these pages to do justice to all elements of this large debate, but three broad insights from it will be useful for our subsequent discussion.

A first insight is that *appropriative activities can be socially very costly, hence motivating a need for protection*. One cost comes from harm to the victims and their properties, as well as other potential collateral damages. But appropriative activities can generate additional social costs as they reduce production in two ways: by reducing returns to producers' effort and by creating an incentive to divert resources from production to protection. Hirschleifer (1988) and Baumol (1990) present insightful formalisations and discussions of the associated incentives and effects. Modern crime economics starts with Becker (1968) precisely as a reflection on public enforcement of law, its costs and its optimal configuration. While illuminating, this analysis presupposes the existence of a state with its laws and its capacity to punish lawbreakers. In many contexts, today and in the past, state capacity is weak at best. In the absence of state, the

presence of “bandits”, i.e., agents devoted to appropriation, may induce self-protection efforts by individuals or by a community of producers. Skaperdas (1992) and Hirschleifer (1995) investigate the tension between productive and appropriative activities, showing that anarchy may be a form of order, but a rather fragile one, and that while the absence of conflict is possible, there are also equilibria in which producers are exploited. Grossman and Kim (1995) investigate defence as a deterrent to predation. Skaperdas and Syropoulos (1995) show that under anarchy, when skills and resources are unevenly distributed, those with a comparative advantage in extractive activities or more initial resources will specialise in appropriation and extract resources from the larger productive population. As they put it, parasite gangs specialised in the use of violence emerge as primitive extractive states. Their power is based on coercion, which absorbs resources, and exploitation severely limits incentives to production. As a result, such proto states are generally poor, and although rulers are richer than subjects, they are not particularly wealthy either, because there is little surplus to be extracted.

Here comes a second insight: *individuals with the incentive and capacity to loot the producers may realise that it is in their best interest to reduce extraction and engage in costly provision of productive public goods.* Olson (1993) proposed the idea, later formalised and extended McGuire and Olson (1996) and others, that “roving bandits” have incentives to become “stationary bandits”, who seek to monopolise the use of violence and supply protection to the population. By providing peace and protecting against other looters, while also enhancing their own legitimacy, they raise the amount of surplus produced and hence the overall rents they are able to extract. Perhaps surprisingly, the bandit’s subjects are also better off, as those with the coercive power have the incentive to exercise it in a way that is (at least partly) consistent with the interest of the society, increasing the size of the cake. In early societies it was probably not obvious whether the most efficient solution was for producers to self-protect or to allow for “Olsonian bandits”, but as conflict (military) technology became more complex, the latter solution clearly ended up dominating and making the monopoly of violence a stable equilibrium.

But what happens if different groups compete with one another to gain this monopoly of violence over a certain territory, and hence the ability to supply protection and extract rents? Here we have a third insight: while competition in private goods in legal markets is usually welfare-enhancing, *competition among providers of protection is not necessarily beneficial.* Competition among them may be transitory and result in open conflict with a final winner, which defeats opponents and becomes a monopolistic provider of protection over the whole territory, or it may be permanent, involving either territorial division or coexistence over the same territory. Konrad and Skaperdas (2012) focus on an equilibrium in which several “lords” divide the territory. They show that competition among such

lords eliminates all production gains potentially allowed by protection, because it diverts resources from production to the military apparatus: “[l]iteral anarchy is replaced by a more organised, higher-level anarchy of predatory states” (Konrad and Skaperdas, 2012: 432). A more nuanced perspective on the effects of competition emerges when different “lords”, which may be a mafia and a state, supply protection and extract resources from different sectors within the same territory, such as a “legal” and an “illegal” sector, as in Grossman (1995).

#### **4. Organised crime**

Organised crime certainly takes many forms but –like states– it often deals with the problem of societal conflict, specially where there are ‘lootable’ resources. And, as a private organisation active in the protection business, it needs a series of resources, mainly information on potential and actual threats, the possibility and capability to use force to prevent or punish them, and reputation for being able to effectively do so, in order to charge a price for its services. It obviously gains from reducing market competition and possibly establish itself as a monopolist, at least locally. This may lead to conflicts with other organisations, or to agreements with them to divide the territory in areas of monopolistic influence. This division may also be economic as well as geographic, with different organisations specialised in different sectors, but even agreements are sustained by the threat of conflict and may unravel if the balance of power changes.

Even if criminal organisations find an agreement to peacefully co-exist, at least temporarily, the aim of achieving the monopoly of violence will naturally lead to conflict with the state, both for power and legitimacy among the population. Schelling (1971) interestingly conceptualised organised crime as seeking monopolistic rule over underworld, similarly to what a state government does for the overworld. But both worlds are really interlinked. In fact, organised crime appears to emerge and consolidate when and where there is a combination of weak state capacity and high economic opportunities. If its presence further undermines state capacity (for instance, because it depresses economic activities and returns to investment in institutional quality, for either the elite or voters, depending on the context), it may generate a poverty trap. But, to the extent that it replaces weak public governance with a more efficient –albeit criminal– organisation, it can boost economic activities and become –at least locally and temporarily– an engine of development. The Sicilian mafia, for example, the famous and prominent criminal organisation, is portrayed by Gambetta (1993) as basically providing protection for profit. Its birth dates back at least to the time of Italian unification in 1861. In that period, state enforcement in Sicily was extremely weak, leaving many individuals and groups exposed to predation. Opportunities for appropriation were abundant after the demise of the

feudal system half a century earlier, in 1812. In particular, landlords felt threatened by peasants' revolts, and booming sectors offered high returns to appropriation. Moreover, soldiers and guards previously employed by feudal lords or by the Bourbon state were looking for new employers. In such conditions, mafia lords recruited them and started a long-lasting protection racket.

There are, of course, some differences between protection supplied by the state and by private organisations. In despotic states, the coercive apparatus operates more at the ruler's discretion than in democratic ones, but in both cases, citizens cannot typically be excluded from state protection. This makes protection either a public or a common good. When supplied for profit, instead, protection becomes a private or club good, because those who do not pay for it are excluded (and potentially looted). Notice that the degree of rivalry does not depend so much on the identity of the provider, as on the kind of protection. For instance, protection of a town against foreign predators is nonrival for its citizens, whether provided by public or private organizations, but protection of a farm obtained by moving guards away from other farms makes it rival. Also, in a sort of paradoxical version of Say's law, private protection supply creates its own demand. This happens in two main ways. First, protection is provided through the use or the threat of violence, and the threat against which a private provider supplies protection may just be the use of its own violence against those who do not pay. Hence, the boundary between private protection and extortion is blurred. Second, by deflecting appropriation activities towards those who are not protected, private protection creates negative externalities on them and raises their demand for protection. This creates strategic complementarity in protection demand, making it particularly difficult for a single individual to exit from the private protection or extortion racket.

The empirical economic literature has explored these ideas in a variety of ways. In particular, it has tried to assess the role of two factors in the historical origins of organised crime: high demand for protection –associated to valuable lootable resources or to specific threats– and insufficient ability of the state to act as a monopolistic provider of protection. The above observation that private protection creates its own demand poses an important empirical challenge: an increase in the demand for protection might be the effect rather than the cause of the presence of organised crime. One way of addressing this difficulty is presented by Buonanno *et al.* (2015), who exploit a natural experiment to measure the effect of a boom in the value of lootable natural resources on the early diffusion of the Sicilian mafia. In particular, they focus on sulphur, a mineral that was abundant in the island, especially in some areas, but until the beginning of the XIX century had negligible economic value. The Industrial Revolution changed the picture, as sulphur became crucial for chemical composites produced in England and France, and since in Sicily it was superficial and easy to extract, sulphur exports exploded, and Sicilian production moved from nearly

zero in 1800 to more than 80% of the world market in 1900. A subsequent change in technology moved international demand in the XX century towards sulphur extracted elsewhere, so the boom in its value was indeed temporary. The uneven distribution of sulphur over the island thus produces a natural experiment, with some locations experiencing an exogenous increase in the value of natural resources and other locations serving as a control. Estimates based on historical data on sulphur mines and mafia presence at the local level show evidence of a resource curse: mines offered new opportunities for the protection racket and the sulphur boom fostered the early diffusion of the Sicilian mafia. Acemoglu *et al.* (2020) investigate a different exogenous source of increase in demand for protection, again in the context of the Sicilian mafia. They exploit variations in rainfall and in the local intensity of the drought that affected Sicilian municipalities in 1893, and that set out peasants' protests. Landlords turned to mafia dons to counter the threat posed by socialist movements. They again provide evidence that an exogenous increase in demand for protection fosters mafia diffusion. While these and other contributions provide consistent evidence of the effect of protection demand on the diffusion of organised crime in the context of weak states (see also Bandiera, 2003, and Dimico *et al.*, 2017), we know comparatively little on the supply side, namely on the conditions under which particular groups of individuals are able to organise a protection racket. Gambetta (1993) lists information, violence and reputation as crucial assets in the business, but empirical research along these lines has been limited by data availability.

Of particular relevance are the consequences of private protection on prosperity and conflict. In principle, mafia-type organisations might have positive effects, to the extent that they provide a valuable service that the state is not able to provide effectively, possibly reducing predation and violence, and also generating income and employment. On the other hand, the protection racket, the use of violence and the fight for its monopoly may harm and distort economic activity and create a variety of long-lasting negative externalities. The empirical literature provides ample evidence in support of this more negative perspective. A natural case study is Italy. There the positive effects of mafia protection are clearly outnumbered by the negative ones imposed through economic distortions and violence. Pinotti provides a general overview of the causes and consequences of organised crime (Pinotti, 2015a) and specifically estimates the economic costs of mafia presence in southern Italy (Pinotti, 2015b). By constructing a synthetic control, obtained as an optimally weighted average of surrounding regions, he compares the actual evolution of regions in which mafia entered at some point to their likely counterfactual evolution, had mafia been absent. After 30 years of mafia presence, mafia regions show a level of GDP that is 16% lower than in the counterfactual, and similarly lower levels of electricity consumption, which are harder to hide and thus suggest a real drop of economic activity rather than a mere move towards the underground economy. This drop is driven by a fall in private investment and in the productivity of public investment,

due to distortion and corruption in public procurement, and it is matched by a substantial rise in homicide rates. Barone and Narciso (2015) document similar distortions in Sicilian municipalities plagued by mafia, where fake firms are created just to appropriate public subsidies and corruption raises subsidies distracted by mafia-related firms. Here the causal identification relies on an instrumental variable strategy, based on rainfall shocks in the 1850s, slope and altitude. Using drought intensity in 1893 as an instrument for mafia presence in Sicilian municipalities, Acemoglu *et al.* (2020) also document that it lowered literacy, public goods provision and political competition.

Evidence on the positive effects of criminal organisations, arising at least locally and in specific contexts, either from the supply of protection or from the employment and income they generate, is more limited but nonetheless important. For Italy, Buonanno *et al.* (2015), using historical sulphur mines and department fixed effects as instruments, show that the Sicilian mafia reduces thefts and car thefts, a result in line with its role as a provider of protection. Le Moglie and Sorrenti (2021) show that after the crisis of 2008, Italian provinces with higher mafia infiltration experienced a less severe drop in the number of new enterprises established, a result coherent with mafia's investment in the legal economy. If we move outside Italy, Murphy and Rossi (2020) document a positive impact of Mexican drug cartels on local socio-economic outcomes, arising, despite violence, from the flow of income, employment opportunities and public goods for the local communities they generate. To identify such effects, they exploit an instrumental variables strategy based on historical migration patterns and on U.S. policies of opium prohibition and migration restrictions, which induced the presence in Mexico of migrant groups with the know-how and the resources to produce and smuggle opium to the U.S. Needless to say, a positive impact at the local level is perfectly compatible with a negative impact at the aggregate level.

One of the reasons why it is important to consider the potential local benefits of criminal organisations is that they help explain the local support mafia groups and drug cartels often enjoy among the population. This is not dissimilar to what happens with states. In either case, obedience, acceptance and legitimacy are based on a combination of fear of punishment and recognition of benefits. The fight between state and organised crime is thus a double fight, for power (monopoly of violence) and for legitimacy.

## **5. Fighting for the monopoly**

Even when criminal organisations provide some degree of protection and other public goods and services at the local level, and thus possibly enjoy some support from the local population, they tend to have a negative aggregate impact,

due to actual or threatened violence and distortions to economic activities. A benevolent government would thus have an incentive to curb them and eliminate private competitors in the provision of protection and in the use of violence. Mafia lords would then have an obvious incentive to fight back. As each player has a number of different possible strategies, this fight can take many forms. Economists have increasingly studied them over the past two decades, both at the theoretical and empirical level. Of course, the government may pursue objectives that differ from social welfare and may find it in its best interest to tolerate criminal organisations or come to an agreement with them. Alternatively, it may just be unable to curb them, or the cost of doing so may be too high. If it fights, criminal organisations may fight back through violence, bribes or a combination of both. These may be directed towards citizens such as candidates, informants or witnesses (or just simple citizens, as in the case of terrorism), or towards state officers such as policemen, judges, bureaucrats and politicians. The general goal is to modify decision makers' behaviour in a desired direction, or to change their identity so as to have more favourable individuals in key positions. Through the provision of goods and services to the local population, criminal organisations may gain support, which makes state's efforts even more uphill. While some of these strategies are in principle available even to individual criminals, they can be clearly pursued by criminal organisations on a completely different scale. For all these reasons, fighting criminal organisations is actually harder than individual crime, and the standard tools of public enforcement of law, namely punishment intensity and probability, may not work or may even backfire.

There has been a number of theoretical contributions that investigate corruption, violence and vote buying as tools available to criminal organisations fighting against the state. Kugler *et al.* (2005), for example, focus on corruption and how it can undermine or even overturn the standard incentives provided by punishment intensity and probability in public enforcement of law. Their model features criminal organisations that compete globally in the crime market and are local monopsonists in the corruption market. They show that when state governance is weak (hence the cost of bribing is low) and criminal rents are high, an increase in the intensity of punishment for lawbreakers threatened by the state induces more corruption, thus lowering expected sanctions and raising crime. In one sentence, in weak sentence, being tougher on crime may backfire. As a consequence, once organised crime and corruption are established, they become hard to eradicate. Dal Bó and Di Tella (2003) focus instead on the threat of violence (or more generally of punishment) against an elected politician if he or she does not choose the policy desired by a criminal organisation (or more generally a pressure group). Corruption and violence may well co-exist. Pablo Escobar, the famous head of the Colombian drug cartel of Medellín, who in the Eighties became one of the richest men in the world, used to offer *plata o plomo*, that is, a choice between his money or his bullets, to public officials involved in the antidrug war. Dal Bó *et al.* (2006) investigate under which conditions criminal

organisations use violence, bribes or both to obtain a resource from public officials, and what implications this has for politicians' quality. They develop a model in which citizens split between the private and the public sector, with the former offering wages equal to individual productivity and the latter flat wages, so that only individuals below a certain productivity threshold are attracted to the public sector. Moving up this threshold amounts to raising politicians' quality. Just as criminal organisations have two instruments, so does the state, which may choose to make bribes or violence costlier. Improved enforcement reduces the number of active criminal organisations, but the two strategies have different implications, because bribes make the public sector more attractive, while the threat of violence makes it less attractive. As a consequence, making *plomo* costlier raises the quality of politicians, whereas making *plata* costlier has ambiguous effects. Clearly, here 'quality' refers to skills associated to productivity in the private sector, not to intrinsic honesty or public spiritedness, so being tough on violence may induce an increase in politicians' 'quality' that goes together with an increase in corruption. As mentioned above, on top of changing public officials' choices, criminal organisations may seek to change public officials themselves. In the case of democratically elected politicians, this requires some form of electoral fraud, such as vote buying or voters' coercion. We refer to the chapter by Accardo, De Feo and De Luca in this volume for a discussion of these issues and the related literature.

While criminal organisations have a variety of tools to counteract state's attempts to curb them, the same is true for the state. These include specific punishments for criminal associations, seizing goods or assets, leniency towards informants, various forms of investments in state capacity, and even targeted military intervention. Yet they do not necessarily work in the expected way. Consider for instance leniency towards low-rank criminals who turn informants. Piccolo and Immordino (2017) show that it has two effects: an obvious one of raising the conviction probability of informants' bosses, and an indirect one of reducing the risks incurred by criminal soldiers and therefore the cost of hiring them in equilibrium. The first aspect makes leniency always desirable *ex post*, as it provides useful incentives to collaborate with justice and reveal valuable information, but the second aspect may actually foster criminal organizations and make leniency more problematic from an *ex-ante* point of view, unless some corrective measures are undertaken.

The potential for corruption, violence and political interference, and the subtleties involved in specific targeted interventions, make state's fight against organised crime particularly complex. While theoretical research on these topics has made substantial progress over the past two decades, many aspects are still under-investigated. For instance, we still know little about the specific temporal and spatial patterns of this fight, and its interaction with different institutional, economic, cultural and social dimensions. While this remains an open and active

field of research at the theoretical level, crucial advances have also been made at the empirical level.

Some contributions have looked at corruption, economic distortions and politicians' quality. Barone and Narciso (2015) provide evidence of corruption and public funds distraction in Sicilian municipalities plagued by the mafia. Other studies focus on the *plata o plomo* effect on politicians' self-selection analysed by Dal Bó *et al.* (2006). In particular, Daniele and Geys (2015) show that improved enforcement in southern Italian municipalities, in the form of dissolution of municipality councils due to mafia infiltration, raises the quality of politicians at subsequent elections, as measured by their human capital. Daniele (2019) documents that the murder of a politician by organised crime in a municipality is followed by a sharp and sizable reduction in politicians' average level of education at the subsequent elections. More broadly, the literature has produced abundant evidence of the importance of both pre and post-electoral violence. Dell (2015) documents that in Mexican municipalities a close mayoral election won by a candidate from the PAN party, which is actively engaged in the war on drugs, is followed by an increase in violence. Interestingly, such violence is not just directed towards politicians, but also towards rival drug traffickers weakened by crackdowns. Daniele and Dipoppa (2017) show that in Italian mafia regions attacks to politicians increase in the first month after local elections. Alesina *et al.* (2019) instead document, again for Italian mafia regions, that homicides increase in pre-electoral years, and that since Italy turned from a proportional to a majoritarian electoral system, this pattern has only been present in uncertain districts.

Finally, there is evidence that mafia lords, drug cartels and paramilitary groups bring votes to some political parties in exchange for support. Acemoglu *et al.* (2013) document this exchange for Colombia, showing three main pieces of evidence. First, after the FARC entered into politics, areas with high paramilitary presence witnessed an increase in the vote share of parties associated to the paramilitaries. Second, politicians with more votes from these areas supported the paramilitaries in both legal and illegal ways, as documented by votes for lenient bills and arrest data. Third, paramilitary groups display higher persistence in areas where at the 2002 elections president Uribe received more votes and, based on previous elections, might have instead expected to receive less votes. Additional evidence for Colombia is provided by Fergusson *et al.* (2018), who focus on the role of media, scandals and coercion, and by Galindo-Silva (2020), who show that armed groups with more political power deter other groups from initiating certain types of violence. Evidence of a votes-for-support exchange between mafia lords and political parties is also available for Italy. De Feo and De Luca (2017) and Buonanno *et al.* (2016) document the first side of this exchange, namely the positive impact of mafia presence on the vote share of the main centre-right party during the First and Second Republic, respectively. In

particular, the first paper shows that, coherently with their theoretical model, the effect of mafia on votes is more pronounced when political competition is higher, and also provides suggestive evidence on the other side of the exchange, namely what mafia lords obtain from politicians, showing that construction activities significantly increase in mafia municipalities. Di Cataldo and Mastrorocco (2020) expand in this direction and document that local governments infiltrated by the mafia spend more for construction and waste management, less for municipal police and public transport, and collect fewer taxes for waste and garbage.

While evidence from Italy and Latin America has grown significantly over the last decade, we still know little about other parts of the world. We also know little, both at the theoretical and empirical level, on two relevant aspects: the fight between states and criminal organizations may involve several actors on either side, which may cooperate or fight in many ways; and, as already mentioned, this fight is not just about power, but also legitimacy, so that the degree of success of different strategies may crucially depend on the cultural aspects of this battle.

## **6. Fighting for legitimacy**

Many state rulers, today and in the past, rise to power through violence and claim their rule to be legitimate, but the extent to which they are able to exercise their power crucially depends on the degree to which that legitimacy is recognised among the population, which can be more or less inclined to accept the rules and abide by them. Just as a well-functioning state is recognised by its citizens as having a legitimate monopoly on violence, a prosperous criminal organisation needs some degree of legitimacy or popular support. This may be based on a combination of fear, identification, or even idealisation. In any case, expectations about other people's behaviour play a fundamental role here. This is because institutions are by nature an equilibrium phenomenon and, as such, beliefs need to support that equilibrium (Greif, 2006). The source of this legitimacy in the classic Weber (1919) description could be coming from tradition (since the political or social order has been there for a long time), charisma (we have faith in the rulers), or a rational legal element (we trust its legality). In a more normative term, legitimacy could come from whether the coercive power is justified. In many cases organised crime can rely on the products it provides as a direct justification, be that protection (in the case of mafias) or, say, job opportunities (in the case of illicit drug trade organisations). But sometimes they need to rely upon other strategies.

Just as nation states have an incentive to invest in nationalism, so as to make their population more cohesive, criminal organisations have an incentive to establish their legitimacy in a variety of ways, including the use of religion, the

provision of private and public goods, the magnification of career prospects inside the organisation and the discredit on outside options. Economic theory has so far explored these aspects more in the context of states than in that of organised crime. Alesina *et al.*, (2020, 2021) recognise that governments, whether democracies or dictatorships, may have an incentive to foster nationalism at the cultural level, for instance through public education programs, so as to make their population less heterogeneous and more cohesive. They also document that governments indeed pursue this goal in a variety of ways. As other cultural traits, nationalism can evolve over time through different channels, including intentional transmission efforts by elites or parents, and reinforcement or imitation mechanisms, giving rise to an evolutionary dynamic as in Besley (2020), where civic culture is complementary to state capacity and public goods provision. While an extensive analysis of the reasons and ways of fostering national identities would take us too far, what is interesting in the present context is that criminal organisations have similar incentives to establish their legitimacy in a variety of ways, including the use of codes of honour, the magnification of career prospects inside the organisation and the discredit of outside options. These aspects are particularly interesting in light of the evidence provided by Levitt and Venkatesh (2000), who document choices by low-rank members of a drug-selling gang, who are paid roughly the minimum wage but face a death probability around 7% per year: such choices are hard to reconcile with standard preferences, unless one brings non-economic considerations into the picture. A systematic theoretical and empirical investigation of the functioning of these mechanisms in the case of organised crime is still largely a fascinating avenue for future research.

Religion has traditionally played a central role in the legitimisation of the political powers of European Monarchies and the Chinese empire, so it is not surprising that religious imagery and rituals also appear to be very much related to some forms of organised crime and might well be related to sources of legitimacy. Although this is a topic that is largely understudied, there are many suggestive elements in the history of the rise of the Sicilian mafia and its relationship with the Catholic church (Gambetta, 1993). The Italian Unification in 1861 generated a certain degree of hostility between church and state, which lasted at least until the late 1920s. In that period, “the local church in all likelihood found in the mafiosi a more cooperative and respectful secular power” (Gambetta, 1993: 49), and despite the mafia being such an important disruptive feature of Sicilian life, there are virtually no records of interventions or complaint from the church till World War I. The mafiosi, in turn, tended to use the language of Catholicism to enhance their reputation, as with the use of saint celebrations (Gambetta, 1993: 47-48).

Since legitimacy entails a dimension of coordination, an individual may consider a power legitimate as long as other people do so too, and stop recognising its legitimacy if she expects other people to stop as well. This creates

the possibility of sudden changes in popular support, provided one is able to coordinate a critical mass of individuals. For instance, news about relevant corruption scandals may depress tax morale; news about other people reporting racket attempts may induce more victims to do the same; and news about the mafia killing children, running against its own proclaimed code of honour, may substantially reduce its acceptance. Also, the state may come to an agreement with criminal organisations, implicitly and sometimes even explicitly providing mutual recognition to one another. But even when this is not the case, and there is in fact a fight for legitimacy among the population, convincing people tends to be the result of a patient and systematic work at different levels, from schools to neighbourhoods, from firms to public administration, and so on. When this work is coupled with short-run triggers such as the above-mentioned scandals or particular trials or assassinations, new possibilities suddenly open up. Victories in the fight for legitimacy may be hard, because expectations and social norms do not change if one falls short of moving the necessary critical mass. At the same time, they may be self-reinforcing if one passes such threshold. Sudden changes are then possible, in one direction or the other.

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